Scarcity - a situation where there is not enough to satisfy everyone's wants.

The economic problem - unlimited wants exceeding scarce resources.

Factors of Production - the economic resources of capital, enterprise, labour and land.

Land - gifts of nature available for production.

Unit 1 : Scarcity

- The Nature of Scarcity :-
  - People would like to have more goods and services.
  - Improve the quality of their living accomodation.
  - Lack of resources (workers and machinery).
- The continuing nature of scarcity:-
  - Scarcity continues to exist.
  - Growth in wants exceeding growth of resources.
  - Wants are more than the resources available to produce.
  - Wants continue to grow and change.
- The economic problem :-
  - Arises due to scarcity.
  - Wants are infinite.
  - Limited resources
  - Mismatch between wants and maximum that can be produced.
- Evidence of the existence of scarcity:-
  - People have to choose.
  - Cannot have everything we want.
  - Limited incomes.
  - Time is limited in supply.

Unit 2 : Factors of Production

- Land :-
  - Any natural resource used in production.
  - Supply of land :-
    1) Doesn't change.
    2) Can decrease if renewable resources are over exploited.
  - Mobility of land :-
    1) Most of it is occupationally mobile.
    2) Geographically immobile.

<u>Capital</u> – human-made goods used in production.

<u>Investment</u> – spending on capital goods.

<u>Productivity</u> – output per worker hour.

— Capital : —

- Human made goods used to produce other goods and services.
- Supply of Capital : —
  1) Increases with time.
  2) Becomes outdated.
  3) Gross Investment — total value of output of capital goods produced.
  4) Depreciation — value of depreciation.
  5) Net investment — gross investment — depreciation.
- Mobility of Capital : —
  1) Geographically mobile.
  2) Occupationally immobile (in most cases)

— Labour : — (Most active Factor of Production)

- All human effort.
  — both mental and physical.
- Human Capital
  — education and training that a worker gains
- Supply of labour : —
  1) Size of population.
  2) Age structure.
  3) School leaving age.
  4) Retirement age.
  5) Attitude towards working women.
- The labour force / workforce / working population
  — who are working or seeking work.
- Mobility of labour : —
  1) Housing and prices in areas.
  2) Family ties.
  3) Difference in education systems.
  4) Lack of information.
  5) Restriction on movement.

<u>Enterprise</u> - risk bearing and decision making in business.

<u>Opportunity Cost</u> - the next best alternative foregone.

- Enterprise :-
    - The willingness and ability to bear uncertain risks and to make decisions in a business.
    - What, how, for whom to produce.
    - Supply of entrepreneurs :-
        1) Study in business and economics.
        2) Lower taxes.
        3) Reduction in government regulations.
    - Mobility of Enterprise :-
        1) Most mobile factor of production.
        2) Occupationally mobile.
        3) ~~Geog~~ Geographically mobile.
- Payments to Factors of Production :-
    - Wages to workers.
    - Entrepreneurs earn profit.
    - Land receives rent.
    - Interest is a payment for capital.

Unit 3 : Opportunity Cost

- Opportunity Cost & Consumers :-
    - Buyers have to choose between several goods and services.
    - Vast majority of choice.
- Opportunity Cost & Workers :-
    - Undertaking a job involves opportunity cost.
- Opportunity Cost & Producers :-
    - Have to decide what to make.
- Opportunity Cost & the Government :-
    - Has to carefully consider, its expenditure of tax revenue on various things.

Economic Good :- a product which requires resources to produce it and therefore has an opportunity cost.

Free Good — a product which does not require any resources to make it and so does not have an opportunity cost.

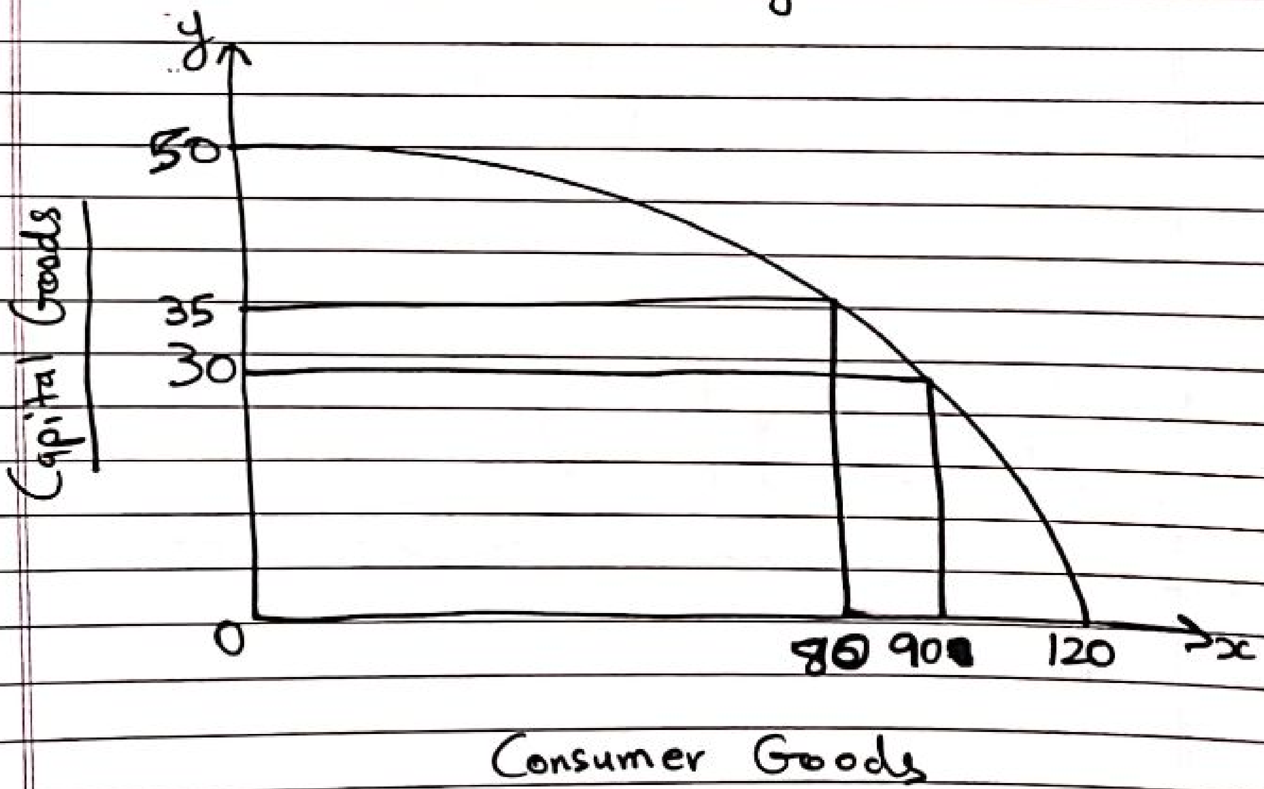
PPC - a curve that shows maximum output of two types of products and combination of those products that can be produced with existing resources and technology.

— Economic & Free Goods :-

- Almost all goods are economic, involving an opportunity cost.
- Economic goods are the ones which take resources to produce.
- Free goods are rarer.
- A free good doesn't take resources to make it and doesn't involve an opportunity cost. Eg:- Sunshine, river water.

— Production Possibility Curves :-

- PPC, also known as (PPB) production possibility boundary and (PPF) production possibility frontier.
- Shows maximum output of two products and their combinations. Eg:-



Planned Economy – an economy where the government makes crucial decisions, land and capital are state-owned and resources are allocated by directives/instructions.

Market Economy – an economy where consumers determine what is produced, resources are allocated by the price mechanism and land and capital are privately owned.

Unit 4 : Market & Mixed Economies

- Three Fundamental Questions
  - What to produce.
  - How to produce.
  - Who is to receive the products produced.
- Planned Economy :-
  - The government decides the answer to the 3 fundamental questions.
  - The state owns most of the land and capital and employs workers.
  - Usually provide basic necessities at low/minimal cost.
- Market Economy :-
  - Resources are allocated by price mechanism.
  - Private forces answer the 3 fundamental questions.
  - Resources keep switching from ~~more~~ low demanding to high demanded products.
  - Government intervention is minimum.
  - People who earn the highest exercise the maximum influence on what is produced.
  - Advantages :-
    1) Consumers have a wider choice.
    2) High efficiency.
    3) Low prices due to high competition.
  - Disadvantages:-
    1) Only private costs will be considered.
    2) Could form monopolies.
    3) When it is not possible to exclude non-payers, private sector firms do not have the financial incentive to produce the product.
    4) Advertisement can cause inneffecient choices.
    5) Uneven distribution of incomes.

<u>A mixed economy</u> - an economy in which both the privte and public sectors play an important role.

<u>Demand</u> - the willingness and ability to buy a product.

— Mixed Economy :-
- Mix of planned and market economies.
- Consumers and government answer the questions.
- Increases in effeciency and incentives.
- Advanages :-
  1) The government will consider social costs and benefits.
  2) Increase in consumption of beneficial products.
  3) Decrease in consumption of harmful products.
  4) Consumers aren't exploited.
  5) Maximum use of resources.
  6) Even distribution of income.
- Disadvantages :-
  1) No guarantee of economy performing better.
  2) Market failure could occur.
  3) Government intervention could worsen.

— Changes in Economic Systems
- The role of government can be reduced by removing a number of government regulations, selling off SOEs and lowering taxation.
- Planned to Market → rise in quality.
  → rise in income inequality.
  → rise in poverty.
- Increasing role of ~~mark~~ market forces.

Unit 5 : Equilibrium Price

— Demand
- willingness, ability to buy a product.
- demand and price are inversely related.

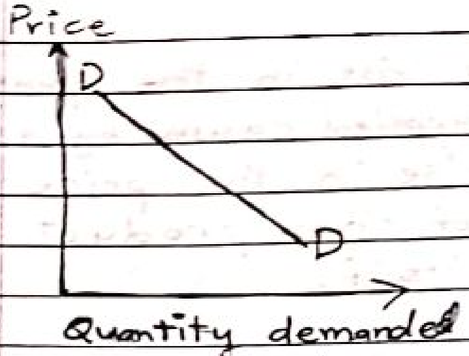
Market Demand — total demand for a product

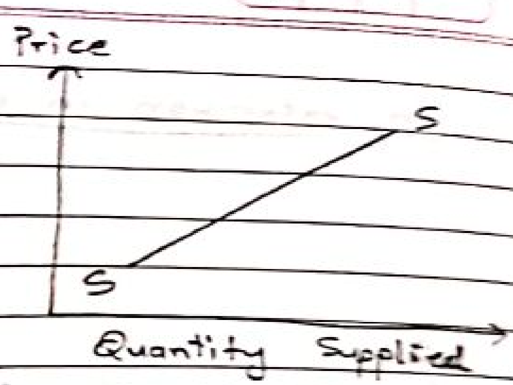
An extension in demand — a rise in the quantity demanded caused by a fall in the price of the product itself.

