

Basic Economic Ideas and Resource Allocation

- **fundamental economic problem:** scarce resources with unlimited want
- **want:** the goods and services that people may like to have but are not always achieve
- **need:** things that are necessary for survival
- **economic resources/factors of production:** anything that is useful in the production of goods or services
- **scarcity**(不可避免只能减少): a situation in which wants and needs are greater than the resources available.
- **factors of production**

factors	definition	rewards
land	natural resources can be used in the process of production	rent
labour	human resources(mental&physical) into the process of production	wage
capital	man-made aid to production	interest
entrepreneur	organise other three factors and is willing to take risks	profit

- **excludability:** it is possible to exclude one from consumption through charging a high price
- **rivalry:** the consumption by one person reduces availability for others
- **free goods:** no opportunity cost, unlimited supply, no factors of production required although goods are provided free-of-charge for consumers, but there is a cost for taxpayers, so there is an opportunity cost for people to consume the goods at the same time, government will have opportunity cost since they must spend their budgets on other activities
- **merit goods:** one has positive side effects when consumed, it is often undervalued due to information failure
- **demerit goods:** one has negative side effects when consumed, it is often overvalued due to information failure
- **public goods:** non-excludability, so free rider problem will occur.
- **free rider problem:** someone who does not pay to use a public goods when it is not possible to exclude people from using a good (etc lighthouse) by charging a price for it, they take a "free ride". since it is not possible to charge a price for the good, private firms will not produce it, even though it may be socially desirable and consumers may have a demand for it. firms will not produce it because without a price it will be impossible for them to cover their costs.
- **long run 的 technology 不可变**, very long run 才可变. short run 是 raw material/labour 可变
- **写各种 goods/factors of production/PPC 改变都要举例子!**
movement: allocation resources involve opportunity cost
- **PPC with constant/increasing opportunity cost:** equally/unequally mobile resources
- **specialisation**(如果没有提到国际贸易则不用写 comparative advantages): occur when workers are assigned specific tasks within a production process. also known as division of labour

advantage	disadvantage
rise in productivity	monotony
fall in cost	fall in responsibility
simplified training	fall in job pride
greater cooperation	rise in interdependence

- **economy structure 相关:** 介绍时要回答三个问题

如果问 mixed economy 是不是 the most common system, 讨论 difficulties of mixed:

- (1) private sector has to work under restrictions, whereas it ultimately depends on price mechanism and greatly against national planning
- (2) the transportation from private to public tends to a lot of fears and confusions against private enterprises

questions	market economy	planned economy
what to produce	shown through price mechanism	decided by government
how to produce	profit maximisation combination	decided by government

for whom to produce	purchasing power	who the government prefers
planned economy		market economy
1. resources are allocated by central body private sectors play limited roles 2. decisions are made by central body 3. maximise social welfare		1. resources are allocated by private sectors central body play limited roles 2. decisions are made through price mechanism 3. maximise profit
1. equal distribution of income 2. employment 3. avoid information failure 4. price is control so less inflation 5. take decision in national interests		1. efficient in price/range/quality 2. no bureaucracy 3. response to market by price mechanism 4. consumer sovereignty

Price System and Microeconomy

- **demand:** the quantity of product that consumers are willing and able to buy at different prices in a given time period, ceteris paribus.
- **supply:** the quantity of product that producers are willing and able to sell at different prices in a given time period, ceteris paribus.
- **complement:** a good consumed with another
- **substitute:** an alternative good that can satisfy the same want or need
- 用图标解释 **product** 的 **quantity/price** 变化: 两个图, 一个 demand 变一个 supply 变
- 如果要写因为某种原因导致 **the demand curve or the supply curve shift**, 给出原因: more can be produced at same price/same quantity can be produced at lower price
- **equilibrium** 题目提到要解释:
no tendency, supply equal demand with some price and quantity
- **market force** 如何让 **disequilibrium** 变成 **equilibrium**:
举例+分类讨论 surplus and shortage

● PED/PES/YED/XED 相关

① PED/PES/YED/XED 写定义+公式+elastic/inelastic(sign+coefficient)+举例

②

measure relationship between A and B: 方法+elastic/inelastic+例子

如果题目给出数字, 则解释关系(有时关系不止一条, sign+coefficient)+例子描述

③

如果题目特意强调 **firm**, 一定要写出 **firm** 为了应对这些情况会做什么

如果题目特意强调 **the most useful measure of elasticity**, 则要列举出多个 **measure**

如果题目特意强调 **elastic/inelastic/elasticity**, 则一定要写出数值并文字解释

通常如果问 **business** 做一件事的原因: **maximise profit**

(1) 公司怎么用弹性

PED	allows firms to determine how to change the price to increase total revenue (如果是单独提出 PED 则要列举 elastic/inelastic/unitary 的情况)	1. easy to calculate 2. increase profit in short time reaction	1. ceteris paribus is hard to achieve (profit may not increase)
YED	allows firms to determine the future size of the market for its good and hence production capacity (如果是单独提出 YED 则要列举 normal/inferior/necessity/luxury 和 closer relationship!)	1. useful when income level is highly volatile(不确定的)	1. difficult to calculate 2. useless if economy is stable 3. difficult to judge the category of good belongs, depending on consumers 4. increase profit in long time reaction due to production period
XED	allows firms to determine how a change in price by a rival firm will affect the demand of its good(如果是单独提出 XED 则要列举 absolute value greater/less than one shows dependence on others and absolute value equal to 0 when no relationship)	1. useful if firms have many rivals 2. useful if firms also sell complement goods 3. useful if firms want to increase market share	1. difficult to calculate 2. useless if few rivals
PES	measure the degree of responsiveness in quantity supplied due to a change in its price(根据 PES 决定 much stock to be hold/the extend of spare capacity for/factor of production needed)		1. increase profit in long time reaction

(2) 弹性影响因素以及公司怎么改变弹性/应对方法(如果是改变的话则增减都要写)

PED	1. more substitutes, more elastic 2. luxury is more elastic than necessity 3. broadly defined good is more inelastic than narrowly defined one 4. the greater proportion of income spent on one good, the more elastic it is 5. the longer time elapsed since price change, the more elastic good is	policies available to change PED: 1. advertisement: expensive, rival 也会干 2. integrate companies which produce substitute: 如果 substitute 多则 useless 3. produce substitute by itself: expensive and long time
YED	1. normal goods $YED > 0$ 2. inferior goods $YED < 0$ 3. necessity $ YED < 1$ 4. luxury $ YED > 1$	policies available to increase sales when income failing: 1. advertisement: expensive, rival 也会干 2. reduce price of goods: useless if PED of demand curve is inelastic 3. switch production: long time and expensive, high opportunity cost
XED	1. substitutes $XED > 0$ 2. complement $XED < 0$ 3. close related goods $ XED > 1$ 4. less related goods $ XED < 1$	
PES	1. low or constant opportunity cost, relative elastic supply 2. greater spare capacity, relative elastic supply 3. shorter production period, relative elastic supply 4. greater factor mobility, relative elastic supply 5. greater number of suppliers, relative elastic supply 6. greater storage ability, relative elastic supply 7. longer time elapsed since price change, relative elastic supply	policies available to change PES: 1. buffer stock: 有些商品 perishable, buffer stock 要不断更新 costly, 在 storable 上用 2. training program to reduce labour shortage: time lag, 可能会落后的技术 3. spare capacity through increase in investing and building more infrastructure: costly 4. reduce production period through research and development: uncertainty, may fail

(3) government 怎么用弹性

PED/PES:

allow government to see the impact of price changes that come about when indirect tax and subsidy are imposed upon goods.

判断加 tax/subsidy 有效吗/incident 谁分担多

YED:

help government to know how regions are affected during recessions according to products that the region specialises.

在 recession 帮助企业/用 tax 控制 disposable income 去控制 merit/demerit

● **price mechanism:** the means of allocating resources in a market economy

(1) rationing/allocation:

ration goods to those who are willing and able to pay for the good at the changed price. ration some consumers in and ration some consumers out.

(2) signaling:

the changed price acts as signals, indicating there is shortage or surplus of the good to the producers. the price mechanism provides a means by which consumers can transmit their preferences for certain products.

(3) incentive:

an incentive to producers to produce more or less Q, leading to a movement along the S curve because of firms' greater/lower willingness and ability to produce as P increases/decreases

an incentive to consumers to buy more or less Q, leading to a movement along the D curve because of consumers' lower/greater willingness and ability to buy as P increases/decreases

Government Microeconomic Intervention

- **market failure:** where the free market does not make the best use of scarce resources
- **government intervention:** it takes place when market failure occurs. market failure occurs when the free market does not make the best use of scarce resources
- **maximum price:** a government regulation that places an upper limit on the price, trade above this price is illegal
- **minimum price:** a government regulation that places a lower limit on the price, trade below this price is illegal
- **essential goods:** socially desirable goods
- **income is a flow, wealth is a stock**
- **subsidy:** a direct payment made by government to the producers of goods and services
subsidy incident: the extent to which the subsidy burden is given to the producer, to the consumers or to both, this depends upon PES and PED
 注意 **subsidy** 的 **burden** 是上 **producer** 下 **consumer**!
- **direct tax:** the tax paid directly to the government by the taxpayers from their incomes
 举例: income tax and profit tax
indirect tax: not directly collected by government, retailers and local government agencies are the main collectors, a tax that is imposed on expenditure
 举例: GST(商品及服务税), VAT(增值税), duties on petrol
ad valorem tax: a proportion of price charged is taxation, e.g. GST, VAT
specific tax: there is a fixed amount of tax per unit
tax incident: the extent to which the tax burden is paid by the producer, by the consumers or by both, this depends upon PES and PED
tax incident will pass on mostly to the one curve with relatively inelastic
regressive 和 progressive 在写 tax 分类时(income tax etc)一并提到!
regressive tax: refer to higher average tax rate on lower income
progressive tax: refer to higher average tax rate on higher income
specific indirect tax is regressive:
 regardless of income level of the purchaser, the amount each pay would be the same for the same product. thus, the high income paid less tax on indirect tax as a proportion of the income compared to the poor, leading to less equitable distribution of income.
 提到这俩玩意不但要解释 **average rate changes when income is higher**, 还要说 **marginal income tax** 的变化(higher/lower)及其与 **average rate** 相比哪个高
marginal income tax: the proportion of extra income taken in tax

indirect tax	direct tax
regressive	progressive
bigger tax base	smaller tax base [disincentive to work]
difficult to avoid	easy to avoid, companies often try to evade or avoid paying tax
greater cost of collection, all business affected by it are collection centers	lower cost of collection

● 政策相关

在提到 **taxation** 与 **subsidy** 时,最好提到 **impact depends upon PED/PES/size**

对 **consumer/producer** 的影响: **quantity/price/surplus**

对 **government** 的影响: **taxation**

maximum price (maximum price + buffer stock VS subsidy)	1. promote merit good 2. some consumers will gain 3. lower price, affordable, reduce poverty	1. shortage: expensive for government to run buffer stock scheme 2. encourage black market 3. queuing: inefficient, time-cost 4. decrease in producer surplus 5. discourage in improvement of quality of product
minimum price (minimum price)	1. decrease consumption of demerit good	1. surplus: expensive for government to run buffer stock scheme

