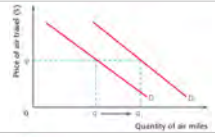
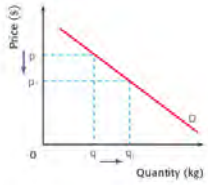
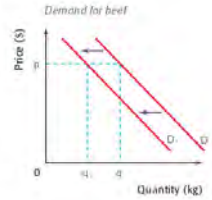
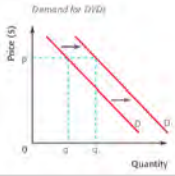
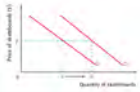
NON PRICE DETERMINANTS OF DEMAND	TYPE	EFFECT	GRAPH
income	normal goods	as income rise, demand of the product will rise	
	inferior goods	as income rises, demand will fall as they start to buy higher priced goods (non organic food)	
price of other products	substitutes	change in the price of one of the products will lead to a change in the demand of another product (milk)	
	complements	products which are often purchased together (shampoo and conditioner)	
	unrelated goods	change in the price of one product will have no effect on the demand for the other product (toilet paper and pencils)	-
Tastes/ Preferences	-	can either shift to the left or right	

OTHER FACTORS (affecting demand)	EFFECT
size of the population	increase in population, will increase demands for most products
change in age structure	alter demand for certain products
government policy changes	changes in direct tax, decrease disposable income / policies would alter demand too
seasonal changes	changes in pattern of demand in the economy
changes in income distribustion	more equality = increase in demand for necessity goods

Lead to shortages:

- excess demand may create problems
- shortages may lead to a black market
- queues may develop - leading to a discrimination onto who is allowed to buy

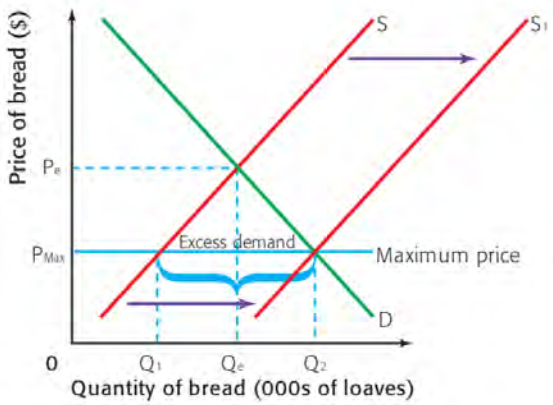
Reduce shortages:

shift the demand curve to the left, until equilibrium is reached at the maximum price

- this would limit the consumption

shift the supply curve to the right until equilibrium is reached at the maximum price

- the government could offer subsidies to the firms in the industry to encourage them to produce more
- the government could produce the product themselves (increasing supply)
- if the government had stored the product



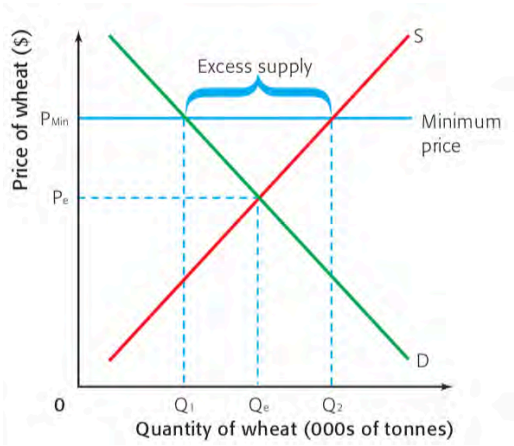
during food shortages to ensure low-cost food for the poor

MINIMUM (HIGH) PRICE CONTROLS

floor ceilings: prevents producers from reducing the price below it

Maximum prices are set:

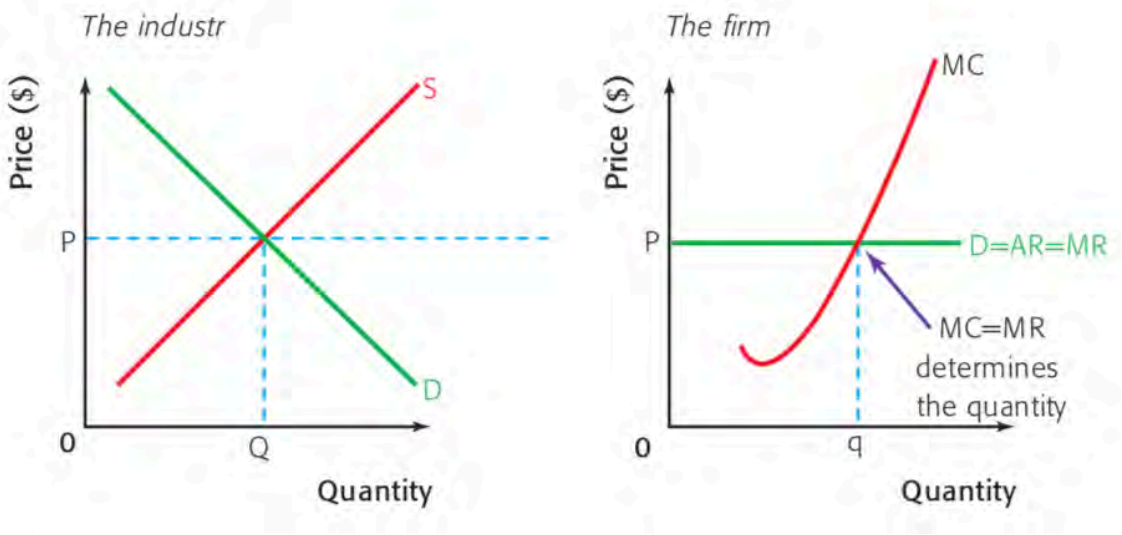
- to attempt to **raise incomes for producers** goods that there government thinks are important (agricultural products) - protected because they are subject to large fluctuations
- protect workers by setting a **minimum wage**



Leads to surplus:

- producers have a surplus (excess supply) so they may sell their goods for a lower price

Profit maximisation



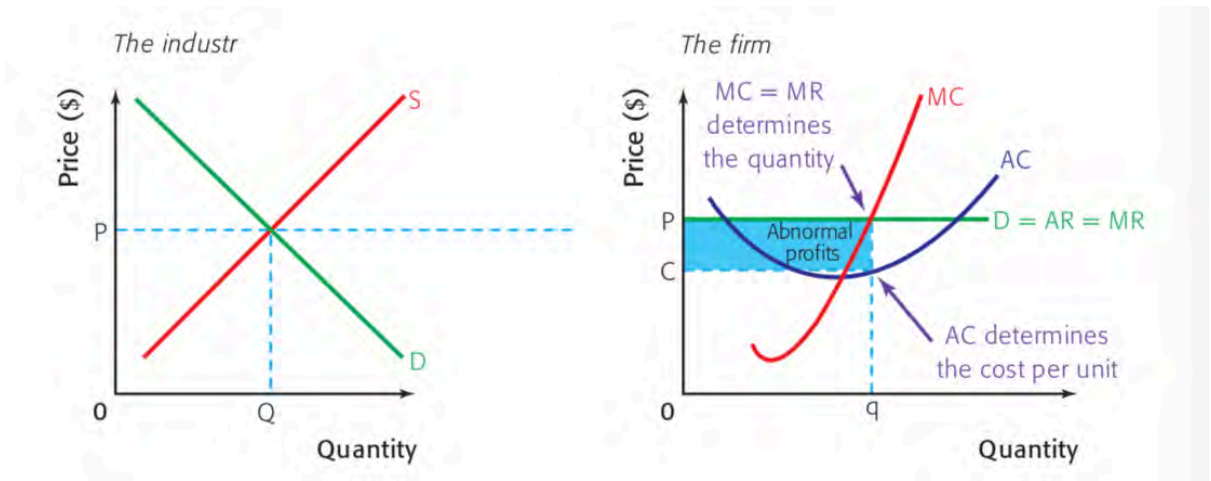
profit is maximised: **MC = MR**

P = D = AR = MR

- the quantity of output from the firm is very small relative to the industry, so one firm will not affect the output of the industry

