Bus econon part2

Business Economics Project 2 Chapter 15, Question 14. National income is often used in the estimation of the value of production and economic activity in a particular country. In some cases, the terms of trade of a country can also be used to measure the state of the economy. For example, a country with the terms of trade below 100% may be considered to be spending more on imports than what it is receiving from foreign exchange. Real exchange rate is also an important economic variable that can help in the analysis of the GDP and the economic performance a country. This is because real exchange rates usually affect the overall competitiveness of the trade goods and services (Fischer, 1993). Nominal exchange rate is another closely related concept which refers to the price in dollars of all the foreign exchange. Many countries across the globe are increasingly adopting free market economies whereby fixed rate exchange regimes are used to match the value of foreign currencies in the international trade. Unlike flexible exchange rates, fixed exchange rates not only help in the stabilization of the value of a particular currency against the other one but they also allow easier trade and investments between various countries. Flexible rates are, however, important in balancing trade during the depreciation of the currency of trade. Although many countries are increasingly moving towards liberalized economies, protectionist policies are still common, particularly in the emerging economies whose infant industries must be protected and nurtured to a point when they are able to compete with the other global corporate giants. For example, some countries have comparative advantage in the production of certain goods and services as compared to their trading partners. Lastly, trading between countries may also be enhanced in the event that one of the trading partners has an absolute advantage in all the goods over the other country. 2. Chapter 16, Question 5. Frictional (or voluntary) unemployment is short-term unemployment that occurs when people are changing careers, jobs or locations. In this regard, jobless persons usually have the necessary competencies and skills to be employed but are still searching for their preferred job. In most market economies, frictional unemployment often results from a mismatch between the supply characteristics such as taste, payment or skills and the demand in the job market. It can also take place when there is insufficient information in the labor market and workers are required to search for their preferred jobs. Generally, this kind of unemployment is considered as an indication of economic well-being and is only associated with quickly growing economies with flexible labor force. Frictional unemployment is considered to be important to any economy because it brings about an equilibrium to the labor market by matching the demand for the workers with the supply in the particular economy (Rifkin, 1995). For example, frictional unemployment allows workers to look for jobs that best suits their skills, interests and competencies, and this significantly enables them to contribute more to the economy. On the other hand, companies may also benefit from frictional unemployment, since it allows them to seek the most talented and skilled workers and eventually improve the performance of their workforce. Consequently, economies lacking frictional unemployment are usually characterized by stagnant labor markets where people continue to perform the same jobs for the rest of their lives and where innovations are suppressed. Calculations of frictional unemployment: Frictional unemployment rate is calculated as a function of the unemployment versus vacancy rate curves. 3. Chapter 16, Question 6. Hyperinflation refers to an unrestrained inflation rate in which the prices of goods and services rapidly escalate while the value of the currency reduces. According to many economists, hyperinflation is one of the most destructive economic phenomena; it is not only debilitating to the economy but also to the income value of wage earners. One of the most devastating effects of hyperinflation to the economy is that it wipes out the middle class by destroying the value of savings, cash and bonds as well as reducing their purchasing power. Consequently, hyperinflation is often associated with the relocation of the public wealth to the government. According to Sullivan and Sheffrin (2003), hyperinflation may result in a significant devaluation of the currency value, thereby increasing the paper currency denominations. This may in turn reduce the standard of living by hurting the buying power and making it hard for consumers to buy basic services. This is because the valueless currency and rising prices only mean that consumers have to pay more for the same commodities and services. On the other hand, hyperinflation can also be devastating to economies through its negative effects on the banking industry, particularly with regard to the repayment interest rates. For instance, reduced currency value may result in heavy losses to the banks which lent out their money. There are a number of ways through which hyperinflation can be stopped. Generally, one of they most effective ways is to reduce the currency units by a given factor. Lastly, the long-term measures of mitigating hyperinflation include increasing interest rates and establishing new monetary policies that make it difficult to borrow money and, therefore, increase the value of the currency. ReferencesFischer, S. (1993). The role of macroeconomic factors in growth. Journal of Monetary Economics, 32, 485-512. Rifkin, J. (1995). 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