A contraction in demand — a fall in the quantity demanded caused by a rise in the price of the product itself.

— Supply
- ability and willingness to sell a product.
- is directly related to price.
- firms will be willing to supply more, if they are to earn higher profits.

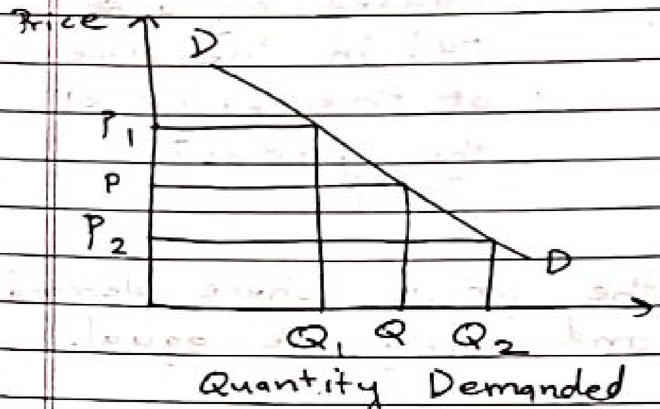
Market Supply — total supply of a product.





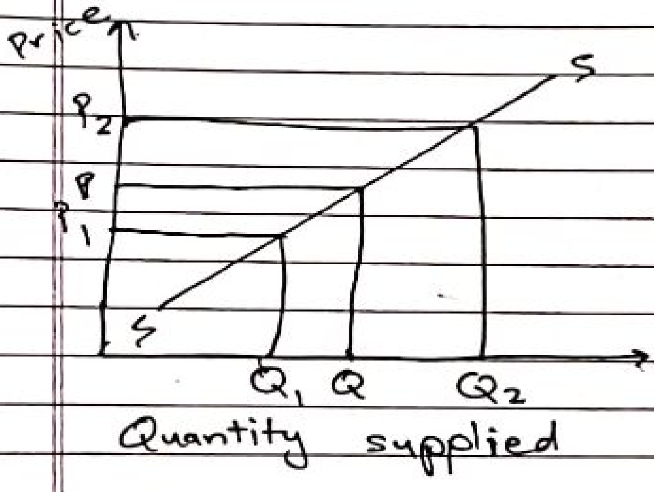
★ A demand curve.

- The effect of a change in price on Demand



As prices increase, demand contracts and as prices decrease, the total quantity demanded extends.

- The effect of a change in price on Supply.



As prices increase, supply extends and as prices decrease, the total quantity supplied contracts.

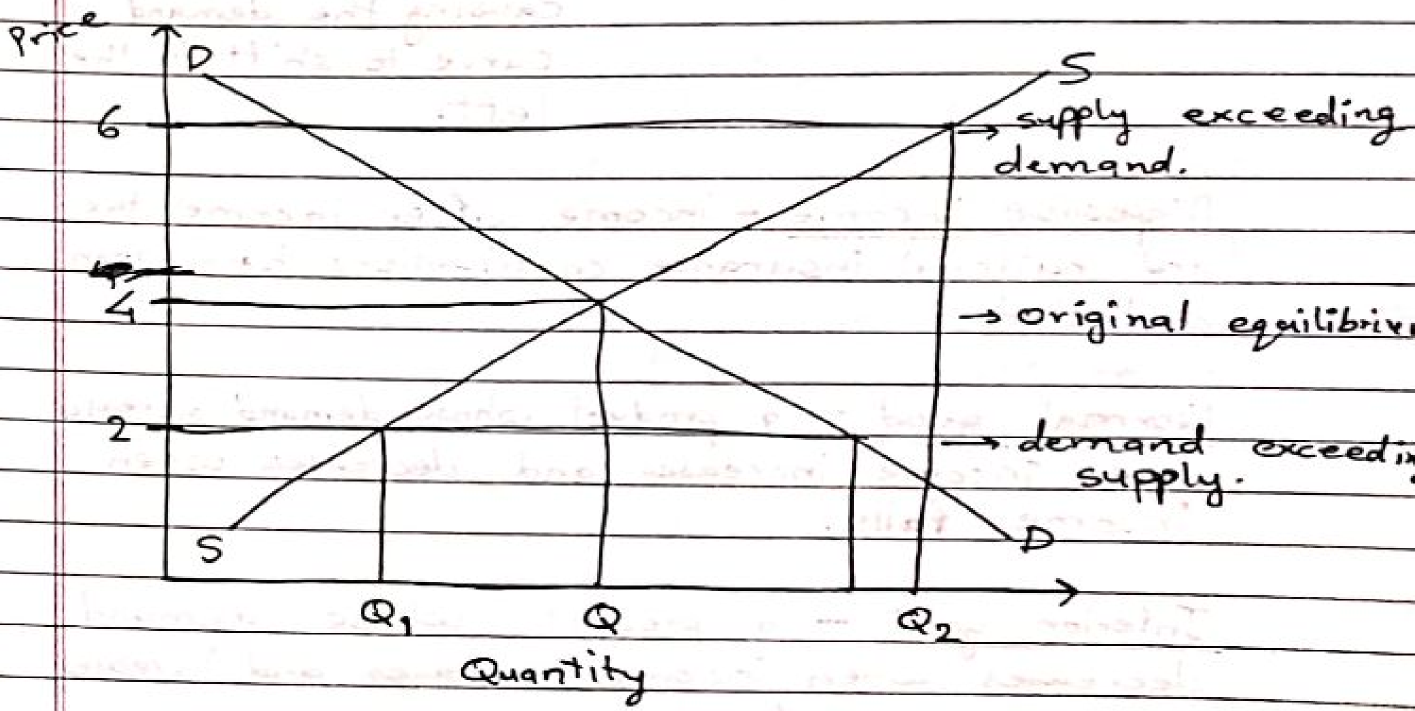
<u>An extension in supply</u> – a rise in the quantity supplied caused by a rise in the price of the product itself.

<u>An contraction in supply</u> – fall in the quantity supplied caused by a fall in the price of the price of the product itself.

<u>Equilibrium price</u> – the price where demand and supply are equal.

<u>Disequilibrium</u> – a situation where demand and supply aren't equal.

- Equilibrium price.
  - where demand and supply are equal.
  - no shortages or surplus of the product.
  - demand and supply curves intersect.
  - how is it achieved?
    1) To avoid surplus inventory and encourage sales of the product, market forces set the price nearest to the equilibrium.
    2) To avoid disequilibrium, ~~the~~ bargaining fixes an equilibrium price.



Unit 6: Changes in Demand

- The demand curve shifts due to various reasons.

Changes in demand - shifts in the demand curve.

An increase in demand - a rise in demand at any given price, causing the demand curve to shift to the right.

A decrease in demand - a fall in demand at any given price, causing the demand curve to shift to the left.

Disposable income - income after income tax and national insurance contributions have been deducted.

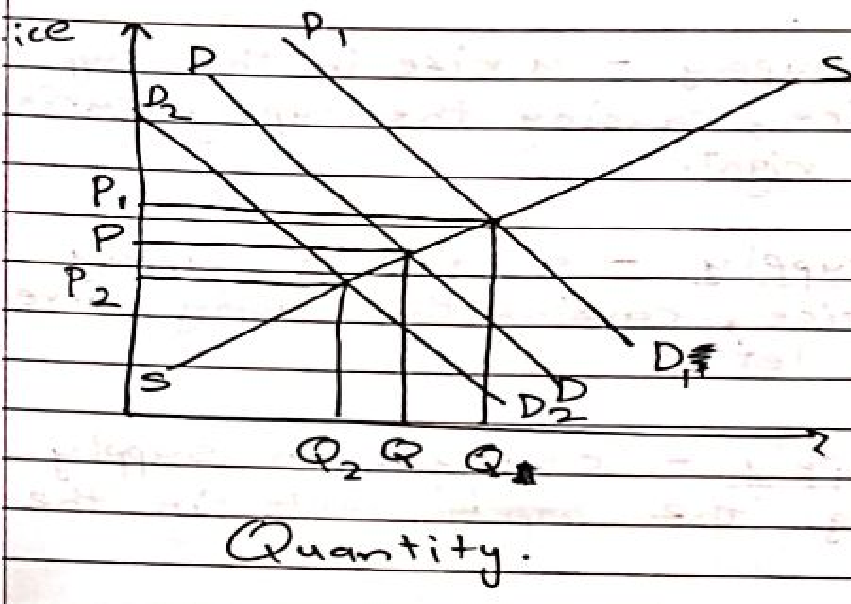
Normal good - a product whose demand increases when income increases and decreases when income falls.

Inferior good - a product whose demand decreases when income increases and increases when income falls.

Substitute - a product that can be used in place of another.

Complement - a product that is used together with another product.

- Causes of changes in demand
  - changes in disposable income.
  - changes in price of related products.
    1) substitutes
    2) complements.
  - Advertising.
  - Changes in population.
  - Changes in Taste and Fashion.
  - Other factors:-
    1) Seasonal products.
    2) Special global events.



1) Demand curve ~~shift~~ shifts to right (increases) price increases and supply extends.

2) Demand curve shifts to left (decreases), price decreases and supply contracts.

Unit 7: Changes in supply
- Causes of changes in supply.
  - Changes in C.O.P.
  - Improvement in tech.
  - Taxes, subsidies
  - ~~Subsidies~~ Weather conditions
  - Prices of other products, disaster and wars.
  - Discoveries and Depletions of Commodities.

Ageing population – an increase in the average age of the population.

Birth rate – the number of ~~births~~ live births per thousand of the population in a year.

Changes in supply – ~~changes~~ changes in supply conditions causing shifts in the supply curve.

An increase in supply – a rise in the supply at any given price, causing the supply curve to shift to the right.

A decrease in supply – a fall in supply at any given price, causing the supply curve to shift to the left.

Changes in supply – changes in supply conditions causing the ~~supply~~ shifts in the supply curve.

Unit cost – the average cost of production. It is found by dividing total cost by output.

Improvements in tech. – adv. in qual. of cap. goods and production methods.

Tax – a payment to the government.