Short-run profit and loss situations in perfect competition

Short-run abnormal profits: more than covering their total costs, including opportunity costs



average cost is less average revenue

ADVANTAGES to the firm	DISADVANTAGES to the firm
Gains a **higher revenue** from a given amount of sales (due to erosion of consumer surplus)	
Produce more of the product - gain from economies of scale - lowering average costs / prices in all market segments	
Drive **competitors out of elastic market** - profits gained in inelastic segment to lower prices in the elastic segment - occurs in international trade	

not allowed to sell below cost of production in forge in markets - dumping / only allowed to sell at prices below the domestic market price

ADVANTAGES to the consumer	DISADVANTAGES to the consumer
Allow **some** consumers to **purchase** a product that they would **otherwise** have to **pay a higher price for** - 'subsidising' the poorer consumers	Any **consumer surplus** that existed before price discrimination will be **lost**
Increases total output in a market so the product is available to more consumers	**some** consumers will have to **pay more** than the price they would have been charged in a **single, non discriminated market**
Economies of scale mean l**ower unit costs**, and **lower prices for consumers** in all market segments	

INVESTMENT

investment: addition of capital stock to the economy

firms have 2 types of investment:

replacement investment: firms spend on capital in order to maintain the productivity of their existing capital

induced investment: firms spend on capital to increase their output to reposed two higher demand to respond to higher demand in the economy

An economy's capital includes all goods that are made by people and are used to produce other goods and services such as factories

GOVERNMENT SPENDING

Government spending at a variety of levels (federal/state/provincial/municipal/city), to spend on a wise variety of goods and services

- government spending depends on their policies and objectives

example: health, education, law and order, social security

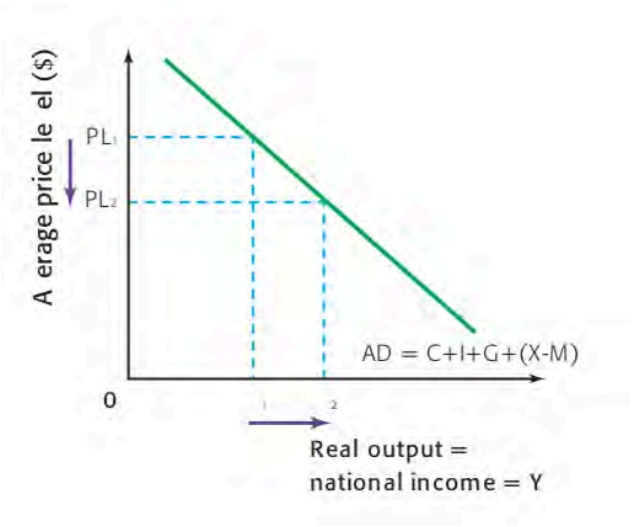
NET EXPORTS

Exports: domestic goods and services that are bought by foreigners

- firms in a country sell exports to foreigners, it results to an inflow of export revenues

Imports: goods and services that a bought from foreign producers

- imports bought result in an inflow of import expenditure



Aggregate demand can be presented as : C + I + G + (X - M)

-indicates a single market in a microeconomic analysis

1) deflationary gap

agregate demand in the economy is not sufficient to buy up the potential output that could be produced by the economy at the full employment level of output

- aggregate supply is is perfectly elastic / existence of spare capacity
- high levels of unused factors of production / unemployment or under-utilised capital
- equilibrium level of output is below the full employment level of output
- expansionary polices can be used to increase the equilibrium level of output / increasing demand for labour // reduce unemployment