+ buffer stock/taxation)	2. some producer will gain 3. upper price, higher income, reduce poverty	2. encourage black market 3. decrease in consumer surplus 4. discourage in reduction of price
taxation	1. $PED < 1$: raise revenue for government 2. $PED > 1$: discourage consumption of demerit good	1. lower consumer surplus 2. administration cost 3. cost-push inflation 4. regressive 5. dead-weight lost, a total reduction in social welfare
subsidy	1. encourage consumption of merit good 2. lower price, affordable, reduce poverty 3. raise producer's income, reduce poverty	1. expensive 2. discourage in improvement of quality of product 3. hard to maintain in long-run until stable subsidy
awareness campaign	1. assist consumers to make better and more informed decision 2. last in long run	1. difficult to change: long-period 2. difficult to collect objective data to measure the effectiveness of campaign 3. expensive
buffer stock scheme	1. maintain income 2. stabilise prices and reduce inflation/deflation 3. regulate supply/demand and avoid shortage/surplus	1. expensive 2. administration cost 3. discourage improvement in quality of good 4. perishable 5. government has information failure
direct provision by government	1. promote merit good 2. consumers will gain 3. lower price, affordable, reduce poverty	1. expensive 2. discourage improvement due to lack of price mechanism 3. free provision may lead to over-provision or under-provision causing inefficient allocation
transfer payment	1. higher producer surplus 2. more money, affordable, reduce poverty 举例: pension/unemployment benefit/food voucher	1. some consumer will lose 2. may not use transfer as government expected 3. discourage to work 4. expensive

● **income inequality**

Gini coefficient: it is a numerical measure of the extent of income inequality in an economy. if there is no inequality the value will be zero and at the other extreme, if all income is earned by one person the value will be one. the nearer the value is to zero income is more equally distributed and/or the nearer the value is to one the more it is unequally distributed

1. reason of inequality:

- (1) lack of formal employment opportunity
- (2) lack of training/education/infrastructure/health care: hold back human capital
- (3) low rate of saving: hold back private and public sector investment
- (4) inability of many people to obtain credit to fund small firm

2. 一些促进 income equality 的方法

(1) progressive taxes:

as increasingly larger proportions of income are taxed away as incomes rise, thus decreasing the income differences between rich and poor. the resulting tax revenues can be used to provide merit goods and transfer payments

WHEREAS

high tax rates may reduce the incentive to work

(2) direct provision or subsidy:

governments use tax revenues to provide merit goods directly or to subsidize these, including education, health care and infrastructure (clean water, sanitation, sewerage, etc), making them available to people on low incomes who would otherwise be unable to have access to them.

(3) maximum and minimum price:

governments use price controls, e.g. price floors to support incomes of farmers and low-skilled workers (minimum wages) and price ceilings to make food, rents more affordable

WHEREAS

minimum wages may lead to unemployment

(4) transfer payment

governments use tax revenues to provide transfer payments, including unemployment benefits, child allowances, pensions, housing benefits, student grants.

WHEREAS

some(e.g. unemployment benefits, child subsidies received by parents) may reduce the incentive to work

3. inequality 的好处(看一看就行)

① incentivising workers leading to higher levels of productivity, encourages workers to retrain/reskill

② encourages enterprise

4. inequality 的坏处(看一看就行)

① demotivates those on the lowest incomes and an increase in crime

② increased government spending on transfer payments leading to an opportunity cost

5. 难以计算 wealth inequality 的原因(看一看就行)

① wealth is comprised from many sources housing assets, savings, financial instruments, pensions, and different countries have different ways of measuring it

② some wealth may not be included in any calculation should wealthy individuals legally use tax havens to reduce the value of their wealth

③ ownership of wealth may be transferred to family members to reduce the value of personal wealth value

Macroeconomy

- **national income:** a country's total output. total output = total income = total expenditure
- **injection:** an addition to the circular flow. $J = I + G + X$
- **leakages:** a withdrawals from the circular flow. $W = S + T + M$
- **aggregate demand:** all the goods and services that buyers are willing and able to purchase at different price levels in a given period of time. $AD = C + I + GS + NE$
- **aggregate supply:** all the goods and services that producers are willing and able to sell at different price levels in a given period of time
- **short run:** wages and resources prices will not increase as price level increases
- **long run:** wages and resources prices will increase as price level increases
- **recession:** a decline in real GDP over two consecutive quarters or more
- **labour force/workforce:** total number of workers who are available for work in an economy, including both employed and the unemployed
- **labour force participation rate:** measures the percentage of people of working age who choose to join the labour force
- **labour productivity:** refers to the quantity of goods and services that a worker is able to produce in a given period of time
- **inflation:** sustained increase in an economy's general price level over a time period
- **disinflation:** the falling rate of inflation
- **deflation:** the sustained decrease in an economy's general price level over a time period
- **CPI:** an index that shows the weighted average change in the price of a representative basket of products purchased by households.

the weights give an indication of the relative importance of expenditure on different items by people in an economy. this takes into account the fact that price rises of some goods and services will have a more significant effect than the price rises of other goods and services; this will give a more accurate indication of the overall price level change.

- **gross domestic product GDP:** the value of all final goods and services produced within a country in a given period of time
GDP can be measured through output method, income method and expenditure method
gross national income GNI: the total output produced by a country's citizens wherever they produce it. $GNI = GDP + \text{net property income from abroad}$
 $NDP = GDP - \text{depreciation}$
 $NNI = GNI - \text{depreciation}$
- **the factors that determine how much an increase in AD/AS will affect prices/employment/balance of payments of an economy:**
where the equilibrium is, 然后举例子, 通过改变 AD/AS, 别的项改变
- **whether increase in national income is real or money(nominal):**
whether equilibrium is above or below the full employment level of national income
- **actual economic growth:**
change in a country's real national output (GDP) in a period of time
potential economic growth: increase in production capacity
可以用 PPC 或者 Keynesian 模型解释
money GDP 用 current prices 计算, real GDP 用 basic year price 计算
- $GDP \text{ deflator} = (\text{nominal GDP} / \text{real GDP}) * 100$
- $\text{real GDP} = (\text{nominal GDP} / \text{price index in current year}) * \text{price index in base year}$
- $\text{inflation rate} = \text{percentage change in CPI}$
- $\text{real value} = (\text{money value} / \text{price index in current year}) * \text{price index in base year}$
- $\text{real value} = \text{money value} / (1 + \text{inflation rate})$
- $\text{rate of real value} = \text{rate of money value} - \text{inflation rate}$
- **the circular flow of income:** a simple model of process by which income flows around an economy, it includes four sectors, such as householders, firms, governments and international economies

随后介绍 injection(definition+equation), withdraw(definition+equation), $J=W$

1. 具体过程

(1) if the sum of injections > the sum of leakages, then circular flow grows bigger, production

of goods and services rise, income rises, the economy grows, unemployment falls
 (2) if the sum of injections < the sum of leakages, then circular flow shrinks, production of goods and services fall, income falls, the economy declines, unemployment rises

● **Keynesian model:**

(1) **spare capacity:**

unemployment and unutilized capitals. firms could produce more goods without an increase in costs and therefore will not rise the price

(2) **increasingly scarce resources:**

firms have to increase the price to compensate for rising costs

(3) **full capacity:**

all factors of production are fully employed, leading to the fact that output cannot be increased without an increase in quantity and quality of resources

● **economic growth 的后果**

benefit of economic growth	costs of economic growth
raises material living standard	high opportunity cost
make it easier to help the poor	increase stress and anxiety
reduce unemployment	possibly increase structural unemployment
encourage investment and future growth	depletion of resources and pollution
increase country's international power	longer working hours

● **unemployment**

(1) **失业原因:**

1. **fictional unemployment:** unemployed between jobs

search unemployment: switch job

causal unemployment: out of work between periods of employment

seasonal unemployment: unemployment due to the nature of job and time of year

2. **structural unemployment:** unemployed due to changing structure of economic activity

technological unemployment: due to the use of labour-saving techniques

regional unemployment: declining industries are concentrated in particular areas

international unemployment: switch demand to more competitive foreign industries

3. **cyclical unemployment:** results from lack of aggregate demand

(2) **失业调查(看看就行)**

	advantages	disadvantages
claimant count (谁领救济金)	1. cheap and quick to calculate	1. may not be accurate, some people may illegally claim the benefit while others may be not willing to receive 2. every time the rules change, its number will change
labour force survey (调查)	1. more accurate 2. based on internationally agreed concepts, making comparison easier	1. expensive and time-consuming 2. may have sampling error and practical problems of data collection

(3) **失业后果**

labour	firms	government
fall in income	lower demand	lower GDP/tax
decrease in skills	lower wage(cost)	more transfer payment
higher divorce rate	opportunity for better worker	increase crime rate
mental/physical illness		
opportunity for better job		

● **inflation & deflation**

(1) **inflation 的后果**

缺点:

1. menu cost: cost of frequently changing price tag, complains from consumers

2. shoe leather cost: moving money from one financial institution to another in search of the higher interest rate, time cost

3. fiscal drag: tax bracket creeps
4. inflationary noise: money illusion, firms make wrong decisions
5. a reduction in net export
6. unplanned redistribution of income: borrowers gain in real value
7. discourage investment

优点:

1. stimulate output if price rises more than costs in short run
2. reduce burden of debt since nominal interest rate unchanged
3. prevent unemployment

(2) deflation 的后果:

缺点:

discourage consumer spending: delay purchases because product will be cheaper

real-wage unemployment due to rise in real wage

increase real value of debt: leave less money for spending and investment

好处:

fall in import and rise in export

International Economic Issues & Government Macroeconomics Intervention

- **balance of payment:** a record of a country's economic transactions with the rest of the world over a year
- **exchange rate:** the price of one currency in terms of another currency
- **freely exchange rate** is determined by free forces of the supply and demand for the currency in the foreign exchange market.
- **nominal exchange rate:** expressed without taking into account the effects of inflation
- **real exchange rate:** nominal exchange rate has been adjusted, taking into account the effects of inflation, reflects the purchasing power of money at constant prices
- **comparative advantages:** lower opportunity cost of producing a product than other countries because of differing resources leads to specialisation and trade country will specialise where they have comparative advantage
- **trading possibility curve:** the consumption possibilities of nations post specialisation and trade and any terms of trade
- **dumping:** sell goods at a lower price, even lower than the cost of production.
目的: undercut rivals in short time to increase market share and rise money in long run.
- **privatisation:** the transfer of the ownership of a firm or an industry from the state or public sector to the private sector
- **BoP** = current account + financial account + capital account + net error and omissions
- **current account** = trade in goods and services + primary income + current transfer
- **TOT** = (index of export price/index of import price) * 100

● **current account**

(1) AC deficit 原因:

1. cyclical deficit:

increase in domestic income so more import expenditure

increase in domestic output so more import raw materials

decrease in foreign income so fewer export revenue

2. structural deficit

overvalued exchange rate within a fixed exchange rate system

persistently high relative inflation rate

low labour and capital productivity

under-investment

inadequate R&D innovation

emergence of lower cost competition

(2) AC deficit 后果

1. 缺点

NE/AD/output/employment fall, economic decline

2. 优点

living beyond its means due to increase import expenditure, increase living standard

reduce AD leads to reduce inflation

decrease exchange rate will future restore international competitiveness if MLC is met

● **exchange rate:**

(1) appreciation/depreciation 原因

change in quantity/quality of export/import

inflation changes the price of export/import

interest rate influence outflow and inflow

speculation

change in domestic/foreign income level

(2) depreciation 后果

1. 优点

export cheaper, import more expensive, NE/AD/output/employment rises, economic growth

improve CA surplus

2. 缺点

AD increases leads to inflation

MLC/J curve effect leads to CA deficit

relative low quality exports/relative high inflation/trade restrictions leads to fall in NE

● **comparative&absolute advantage theory:**

one country may have an absolute advantage in both products but the other country may have a lower opportunity cost in producing one of the products

(1) assumption

1. only two products being traded
2. the existence of perfect competition in both products and factor markets
3. no transport costs
4. product subject to constant returns to scale(constant opportunity cost)
5. no restrictions on trade

(2) limitations

1. many goods to trade, hard to find comparative advantage
2. exchange rate may not lie between the opportunity cost ratio
3. transport cost may offset the comparative advantages
4. resources are not mobile and there are not constant return
5. some government wants to avoid overspecialisation and impose trade restrictions

- **free trade:** international trade not restricted by protectionist measures

(1) 优点:

1. more efficient allocation of resources because countries will focus on producing goods where they have comparative advantages
 2. specialisation increase world output and employment, leading to an increase in living standard
 3. substantial increase in economic growth
 4. competition that may raise from free trade can put pressure on firms to keep their prices and cost down and raise the quality of their products
- **TOT:** a numerical measure of the relationship between export and import prices. it measures the number of exports that have to be sold to buy a given number of imports. terms of trade are said to improve when the ratio increases and to deteriorate when the ratio falls.