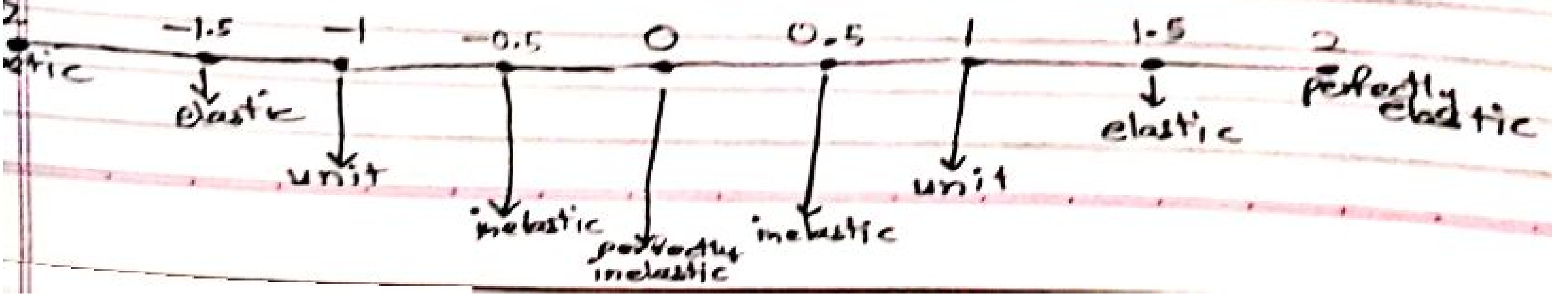
Indirect Taxes – Taxes on goods and services

Subsidy – a pay. ~~to~~ the gov. to encourage pro. and cons. of a product.

Date

Unit 8 : P.E.D.

- PED = $\frac{\text{Percentage of change in quantity demanded}}{\text{Percentage change in price}}$
- Change in products price is often.
- A government needs to know the PED before taking a decision on subsidies and taxation policies.
- Elastic demand.
  - greater change in demand due to price. ($x > 1$)
  - price and total revenue move in opposite direction.
  - to raise revenue, price can be lowered.
  - if prices are raised, total revenue will fall.
  - shallow demand curve
- Inelastic demand.
  - smaller change in demand due to price ($x < 1$)
  - price and total revenue move in same direction
  - if prices are lowered, demand may rise, but revenue wouldn't fall.
  - If revenue is to be raised, prices are raised.
  - steep demand curve.
- Factors Determining the Degree of Elasticity
  - availability of substitutes.
  - proportion of income spent on the product.
  - whether the product is a necessity or luxury.
  - addictive or not.
  - purchase can be postponed.
  - market is defined.
  - time period under consideration.



Price Elasticity of Demand - a measure of the responsiveness of demand to a change in price.

Elastic Demand - when demand changes by a greater percentage than the change in price.

Inelastic Demand - when demand changes by a smaller percentage than the change in price.

Price Elasticity of Supply - a measue of the responsiveness of supply to a change in price.

Elastic Supply - when supply changes by a greater percentage than the change in price.

Inelastic Supply - when supply changes by a ~~greater~~ smaller percentage than the change in price.

Unit 9 : Price Elasticity of Supply

- PES = $\frac{\text{Percentage change in quantity supplied}}{\text{Percentage change in price}}$
- Factors influencing PES
  - time taken to produce it.
  - cost of altering its supply.
  - feasibility of storing it.
- Degree remains same as PED.

Unit 10: Merits of the Market System

- Reallocation of resources :-
  - changes in consumer demand and C.O.P cause change in use of resources.
  - it changes price as well.
  - Market forces ration out products when their supply falls short, causing the excess demand to increase in the prices.
  - They decide who recieves the products (high price paye
- Importance of Competition and Incentives:-
  - Large no. of firms, thus choice of producers.
  - Competition results in low prices (pressure on firms)
  - Promote effeciency (risk of going out of business).
  - Entrepreneurs able to change with consumer demand earn high profits, and thus there is an incentive to innovate and expand.
  - Labour who develop skills according to changing demands and are mobile, are paid more.
- Allocative Effeciency
  - resources are allocated in a way that maximises consumers' satisfaction.

<u>Private Costs</u> — costs borne by those directly consuming or producing a product.

<u>Private Benefits</u> — benefits received by those directly consuming or producing a product.

<u>External Costs</u> — costs imposed on those who are not involved in the consumption and production activities of others directly.

<u>External Benefits</u> — benefits enjoyed by those who are not involved in the consumption and production activities of others directly.

<u>Social costs</u> — the total costs to a society of an economic activity.

<u>Social benefits</u> — the total benefits to a society of an economic activity.

- changing prices, eliminate shortages and surpluses.

— Productive Effeciency :-
- a firm produces at the lowest possible cost per unit.
- low wastages, economies may experience producing on its PPC.

— Dynamic Effeciency :-
- resources are used effeciently, over a period of time
- encourages firms to spend on R&D. (innovate)

— Advantages of the Market System :-
- provides consumers with power.
- choice.
- low prices.
- high quality products.

Unit 11 : Market Failure

— The Nature of Market Failure.
- Forces fail to produce the demand at opt quantities and low cost
- Ineffeciency in shortages, surpluses, high prices, poor quality and lack of innovation.
- Products may be produced at wrong quantities

— Failure to not consider all Costs & Benefits.
- Total benefits and costs are Social Costs & Benefits
- Incurred by consumer and producers are Private Costs and Benefits.
- Incurred by third parties are External Costs and Benefits.
- Not considering any costs or benefits might arise market failure.

— Information Failure.
- Consumers have to be fully informed.

- Producers need to have Knowledge.
- Making decisions and choices without apt information can lead to ineffeciency and social costs exceeding social benefits.

— Merit Goods.
- products that are more beneficial to consumers than they themselves realise.
- under-~~produced~~ consumed in a market system, and so under-produced.

— Demerit Goods.
- they are more harmful to consumers than they realise and they generate external costs.
- addictive, over-consumed and over-produced.

— Public Goods
- non-excludable and non-rival.
- will not be produced.
- no incentive to produce, as non-payers can not be excluded.
- Free riders enjoy.

— Abuse of Market Power
- producers have more power than consumers.
- one dominant firm exploiting consumers.
- multiple firms using price fixing.

— Immobility of Resources.
- resources should be occupationally and geographically mobile to meet the changing demands.

- Short Termism
  - sufficient resources being devoted to capital goods.
  - to enjoy high consumer goods in the long-term, some resources have to be devoted to the investment for capital goods.
- Unfairness
  - uneven distribution of income.
  - low/no products produced for the poor.
- Government failure
  - worsen situation.
  - lack information about externalities.
  - take time to make decisions.
  - decisions influenced by political factors.
  - reduce economic effeciency by reducing incentives.

Unit 12 : Use of Resources

- Exploiting resources can raise employment, income and improve the trade position of the country's and the living standards of its people.
- If non-renewables are exploited, some revenue should be earned to ensure other industries can develop, as future sources of income.
- Whether to exploit or conserve :-
  - current living standards.
  - need for income.
  - country's comparative advantage.
  - current world demand.
  - future world demand.

Unit 13 : Public v/s Private Expenditure

- Public Expenditure.
  - done by the public sector businesses.
  - exhaustive spending
    - directly buying goods and services.
    - public sector determines use of resources.
  - non-exhaustive spending
    - transfers of money to people.
- Use of Public Expenditure
  - Public ~~go~~, merit goods, supporting vulnerable groups, private industries, covering losses, managing economy.
- Finance
  - taxation, borrowing, privatisation.
- Private sector investment may rise:-
  - government investment grants.
  - cut in corporation tax.
  - cut in rate of interest.

The Individual As Producer, Consumer And Borrower

Specialisation - the concentration on particular products or tasks.

Division of Labour - workers specialise in particular tasks.

Money - an item which is generally acceptable as a means of payment.

Unit 14 : Specialisation, Exchange & Money

- Specialisation of Countries
  - influenced by quality and quantity of resources.
  - if countries specialise, output is higher and citizens enjoy higher living standards.
  - they benefit from trade.
- Specialisation of Firms
  - Know their markets well, build reputation.
  - easier to control the business.
  - opposite - diversify - spread risks.
- Specialisation of workers.
  - Division of labour.
  - lower cost per unit.
  - perform one task again and again.
  - output per worker increases.
  - can be trained quickly.
  - workers may get bored.
- Extent of specialisation:-
  - size of market.
  - good transport links.
  - money also facilitates specialisation.
- Functions of money:-
  - medium of exchange - allows people to buy and sell products.
  - Store of value - it can be saved, does not deteriorate with time.
  - Unit of account / measure of value - used to place a value on an item (book / newspaper)
  - standard for deferred payments - allows people to borrow and lend.

- Types of Money
  - coins, notes and bank notes
  - coins - small purchases, change.
  - notes - more expensive things.
  - Legal tender is any form of payment which, by law, has to be accepted in ~~sett~~ settlement of a debt.
  - does not need to have intrinsic value.
- Characteristics of Money:-
  - durable, divisible, homogeneous, recognisable.

Unit 15: Banks

- Commercial Banks
  - joint stock, retail, high street banks.
  - seek to make a profit.
- Functions ~~of~~ of commercial bank:-
  - accept deposits (different accounts)
  - lend (overdraft, long-term loan)
  - enable customers to make payments
  - travellers cheque.
  - change foriegn currency.
  - leave important documents.
  - provide advice.
  - completion of tax forms.
  - purchase ~~of~~ and sale of shares.
  - insurance, motgages.
- Aims of Comm. Banks.
  - profit to shareholders.
  - liquidity.

Commercial Banks - private sector banks which aim to make a profit by providing a range of banking services.

- Central banks
  - single, most important, influential bank of the country.

Central Bank : a government owned bank which provides banking services to the government and commercial banks.

- Functions of a Central Bank
  - banker to the government.
  - banker to the commercial banks.
  - lender of last resort.
  - manages the national debt.
  - holds the country's reserves of foreign currency and gold.
  - issues bank notes.
  - implements government's monetary policy.
  - controls the banking system.
  - represents the government.
- Independence of Central Banks.
  - decide the rate of interest.
  - have a target for inflation.

Unit 16: Stock Exchanges

- The Nature of Stock Exchanges
  - also called bourse, an organisation which elables shares and other financial assets to be bought and sold.
  - Who trade on stock exchanges are referred to as stock brokers.
  - businesses are public limited companies, which are known as listed or quoted.