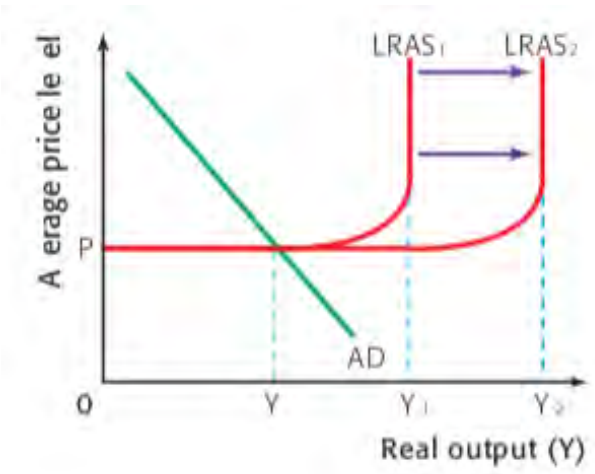
2) begins to feel inflationary pressure

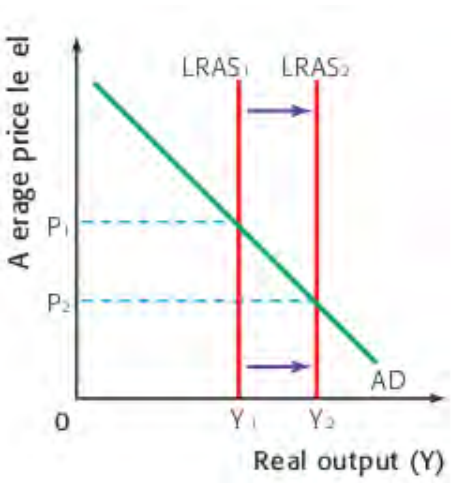
- available factors of production become scarcer and their prices increase
- price level increases bit to compensate producers for their higher costs

3) inflationary pressure

- economy is producing at full employment level of output
- increase in AD
- no increase in output
- only a change in price level
- price level increases to compensate components of aggregate demand
- contractionary monetary or fiscal policy can be used to reduce inflationary pressure

CHANGES IN LONG-RUN AGGREGATE SUPPLY





aim to reduce the time that a worker spends in between jobs / improving information flows between workers and employers

- through internet job sites
- newspapers
- job centres
- employment counsellors

seasonal unemployment: when the demand for labour in certain industries changes on seasonal basis because of the variation in needs

example: life guards during the winter / people working in the tourist industry

Dealing with seasonal unemployment:

- reducing unemployment benefits
- encouraging people to take different jobs in their off season / training for higher skilled permanent jobs

structural unemployment: when there is a permanent fall in the demand for a particular type of labour

example: people in the neon light sign industry in Hong Kong / what was once very high in demand is now a dying industry

- harmful because it results in long-term unemployment

lack **occupational mobility**: people who lose their jobs in one area lack the necessary skills to take on the newly created jobs

lack **geographical mobility:** jobs are created on one ends of the county, while the unemployed are living in a different area

example: the US has a high HDI index and high GINI index

Reduction of inequality is important for development, it doesn't necessarily correlate with the HDI

GOVERNMENT INTERVENTION

TAXATION : to reduce the consumption of goods that create negative externalities / on imported goods may be imposed to reduce the consumption of imported goods / manage the level of aggregate demand in the economy

direct taxes: taxes imposed directly on their earnings

- personal income
- social security
- corporate
- wealth

based on 'tax return' which people are obliged to fill out

indirect taxes: taxes also known as expenditure taxes

example: GST in Malaysia, VAT in the UK

progressive taxes: as income rises, proportion of income paid as tax raises

main way to redistribute income from higher income earner to low income earners

- disincentive to earn a high income / working harder

regressive taxes: as income rises, proportion of income paid as tax decreases

indirect taxes are regressive taxes

- regressive taxes a good sources of government revenue
- may discourage consumption of demerit goods
- may worsen income inequality

proportional taxes: the proportion of income paid in tax is constant for all income levels

