Economics 2 questions-u7

Literature, Russian Literature

Economics Question 12 a (i) When real interest rates of both the United s and the European Union is equal, financial capital is equal in both states. This is because both states have relatively the same level of development. Interest rates determine the direction of financial assets. If the domestic interest rate in united state falls to 3. 75 percent, financial capital shall flow from low interest rate to high interest rate. Therefore, financial capital shall flow from United State to the European Unions. This increases financial capital in the European Union that in turn decreases interest rate.

Question 12 a (ii) Flexible exchanges rate regime

An increase in financial capital in European Union led to depreciation of euro relative to dollars.

Question 12 b

Depreciation of euros because of the increase in financial capital influences the European net export. To this end, import becomes expensive and export become cheap (Krugman, and Wells 123). This led to increase in export and decline for imports. The resulting net export is favorable, as exports, shall outweigh imports. The European Union will experience surplus in the current account.

Question 7 (a)

Labor productivity can be improved through education and training to employees. To this end, workers increase their knowhow and effectiveness. This improves the quality of service delivered thereby improving productivity. Technology can improve labor productivity. A well-equipped worker with necessary equipments can deliver services more effectively and efficiently compare to unequipped worker. Technology eases the time and

efforts employed by worker in delivering service (Krugman, and Wells 167).

Question 7 (b)

Increase in labour productivity increases real output from Yf to Y’ and decreases price from Pf to P’.

Question 7 (c)

The above diagram assumes increasing opportunity cost between the two goods. The increase in labor productivity increases the production of the two goods. Therefore, the production possibility curve shifts outward as shown above.

Works Cited

Krugman, Paul R, and Robin Wells. Economics. New York: Worth Publishers, 2006. Print.