A stock exchange : an organisation for the sale and purchase of shares and othe securities.

A bull : someone who buys shares expecting their price to rise.

A bear : someone who sells shares expecting their price to fall.

— Functions of Stock Exchanges :-
- market for purchase and shares, bonds and other securities.
- enabling growth and takeovers.
- mobilising savings for investment.
- influencing the use of savings.
- protecting those who buy shares.
- indication of economic performance (bull / bear)

— Dividend and Yields :-
- dividend is a share of profit, a shareholder receives
- nominal price / face value - price at which issued
- market price — current price.
- yield - dividend as a percent. of market price, return on money paid for the share.

$$\text{Yield} = \frac{\text{Dividend per share}}{\text{Market share price}} \times 100$$

— Reasons why Shares are Bought :-
- dividends.
- capital gain.
- influencing the running of a company.
- takeover.

— Influences on Share Prices :-
- Interest rates, profit record, government policy, issue of new shares, takeovers and rumours of takeovers.

— The Role of Profit
- driving force
- reward for risk and organising other factors of pro.
- dividends to shareholders and reward to managers.
- finance for investment (retained profits).

Unit 17: Choice Of Occupation

Earnings : the total pay received by a worker.

- Wage factors:-
  - Wages.
  - Overtime Pay.
  - Bonuses.
  - Commission.

Wage rate : a payment which an employer contracts to pay a worker.

- Non-wage factors:-
  - Job satisfaction.
  - Type of work.
  - Working Conditions.
  - Working Hours.
  - Holidays.
  - Pensions.
  - Fringe Benefits.
  - Job security.
  - Size of the firms.
  - Location.
- Limiting Factors
  - qualifications, skills, experience, where they live.
- Occupational Choice & Opportunity Cost:-

Choosing to take up one occupation involves rejecting other occupations. Some may be ~~These~~ prepared to give up a well paid job or the opportunity ~~a~~to take a job with job satisfaction.

Unit 18: Differences in Earnings

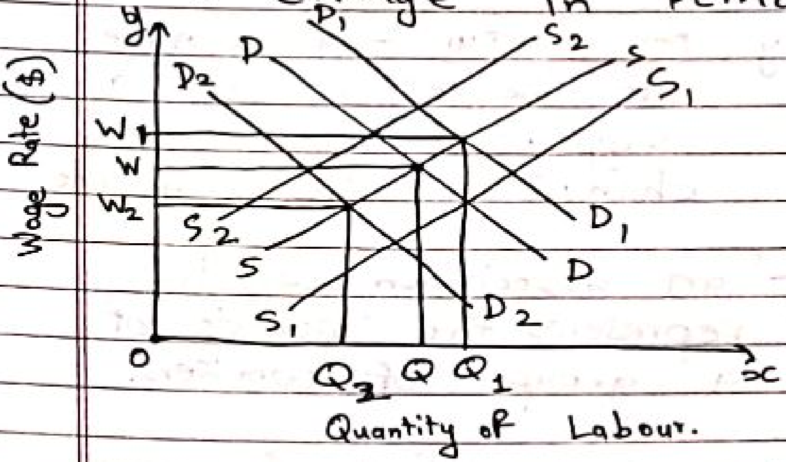
— Wage Determining Factors:-
- Demand and Supply of the labour.
- Relative bargaining power of employers and workers
- Government Policies.
- Public opinion.
- Discrimination.

National Minimum Wage : a minimum rate of wage for an hour's work, fixed by the government for the whole country.

Wage Differential : The differences in Wages.

Unit 19: Changes in Earnings

— Why Earnings of Occupations Change:-
- Change in Demand and Supply.



— The Extent to which Earnings Change:-
- proportion of labour costs in total costs.
- ease with which labour can be substituted by capital.
- elasticity of demand for the product.
- the time period.

— Determinants of Supply of Labour:-
- qualifications and skills.
- length of training.
- level of employment.
- mobility of labour.
- degree of vocation.
- the time period.

Elasticity of Demand for labour — a measure of the responsiveness of demand for labour to a change in the wage rate.

Elasticity of Supply for labour — a measure of the responsiveness of supply for labour to a change in the wage rate.

A trade union — an association which represents the interests of a group of workers.

Collective Bargaining — representatives of workers negotiating with employers' associations.

Unit 20: Trade Unions

- Types of Unions:-
  - Craft unions - particular skill (~~plu~~ plumber)
  - General unions - range of skills (managers)
  - Industrial unions - particular industry (clothing)
  - White collar unions - professions (pilots).
- Role of Unions
  - negotiate on behalf of member's pay scales, working hours and conditions.
  - protect or improve workers' rights.
  - education and training schemes.
  - pressurising governments for NMW.
- Collective Bargaining
  - Unions enable workers to press their claims through collective bargaining. (negotiations between union officials and employers).
- Factors Affecting Strength of Trade Union.
  - Level of economic activity.
  - Number of member.
  - Level of skill.
  - Demand for the product.
- Industrial Action
  - overtime ban.
  - go slow
  - strike (official /unofficial)
- Trade Unions, Firms and Workers
  - less time consuming, stressful and cheaper to negotiate with workers as a group.
  - channel of communication between employers and workers.
  - raises productivity and promotes improved health and safety.

Unit 21 : Motives for Spending, Saving and Borrowing

- Expenditure
  - spend in order to buy goods and services and maintain a gaiven standard of living.
- * influences on spending :-
  1) wealth
     - which generates income.
     - withdrawing money.
     - security ay loans.
  2) confidence
  3) rate of interest.

Wealth : a stock of assets including money held in bank accounts, shares in companies, government bonds, cars and houses.

- Saving
  - to buy car or home.
  - save for retirement.
  - children's education or leave an inheritence.
  - increase current home.
- Influences on Saving :-
  - income, wealth, the rate of interest, the tax treatment of savings, range and quality of financial institutions, age structure, social attitudes.
- Borrowing
  - income from people who do not want to spend it now to those who need more mony than they currently have.
  - maintain living standards.

Unit 22: Differences in Expenditure Patterns

Disposabe Income - income after the deduction of direct taxes.

- Sources of Income:-
  - earned.
  - investment.
  - state benefits.
- Income & Consumption:-
  - people can either spend or save.
  - rise in income, rise in spending and saving.
  - richer people buy more and better quality products.
  - APC - average propensity to consume.

$$APC = \frac{\text{Consumption}}{\text{Disposable Income}} = \frac{270}{300} = 0.9$$

Consumption - expenditure by households on consumer goods and ~~income~~. services.

Average Propensity to Consume - the proportion of household disposable income which is spent.

Average Propensity to Save - the proportion of household disposable income that is saved.

$$APS = \frac{\text{Saving}}{\text{Disposable Income}} = \frac{-20}{100} = -0.2$$

The Private as Producer and Employer

Unit 23: Types of Business Organisations

- Industries consist of firms producing the same product. A firm is a business entity, also sometimes referred to as a business organisation.

An industry – a group of firms producing the same product.

- Stages of production:–
  - Primary – extraction and collection of raw materia
  - Secondary – processing of raw materials into semi-furnished and finished goods.
  - Tertiary – producing services.
  - Quaternary – services in information technology
- Poor countries have a large proportion of output and labour force in primary sector.
- Changing importance from secondary to tertiary.

Limited Liability – shareholders' liability for the business is limited to the value of the shares they have agreed to buy.

- Sole Proprietor :–
  - owned by one person. (self-employed)
  - relatively small, amount of finance is limited
  - unlimited liability.
  - Advantages – flexible, enjoy all profits, personal contact with customers and employees, low start-up costs.

• Disadvantages – unlimited liability, limited finance, lack of skills, success is dependent, lack of continuity.

Sole Proprietor – a business owned by one person.

– Partnership :–

• unlimited liability, partners are self-employed.
• 2 – 20 people, easy to set up, more finance, more skills and expertise.
• lack of continuity.

Partnership – a business organisation of two or more people who are personally responsible for its debts and share its profits.

– Private Limited Companies :–

• joint stock company, financial capital divided into shares.
• limited liability.
• owned by families, control in few hands.

Private Limited Company – a business organisation with limited liability which can only sell its shares with the approval of existing shareholders.

Limited Liability Ownership & Control :–

1) Owned by shareholders.
2) Controlled by board of directors.

– Public Limited Companies
- similar to Pvt. Ltd.
- can sell shares on stock exchange.
- can grow very large in size.
- may be subject to a takeover.

Public Limited Company – a business organisation with limited liability which sells its shares to the general public.

– Multinationals :–
- produces in more than one country.
- reduced transport costs, access to cheaper labour, and raw materials, grants from government.
- increase employment, output, tax revenue, bring new technology, management ideas, develop infrastructure.
- may put pressure on governments, drive domestic firms out of business, send profits overseas.

Multinational companies – a country which produces in a number of countries.

– Co-operatives :–
- jointly owned and for the benefit of its members.
- any profits, are distributed to members.
- lack of management skill.

Co-operative – a firm that exists for the benefits of its members.

— Public Corporations :-
- owned by the government.
- full costs and benefits are involved in decisions.
- influence economic activity.
- would not abuce its market power.
- makes planning and coordination easier.
- can be inefficient.
- will need to be subsidised if loss making.

Public Corporation – a business organisation owned by the government which is designed to act in the public interest.

— Privatisation :-
- sale of public cor. to private sector.
- may provide better quality with effeciency of low prices under market competition.
- less risk of under-investment.
- monopolies may abuse market power.

Privatisation – the sale of public sector assets to the private sector.

Unit 24 : Demand for Factors of Production
- Factors of Production Employed is influenced by the type of product, productivity and cost.
- A rise in productivity, or fall in cost may influence employing it.

- Altering Factors of Production :-
  - atleast one fixed factor of production (factory/office)
  - easy to change quantity of labour, with capital equipment.
- Factors Influencing Demand for Capital Goods :-
  - price, price of substitutes, profit levels, corporation tax, income, interest rates, confidence levels and advances in technology

Corporation Tax - a tax on profits of a company.

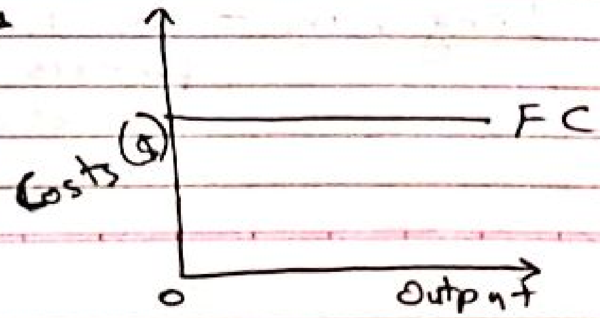
- Factors and Sectors of Production.
  - Factors can differ with changes in industrial structure
  - Different industries make use of different factors of production.