- a supply side policy to encourage greater incentives to work / rise labour supply

the right)

EXCESS DEMAND

- caused by more foreigners visiting the country / more exports being demanded
- Excess demand without government intervention: the exchange rate will rise
- maintain exchange rat : government needs to sell its own currency on the FEM
- this will increase the local reserves of foreign currencies

another way of maintaining exchange rate; making it illegal to trade currency at any other rate

- difficult to reinforce unless government has monopoly power
- black markets may emerge in the currency (operating at a different exchange rate)

FLOATING EXCHANGE RATES

floating exchange rate: exchange rate where the value of a currency is allowed too be determined solely by the demand and supply for the currency on the foreign exchange market

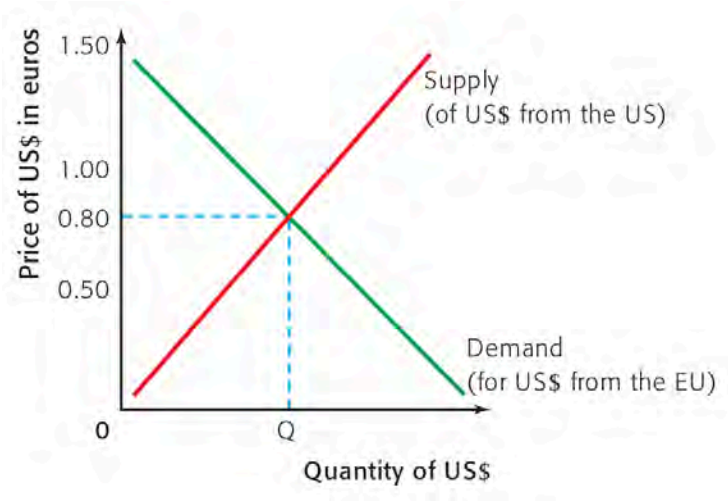
example: USA

- no government intervention to influence the value of the currency

appreciation: the value of the currency in a floating exchange rate rises

depreciation: the value of the currency falls

Showing that 1USD = 0.80 EUROS



DISADVANTAGES OF A FIXED EXCHANGE RATE	HOW
worsen levels of inflation	high inflation / exports less competitive and imports less expensive exchange rate will fall (attempting to rectify the situation) / lead to higher import prices of finished goods / increasing inflation rate

BALANCE OF PAYMENTS

balance of payments: records of the value of all the transactions between the residents of one country and the residents of all other countries in the world in a given time period (usually one year)

credit item (positive value): money entering the country from abroad

negative item (negative value): money leaving the country from abroad

CURRENT ACCOUNT

current account: measure of the flow of funds from trade in goods and services, plus other income flows

1) the balance of trade in goods

visible trade balance / mechanise balance / balance of trade

measure of the revenue received from the exports of tangible goods - expenditure on the imports of tangible goods over a period of time

export revenue > import expenditure: surplus on the balance of trade in goods

import expenditure > export revenue: deficit on the balance of trade in goods

example: airplanes / chickens

2) the balance of trade in services

invisible trade balance / net services

measure of the revenue received from the exports of services - expenditure on the imports of services over a period of time

export revenue > import expenditure: surplus on the balance of trade in goods

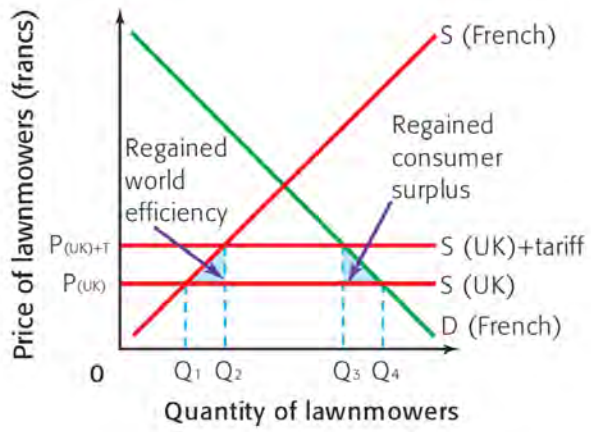
import expenditure > export revenue: deficit on the balance of trade in goods

