

Trade, money and capital

[Economics](#), [Money](#)



B. TRADE, MONEY AND CAPITAL Features of a modern economy 1. - Specialization and division of labor 2. - Measure economic values 3. - Stock of capital

- * Trade, specialization and division of labor.
- * Specialization: occurs when people and countries concentrate their efforts on a particular set of tasks, it permits each person and country to use to best advantage the specific skills and resources that are available.
- * Division of labor: dividing production into a number of small-specialized steps or task.
- * Specialization and trade are the key to high living standards.
- * Globalization: is used to denote an increase in economic integration among nations. Increasing integration is seen today in the dramatic growth in the flows of goods, services, and finance across national borders.
- * Money: the lubricant of exchange
- * Money: is the means of payment in the form of currency and checks used to buy things. Lubricant that facilitates exchange.
- * Governments control the money supply through their central banks
- * Money is the medium of exchange.

Proper management of the financial system is one of the major issues for government macroeconomic policy in the countries.

- * Capital: a produced and durable input, which is itself an output of the economy. It consists of a vast and specialized array of machines, buildings, computers, software, and so on.
- * Capital has to be produced before you use it.
- * Growth from the sacrifice of current consumption
- * Economic activity involves forgoing current consumption to increase our capital. Every time we invest we are enhancing the future productivity of our economy and increasing future consumption.
- * Capital and private property In a market economy, capital typically is privately owned, and the income from capital goes to

individuals. * Capital goods also have market values, and people can buy and sell the capital good for whatever price the goods will fetch. * The ability of individuals to own and profit from capital is what gives capitalism name. * While our society is one built on private property, property rights are limited (taxes and government) *

Property rights for capital and pollution* Property rights define how individuals or firms can own, buy, sell, and use capital goods and other property. An efficient and acceptable legal framework for a market economy includes the definition of clear property rights, the laws of contracts, and system for adjudicating disputes. C. THE VISIBLE HAND OF GOVERNMENT. * All goods and services are voluntary exchange for money at competitive market prices that reflect consumer valuation and social costs. * No economy actually conforms totally to the idealized world of the smoothly functioning invisible hand. * Economic imperfections lead to such ills as pollution, unemployment, financial panics, and extremes of wealth and poverty. Governments operate by requiring people to pay taxes, obey regulations, and consume certain collective goods and services. * Government have 3 main economic functions in a market economy: * Increase efficiency (public goods) * Promote equity (taxes) *

Foster macroeconomic stability and growth (economic growth) * Efficiency * Perfect competition: Refers to a market in which no firm or consumer is large enough to affect the market price. * Imperfect competition: When buyer or seller can affect a good's prices. Leads to prices that rise above cost and to consumer purchases that are reduced below efficient levels. Monopolist: a single supplier who alone determines the price of particular good or service.

* Externalities * Externalities (or spillover effects) occur when firms or people impose costs or benefits on others outside the marketplace. * Government regulations are designed to control externalities like air and water pollution damage from strip mining, hazardous wastes, unsafe drugs and foods, and radioactive materials. * Public Goods * Public goods: are commodities, which can be enjoyed by everyone, and from which no one can be excluded (national defense). * Taxes The government must find the revenues to pay for its public goods and for its income redistribution programs. *

All levels of government collect taxes to pay for their spending. * Taxes are the price that we pay for public goods * They are involuntary. * Equity * Markets do not necessarily produce a fair distribution of income. A market economy may produce inequalities in income and consumption that are not acceptable to the electorate. * The reason is that incomes are determined by a wide variety of factors, including effort, education, inheritance, factor price, and luck. To reduce income inequality: * Engage in progressive taxation: taxing large incomes at a higher rate than small incomes. * Transfer payments: which are money payments to people. * Macroeconomic growth and stability * Thanks John Maynard Keynes we know how to control the worst excess of business cycle. By careful use of fiscal and monetary policies, governments can affect output, employment, and inflation *

The fiscal policies of government involve the power to tax and the power to spend. * Monetary policy involves determining the supply of money and interest rates. Macroeconomic policies for stabilization and economic growth include fiscal policies along with monetary policies. * Mixed economy: in which

the market determines output and prices in most individual sectors while government steers the overall economy with programs of taxation, spending, and monetary regulation. * The rise of the welfare state * Laissez-faire (leave us alone): holds that government should interfere as a little as possible in economic affairs and leave economic decisions to the private decision making of buyers and sellers. Welfare state: is one in which markets direct the detailed activities of day-to-day economic life while government regulates social conditions and provides pension, healthcare, and other necessities for poor families. * The mixed economies. * The success of market economies may lead people to overlook the important contribution of collective actions. * The tools of economics are indispensable to help societies find the golden mean between an efficient market mechanism and publicly decided regulation and redistribution * The good mixed economy is performed by the limited mixed economy