Unit 25 : Costs of Production

- Total and Average Cost.
  - Total Cost - is the total expense of producing a given output
  - Average Cost - unit cost, total cost divided by output.

Total Cost - the total cost of production.

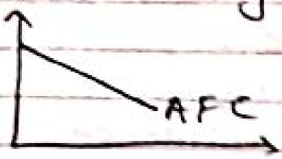
- Fixed Costs :-
  - cost incurred even when output is zero.
  - remains unchanged as output changes.
  - overheads / indirect



Fixed Costs - costs which do not change with output in the short run.

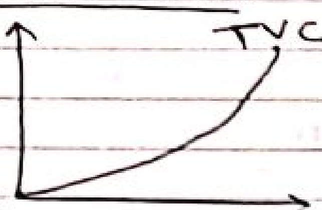
— Average Fixed Cost :-
- Total ~~Cost~~ Fixed Cost divided by output.

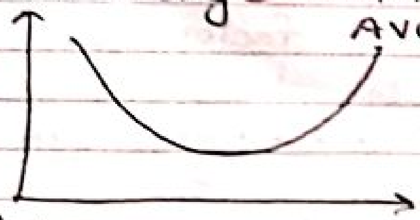
$$AFC = \frac{TFC}{Output}$$



— Variable Costs :-
- costs that vary as output changes (direct)
- as output rises, it increases.

Variable Costs — costs that change with output.





— Average Variable Cost :-
- TVC divided by output

— In Long run, all costs are variable.

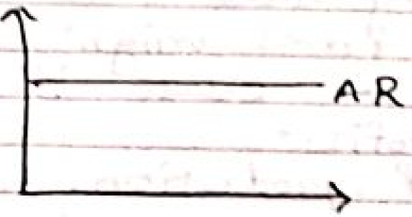
— Average Cost :-
- Total (Fixed + variable) cost divided by output.
- U-shaped curve.

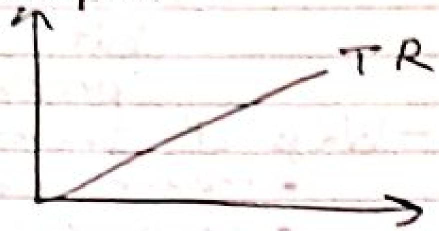
Long run - the time period when all factors of production can be changed and all costs are variable.

Unit 26 : Principle of Profit Maximisation

— Profit
- positive difference between total revenue and total cost.
- profit per unit is the positive difference between average revenue and average cost.

— Revenue
- money received by firms from selling their products is referred to as revenue.
- average revenue = $\frac{\text{total revenue}}{\text{output}}$ = price.





Average Revenue — total revenue divided by the quantity sold.

— Goals of Firms: -
- revenue maximisation, growth, profit satisficing, improvement of environment, social responsibility, profit maximisation.

Profit Maximisation — making as much profit as possible.

Profit Satisficing — sacrificing some profit to achieve other goals.

- Profit Maximisation.
  - positive gap between revenue and cost is greatest.
  - profit per unit = average revenue − ~~average~~ average cost
- Effects of Changes in Profits.
  - profits provide incentive for enterpreneurs to undertake production.
  - finance to update capital equipment and expand.
  - easy to obtain external finance.
  - recruit top managers and directors.
  - low profits may have little impact, but some firms might cut back production or cease it.
- Ways of Increasing Profit:-
  - reduce costs of production.
  - raise revenue.

Unit 27: Pricing & Output Stratergies

- Perfect Competition:-
  - many buyers and sellers.
  - individual firm is price taker.
  - low degree of market concentration.
  - free entry and exit.
  - products are homogeneous.
  - buyers and sellers, perfectly informed.

Perfect Competition - a market structure with the highest level of competition. There are no barriers or restrictions on entry into and exit from the market.

Normal Profit – the minimum level of profit required to keep a firm in the industry in the long run.

– Monopoly
- 100% share of a product. / sole supplier.
- 25% or more is a monopoly.
- 40% or more is a dominant monopoly.

Monopoly – a market with a single supplier.

– Characteristics of a Monopoly.
- 100% share of the market.
- high barriers to entry and exit.
- price maker.

– Occurence of Monopolies
- a firm able to keep costs low and respond to changes in consumer tastes, drives out rival firms.
- privatisation, illegal for other firms to enter.

– Continuous Existence of Monopolies
- legal barrier (government contracts).
- scale of production (low unit cost).
- sunk costs (irrecoverable).

– Performance of Monopolies :-
- can be effecient, low unit cost and price, prevent wasteful duplication.
- can spend on research and developments, new, improved methods.

Unit 28: Different Size of Firms & Integration

- Factors influencing a firm's size:-
  - age of firms.
  - availability of financial capital.
  - type of business.
  - internal economies and diseconomies of scale.
  - size of market.
- Growth of Firms
  - internal - natural or organic - increasing market, size of existing plant / new one.
  - external - integration - joining with other firms as merger, or take over.
  - External growth allows a firm to increase in size more quickly than internal growth.
- Horizontal Integration
  - merger of two firms at same stage of production.
  - ~~rati~~ direct competition is eliminated.
  - rationalisation - sell off redundant resources.

Horizontal Integration - the merger of firms producing the same product and at the same stage of production.

Rationlisation - eliminating unnecessary equipment and plant to make a firm more efficient.

Vertical Integration - the merger of one firm with another firm that either provides an outlet for its products or supplies it with raw materials, components or the product it sells.

- Vertical integration
  - a firm merges with another firm involved with the production of the same product but a different stage of production.
  - backwards – a firm merges with another which is a source of its supply of raw materials, components or the product it sells.
  - forward – when a firm merges with, or takes over a market outlet.
- Conglomerate Integration
  - merger of two firms making different products.
  - main motive is diversification.

Conglomerate Merger – a merger between firms producing different products.

- Influences of Integration.
  - greater economies of scale, lower prices, high quality products and innovation.
  - greater diseconomies may prove into higher prices, low quality and reduced choice.
- Advantages of Small Firms.
  - small size of market.
  - preference of ~~co~~ consumers.
  - owner's preference.
  - flexibility.
  - technical factors.
  - lack of financial capital.
  - location.
  - cooperation between small firms.
  - specialisation.
  - government support.

Unit 29: Economies of Scale

- Economies of Scale
  - advantages in the form of low long run average costs (LRAC) of producing on large scale.
  - internal - gained by individual growth of firm.
  - external - gained by ~~the~~ expansion of industry.

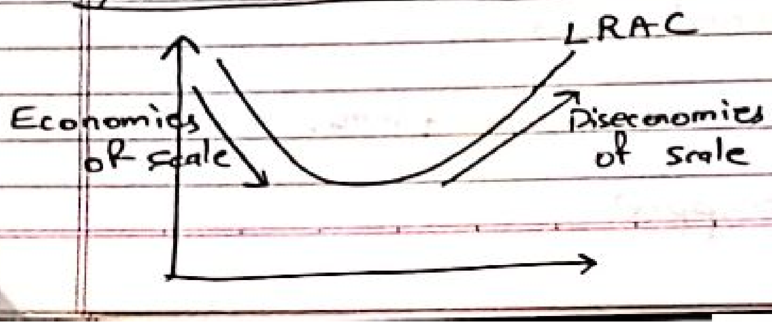
Internal Economies of Scale - lower long run average costs resulting from a firm growing in size.

External Economies of Scale - lower long run average costs resulting from an industry growing in size.

- Diseconomies of Scale
  - disadvantage of 'being too large'.
  - rising LRAC.
  - internal - higher LRAC through a firm increasing its scale of production.
  - external - higher LRAC through an industry increasing in size.

Internal Diseconomies Of Scale - higher long run average costs arising from a firm growing too large.

External Diseconomies of Scale - higher long run average costs arising from an industry growing too large.



- Types of Internal Economies of Scale:-
  - buying economies, selling economies, managerial economies, financial economies, technical economies, research and development economies, risk bearing economies.
- Internal Diseconomies of Scale:-
  - difficulties controlling the firm, communication problems, poor industrial relations.
- External Economies of Scale.
  - skilled labour force.
  - good reputation.
  - specialist suppliers of raw materials and capital goods.
  - specialist services.
  - specialist markets.
  - improved infrastructure.
- External Diseconomies of Scale
  - Congestion.
  - increased journey times.
  - higher transport costs.
  - reduced workers' productivity.
  - increased competition for resources.
  - rise in price in key sites, capital equipment and labour.

Role Of Government In An Economy

ises in

Unit 30 : The Government as a Producer and an Employer

— As a Producer.
- produce products that are natural monopoly, essential, private sector would under produce or not produce at all.

— Natural Monopolies :-
- eg:- rail infrastructure, prevent consumers being exploited, produce at low average cost, high output may be required.

— Essential Products
- affordable housing, education, health care.
- free or at subsidised cost.

— Merit Goods
- whose benefit to consumers and others is undervalued by them.
- under consumed, under produced.
- pay private sector firms to produce them.
- make their consumption compulsory.

A merit good — a product which the government considers as beneficial and which will be under-consumed if left to market forces.

— Public Goods
- no incentive to produce.
- can consume without paying.
- eg:- defence, street lighting.
- non rival.

Public good — a product which is non-rival and non-excludable and hence needs to be financed by taxation.

— As Employer
- employs workers & managers, reduce unemployment, control price, set an example for private sector.

Unit 31 : Aims of Government

— Full Employment.

- people willing and able can find employment.
- those who are economically active, are a part of the labour force.
- Unemployment rate = $\frac{\text{Unemployed}}{\text{Labour Force}} \times 100$
- full employment means 3% unemployment, as some are always changing jobs.

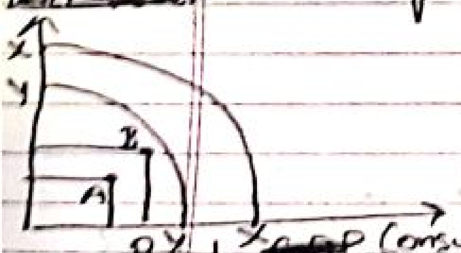
Unemployment rate – the percentage of the labour force who are willing and able to work but are without jobs.

— Price Stability.