example: banking, insurance and tourism

TRADE CREATION AND TRADE DIVERSION

TRADE CREATION

trade creation: the replacement of higher-cost products (imported or domestically produced) by lower cost imports that results when a trading block is formed and trade barriers are removed / an advantage of economic integration

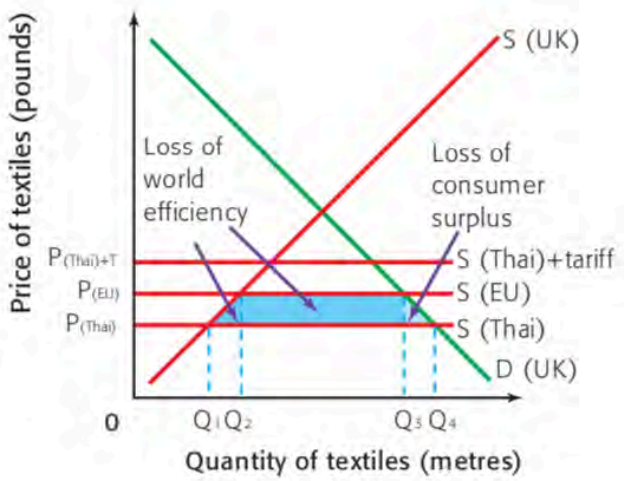


-greater allocative efficiency

-drops from S (UK + tariff) to S (UK)

TRADE DIVERSION

trade diversion: lower cost are replaced by higher costs imports from a member after the formation of a trading blocgreater allocative efficiency



- trade diversion as a result fo trading blocs (another agreement against them) / in favour of multilateral trade liberalisation

- trade diversion cannot occur with multilateral reduction or elimination of trade barriers

- trade diversion occurs: importing country is forced to import from a higher cost producer within a trading bloc / whereas before it was importing from a lower cost else where

- trade creation has an effect on increasing social welfare, while trade diversion reduces it
- trading block creates free trade for the member it doesn't always improve the allocation of resources
- resources of allocation will only improve if trade creation effects > trade diversion effects
- trade creation = short term
- trade diversion = long term / long term outweighs the short term

MEASURING DEVELOPMENT

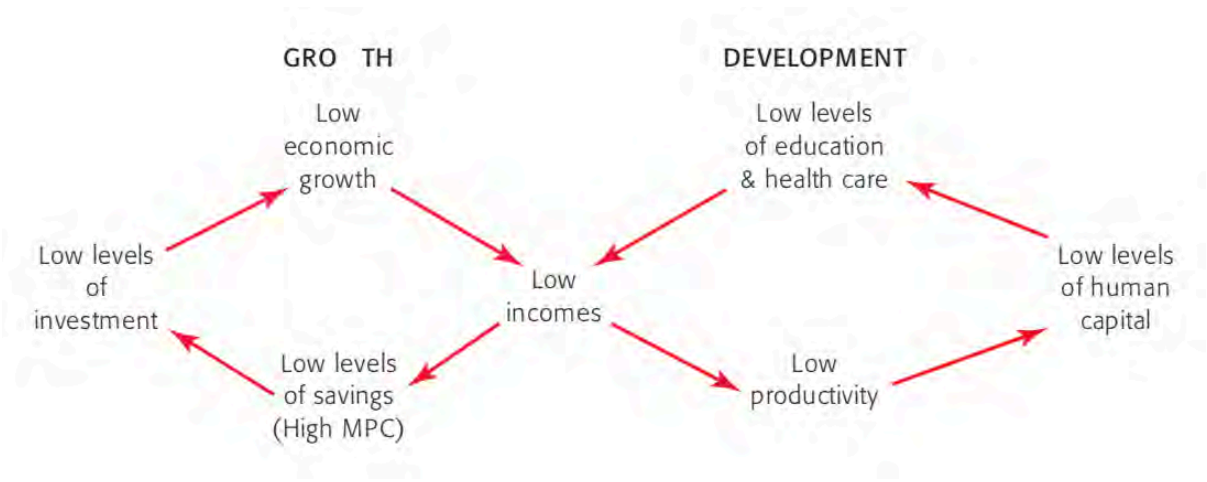
relative poverty: they do not reach a specific level of income - depends on the specified level of income set in each country