1. favorable movement

(1) rise in export price

- ① rise in demand of export: export revenue rises, but inflationary pressure
- ② rise in cost of production of export: export revenue falls, but no inflation
- ③ rise in exchange rate:

living standard increases, but AC deficit if MLC

(2) fall in import price

- ① rise in exchange rate:

living standard increases, but AC deficit if MLC

- ② fall in demand of import:

living standard decreases, but AC surplus

- **protectionism:** it is adapting policies to assist domestic industries facing competition from foreign industries. it seeks to restrict free trade by increasing the price competitiveness of domestic businesses against foreign competitors.

1. 政策

- (1) tariff: a tax imposed on imports or exports

是否有效取决于 PED 是刚(raise revenue)还是弹(protect domestic firms), 以及本国货物是否真的有竞争力

- (2) quotas: a limit on quantity of import or export

- (3) exchange control: restriction on the purchases of foreign currency

- (4) export subsidy

- (5) embargo: a ban on import or export

- (6) voluntary export restraint:

a limit placed on imports reached with the agreement of the supply countries

- (7) economic and administrative burdens:

set artificially high product standard to restrict foreign companies

2. 保护主义的优点

- (1) protect infant/declining/strategic industries

如果其真的有潜力成长为 efficient industry, 则保护是有效的. 但是很难判断其是否有潜力, 且保护会让其没有动力进步

(2) to prevent dumping:

如果是防止别国企业得到 monopoly 的地位, 则保护是有效的. 但也有可能外国有 comparative advantage 就是便宜

(3) to improve ToT/BoP

(4) to provide protection from cheap labour

如果是防止别国企业剥削工人, 则保护是有效的. 但也有可能让别国企业误以为是价格还不够低因此继续压迫工人

● **policies:**

(1) supply-side policy: one designed to increase aggregate supply by improving the workings of product and factor markets in an economy

内容:

1. cut in direct tax (corporate tax & income tax): increase incentive
2. reduce in welfare payment: increase incentive
3. government subsidy
4. increase spending on training and education: increase quality and productivity of labour
5. increase spending on infrastructure: reduce transportation cost
6. trade union reform: reduce trade union's power to increase workers' flexibility and mobility and cut down on the number of days lost through strikes
7. deregulation and privatisation: increase market competition

优点:

1. economic growth and an increase in potential output
2. create new jobs and reduce structural unemployment
3. reduce inflation

缺点/evaluation:

1. need a long time to take effect
2. government spending has opportunity cost, it may lead to budget deficit and public debt
3. the government may make poor choices on what industries to support, leading to inefficiency in the allocation of resources
4. trade union reformation leads to exploitation
5. deregulation leads to monopoly

(2) fiscal policy: the use of taxation and government spending to manage the level of aggregate demand

效果:

1. change in taxation → disposable income changes → consumption and investment change → AD, employment, economic growth VS inflation, BoP deficit
2. change in government spending → AD, employment, economic growth VS inflation, BoP deficit

evaluation:

1. time lag: it takes time to recognise the problem, adjust government spending and taxation and for private sector to react
2. households and firms may react in an unexpected way: expectation towards the future
3. raising direct taxation can have disincentive effects: Laffer curve
4. political reasons: difficult to raise taxation and lower government spending due to political unpopularity

(3) monetary policy: the use of interest rates, the money supply and the exchange rate as means to influence the price or quantity of money in order to manage the economy

效果:

1. interest rate changes → consumption and investment change → AD, employment, economic growth VS inflation, BoP deficit
2. exchange rate changes → purchasing power, price competitiveness change, net export changes → AD, employment, economic growth, CA VS inflation, BoP deficit

evaluation:

1. time lag: it takes time to recognise the problem, adjust interest rate, exchange rate and money supply and for private sector to react
2. households and firms may react in an unexpected way: expectation towards the future
3. improve in CA may not work if J-curve effect or Marshall-Lerner Condition is not met

4. cannot change interest rate too much out of line with other countries: must avoid significant hot money outflow
5. a rise in interest rate will benefit savers at the expense of borrowers
6. attempts to influence exchange rate can be offset by movement in other countries' exchange rates and by speculation

(4) balanced budget

the strengths of a balanced budget may include stability and may encourage both domestic and inward investment, but it may not be sufficiently flexible to deal with changing economic conditions e.g., unemployment and inflation.

Essay & Data

1. 8 分题目中的 explain the difference between A and B 一般就是一个 AO1 的分
2. 题目中举的例子一定要在 AO2 中就开始提到
3. 12 分题目最好还是写 alternative method/structures
4. market economies 注意是市场经济, markets 注意是不同的经济体制
5. wage 增加对于 product 的 demand 变化: 考虑 normal goods and inferior goods
6. consumer/producer surplus 的变化要考虑写 PED/PES
7. 写弹性一定要写公式+classification
8. 没有 goods/price change/imblance 具体是什么的前提下, 一定要都写, goods 一定要举例子!
9. government intervention to provide goods = direct provision
10. how damaging, how significant 就是在问结果的程度取决于什么因素

Price System

- **law of diminishing law of marginal utility:** the amount of marginal utility declines as a person consumes more and more of a product. as consumption increases, there may actually come a point where marginal utility is negative, indicating dissatisfaction
- **equimarginal principle:** a consumer having a given level of income and facing given market prices of goods will achieve maximum utility where marginal valuation for each product consumed is the same
if any one good have more MU per dollar, consumers would increase their utility by taking money away from other goods and spending more on that good, until the law of marginal utility drove its MU per dollar down to equalise with that of other goods.
- **marginal utility theory:** a rational individual will wish to maximise their total utility by consuming a product up to a point when $P=MU$.
- **substitution effect:** if price of a good rises, consumers will buy less of that good
- **income effect:** if real income rises, consumer will buy more normal goods and fewer inferior goods.
- **marginal rate of substitution:** maximum amount of a good that a consumer is willing to give up to obtain one additional unit of another
- 如果只是提到 **advertising** 的话要同时考虑增加和减少 **demand**
advertising makes more/fewer another goods are required to give up for additional unit of this good
如果只是提到 **change in price** 的话要同时考虑 **normal/inferior/giffen goods**
这种问题记得用 **IC&BL** 或者是 **utility theory** 解释的同时画出 **demand curve**
- 用 **budget line+indifference curve** 解释 **price change**

(1) definition:

utility, rational consumer, indifference curve&budget line, substitution effect&income effect
equilibrium occurs when tangent:

consumer's choice is optimal at the point where the budget line touches, or is tangent to, the highest indifference curve.

(2) assumption

rational consumers who prefer more to less,

a two-good world,

the prices of the goods are (initially) constant,

the goods can be substituted for each other,

transitivity, if there is indifference between A and B and indifference between B and C, there is indifference between A and C

perfect knowledge of the market.

(3) process:

1. a change in price of goods has both income effect and substitution effect

2. consumer is initially at A. when price changes, consumption of goods changes to B

3. the substitution effect is marked by a movement along an indifference curve. the substitution effect can be obtained by drawing a budget line which is parallel to the new budget line(reflecting the changed relative price of goods), but which is just tangent to the original indifference curve(holding the level of satisfaction constant). thus consumers will buy at C and segment ac represents substitution effect

4. the income effect keeps relative prices constant but changes purchasing power. it represents a shift from one budget line to another. thus consumer will buy at B and segment cb represents income effect

5. 比较 substitution effect 和 income effect

(4) evaluation:

limitation of utility theory:

1. hard to be measured and to be compared between individuals

2. some products are indivisible

3. people often buy on habits and impulse rather carefully weighting up the marginal utility of everything they purchase

4. for some products, marginal utility may increase as more a person has
extent of change depends on PED/YED

(5) demand curve 和 budget line+indifference curve 做比较:

相同点: 都可以反应 change in price 对 quantity demanded 的影响

不同点: demand curve 表达了 price/quantity of one product, budget line+indifference curve 表达了 quantity of two products 更能区分不同货物(SE/IE)

(6) firm changes price 时不仅要考虑货物的种类, 还有 PED, revenue 等

(7) change in preference can be represented by the change in shape of indifference curve

● 用 law of diminishing marginal utility+marginal utility theorem/equimarginal principle/indifference curve+budget line 解释 market demand/significance of margin in consumer behaviors

(1) definition:

marginal utility, total utility

(2) process:

1. diminishing marginal utility: 肯定要解释如果是别的点的话会不断趋紧 equilibrium

if MU measured in money, then MU curve would become a person's demand curve. the quantity of good provides this individual with marginal utility MU, and consumer will purchase the goods up to the point where $P = MU$ gained from consuming the goods. a similar argument applies at each point along the MU curve, so the individual's demand curve is the MU curve when utility is measured in money terms. according to law of diminishing marginal utility, the MU curve and demand curve is downwards slope

2. equi-marginal principle

as the price of goods X increases, its marginal evaluation will fall. consumers will therefore increase total utility by spending less on goods X and more on other goods. a higher price of goods reduces consumers' desired consumption, so there is a downwards slope for demand curve

(3) evaluation: limitation of utility theory

(4) the aggregation of individuals' demand curves is the market demand curve

● in different types of market structures whether it is the consumer or the producer who determine the equilibrium market position?

(1) 解释 perfect competition:

1. use MU theory to explain the individual demand curve, then sum them to form market demand curve

2. use MC to explain a firm's supply curve, then sum them to form market supply curve

3. 说明是 consumer 和 producer determine the market together. both are price takers and have similar sovereignty(主权)

(2) 解释 imperfect market:

1. producers are price makers and have more sovereignty. but they can only control price or quantity but not both

2. producers' decision about the quantity to supply is impossible to separate from the demand curve it faces. demand curve determines MR curve, which in turn determines the producer's profit-maximising quantity. under this quantity of output, producer can set the price according to the demand curve.