- ensures economic certainity and prevents losing international competetiveness.
- plan with greater confidence
- aim for 2% inflation, can hide improvements in products, encourage producers to increase output

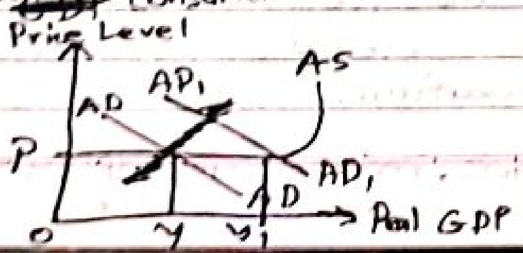
— Economic Growth.

- actual – increase in output in short run.
- potential – rise in quality/quantity of F.O.P.

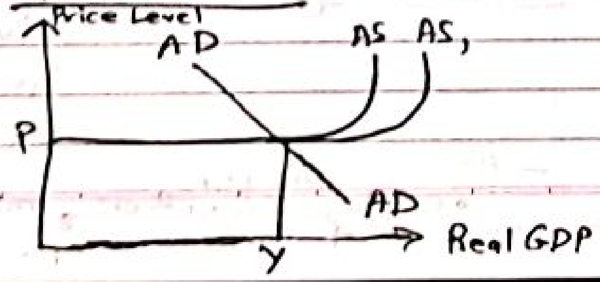


A to B – actual – more capital and consumer goods
YY to XX – potential – capable of producing more

ctual →



Potential →



- raise people's living standards, people can live longer.
- actual can coincide with potential.

Economic growth – an increase in the output of an economy and in the long run, an increase in the economy's productive potential

– Redistribution of Income.
  - from rich to poor.
  - as money increases, the less they tend to appreciate each unit.
  - taxing and spending.
  - rich are taxed more.
  - unlikely to aim for equal distribution of income, disincentive to effort and enterprise.

– Balance of Payments Stability.
  - value of exports = value of import.
  - else, country might go into debt.
  - sudden changes affect exchange rate, and eventually price of imports.

Balance of Payments – a record of country's economic transactions with other countries.

Unit 32: The Government's Influence on Private Producers

– Fiscal Policy.
  - changes in government expenditure and taxation.
  - influenced by economic activity.
  - to raise aggregate demand – reflationary/expansionary increase exp./cut taxation.
  - to reduce inflationary pressure – deflationary/contractionary cut in exp./increase taxation.

Reflationary Fiscal Policy – rises in government expenditure and/or cuts in taxation designed to increase aggregate demand.

Deflationary Fiscal Policy – cuts in government expenditure and/or rises in taxation designed to reduce aggregate demand.

– Monetary Policy.
- changes in money supply, interest rate (exchange)
- deflationary – rise in interest rate, low consumption and aggregate demand, greater incentive to save.
- implemented by Central banks on behalf of gov.
- decrease in money supply reduces agg. demand.

– Supply-side Policy.
- designed to increase aggregate supply.
- increase in productive potential.
- improving education and training, cutting direct taxes and benefits, reforming trade unions, privatisation.

– Microeconomic Policies.
- seek to increase aggregate supply. (industry)
- include :-
  1) subsidies and taxes.
  2) Competition policy.
  3) Environmental policy.
  4) Price Controls
  5) Regulation.

Unit 33: Conflict Between Government Aims

- Unemployment and inflation.
  - reduced unemployment may increase inflation, raise consumption, higher aggregate demand and increased price level.
- Balance of Payments & Economic Growth.
  - reduced imports may reduce economic growth.
  - a rise in income tax to reduce imports would also result in low consumption of domestic product
  - fall in demand will reduce output and slow down economic growth.
- Government Aims and Aggregate Demand.
  - expansionary policies may improve unemployment and economic growth, whereas deflationary policies reduce inflation and exp. on imports.
- Government Aims & Supply-side Policy.
  - all policies are supply-side policies in the long run.
  - imp. education and training, rise in aggregate demand, increased government exp. and a reduction in unemployment.
  - improved productive effeciency can result into ~~an~~ improvement in balance of payments.
  - besides a time lag, before the effect of supply-side policy, measures can be expensive, some might not work
- Increasing the effect of Policies.
  - to stimulate economic growth and reduce imports, investment grants, tax on imports.
  - AS ACCURATE INFO. AS POSSIBLE.
  - $20m exp., $16m further spent, 13 and so on.
  - Total Spending, income and output increase is 5 times greater than the original invetment. (multiplier).

(wrong)

- try to decide and implement policies quickly.
- can harm the economy.
- cut in tax to raise aggregate demand and employment may result into increase inflationary pressure.

The Multiplier Effect — the final impact on total expenditure being greater than the initial change.

— Recent Developments.

- possible for economies to experience full employment and high economic growth without inflationary pressure.
- advances in technology, increased global competition, increase in aggregate demand, shortages of labour.
- global competition puts pressure on firms to keep costs low.

Unit 34 : Types of Taxation

— Aims of taxation:—

- redistribution of income.
- discouraging consumption of demerit goods.
- raise the costs of firms with too many external costs.
- discouraging imports.
- influence economic activity.

— Direct & Indirect Taxes.

- direct — levied on a person's / firm's income/wealth, have to bare burden.
- indirect — levied on spending, burden can be shifted.

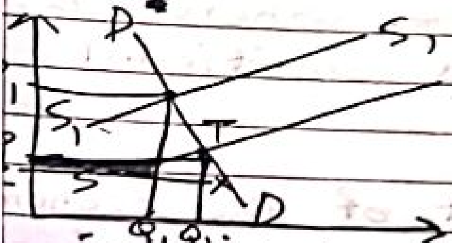
- Main types of Direct Taxes.
  - Income, Corporation, Capital Gains, Inheritence.
- Main types of Indirect Taxes.
  - Sales, Excise duties, Customs duties, licenses

Direct Taxes - taxes on income and wealth.

Indirect Taxes - taxes on expenditure.

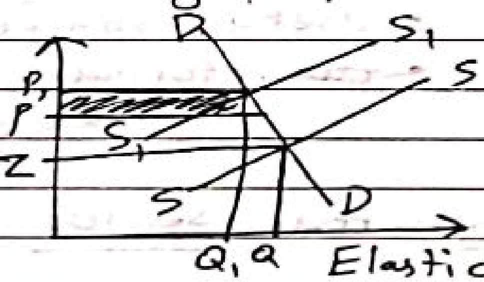
- Nature of Taxation.
  - progressive - takes a higher percent. of income from rich
  - propotional - percent. paid in tax stays the same.
  - regressive - percent. paid in tax falls with rising income or wealth.
  - total amount always higher for the rich, but percent usually differs.

Unit 35: Incidence & Impact of Taxation
- Base, Burden, & Incidence.
  - tax base is the source of tax revenue, large range of item and people are taxed.
  - burden refers to amount paid by people and firms.



inelastic demand

burden, mostly can be shifted to the final consumer.



Elastic Demand

burden can not be entirely or majorly shifted, has to be borne by the supplier.

- Qualities of a Good Tax.
  - Equity, Certainity, Convenience, Economy, Flexibility, Effeciency.
- Impact of Direct Taxes.
  - if set too high, discourage effort, enterprise and saving.
  - ~~[illegible]~~ ecourage target savers.
  - redistribution becomes easy, as they are automatic stabilisers in countries with organised labour markets, high literacy and incomes.

Automatic Stabilisers - forms of government exp. that reduce fluctuations in economic activity, without any change in government policy.

- Impact of Indirect Taxes.
  - regressive, fall heavily on poor.
  - easy and cheap to collect, less dis-incentive to effort.
  - May reduce consumption of demerit goods and are easier to adjust.
  - more choices, as the people might not buy products which are highly taxed.
  - useful source of income, where the informal sector has significant existence.

Informal Sector - the part of the economy consisting of undeclared and illegal economic activity.

Unit 36: Consumer Price Index

- Price Indices

- Show the general price level in percentage over time
- Change in the price of a very large shopping basket of products bought by consumers
- RPI (retail price index) – includes mortgage interest payments, and not university accommodation fees.
- CPI (Consumer price index) – vice versa.
- Constructing a price index –
    1) Select a base year – a standard year where there were no dramatic changes, & it is given a figure of 100.
    2) Finding how households spend their money – need to know how people spend their money, gov. carry out surveys of household exp. They work out commodities being bought and decide which items to include in the index and what weights attach to each.
    3) Finding out price changes – the gov. officials find info. about prices & gov. estimates the change in prices.
    4) Constructing a weighted price index – the ~~change in price~~ weights are multiplied by the changed price index, to calculate change in general price level.

Cost of Living – the cost of a representative basket of goods and services

Food [illegible] [illegible] = [illegible]

- Different Impact of Price Changes

- CPI measures the price of goods and services consumed by the average household
- ↑ CPI, inflation.

Unit 37: Causes and Consequences of Inflation & Deflation

Deflation – a sustained fall in the general price level.

– Cost Push Inflation
- price level is pushed by increase in C.O.P.
- to maintain profit margins.
- wages increasing more than labour productivity, increase in the cost of raw materials, increase in indirect taxes, higher cost of capital goods, increase in profit margins

Cost-Push Inflation – rises in the price level caused by higher costs of production.

Wage-price spiral – wage rises leading to higher prices which, in turn, lead to further wage claims and price rises.

– Demand-pull inflation
- excess demand
- higher consumption, ~~hig~~ investment, gov. exp., net exports.
- economy is experiencing a shortage of some resources.
- aggregate supply may not rise in line with AD.
- monetary – caused by excessive growth of money supply.
- sum of money supply and velocity of circulation, and product ~~sum~~ of price level ~~and~~ output should be equal, as both are total exp.

<u>Demand-pull inflation</u> - rises in the price level caused by excess demand.

<u>Monetary inflation</u> - rises in the price level caused by an excessive growth of the money growing ~~more~~ rapidly than output

<u>Monetarists</u> - a group of economists who think that inflation is caused by the money supply growing more rapidly than output

<u>Velocity of Circulation</u> - the number of times money changes hands.

- Consequences of Inflation.
  - Harmful: -
    1) Fall in value of money.
    2) Fall in purchasing power of money, people may lose confidence in using the country's currency as money.
    3) redistributes income in an unplanned way, workers with strong bargaining power tend to gain, borrowers also benefit as they pay back less in real terms.
    4) savers are likely to lose, as they would be repaid less in real terms and workers with low bargaining power suffer.
    5) imposes extra costs on firms, time is taken due to estimating future costs on raw materials. There will be menu and shoe-leather costs
    6) uncertainity, households and firms ~~judge~~ can't judge the right price to paid for products.
    7) can harm balance of payments position, domestic products become less price competitive, fall in export revenue, rise in import exp., deterioration in the current account position.
    8) Fiscal drag - lower disposable income, higher tax brackets.