absolute poverty: amount a person needs to have in order to live. It is the level of income that a person needs to have in order to live

The basic that is sufficient to buy: clothing, food, and shelter

- measured with the PPP exchange rate
- if people are below this, they are considered to be in extreme poverty

Poverty cycle



MEASURING DEVELOPMENT:

Financial measures:

1) GDP per capita
2) GNI per capita

If a country has a large amount of FDI then its GDP > GNI

- they include profits that may have been repatried

If a country is involved in FDI's then GDP < GNI

measuring through PPP GDP per capita/GNI per capita

PPP: calculated by comparing prices of identical goods in different countries

- means that countries get to compare their growth

STRATEGY	HOW	CONDITIONS	ADVANTAGE	DISADVANTAGE
Export promotion	**export promotion:** growth is achieve by concentrating on increasing exports and export revenue, as the leading factor in AD concentrates on producing products it has comparative advantage on	liberalised trade: open up domestic markets to foreign competition / gain access to foreign markets liberalised capital flow: reduce restrictions on foreign direct investment floating change rate investment in provision of infrastructure: enable trade to take place deregulation and minimal government intervention	DIFFERENCES in using export of primary products as engine for growth 1) countries depend on export of primary products in order to gain export revenue // export lead growth is not likely if export = commodity 2) export growth (manufactured exports) = countries which have been effective - had comparative advantage - based on low cost labour - have become labour intensive - improvement of education was essential for this	- leads to protectionism / against manufactured products - ARGUE that cannot complete against low wage imports // unfair - prices increase as a result of tariffs / removing comparative advantage - tariff escalation reduced ability of developing countrys to export processed goods // forcing them to export primary products - not all assumptions are met - countries attempt to start by attracting MNC // they may become too powerful = problems - may increase income inequalities - economic growth in the cost of economic development

PROGRAMS:

- Boosting social spending
- reducing debt service
- improving public debt management

BALANCE BETWEEN MARKETS AND INTERVENTIONS

MARKET-LED vs INTERVENTIONIST GROWTH STRATEGIES

Market-led strategies: policies that are designed to minimise the role of the government and to maximise the free operation of supply and demand in the markets

export-led growth, growth though FDI, privatisation of national industries, deregulation and structural adjustment policies and poverty reduction strategy papers / free market polices, new classical policies or neo-liberal policies

Interventionist strategies: policies involving an active role by the government and manipulation of the workings of the markets in the economy to work more efficiently

import substitution, protectionist trade policies, exchange rate intervention, regulations, nationalisation of industries and government involvement in export markets to promote certain industries and their products

strength MO	how
allow for allocative efficiency	market-determined prices working as asignals and incentives - markets co-ordinate the independent decisions of consumers, firms and resource - allowing social surplus
pursuit of self interest gives rise to incentives for hard work, risk taking, innovation and investment	leads to higher level of output and higher standards of living / achieving economic growth
policies encourage competition	work by freeing market forces and making markets more competitive and intend to result in greater efficient in production, lower prices and improved allocation of resource
promote free market foruces	allowing allocation of resource to improve incentive-related policies: adjustments to various types of taxes (intended to work by improving the incentives to work)