Micro Economy

- **productivity:** rate of output per factor of production for a given period of time
- **law of diminishing return:** as additional units of a variable factor of production is employed with a fixed factor of production, the marginal product of the variable factor will eventually diminish
- **least-cost rule:** to produce a given level of output at least cost, a firm should buy inputs until it has equalised the marginal product per dollar spent on each input
- **return to scale:** changes in output which occurs when a firm changes its scale of operation by altering all its factor of production
- **economies of scale:** a fall in long run average total costs of production as the quantity of output increases
- **normal profit:** the minimum amount required to keep a firm in its current line of production
- **allocative efficiency:** producing the combination of products that will yield the greatest level of satisfaction of consumer wants
- **productive efficiency:** when firms produce at the lowest possible point on their lowest cost curve
- **pareto efficiency:** occurs when it is not possible to make someone better off without making someone else worse off
- **x-inefficiency:** the tendency of costs to drift upwards in monopoly
- **minimum efficient scale:** the output level at which least average cost production starts
- **natural monopoly:** a monopoly that arises because a single firm can supply a good or service to an entire market at a smaller cost than could two or more firms
- **concentration ratio:** combined market share of the biggest three, four or five firms in a particular market
- **barriers to entry:** any restriction that prevent new firms from entering an industry
- **collusion:** an agreement among firms in a market about quantities to produce or price to charge
- **cartel:** a group of firms that deliberately and formally collude to restrict output or fix prices for their own benefits
- **price leadership:** a feature of oligopoly where one firm sets or varies market price and other firms follow. it is a tacit collusion
- **limit pricing:** deliberately setting a low price and temporarily abandoning profit maximising to keep out potential rivals
- **predatory pricing:** this is a pricing strategy where a product or service is set at a very low price, intending to drive competitors out of the market
- **excess capacity:** given current resources, the firm can produce at the lowest cost but they decide not to do so
- **small and medium enterprises SME:** medium firms with fewer than 250 employees; small firms with fewer than 50 employees
- **economies of scope:** economies arising when average cost falls as a firm increases output across a range of different products
- **internal(organic) growth:** occurs when firms increase their own scale of production from within
- **external growth:** business expands by joining with others via takeovers or mergers
- **takeover:** when one company buy all, or a controlling proportion of shares in the ownership of another company
- **merger:** two or more firms agree to join to form a new enterprise
- **horizontal integration:** firm joins with another at the same stage of production in the same industry
- **vertical integration:** firm joins with another at different stages of production in the same industry
- **forward integration:** combine firm nearer the consumers
- **backward integration:** combine firm nearer the suppliers
- **lateral integration:** the combination of two firms which sell related goods or services but firms do not compete directly with each other

- **conglomerate integration:** this involves the combination of firms that are involved in unrelated business activities
- **an analysis of the relationship between total demand for a product and the minimum efficient scale:**

effectively total demand divided by MES to give the maximum number of firms who could operate at the MES.

MES = 50% therefore in theory 2 firms: a duopoly

MES 2% therefore 50 firms: perfect/monopolistic competition

● 不同的 market structure

① 考定价定量方法:

一开始都是介绍 characteristics, 随后说明公司怎么做决定(看清楚是不是 profit maximising!) evaluation 可以写别的目标

② 考市场的 price/quantity:

一开始都是介绍 characteristics 并且设定 demand 和 cost 一样, 随后说明市场怎么做决定(看清楚是不是 profit maximising!).

evaluation 写有没有可能 cost 改变

③ 考 revenue 的对比:

一开始都是介绍 characteristics, 随后说明公司怎么做决定(看清楚是不是 profit maximising!), short run 和 long run 都要写

evaluation 可以写别的目标

④ 对比相同点和不同点: 如果是相同点和不同点, 一定要都找出来

相同点: 都是 profit maximiser, 都要了解和计算 cost 和 demand, 都有竞争(contestable market)

⑤ 对比 public interest: 就是好坏处

⑥ equilibrium for firms or industry: equilibrium as $MC=MR$, 一定要 short run/long run 都写

(1) perfect competition:

1. characteristics:

① large number of buyers and sellers

② products are homogeneous/identical

③ firms are price taker, market price and quantity are decided by market demand and supply

④ no barriers to entry

⑤ there is perfect information about how firms operate

2. 优点:

① productive efficiency so no resources are wasted during the production in the long run

② allocative efficiency means there is no resource waste on account of producing goods not wanted/valued by society.

③ competition leads firms to lower their costs of production and increase quality

④ consumers decide what and how much will be produced, because the market responds immediately to changes in consumer tastes and preferences

3. 缺点:

① because of the small size of firms, they cannot grow large enough to enjoy economies of scale

② homogeneous products mean that consumers cannot enjoy any product variety

③ since firms do not earn abnormal profits in the long run, they are unlikely to engage in research for new product development.

4. 市场怎么做决定? demand = supply

5. 企业怎么做决定?

price: perfect substitution → perfect elastic demand → horizontal demand curve,

$P=D=MR=AR$

quantity: profit maximising at $MC=MR$ (解释如果不平衡会怎么样)

短期+长期(abnormal profit → attract more firms. loss → more firms leave)

(2) monopoly

1. characteristics:

- ① market is dominated by one large firm
- ② unique product, no substitute
- ③ firm is price maker
- ④ prohibitive barriers to entry
- ⑤ there is limited information about how the firm operates

2. 优点:

- ① due to its abnormal profits in the long run, the monopolist has funds to carry out R&D leading to new products and technologies; benefiting consumers and society.
- ② due to their large size, monopolistic firms are in a position to achieve large economies of scale, involving lower average costs in the long run, leading to lower prices for consumers.
- ③ wasteful duplication can be avoided
- ④ compete more effectively with larger foreign companies

3. 缺点:

- ① monopolist is allocatively inefficient. lower quantity and higher price leads to a deadweight loss, monopolist gains abnormal profit at the expense of consumers surplus
- ② monopolist is productively inefficient. due to lack of competition, it causes X inefficiency
- ③ consumers have less choice
- ④ firm response to change in demand is slow
- ⑤ there may be diseconomies of scale

4. 政策:

- ① increase competition by legislation: trade liberalization, the removal of trade restrictions so that imports can enter freely into a country. increase competitions
- ② nationalisation
- ③ regulation: average cost pricing rule/fair price ($P=ATC=D$), marginal cost pricing rule/social optimum output ($P=MC=D$)
- ④ do nothing: deadweight loss caused by monopoly is less than government intervention

5. 解释为什么 MR curve and downwards sloped demand curve

when Q increases, P decreases on all the units sold since single price, so $P > MR$, MR curve is below the demand curve

6. 市场和企业怎么做决定

price: MR curve and downwards sloped demand curve

quantity: profit maximising at $MC=MR$ (解释如果不平衡会怎么样)

短期+长期

(3) monopolistic competition

1. characteristics:

- ① large number of firms
- ② differentiated products
- ③ firms are price maker
- ④ slight barriers to entry
- ⑤ there is some information about how firms operate

2. 市场和企业怎么做决定

price: MR curve and downwards sloped demand curve

quantity: profit maximising at $MC=MR$ (解释如果不平衡会怎么样)

短期+长期(abnormal profit → attract more firms. loss → more firms leave)

(4) oligopoly:

1. characteristics:

- ① a few large firms
- ② differentiated or homogenous products
- ③ firms are price maker
- ④ high barriers to entry
- ⑤ there is some information about how firms operate

2. 市场和企业怎么做决定

oligopolies will be large firms with a high concentration ratio, the pricing and output decisions of any one will have an impact on others in terms of profit and market shares. thus,

firms has to take into account the reaction of their main rivals before adopting their pricing strategy, so they are interdependent

a firm chooses to ignore others' reactions:

this will lead to a price war and each firm loses potential revenue and consumers gain

firms chooses formally collude and agree to set output as a monopoly and then set quota for each firm:

this will maximise the total profit in whole industry but illegal

dominate firm become price leader and set market price while other firms follow:

all firms in the market accept the price that is set by the leading firm, which is often the firm with the largest market share or is the brand leader. they then alter their own prices in line with those of the leader. it is seen as a way of avoiding price competition. It maximise profits for leading firm

firms chooses to consider others' reaction without collusion

① price increases → other firms do not follow → quantity decreases a lot → TR decreases → relatively elastic demand

② price decreases → other firms follow → quantity increases by a small amount → TR decreases → relatively inelastic demand

game theory

① game theory: the analysis of situations in which players are interdependent. it involves the study of alternative strategies oligopolists may choose depending on their assumptions about each other's actions

② Prisoners' Dilemma: a game where, given that neither player knows the strategy of the other player, the optimum strategy for each player lead to a worse situation than if they had known the strategy of the other player and been able to cooperate and coordinate their strategies.

③ Nash Equilibrium: occurs in game theory when no firm can improve its position given the strategy of the other firms; it is an equilibrium because no firm has an incentive to change.

④ 画一个 payoff matrix for pricing strategies of firm A and firm B(含 Nash Equilibrium 的图), 解释我们为什么通过分析最后选了一个最差的情况(low price - low price). 但是如果我们有 collusion, 可以得到最优的情况(high price - high price)

most of these strategies lead to price rigidity and firms will adopt non-price competition such as advertising and product differentiation to increase market share

- **price discrimination:** the business practice of selling the same good which has the same production costs at different price to different consumers

(1) requirement

1. firm may be price makers
2. firms are able to separate different markets/demand conditions
(it refer to different PED for most of the time. the price discrimination is profitable if different elasticity demands exist)
3. goods cannot be resold

(2) 种类

1. third degree price discrimination: charging a different price to different consumer groups
2. second degree price discrimination: charging a different price by different units of goods the consumers buy
3. perfect price discrimination: the consumer is charged the maximum he is willing to pay for each unit

(3) 解释: third degree price discrimination 怎么定价

1. the MR curve for the total market is calculated by summing horizontally the MR curve in each market
2. to maximise profit, the MR must be equal in each market. if MR in A market is higher, then the firm could increase revenue by switching goods from B market to A market, until MR is the same
3. the profit maximising output is found where $MC = \text{the combined MR}$

(4) 解释: perfect price discrimination 怎么定价

1. a perfect price discrimination monopolist can charge each person differently so $MR = D$
2. continue to produce until $MR = MC$

(5) 优点

1. results in more output, increasing employment
2. more profits, attracting further investment and improving quality
3. perfect discrimination eliminate deadweight lost

(6) 缺点

1. convert consumer surplus into revenue, may not be equitable
2. extra administration cost
3. those who benefit from lower prices may not be the poorest

● objectives

(1) 为什么 firm 不选择 profit maximising

1. hard to calculate MC and MR
2. may attract investigation by government
3. may encourage new entrants into the market
4. may encourage a takeover
5. may have other objectives
6. principal-agent problem: a situation in which principals cannot be sure that those who act on their behalf(agents) will act in their best interests due to asymmetric information

the owners of a company are shareholders and the people who control the company are managers. so there is a divorce between ownership and control

given the fact that shareholder are not usually well informed, managers may pursue their own objectives and try to maximise their own utility rather than profit

management objectives may include: increase salary which is linked to sales or revenue, increase the number of employees to increase power

(2) 其余的 objective:

1. sales revenue maximisation
2. sales miximisation
3. drive out rivals through predatory pricing. once successful, it will raise price later
4. keep out potential rivals through limit pricing
5. satisficing profit: involves aiming for a satisfactory rather than a maximum profit level. profit satisficing means achieving a reasonable amount of supernormal profit, so that efforts can be made to benefit other stakeholders
6. ethical objectives: focus on social interests, corporate with social responsibility

(3) evaluation:

in long run, the other objectives may not conflict with profit maximisation. increase in size, maximising sales revenue and reducing number of its rivals may enable a firm to charge higher prices and lower its cost. profit satisficing may increase the motivation of managers and workers and so raise productivity and reduce costs of production

● contestable market: one where there is no barriers to entry and exist

(1) assumption:

1. freedom of entry and exist
2. firms compete rather than collude
3. it may contain any number of firms and the number of firms competing will vary

(2) characteristics:

1. it focus on potential rather than actual competition
2. ease entry makes it possible for competition to increase within the existing producers and puts pressure on firms to behave efficiently
3. in long run only normal profit can be earned

● firm size

(1) 小公司存在的好处/原因:

1. provide training ground for entrepreneurs
2. provide employment
3. niche market
4. provide personal services(dentist, hairdressers etc.), flexible and responsive to consumer needs
5. the business may involve specialist skills possessed by very few people
6. relative easy to set up
7. encouraged by government

8. take advantages of external EoS: division of tasks between firms, combine with other firms to purchase product
9. new technologies make small businesses more efficient and therefore competitive with larger ones
10. good labour relationship

(2) 大公司存在的好处/为什么要 firm growth:

1. take advantages of internal EoS
2. boost market share and market power and therefore profit, more profit to R&D, innovation, technology, dynamic efficiency
3. diversify product range to spread business risks
4. prevent other firms from taking over

(3) 大公司存在的坏处:

higher price, lower output, transfer consumer surplus into higher revenue

● EoS 相关

(1) internal economies of scale:

提升了 barriers to entry due to lower LRAC, market structure 更偏向于 imperfect, price 上升 output 下降

1. purchasing economies
2. marketing economies
3. managerial economies
4. technological economies
5. financial economies
6. risk-bearing economies
7. technical economies: specialising, linked process etc.

(2) internal diseconomies of scale

1. poor communication
2. low morale: employees may feel a gap between top and bottom groups

(3) external economies of scale

1. better transportation network
2. pool of skilled worker
3. agglomeration
4. division of tasks between firms
5. local R&D

(4) external diseconomies of scale

1. resources shortage, bid up input price
2. traffic congestion

Government Microeconomy Intervention

- **marginal product:** the extra output produced by an additional worker
- **marginal revenue product:** the extra revenue earned by firm when it employs one more worker
- **labour participation rate:** the percentage of the total population of working age who are actually classified as being part of the labour force
- **transfer earning:** the amount that it earned by a factor of production in its best alternative use. it is the minimum payment necessary to keep it in its current use
- **economic rent:** a payment made to a factor of production above that which is necessary to keep it in its current use
- **trade union:** an organisation of workers that aims to protect and enhance the well-being of its members through collective bargaining with employers and government
- **economic efficiency:** scarce resources are used in most efficient way to produce maximum output
- **market failure:** occurs when the operation of a free market does not lead to economic efficiency(productive efficiency+allocative efficiency)
- **externality:** where the actions of producers or consumers give rise to side effects on third parties who are not involved in the action
- **information failure:** people lack the full information that would allow them to make the best decisions about consumption
- **asymmetric information:** where one party has more or better information than another in a business transaction
- **adverse selection:** when sellers have information that buyers do not have on product quality, or when buyers have information that sellers do not have on product quality
- **moral hazard:** the temptation to take risks when some other parties are covering these risk
在契约签署后, 处于信息劣势的一方因无法知晓另一方的真实行为而可能蒙受损失
- **property right:** where owners have a right to decide how their assets may be used
- **nudge theory:** influencing choices by nudging individuals towards making more effective decisions
- **pollution permit:** a form of licence given by government that allows a firm to pollute up to a given level
- **nationalisation:** where a government takes over a private sector business and transfer it to state ownership
- **privatisation:** where there is a change in ownership from the public to the private sector
- **government failure:** where government intervention to correct market failure leads to a net loss of economic welfare
- **economic equality:** where everyone is treated the same way, in terms of income, employment, opportunities etc.
- **economic equity:** occurs if society distributes its resources fairly among its people
- **absolute poverty/extreme poverty:** individual does not have the financial means to obtain commodities to sustain life. being below the poverty line which gives a level of income(1.90 dollars) per day.
relative poverty: much lower level of income compared with income level of other groups within the same surrounding(less than 50% of national average income)
写 **poverty** 的时候要提到 **absolute poverty** 和 **relative poverty**, 两个都要写
- **means-tested benefits:** benefits that are paid only to those whose income fall below a certain level
- **poverty trap:** where an individual or a family are better off on means-tested benefits rather than working
- **universal benefits:** benefits available to all irrespective of income or wealth
- **universal basic income:** a regular unconditional cash payment made by the government
- **negative income tax:** money paid out by the government to those earning below an agreed annual fixed benefit limit
- **factors that influence labour demand:**
 - (1) change in MP/MR: price of goods changes or productivity of labour changes

(2) change in the price of a substitute factor of production

(3) technology changes:

1. technology advance increases MP

2. labour-saving machines

● **factors that influence labour supply:**

(1) working population

(2) net advantage of job: pecuniary(monetary) advantage and non-pecuniary advantage

(3) the number of people who know the jobs

(4) wages in other industries

(5) attitude towards work: women discrimination etc.

● **factors that influence elasticity of demand for labour:**

(1) the extent to which other factors of production can be substituted by labour

(2) labour costs as a percentage of the total cost

(3) PED of final goods: a price inelastic demand for the product is likely lead to a wage inelastic demand for labour due to cost transfer

(4) time period

● **factors that influence elasticity of supply for labour:**

(1) skills required

(2) the amount of education and training required

● **why free market economy is neither possible nor desirable?**

not desirable: 有 market failure; not possible: 需要 government intervention

● **labour market structures**

① differentials

如果单纯的写 wage differentials, 要写多个 labour market structure

但事实上, wage differentials 本身也有可能是非 labour market structure 决定的:

[1]demand/supply 的斜率(goods 的价格/skilled labour 的数量)

[2]wage discrimination

[3]geographical/occupation immobility

[4]lack of information

② trade union/government intervention 是怎么 determine wage 的

trade union 如果是 collective bargaining 的话会造成失业, 但是如果是 improve labour productivity 就不会失业(improve labour productivity 是 AO2)

如果单写 trade union/government intervention 的话要提到 perfect labour market 和 imperfect labour market

AO3 可以写 firm 会 find alternative capitals, or higher price will increase labour productivity

③ whether wage determination in imperfect market lead to exploitation

一开始介绍 monopsony, 它的 exploitation 体现在三个方面:

[1]wage < MRP

[2]wage < perfect competition 的 wage

[3]economic welfare transferred from labour to employer due to monopsony power

注意 unemployment 不是 exploitation

然后讨论 trade union/minimum wage 时候可能不存在 exploitation

④ whether it's necessary for government to intervene imperfect labour market

如果没有 trade union 要干涉

如果有 trade union 但是导致失业要干涉(最低水平工资在完全竞争市场均衡之上)

如果有 trade union, 没有失业但是不是 optimal wage 要干涉(最低水平工资在完全竞争市场均衡之下)

如果有 trade union, 没有失业, 是 optimal wage, 不干涉

⑤ the extent that supply/demand/MRP theory to determine price

先写 perfect competitive labour market, 尤其要写 PED/PES(determine slopes)和 change in D/S!

再说因为什么原因, 生活中大部分市场都是 imperfect labour market

随后分析 whether the theory can be adapted to in imperfect labour market

不管 W 是否与 MRP 相等, $MRP=MC$ when equilibrium

而 monopsony+trade union/government intervention 的时候是有可能符合理论的

⑥ 改变 labour supply

通过 net advantage(pecuniary and non-pecuniary benefit)去影响 substitution/income effect

仔细举例子解释+evaluation

程度同时取决于 PES

⑦ 改变 labour demand

perfect competitive labour market:

单个 firm 的 MRP 增加只会增加单个 firm 的 demand, 不会增加市场的 demand;

所有人的 MRP 的增加才会增加整个市场的 demand

因此单个 firm 的 MRP 增加不会增加 wage

程度同时取决于 PED

imperfect labour market: MRP 增加会增加 wage, 程度同时取决于 PED

(1) perfectly competitive labour market

1. characteristics:

- ① there are many small firms hiring workers
- ② there are many workers with identical skills
- ③ both firms and workers are price takers

2. 市场是怎么做决定的

determined by LS and LD

3. 公司是怎么做决定的

firms are price taker so $W=MC$

MRP is downwards slope because $MRP=MR \cdot MP$, MP slopes downwards due to law of diminishing marginal product, MR is downwards or horizontal

$MRP=MC=W$ at equilibrium of employment level(解释一下 disequilibrium 的情况会怎么平衡)

the same thing happens at any equilibrium of employment level, so labour demand is MRP curve

可以随后写影响 demand/supply 的因素来 evaluation

(2) perfectly competitive labour market with minimum wage:

1. final decision influenced by:

- ① how far above equilibrium the minimum wage is set
- ② elasticity of demand/supply for labour

2. 优点:

- ① may reduce poverty
- ② may increase workers' motivation and productivity
- ③ may protect workers from exploitation by bad employers
- ④ may increase demand for goods and services and for labour, increase employment in future
- ⑤ may reduce state benefit paid to low-income families and may lead to small increase in tax revenue

3. 缺点:

- ① may increase unemployment
- ② may raise firm's costs and then reduce international competitiveness
- ③ may increase wage demand from other employees wanting to keep the differential with the lowest paid
- ④ may increase cost-push inflation
- ⑤ if minimum wage is applied across the country, the variation of cost of living in different areas may not be taken into consideration

(3) perfectly competitive labour market with trade union

1. final decision influenced by:

- ① increase the demand for the labour of their members:

increase labour productivity

supporting national minimum wage laws

supporting immigration restrictions

supporting import restrictions

- ② using industrial power(the threat of strikes etc.) to force employers to pay more

- ③ restricting labour supply:

closed shops: employment is restricted to workers belonging to a particular trade unions

2. factors that influence the power of trade union

- ① the number of members
- ② elasticity of demand for labour

3. 优点:

- ① may reduce poverty
- ② may increase workers' motivation and productivity
- ③ may protect workers from exploitation by bad employers
- ④ may increase demand for goods and services and for labour, increase employment
- ⑤ may reduce state benefit paid to low-income families and may lead to small increase in tax revenue

4. 缺点:

- ① may increase unemployment
- ② may raise firm's costs and then reduce international competitiveness
- ③ may increase cost-push inflation

(4) monopsony

1. characteristics:

- ① one firm hiring workers
- ② workers are immobile
- ③ firm is price maker

2. 公司如何做决定

to hire more the firm must increase wages for the last worker and all workers before. $MC > wage(AC)$

(5) bilateral monopoly

1. characteristics:

monopoly seller VS monopoly buyer

● market failure

- ① market 和 government 哪一个 use resources more efficiency

定义 resources: inputs available for the production of goods and services

定义 why use resources efficiently: scarce resources VS unlimited wants

定义 economic/productive/allocative efficiency

随后说明市场能不能有效率配置资源:

写一个完美的 perfect competitive market 并写出三个 market failure

随后写政府怎么解决上述的 market failure, 并 evaluation policies 坏处和 government failure

(1)

type of market failure	consequences of failure	example of intervention
abuse of market power (monopoly etc.)	high price, low output	price regulation nationalisation increase competition by free trade
factor immobility	inefficient allocation of resources	training and innovate improve information flows improve infrastructure
merit goods	underproduction allocative inefficiency since not social optimum quantity	direct provision, subsidy, provide information, maximum price
demerit goods	overproduction allocative inefficiency since not social optimum quantity	indirect tax, provide information minimum price
public goods	free rider so no provision allocative inefficiency since not social optimum quantity	government provides
instability	price fluctuation	buffer stocks

information problems	inappropriate pricing	improve information flows
positive externality	underproduction allocative inefficiency since not social optimum quantity	subsidy legislation: compulsory education provision of information
negative externality	overproduction allocative inefficiency since not social optimum quantity	indirect tax regulation: consumer + producer deregulation: increase competitions extend property right: externality would be internalised since external cost is paid by owners pollution permits provision of information
income inequality	unequal income distribution	subsidy: means-tested benefit: disincentive to work universal benefit: some do not need, so expensive universal basic benefit: no disincentive but expensive tax direct provision: used equally by all price stability

(2) problems of indirect tax when dealing with externality

1. difficult to measure the external cost, thus difficult to set the correct amount of tax
2. it is hard to individual to each firm
3. administration cost
4. tax incidence depends on PED and PES
5. increase in price may lead to inflation
6. regressive nature so bad for poor

(3) problems of subsidy when dealing with externality

1. difficult to measure the external cost, thus difficult to set the correct amount of tax
2. it is hard to individual to each firm
3. opportunity cost, less budget available for government to use for other purposes
4. tax might be raised, discouraging working people's incentive

(4) problems of pollution permit

1. difficult to enforce firms and to check the level of emission
2. hard to decide the appropriate number of permits to issue
3. firms can afford to buy permits as much as they like, so pollution and externality may not be corrected

(5) problems of property right

a wide range of people being affected to varying degrees, it is impossible to use the property right to internalise the production externality

(6) general problems for policies

maximum price (maximum price + buffer stock VS subsidy)	4. promote merit good 5. some consumers will gain 6. lower price, affordable, reduce poverty	6. shortage: expensive for government to run buffer stock scheme 7. encourage black market 8. queuing: inefficient, time-cost 9. decrease in producer surplus 10. discourage in improvement of quality of product
minimum price (minimum price + buffer stock/taxation)	4. decrease consumption of demerit good 5. some producer will gain 6. upper price, higher income, reduce poverty	5. surplus: expensive for government to run buffer stock scheme 6. encourage black market 7. decrease in consumer surplus 8. discourage in reduction of price

taxation	3. $PED < 1$: raise revenue for government 4. $PED > 1$: discourage consumption of demerit good	6. lower consumer surplus 7. administration cost 8. cost-push inflation 9. regressive 10. dead-weight lost, a total reduction in social welfare
subsidy	1. encourage consumption of merit good 2. lower price, affordable, reduce poverty 3. raise producer's income, reduce poverty	4. expensive 5. discourage improvement of quality of product 6. hard to maintain in long-run until stable subsidy
awareness campaign	3. assist consumers to make better and more informed decision 4. last in long run	4. difficult to change: long-period 5. difficult to collect objective data to measure the effectiveness of campaign 6. expensive
buffer stock scheme	4. maintain income 5. prevent excess prices and reduce inflation 6. maintain supply and avoid shortage	6. expensive 7. administration cost 8. discourage improvement in quality of good 9. perishable 10. government has information failure
direct provision by government	4. promote merit good 5. consumers will gain 6. lower price, affordable, reduce poverty	2. expensive 2. discourage improvement due to lack of price mechanism 3. free provision may lead to over-provision or under-provision causing inefficient allocation
transfer payment	3. higher producer surplus 4. more money, affordable, reduce poverty 举例: pension/unemployment benefit/food voucher	5. some consumer will lose 6. may not use transfer as government expected 7. discourage to work 8. expensive

(7) government failure: lead to policy conflicts

1. problems of information:

lack of information about the true value of a negative externality which makes the wrong level of tax and wrong level of production. lack of information about demand for a product so the wrong amount will be produced and thus there is inefficiency

2. problems of incentive:

tax distorts incentives, politicians may be motivated by political power rather than economic imperatives, those running public services may lack appropriate incentives to produce the product well

3. mistiming:

by the time the government has intervened in the market and acted the problem may not be the same

4. high administration and enforcing costs

Macro Economy

- **aggregate expenditure:** total planned expenditure at different levels of income
- **macroeconomic equilibrium:** a state in which the plans of economic agents in the economy (household, firms, government, and others) are fulfilled
- **actual economic growth:** increase in real GDP over a period of time and usually measured by percentage change in real GDP over a period of time
- **potential economic growth:** measured by the increase in productive capacity
- **inclusive economic growth:** economic growth that is distributed fairly across society and creates opportunities for all
- **sustainable economic growth:** growth that does not threaten future generation's ability to experience economic growth
- **recession:** a situation in which growth is negative for two or more consecutive quarters
- **national debt:** the cumulative amount of debt which consists of the total amount of money borrowed from the private sector and other purchases of government securities since the government began borrowing
- **monetary transmissions mechanisms:** it attempts to explain how changes in monetary policy may have an impact on key macroeconomic goals
- **full employment:** occurs when all those willing and able to work at given wage level are working
- **equilibrium unemployment:** the unemployment which exists when the labour market is in equilibrium
- **disequilibrium unemployment:** the unemployment that arises when the aggregate supply of labour is greater than the aggregate demand for labour at the current wage rate
- **voluntary unemployment:** occurs when an individual chooses not to accept a job at the current wage rate
- **involuntary unemployment:** occurs when people are willing and able to work at given wage rate but no job is available
- **natural rate of unemployment:** the rate of unemployment that exists when the aggregate demand of labour equals the aggregate supply of labour at current wage and price level
- **hysteresis:** unemployment causing unemployment due to workers becoming deskilled and demotivated when they are out of work for a long time
- **labour mobility:** ability of workers to change where they work and in which occupation
- **money:** an item which is generally acceptable as a means of payment
- **liquidity:** the extent to which an asset can be converted to cash without the holder incurring a cost
- **narrow money:** money that can be spent directly
- **broad money:** money used for spending and saving
- **government securities:** bills or bonds issued by government to raise money
- **reserve ratio:** the fraction of deposits that banks hold as reserve
- **capital ratio:** a bank's available financial capital as a percentage of its riskier assets
- **quantity theory of money:** the theory that links inflation in an economy to changes in money supply. a change in money supply causes an equal percentage change in the price level. $MV = PT$.
- **liquidity trap:** a situation where interest rates cannot be reduced any more by increasing money supply in order to stimulate an upturn in economic activity
- **government budget:** the balance between government expenditure and tax revenue
- **budget deficit:** it will occur when government total expenditure is greater than its total income
- **why government borrows money:** to finance a deficit
- **crowd out:** the growth of government spending will lead to a transfer of scarce resources, or finance, from the private to the public sector

if government borrows to fund the expenditure it may have to sell bonds to the private sector. encouraging the private sector to buy bonds may require higher interest rates, or prevent the private sector using the money for other projects. a rise in interest rates will also make private borrowing more expensive and crowds-out private investment and consumption

- 一定要提到 **multiplier effect**: government spending, investment, interest rate(影响 I), tax(影响 I), saving(本身影响 multiplier 大小)
- **Paradox of Thrift**: where the face of people saving more results in fall in saving due to lower spending and income

(1) 过程:

a rise in marginal propensity to save MPS will lead aggregate demand to fall, so total income will fall. thus, although they may save a greater proportion of their income, their total saving may be the same amount as before

(2) evaluation:

1. a fall in demand may cause fall in prices, which offsets the fall in demand
2. a rise in saving may cause a rise in bank reserve, which may possibly lower interest rate due to Loanable Fund Theory, thus increase investment
3. a fall in demand may be compensated for by a rise in export

- **inflationary gap and deflationary gap:**

(1) inflationary gap:

it occurs when aggregate expenditure exceeds the potential output of the economy at the full employment level, or planned withdrawal is smaller than planned injection at the full employment level. as a result, not all demand can be met so excess demand drives up the price level

(2) deflationary gap:

employment at the equilibrium level of GDP is below the full employment level. at full employment, potential output exceeds aggregate expenditure or planned withdrawal is greater than planned injection. as a result, not all products can be sold so firms decide to reduce their productions, so demand of labour falls and cyclical unemployment occurs

- **output gaps**: the difference between actual real GDP and potential real GDP

(1) positive output gap:

例子: 突然 increase in export demand, 国内工人加班加点的干

画图 AD/AS: it will occur when actual output is above the level of the trend output.

a positive output gap is associated with an economy that is overheating or undergoing inflationary pressure.

(2) negative output gap:

例子: 突然 decrease in export demand, 国内工人没活干

画图 AD/AS: it will occur when actual output is below the level of the trend output.

an economy will not be using all its resources and is likely to be in recession

- **multiplier effect**: show how an increase in planned injections into the economy leads to a larger increase in output and income

(1) 解释什么是 multiplier, injection, withdrawal.

(2) 画图并说明: equilibrium 在 aggregate expenditure = potential output 和 injection = withdrawal 的情况下实现, 如果有 disequilibrium 会如何经过调整实现 equilibrium

(3) multiplier 的过程: this is because the initial injection sets off rounds of spending(首次注资引发了一轮又一轮的支出). a rise in expenditure of one will create income of other, some of which, will, in turn, be spent and thereby create more incomes and more spending. (举一个例子) this process will continue until additional income created reaches zero.

(4) 公式, 解释全过程结束后 output 和 price level 的变化

- **accelerator**

accelerator assumes a constant capital output ratio.

net investment depends on the rate the change in income/the rate of GDP growth.

