

# [Macroeconomics essay](https://assignbuster.com/macroeconomics-essay/)

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3.

Before the industrial revolution the cottage industry was an industry that was centered in self-sufficient rural households. After the industrial revolutions production moved to urban factories where production was more efficient and on a larger scale. Advances in technology such as the advent of the steam power brought about specialized factories that drastically improved the productivity of the workers. 4. If the cost of producing a good for a household is below the market price the household should enter the market. The household should also look at the opportunity cost of producing the good.

What are the trade offs of producing the good? Could the time be used in a more wise manner? 5. The industrial revolution boosted the production of firms because the center of industries moved from rural households to large mechanized factories. It provided for a more efficient division of labor. 10. Negative externalities must be taken account to in the market price ideally.

Governments can impose regulations that fore participants to abide by rules and to reduce/take into account the negative externalities (for example carbon permits). Setting a hard number to produce is not a good idea because the economy may demand more than is actually being produced causing a shortage and causing prices to rise. 13. The opportunity cost of producing various goods varies across different countries. This is the reason why international trade exists. A trade balance deficift simply means that the country imported more than it exported.

Chapter 4 1. Mceachers explains on pg 72 that the law of demand is “ the quantity of a good that consumers are willing and able to buy which varies inversely with price , other things constant. Quantity demanded and price are inversely related (all other things staying constant). For example I would buy less of something if the price went up. 2. Factors effect demand are prices of other goods, consumer tastes, the income of consumers, the number of customers in the market, and consumer tastes.

The reduction in price of a normal good will not increase demand for that good. This only will affect the quantity demanded because we are moving along the curve and not shifting the curve. 3.

When a good gets cheaper, consumers are more willing to buy that good. They substitute it for other goods. When the relative price falls consumers substutute the less costly good for some other good. If the price of a good goes up, consumers are more likely to substitute that good with something else. The income effect of a price change is when you have more real income because of a drop in a goods price. A price increase would have a negative effect because the consumers’ real income is reduced. Substitution effect of a price change is when consumers are more willing to buy a good.

When the relative price drops they then substitute the cheaper good for a different good. Income effect of a price change is when the price of an item you normally buy drops so this price drop increases your real income. If a good’s price increases it has a negative effect on the quantity demanded.

7. McEacher states on page 78 that the law of supply is “ the amount of a good that producers are willing and able to sell per period is usually directly related to its price, other things constant. This can be extended to show that quantity supplied and price are directly related. A great example of this is the service industry. Almost everyone would be willing to work more at higher wages.

10. Markets cater to the decisions of buyers and sellers by the equilibrium. This “ point” can be considered as the coordination of plans (meeting of the minds) by both sides. This is the efficient market price and quantity with no inefficiencies..