1) encourages firms to expand, entrepreneurs become optimistic about future sales.
2) reduces burden of debt
3) can prevent some workers being made redundant, accept their money wages rising by less than inflation.

Hyperinflation - a very rapid rise in the price level.

Index-linking - changing payments in line with changes in inflation rate.

Menu Costs - costs involved in having to change prices as a result of inflation.

Shoe-leather costs - costs involved in moving money around to gain high interest rates.

— Causes of Deflation: —

- advances in tech., increase in labour productivity.
- consumers enjoy more choices and products become more internationally competitive.
- decline in aggregate demand, downward spiral in economic activity, may postpone purchases, firms reduce their output and labour force which again decreases aggregate demand.

— Consequences of Deflation: —

- good - improve current account position, rise in exchange rate, employment, output.
- bad - reduce output and employment, discourage investment, reduce productive capacity, endanger future economic growth.
- increase in purchasing power of fixed income earners, raise the burden of debt, borrowers will lose, lenders will gain.

Unit 38: Employment

- Full and Part Time.
  - Most work full time, some opt to work part time.
  - Some are forced to work part time because of unavailable full time
- Employed & self-employed
  - most people work for someone else, however, the no. of self-employed is rising but in the unorganised sector.
- Organised and Unorganised Sectors.
  - unorganised - workers who do not have access to the social security benefits, employment protection, rights
  - un. does not include unions, most do not pay income
  - lower productivity, levels of training, wages.
- High & Low Quality Employment
  - ~~high~~ - skilled, work is interesting, opportunity to progress, access to training, good working conditions, job security
  - low - unskilled, no training and bad working conditions.
- Private & Public Sector Employment
  - Public - job security, non-wage benefits
  - Private - higher productivity, higher pay.
- Flexible Employment. (experienced by firms)
  - numerical - hire/fire workers
  - temporal - change the no. of hours
  - locational - change the location of work.
  - functional - change the tasks.
  - wage - raise or lower wages.
- Labour Force Participation & Employment Rate.
  - LFPR - proportion of people who are of working age and part of the labour force.
  - depends on :- wages on offer, social attitudes to working women, care of children and elderly, social attitudes for the disabled to work, proportion of school leavers who go for higher education.

39: Causes & Consequences of Unemployment

- Measures of Unemployment
  - two ways:-
    1) count in receipt of unemployment benefits — claimant count, government already has record. It understates unemployment as some may be fraudently claiming the benefits.
    2) labour force surveys — can be used to make international comparisions, accurate. Depends on how the questions asked and takes longer.
- Causes of Unemployment.
  - frictional — fired or voluntarily left one job and wait to find another.
  - search — looking around for an acceptable job.
  - casual — out of work between intervals (actors/farm)
  - seasonal — labour is not in demand at certain periods.
  - regional — concentrated to one area.
  - technological — workers made redundant due to advances in ICT.
  - structural — more serious than frictional (longer)
  - cyclical — lack aggregate demand, demand deficient unemployment. If economy goes through recession.

Recession — a fall in the country's output over a period of six months or more.

- Consequences of Unemployment.
  - easier to recruit new workers, keep down inflationary pressure.

- Effects On the ~~Economy~~. Unemployed-
  - fall in income, loss of self-worth, stress, marraige break-ups, adverse effect on education of children, lose out on new training methods, confidence dips.
- Effects on the Economy.
  - opportunity cost, not using all its resources.
  - lower tax revenue, expenditure on unemployment benefits.
  - if unemployed suffer from bad health, spend more on healthcare and rising crimes mean rising expenditure on security.

Unit 40: Gross Domestic Product and Economic Growth

- GDP
  - refers to the total output produced in a country
  - 3 methods of calculating :- income, output, expenditure

The Circular flow of income - the movement of expenditure, income and output round the economy.

- Methods of calculating GDP.
  - output - adding up the output produced by all industries, includes 'value added' by each stage of production.
  - income - all which have been earned in producing the output, transfer payments (pensions) aren't included.
  - expenditure - adding up all the expenditure on the country's finished output, includes :- consumption, investment, gov. exp., exports minus imports.

<u>Value Added</u> - The difference between the sales revenue received and the cost of raw materials used.

<u>Transfer Payments</u> - Transfers of income from one group to another not in return for providing a good or service.

— Nominal & Real GDP.

- nominal/money/at current prices - in terms of price operatives at that time, no adjustment for inflation, may give misleading impression ~~of~~.
- real/at constant prices - economists multiply nominal GDP with the price index in the base year and divide the current price index.
- eg:- nominal GDP = \$800 bn (2007)

  nominal GDP = \$900 bn (2008)

  $\frac{900-800}{800} \times 100 = 12.5\%$ economic growth.

  However, price index in base year = 100

  price index in current year = 110

  $\therefore \frac{100}{110} \times 900 = \$818.18$ bn

  $\frac{818.18-800}{800} \times 100 = 2.27\%$ actual growth.

— Real GDP per head.

- rise in GDP means more goods and services produced.
- if output rises by 5%, population by 8%, living standards fall.
- GDP per head/capita - dividing real GDP by output.

- Difficulty in measuring real GDP.
  - tend to understate the true level of output, existence of informal sectors is unrecorded. (undeclared).
  - subsistence agriculture
  - the inflation rate overstates the rate at which the general price level is rising, as prices rise slowly in the hidden/shadow/grey sector
  - even people who clean their own houses, repair their own cars, are not counted in GDP.

Subsistence Agriculture - the output of agricultural goods for farmers' personal use.

- Causes of Economic Growth.
  - increase in aggregate demand
  - rise in confidence due to cut in income tax.
  - quantity/quality of resources increase.
- Consequences of Economic Growth.
  - improve living standards, conditions and life expectancy.
  - increased tax revenue - reduced poverty, increase healthcare and educational standards.
  - may increase economic and political standing.
  - pollution, depletion of non-renewable resources and damage the natural environment.
  - workers develop new skills.

International Monetary Fund - an international organisation which promotes international co-operation and helps countrie with balance of payments probs

<u>Sustainable Economic Growth</u> – economic growth that does not endanger the country's ability to grow in the future.

— Economic Growth Rate.
- if eco. growth rate falls from 5%. to 3%, output may still rise, but at a slower rate.

— Recession.
- GDP declines over a period of six months or more.
- may be caused by decrease in aggregate demand, decrease in aggregate supply.
- reduction in output and incomes will lower living standards, discourage investment, endanger future eco.growth.

<u>Unit 41: Living Standards</u>

— Measures of Living Standards.
- people who own a given consumer good, no. of patients per doctor, enrolment in tertiary education, adult literacy rate, average food intake, conduct of free elections.
- Mainly 3:-
  Human Development Index, Index of Sustainable Economic Welfare, (the main is) real GBP per head.

— Real GDP per head.
- increase in real GDP/head would suggest that living standards have risen.
- not everyone would benefit from a rise in income level.

- more output is being produced, but ~~it~~ it may be the increased output of demerit goods.
- understate products available by undeclared economic activity.
- working conditions deteriorate, pollution may increase, people may not feel better.

— Human Development Index (HDI).
- wider measure than GDP per head, two other indicators – life expectancy at birth, years of schooling
- countries are ranked into high, low, medium human development.
- criticized for, a person could live higher in prison who is well educated.
- it does not include differences between income between males and females, between those living in rural and urban areas, other groups.

— Index of Sustainable Economic Welfare.
- Genuine Progress Indicator – adjusting personal consump. for ~~equal~~ unequal income distribution.
- items are deducted if they reduce economic welfare presently or in the future. (social & environmental costs)
- positive contributions to current/future eco. welfare are added (capital investment, gov. exp. on infrastructure

— Other measures.
- Multidimensional Poverty Index – deprivations in education, health, and standard of living.
- Gender Inequality Index — reproductive health, empowerment and labour market.
- Happy Life Expectancy Index – degree to which people live long and happy lives.

Developed And Developing Countries

Unit 42 : Different Stages of Development

— Development.
- wider than economic growth, reduce poverty, expand ~~choices of~~ economic and social choices, increa freedom and self-esteem.

— Different Stages.
- Developed – high incomes, living standards, no. of workers employed in tertiary sector, levels of productivity and investment.
- Developing – lower incomes, living standards.

— Measures of Development:–
- GDP per head – material living standards.
- HDI – life expect., edu. attainment, GDP/head.

— Characteristics of Developing Economies:–
- low incomes per head, levels of saving due to low income, life expectancy and high infant mortality rate, high rates of population growth, low levels of education and healthcare, levels of capital goods and poor infrastructure, poor housing and sanitation, high number of workers in primary sector, conc. on narrow range of exports

Infant Mortality Rate – the no. of deaths per 1000 live births in a year.

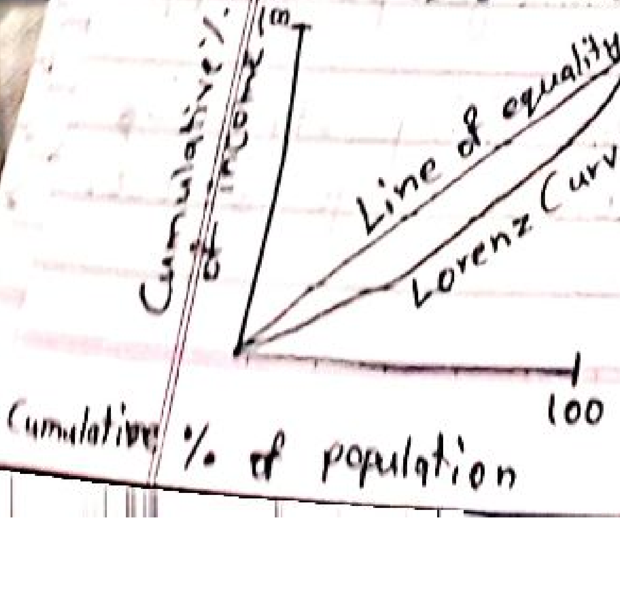
Birth Rate – no. of births in a year per 1000.

Death Rate – no. of deaths in a year per 1000 populat

— Governments pursue higher living standards for citizens, expansion of range of eco. and social choices.