- **Philips Curve**: shows the relationship between inflation and unemployment rate in an economy over a period of time

(4) 过程:

1. **in short run**: inverse relationship between inflation and unemployment

increase in AD → pull up inflation → lower real wage → excess demand for labour → money wage increase → more workers accept jobs

SRPC shift: change in inflation expectation and natural rate of unemployment

2. **in long run**: no trade-off between inflation and unemployment

worker realise real wage is not better → return to full employment

(5) 失业原因:

4. **fictional unemployment:** unemployed between jobs

search unemployment: switch job

causal unemployment: out of work between periods of employment

seasonal unemployment: unemployment due to the nature of job and time of year

5. **structural unemployment:** unemployed due to changing structure of economic activity

technological unemployment: due to the use of labour-saving techniques

regional unemployment: declining industries are concentrated in particular areas

international unemployment: switch demand to more competitive foreign industries

6. **cyclical unemployment:** results from lack of aggregate demand

(6) 失业后果

1. **for unemployed:**

fall in income

miss out on train and work experience, difficult to find jobs

mental and physical illness

get opportunity to search for better job

2. **for firms:**

excess labour supply, lower wages, lower costs

lower demand of products

3. **for economy:**

lower GDP below its potential level → lower income → lower SoL, lower taxation revenue,

more benefit → increased crime rate

● **liquidity preference theory:** money 或 interest rate 变化带来的影响

(1) 内容:

1. **transactions motive:** desire to hold money to make everyday purchase:

interest inelastic, influenced by price level, income received, frequency of income payment

2. **precautionary motive:** hold money for unexpected expense

interest inelastic, influenced by income received, expectation, availability and cost of credit

3. **speculative motive:** interest elastic

4. **active balance:** transactions and precautionary demand for money

5. **idle balance:** hold money because of lower interest rate

(2) 控制 money supply 的过程:

1. **reserve requirement:**

regulation that set the minimum amount of reserves that banks must hold against their

deposits. lower reserve requirement, higher money supply

2. **open market operation:**

quantitative easing: a central bank purchase long term government debts from public to

increase money supply

3. **discount ratio:**

interest rate on loans that central bank makes to commercial banks. lower the ratio, higher

money supply

4. **national debt:**

government sells bonds to non-bank private sector: does not increase money supply

government sells bonds to bank: increase money supply

(3) 过程 monetary transaction mechanism:

increase in money supply → more income so increase speculation motive → price of bonds

increases → interest rate decreases

reduction in interest rate → firms increase borrowing and investment, multiplier effect on

GDP → further accelerator theory → employment

reduction in interest rate → consumers increase borrowing and consumption due to MPC

reduction in interest rate → import, export, speculation, exchange rate

(4) evaluation:

1. elasticity of liquidity theory

2. elasticity of investment schedule

3. if full employment, increase in GDP leads to inflationary effects

4. existence of liquidity trap

5. a relatively low multiplier effect

6. rise in income will further leads to increase in interest rate

7. negative expectation

(5) inflation 的后果:

缺点:

8. menu cost: cost of frequently changing price tag, complains from consumers

9. shoe leather cost: moving money from one financial institution to another in search of the higher interest rate, time cost

10. fiscal drag: tax bracket creeps

11. inflationary noise: money illusion, firms make wrong decisions

12. a reduction in net export

13. unplanned redistribution of income: borrowers gain in real value

14. discourage investment

优点:

4. stimulate output if price rises more than costs in short run

5. reduce burden of debt since nominal interest rate unchanged

6. prevent unemployment

International Economics Issues

- **purchasing power parity:** a way of comparing international living standards by using an exchange rate based on the amount of each currency needed to purchase the same basket of goods and services
- **standard of living:** material and non-material well being
- **birth rate:** the number of live births per thousand of the population in one year
- **death rate:** the number of deaths per thousand of the population in one year
- **infant mortality rate:** the number of deaths of children aged under one per thousand live births in one year
- **natural increase in population:** the number of live births exceeding the number of deaths
- **dependency ratio:** the proportion of the economically inactive compared to the labour force
- **optimum population:** the size of population that maximises GDP per head
- **Gini coefficient:** measures income inequality or wealth distribution among a population. the coefficient ranges from 0(perfect equality) to 1(perfect inequality)
- **real exchange rate:** a currency's value in terms of its real purchasing power
- **trade-weighted exchange rate:** the price of one currency against a basket of currencies
- **balance of payment:** current account, financial, capital account, net errors and omissions
- **current account:** trade in goods and services, income, current transfer
- **financial account:** direct investment, portfolio investment, reserve investment, other investment
- **capital account:** debt forgiveness, money transfer by migrants, acquisition or disposal of non-produced and non-financial assets, transfer of another fixed asset
- **why developed countries prevent investment in rural area while developing countries encourage investment in rural area?**

developed countries: protection of environment, externality of production, cost of investment, wish to use the advantage of EoS in urban areas
developing countries: rely on primary sector and this can cause wide fluctuations in income and disguised unemployment. industrialisation might increase employment, make a more secure base for income, encourage the use of resources, decrease poverty

- **“too much labour but not enough capital.” is this a distinguishing feature for developing countries?**

some developing countries have a large working-age population but not all this population is trained. it may be still the case that there is a relative abundance of labour to capital.

- **changes occur to the age and employment structure from developing to developed countries**

(1) fall in death rate → more old people
(2) fall in infant mortality → fall in birth rate → fewer young people
(3) attract immigration
(4) support from government → external EoS → lower cost, competitive → industrialisation/urbanisation → stimulate a growth in service sector through consumption and production, such as IT, telecommunication, transportation, tourism
(5) comparative advantages, from labour endowment to capital endowment

- **whether problems of developing countries can be solved if it achieved developed statues?**

not all problems can be solved, because the fundamental economic problem remains. developed countries face problems which differ in extent(still have pollution, over-crowding, negative externality etc. although the level may be lower) and in nature(different type of unemployment, different type of high dependency ratio)

not all problem will happen, even if they do, they may not always be extensive

- **whether developing countries should encourage population growth?**

先写好处: lower cost of labour, cheaper domestic goods, cheaper exports, may increase GDP and export industry employment

再写坏处: higher dependency ratio, lower GNI per head in short run, more labour supply so lower salary and higher unemployment

最后写政府需要鼓励什么发展: GDP/health care/education/environment etc.

● 测量 standard of living:

要写出 indicator 的改变代表着 economic growth/SoL 的改变

quantitative GDP data + qualitative data = compare different measurement

如果是 compare living standard 的话一定要写 difficulty in comparing, 可以放在 evaluation

(1) GDP

优点:

1. it is straight forward, simple to calculate
2. it could measure one economy total output and productive capacity, gives an indication of growth
3. it is an indication of production ability of an economy to use scarce resources to satisfy people's needs and wants
4. it provides indication of how economy compares with other economies and gives a guide to what policies the government need to manage the economy

缺点: it not includes:

1. non marketed items/ underground economy
2. effect of externality
3. distribution of income
4. size of population
5. capital goods or consumer goods
6. when comparing between countries: climate/level of literacy/working hours/working conditions/political freedoms/fear of crime/health conditions/quality of environment
7. when comparing between countries: have to converted into common currency, which is difficult deciding what value to use because exchange rate changes over time.
8. when comparing between countries: accounting technique is different

计算方法: 如果把 GDP 当成主体来问, 那要写

GDP is measured by the monetary value of all the goods and services produced in an economy in a particular time period, usually one year. to ensure that an accurate measure of the real output is attained with we have to take account of the price element of the change in value of goods. by taking inflation into account we can calculate the real value of GDP. it is also helpful to calculate the relationship between this increase in real value of GDP and any change in population. economists will divide the real GDP by the total population to calculate the amount of GDP that is available per person. this would now allow economists to calculate real GDP per capita.

(2) MEW measurable economics welfare: a composite measure of living standards that adjusts GDP for factors that reduce living standards and factors that improve living standards.

优点:

the measure seeks to give a fuller picture of living standards by adjusting GDP figures to take into account other factors that have an impact on living standards. factors that improve living standards, including increased leisure time, are added to the GDP figure. factors that reduce living standards, such as environmental damage, are deducted.

缺点:

it is difficult and expensive to measure the value of non-marketed goods and services.

(3) HDI human development index: a composite measure of living standards that includes GNI per head, education and life expectancy.

优点:

this takes into account GNI per head, education (as measured by expected years of schooling and mean years of schooling) and health care (as measured by life expectancy). expected years of schooling are the years of schooling that a child of school entrance age can expect to receive. mean years of schooling are the average number of years of education received by people aged 25 and above. measures of income, education and life expectancy are included as it is thought that people's welfare is influenced not only by the goods and services available to them but also their ability to lead a long and healthy life and to acquire knowledge.

缺点:

GNI 的统计问题(GDP 的缺点)

the Human Development index is limited as an indicator of economic development in that it does not provide any indication of achievements in other important dimensions of development, such as income distribution, access to clean water and sanitation, employment, gender equality and others.

计算方法: 如果把 HDI 当成主体来问, 那要写

the HDI value for a country shows the distance a country has to cover to reach the maximum value of 1. countries are divided into very high human development, high human development, medium human development and low human development.

(4) **MPI multidimensional poverty index: a composite measure of deprivation in terms of the proportion of households that lack the requirements for a reasonable standard of living.**

优点:

it measures indicators of living standards(cooking fuel, sanitation, drinking water, electricity, housing and assets), education(years of schooling and school attendance) and health(child mortality and nourishment). the aim of the MPI is to help countries understand why people are poor and why some stay poor even when incomes rise. the MPI can help governments and international organizations target the poorest groups in a country, assess and coordinate national development plans.

缺点:

it is difficult and expensive to collect and measure

计算方法: 如果把 MPI 当成主体来问, 那要写

the six indicators of living standards are given a total weighting of 33%, the two indicators of education a total weighting of 33% and similarly the two indicators of health have a weighting of 33%. A household is considered to be multidimensional poor if they are deprived in at least 33% of the weighted indicators. this means a family would be regarded as poor if it has lost a child and has another child who is not attending school.

(5) **Kuznets curve: a curve that shows the relationship between economic growth and income inequality.**

the Kuznets curve suggests that as an economy develops, income becomes more unevenly distributed, and then after a certain income level is reached, income becomes more evenly distributed.

the reason why it is thought there will be an initial rise in income inequality is that as an economy develops there will be a movement of labour from low-paid and low-skilled agricultural jobs to higher-paid and more skilled manufacturing jobs. there will be income redistribution policies by government

● **distinguish developed and developing economies:**

看到这两词第一次出现一定要定义+解释特征

如果问一些 indicator 是否 distinguish, 先分析回答问题, 随后仔细解释别的 distinguishing indicators

(1) income per head, productivity(skill, education, technology, infrastructure)(high economics growth rate 不是 developing 的特点, 只给了一年的图表的话更不能说明什么)

(2) distribution of income(developed economies have fewer poorer people)

(3) population growth(large population 不是 developing 的特点)

(4) employment structure(第几产业工作/出口, 失业现象, informal sector)

(5) urbanization

(6) immigration or emigration

(7) health, life expectancy

(8) dependency on developed countries/international trade(a lack of international trade 不是 developing 的特点)

(9) external debt

● **分析一下全球化是好是坏**

globalisation: the process by which the world is becoming increasingly interconnected through trade and other links. 全球化一般是通过 free trade 和 foreign direct investment 实现的

如果问 developed countries 的政策对 developing countries 的好坏处, 本质上还是 globalisation 的分析

(1) **international trade:**

the sub-division of manufacturing processes which are then undertaken in different countries. candidates may quote phone, car manufacturing, world football brands, law firms as examples.

优点:

1. stimulate demand and employment in export industry. then further expansion of spending power so increase in domestic output
2. increased competition and specialization encourages domestic entrepreneurs to innovate, thus cheaper and quality goods.
3. trade lead to a transfer of skills and technology
4. EoS because of larger market
5. get away from poverty cycle(low income → low saving → low investment → low productivity → low income)

缺点:

1. international trade can be dominated by developed countries, they have more power in trade negotiations and developing countries can be forced to concentrate on primary goods
2. YED for primary goods is low, low income earned
3. producers of manufactured goods in developed countries have monopoly power, thus maintaining a high price
4. interdependence due to specialization

(2) **FDI foreign direct investment:** the setting up of production units or the purchase of existing production units of other countries

MNC multinational corporation: a company whose production activities are carried out in more than one country

优点:

1. bring new technology, new ideas, skills and capitals, management expertise and entrepreneur skills
2. improve GDP, export, employment
3. raise local tax revenue
4. MNC may engage in FDI to reach new markets, or to improve efficiency(lower labour cost, cheaper raw materials) by locating part of their production in a favourable location

缺点:

1. MNCs may not create higher employment and higher incomes if they replace domestic firms
2. MNCs may send most of their profit back to their home countries and may employ foreign rather than home labour, especially in top-paid work
3. MNCs may put pressure on governments to pursue policies that are beneficial to them but not the economics in which they are producing
4. MNCs may deplete local non-renewable resources and create pollution
5. MNCs may sell goods that does not improve local SoL, like demerit goods

● **foreign aid:** assistance given to developing economies on favourable terms

优点:

对 developed countries:

- (1) aid may be given to promote the industries of the donor country. a government may seek to increase the growth of an infant industry by requiring the recipient country that receives the aid to spend on products from its country.
- (2) a motive behind some aid is to gain political influence. a recipient government may feel obliged to support the donor government in its disputes with another country or countries.

对 developing countries:

- (3) aid will help poor countries escape from poverty trap
- (4) aid helps in poverty alleviation through
 - improvements in education and skills
 - reducing preventable diseases and improving levels of health
 - improvements in infrastructure

- development of simple appropriate technologies
- empowering poor people by helping them find employment

缺点:

对 developed countries:

- (1) loan repayment can be difficult for developing countries
- (2) uncoordinated donor-financed activities, due to very large numbers of donors and activities, mean that effective planning is not possible, while activities are a reflection of donor priorities. the result involves duplication of some projects with large gaps in others, and a significant waste of resources.

对 developing countries:

- (3) often focus on urban areas, which leads to inequality
- (4) requirements imposed on developing economies are not always suitable for developing countries
- (5) inadequate developed legal framework in many developing countries can encourage corruption. funds given as aid may be diverted into private use by government officials. foreign aid can remain in the hands of a few and may not be used to improve the economy as a whole
- (6) tied aid is far less effective than untied aid because it does not allow recipient countries to search for low-price suppliers
- (7) unpredictability of aid funds, due to donors' changing budget priorities, makes it difficult for recipient countries to plan effective use of the funds.

Macroeconomic Policies

- **infrastructure:** it provides the basic facilities which enable businesses to provide goods and services efficiently. 一定要记得提供例子
- **trade bloc:** a regional group of countries that have entered into trade agreement
- **free trade area:** a trade bloc where member governments agree to remove trade restrictions among themselves
- **custom union:** a trade bloc where there is free trade between member countries and a common external tariff on imports from non-members
- **monetary union:** a trade bloc which involves member countries operating the same currency, having one exchange rate and the same interest rate
- **economic union:** a trade bloc where there is free trade between member countries, a common external tariff, common economic policies and the same currency
- **trade creation:** where high-cost domestic production is replaced by more efficiently produced imports from within the custom union
- **trade diversion:** where trade with a low-cost country outside a customs union is replaced by higher-cost products supplied from within the customs union
- **extent of short run actual economics growth** depends on existing state of economy, **extent of long run potential economics growth** depends on the level of investment
- **links between A and B:** 既要讨论 A 怎么造成 B, 也要讨论 B 怎么造成 A
- **evaluation 的一个好点: conflict with other macroeconomics aims**
如果提到 macroeconomics aims 一定要进行解释!
如果问 whether this necessarily results in conflict 要写 conflicts 和 non-conflicts
price stability, balance of payment, employment, income distribution, economics growth
- **interest rate 对 economics growth 的影响:**
结合 IR 与 C, I, BOP, ER. 要写 multiplier. long run NE 受 ER 影响可能会下降
- **investment 对 economics growth 的影响:**
要写 multiplier. 如果要写 link 的话要写到 growth leads to net increase in income, increasing net investment by accelerator.
- **fiscal/monetary/supply-side policy 也许不会有效的解决 unemployment:**
additional borrowing due to budget deficit will lead to higher interest rates, lower investment and a countervailing fall in monetary demand.
increase in technology lead to labour-saving machine
- **是不是应该把 A 作为唯一目标?**

介绍 A 的后果

解释用政策实现 A 的过程中会有什么 conflict

解释用政策实现 B/C 的过程中会有什么 conflict

evaluation

● budget deficit:

(1) 后果:

1. inability to raise finance: 不好借钱解决一些问题, 比如说 protect industry/maintain employment
2. inefficient: 需要征税, 造成 deadweight lost 和提高 voluntary unemployment
3. wasteful of resources
4. international standing: no government spending, discourage FDI

(2) 解决方法:

short run reduce government spending and increase taxation

long run supply side policy to raise more taxation

● why economic growth: (举例子: policy, developed/developing country, short/long run)

(1) benefits:

1. increase income per head, increase taxation revenue, increase government spending on education and health caring, increase living standard
2. reduce cyclical unemployment
3. enable government to reduce poverty without redistribution of income
4. increase international powerful

(2) cost:

1. worsen pollution

2. depletion of resources, damaging sustainable economic growth
3. stress and anxiety since larger working hours, may reduce living standard
4. possibly increase structural unemployment
5. if an economy is operating at full capacity, then if it wants potential economic growth, then fewer consumer goods and more capital goods are produced, leading to fall in living standard in short run

● **policies:**

(5) supply-side policy: one designed to increase aggregate supply by improving the workings of product and factor markets in an economy

内容:

8. cut in direct tax (corporate tax & income tax): increase incentive
9. reduce in welfare payment: increase incentive
10. government subsidy
11. increase spending on training and education: increase quality and productivity of labour
12. increase spending on infrastructure: reduce transportation cost
13. trade union reform: reduce trade union's power to increase workers' flexibility and mobility and cut down on the number of days lost through strikes
14. deregulation and privatisation: increase market competition

优点:

4. economic growth and an increase in potential output
5. create new jobs and reduce structural unemployment
6. reduce inflation

缺点/evaluation:

6. need a long time to take effect
7. government spending has opportunity cost, it may lead to budget deficit and public debt
8. the government may make poor choices on what industries to support, leading to inefficiency in the allocation of resources
9. trade union reformation leads to exploitation
10. deregulation leads to monopoly

(6) fiscal policy: the use of taxation and government spending to manage the level of aggregate demand

效果:

3. change in taxation → disposable income changes → consumption and investment change → AD, employment, economic growth VS inflation, BoP deficit
4. change in government spending → multiplier effect → national income changes → consumption and investment change → AD, employment, economic growth VS inflation, BoP deficit

evaluation:

5. time lag: it takes time to recognise the problem, adjust government spending and taxation and for private sector to react
6. households and firms may react in an unexpected way: expectation towards the future
7. size of multiplier: larger the multiplier, greater the effect. government may underestimate the multiplier, leading to too much injection and inflation
8. crowding out: if the government finances its deficit through borrowing, then interest rate will rise, which will discourage private sector spending as the cost of borrowing has been increased
9. raising direct taxation can have disincentive effects: Laffer curve
10. political reasons: difficult to raise taxation and lower government spending due to political unpopularity

(7) monetary policy: the use of interest rates, the money supply and the exchange rate as means to influence the price or quantity of money in order to manage the economy

效果:

3. interest rate changes → consumption and investment change → AD, employment, economic growth VS inflation, BoP deficit
4. money supply changes (through reserve requirement, open market operations, discount rate) → liquidity preference, some households and firms have higher/lower money balances than they want to hold, they thus buy/sell bonds. as bonds' price rises/falls,

interest rate falls/rises → consumption, investment change → AD, employment, economic growth VS inflation, BoP deficit

5. exchange rate changes → purchasing power, price competitiveness change, net export changes → AD, employment, economic growth, CA VS inflation, BoP deficit

evaluation:

7. time lag: it takes time to recognise the problem, adjust interest rate, exchange rate and money supply and for private sector to react

8. households and firms may react in an unexpected ways: expectation towards the future

9. improve in CA may not work if J-curve effect or Marshall-Lerner Condition is not met

10. cannot change interest rate too much out of line with other countries: must avoid significant hot money outflow

11. a rise in interest rate will benefit savers at the expense of borrowers

12. liquidity trap: if interest rate is already low, a further increase in money supply will not have much of an impact

13. attempts to influence exchange rate can be offset by movement in other countries' exchange rates and by speculation

● conflicts:

如果是传统目标与 increase SoL 的冲突:

简单解释+介绍两边的后果, 考虑有没有 link 和 conflict, evaluation 写政府应该注意哪一些

(1) economics growth VS BoP equilibrium/ avoidance of fluctuation of exchange rate

more income so higher expenditure in import, current account deficit

(2) economics growth VS full employment

in long run, technological unemployment may increase as a result of labour-saving machine

(3) economics growth VS income equality

making income tax rates more progressive and increasing benefits to low-income groups

may discourage effort and enterprise. may reduce FDI

however, increase in health and education may raise productivity

(4) government macroeconomic failure:

1. overestimate/underestimate multiplier

2. time lag

3. political reason

4. unexpected reaction

Data/Essay

- 是否 **consistent** 我们的结论:

如果是按照时间分布的话, 先单独分析 A 的 trend 和 B 的 trend

分析表格内的 A 与 B 的关系: **generally** A 越怎么样 B 就越怎么样

随后总结 **entirely consistent/ not entirely consistent/ not consistent/ no information**

考虑一下会不会有信息不足, 不能下定论

- 两者之间是否存在因果/**evidence**: no cause and effect/no sufficient information
- 一定要回答问题! 不要直接写 **essay**! 要有一句话直接回答 **data** 的问题!
- **growth/increase in consumption/investment/government** 等问题在找具体支持数据的时候关注 **growth rate**! 而不是 **absolute value**!
- **attract investment/borrow from foreign investor**: 联想到 **FDI**
borrow from foreign government: **foreign aid**
- 不要看到 **living standard** 就直接开写 **measurement**, 分析题目要干什么

perfect competition: short run break even point, shut down point

oligopoly: collusion 不一定成功 + government intervention

imperfect market structure: X inefficiency + natural monopoly + EoS, 举例子 + dynamic efficiency

allocative inefficiency: markup

productive inefficiency: excess capacity + X-inefficiency

dynamic efficiency: abnormal profit

labour market: MRP theory, labour curve is derived curve + PED for labour/PES for labour 的影响因素 + increase in wage leads to increase productivity and switch demand to capital

market failure:

government failure: mistiming/problem of information/problem of incentive/high administration cost

standard of living: PPP, Gini coefficient, Kuznets curve

globalisation: free trade area, trade creation, 图表

fiscal policy:

multiplier + Loanable Fund Theory, connect interest rate + crowding out + poverty trap

monetary policy:

exchange rate: Marshall Lerner condition + J-curve effect

money supply: open market operation/discount rate/deposit ratio + Liquidity Preference Theorem, 记得介绍各项 motive + Phillips curve + liquidity trap

interest rate: MPC/APC + multiplier effect + hot money inflow, exchange rate, net export

supply side policy:

budget deficit, cannot stabilise price level, lead to uncertainty, discourage investment + crowding out + government failure

achieve macroeconomics aims: expenditure-reducing policy/expenditure-switching policy

unemployment: causes and effects + Phillips curve

inflation: causes and effects(cost-push, demand-pull) + corresponding policies

AC deficit: causes and effects + Marshall Lerner condition + J-curve effect

income inequality: Gini coefficient + causes and effects(Kuznets curve) + mean-test benefit + poverty trap

growth: inflationary gap, 图表