Unit 43: Inequality & Poverty

- Income & Wealth Inequality.
    - Income may be unevenly distributed between households due to wealth, composition of households and ability to earn.
    - Wealth is a stock of assets which have a financial value.
    - High no. of workers in household = ↑income.
    - inheritence is a major reason and wealth creates wealth, as wealthier can afford to save more.
- Influence of Gov. on Distribution of Income & Wealth.
    - uneven distribution may be socially divisive.
    - taxation, cash benefits, free state education and healthcare, macroeconomic policies.
- Nature & Causes of Poverty.
    - Absolute - no access to basic needs.
    - relative - poor, relative to other people.
- Gov. Policy measures to Reduce Poverty.
    - impove quantity/quality of education, ↑ aggregate demand, introduce or raise national minimum wage, encourage MNCs, provide generous state benefits, land reform.
- Measures to raise Living Standards.
    - reduce unemployment, improve healthcare.
- Measures of Income & Wealth Inequality.



- Distance between the two lines, shows the inequality of income.

Unit 44 : Population Growth

— Causes
- natural increase (birth rate exceeds death rate), net immigration.
- birth rate is affected by: age of marraige, no. of women in higher education, labour force participation rate of women, socio-economic status of women, avalability of family planning, government support for families, cost of bringing up a child, benefits of sick and elderly.

— Population Structures.
- people under 16, 16 -64, over 65
- population pyramids show a detailed breakdown
- the dependent population — below school leaving age and above retirement age.

$$\text{Dependency Ratio} = \frac{\text{Dependent Age Groups}}{\text{Labour Force}} \times 100.$$

— Optimum Population.
- no. of people, when combined with other resources, gives the maximum output of goods and services per head.
- difficult to determine the country's optimum population, because resources keep on changing.

— Malthusian Theory of Population
- population pressures prevent rise in living standards
- Population grows at geometric and food at arithmetic rate
- To prevent, positive checks — wars, famine, preventive checks — delaying marraige.
- The theory overlooks that people are not only consumers, they are producers as well.

Unit 46 : Problems of Development

— The Problems Facing Developing Economies:-

- High growth of population, high levels of int. debt, reliance on the export of primary products, lack of investment in human capital and capital goods, emigration of key workers, trade restrictions on their products, unbalanced economies

—Measures to Promote Development.

- import substitution – should rely on domestic or foreign sources of finance.
- expose domestic firms to market forces.
- improve infrastructure, capital stock, education, training and health care systems.
- attract MNCs.
- borrowing from abroad.
- foreign aid.

— Foreign Aid.

- desire to help people, win political support and commercial advantage.
- bilateral – from one country.
  multilateral – international organisations provide.
- grants (no repayment), loans on favourable terms, supply of goods and services, technical assistance, and guidance.

World Bank – an international organisation which provides long term loans on favourable terms, to promote development.

Unit 45 : The Effects of Changes in Population

— Effects of increase in population.
- better use of resources, size of markets increase, increase in factor mobility, extra demand will be generated, rise in labour force.

— Disadvantages of increasing population.
- concerns about famine, restriction on improvements in living standards, overcrowding, environmental pressure, low employment opp., balance of payment pressures.

— Ways of reducing the birth rate.
- reduce immigration.
- educational and employment opp. to women.
- improve healthcare to decrease infant mortality.
- pension and sickness schemes for family support.
- raise the cost of having children by raising school leaving age or restricting the no. of children.

— Consequences of Ageing Population
- rise in dependency ratio, change in the labour force, higher demand for health care, greater need for welfare services, rise in cost of pensions, change in pattern of demand.

— Ways of coping with an Ageing Population.
- raise the retirement age, encouraging or making it compulsory for workers to save for their retirement.

— Effects of Net Emigration.
- working population will reduce, greater burden of dependency, average age of labour force will increase, sex distribution may be affected, shortage of a particular skill, under-utilisation of resources. who emigrate may send money home.

Unit 47 : The Structure of the Balance of Payments

— Meaning of Balance of Payments.

- record of all transactions between residents of a country and the rest of the world in a period
- money coming into the country is recorded as credit items and money leaving the country as debit ~~to~~ items.

— Sections of Balance of Payments.

- current a/c – trade in goods, trade in services, income and current transfers.
- capital and financial a/c – the trading of wealth and non-current assets.
- net errors and omissions – official reserves.

— The Current Account.

- this shows the income earned by the country and the expenditure made by it in its dealing with other countries.
- Four sub-sections:–

1) Trade in Goods – exports and imports of goods, visible or merchandise, if export revenue > import expenditure ; trade in goods surplus, and vice-versa.

2) Trade in Services – payments for services sold abroad and expenditure on services bought from foriegn countries, invisible balance.

3) Income – compensation of employees and investment income. Compensation is the wages/salaries of employees working abroad, ~~an~~ less the salaries of foreign employees in the home country. Investment income ~~can be~~ is the profit, dividend and interest.

4) Current Transfers – transfer of goods/services, money which is sent abroad, not in return of anything else. It includes gifts, charitable donations, money sent from relatives or financial aids.

International Aspects

- Pattern of International Trade
  - Countries usually seem to buy from others who produce good quality products at low prices
  - It also trades with countries who are closer to them in terms of development, geography and [illegible]
- Changes in Exports and Imports
  - country's inflation rates, exchange rate, quality [illegible], quality, marketing, domestic GDP, foreign GDP and trade restrictions.
- Causes of Current Account Deficit
  - [illegible] - low incomes earned than incomes at home
  - high exchange rate
  - [illegible] problems - products manufactured by domestic firms might be of low quality or expensive
- Consequences of Current Account Deficit
  - fall in aggregate demand, reduction in [illegible]
  - output and employment is lower than possible
  - [illegible] pressure on exchange rate
  - introduction of supply-side policies to improve country's trade performance
- Causes of Current Account Surplus
  - low exchange rate, high quality domestic products, high incomes abroad, low costs of production
- Consequences of Current Account Surplus
  - increase in aggregate demand, rise in real GDP, higher employment
  - appreciation in the exchange rate, demand for the currency will exceed supply.

Capital & Financial Account

• Capital includes funds brought into the country by immigrants, funds sent abroad, transfer of funds with disposal of non-current assets and trade of patents.

• Financial records assets and liabilities.
) direct investment - purchase of businesses
) portfolio - shares and bonds
) other - trade credit and loans

• reserve assets - settle debt with other countries, drawing rights, reserve position of IMF and gold

Net Errors and Omissions

• the surplus on the current account may offset the deficit on the capital and financial account and vice-versa.

• Because of mistakes and failure to record all items, they do not balance.

• the net errors and omissions figure is included as the balancing figure.

• With time, errors are rectified and the section continues to decrease.

Causes Of Financial Account Deficit

• Investment abroad is greater than foreign investment

Consequences of Financial Account Deficit

• short term money leaving the country

• long term investment abroad can generate income and can be profitable.

Unit 48: Changing Pattern of Exports & Imports

Tariff - a tax on imports

[illegible] Exchange Rate
[illegible]

Fixed Exchange Rate
[illegible]

advantage [illegible]
[illegible]

[illegible] Exchange Rate
[illegible]

Demand for Indian [illegible]
[illegible]

Unit 11: International Trade

- Benefits of specialisation to countries [illegible]
  - [illegible]
  - [illegible]
- Disadvantages of specialisation to countries
  - [illegible]
- Absolute Advantage
  - [illegible]
  - [illegible]
  - [illegible]
- Comparative Advantage
  - [illegible]
  - [illegible]
- Terms of Trade
  - [illegible]
  - [illegible]
  - [illegible]

[illegible]

[illegible]

- Consequences of Change in Exchange Rate:-
  - may influence economic growth, employment, inflation.
- Measures to Correct a Current Account Deficit:-
  - reduce value of currency (expenditure switching measure) encourage ~~domestic~~ citizens to switch purchases from foreign products.
  - expenditure reducing measures – reducing demand for products in general, reduce imports, force domestic firms to export. Can be done by increasing income tax, raising rate of interest, pushing up rates of indirect taxes.
  - in the long run, supply-side policy measures.
- International Competitiveness.
  - when a country provides the goods and services desired by consumers at a price acceptable.
  - include – economic growth rate, share of world trade, levels of expenditure on R&D, quantity/quality of education, state of country's infrastructure.

Unit 52: Free Trade & Protection.

- Benefits of Free Trade.
  - occurs when there are no restrictions on products bought by consumers from abroad or products sold to firms to other countries and no imposition of special taxes.
  - allow countries to concentrate on what they are best at, effecient allocation of resources.
  - world output, employment and living standards ↑.
  - economies of scale, low prices for consumes, greater choice of products.

working abroad, foreign firms set up units in India, foreigners buying Indian shares, foreign governments holding rupees as reserves, speculators buying rupees in the expectation that value of rupees will rise.

– Supply of rupees will come from:-

• individuals wishing to buy foreign goods, multinationals sending home profits, Indian banks paying interest on money held by people living abroad, foreigners receiving dividends from Indian firms, sending money abroad to relatives by foreigners, multinationals wanting to buy Indian firms ~~[illegible]~~, Indian government wishing to hold foreign currencies as reserves, speculators selling rupees because they expect its value to fall.

Unit 51: Changes in Exchange Rates

– Changes in Exchange Rate.

• may changes are result of current account balance, investment, speculation and government action.

• increase in current account surplus, demand for currency will rise.

• increase in investment, rise in value of currency.

• buying and selling the currency — government will instruct central banks buy currencies using foreign currencies.

• hot money flows — higher rate of interest, more investment and demand for currency will increase.

• increase exports, reduce imports. — more products sold internationally and the demand for currency rises.

— Methods of Protection.

• Tariff – tax on imported products, raise prices of fo imported products.

• Quota – limit placed on quantity of goods which can be imported.

• Embargo – complete ban on the import of a product with another country.

• Exchange Control – restricting the availability of foreign currency.

• Quality Standards – require imports of artificially high standards, dissuade countries to increase costs and eventually prices.

• Expensive paperwork – considerable amount of time-consuming paperwork.

• Voluntary Export Restraints – persuade countries to restrict the number of units sold, threatening to impose tariffs or quotas, if they do not agree.

• Subsidies – protect domestic industries from cheaper imports by giving them subsidies. Lower prices, under-cut the price of import.

— Arguements for Protectionism.

• protection of infant industries, protection of declining industries, protection of strategic industries, raising employment and improving the trade position, protection of industries from low wage competition, protection of industries from unfair foreign competitions.

— Protectionism may result into higher prices, lower choice, ineffeciency and retaliation.