

Econ 7002 tutorial 1



ECON 7002: Semester 1 2012 Tutorial Topic 1 Tutorial Topic 1 CHAPTER 1

Practise Economics: Question 2: In light of your answer to question 1, provide some explanations for the apparent differences in the relative share of government expenditure in the countries listed in the above table.

Governments spend money on social security, health services, infrastructure such as roads, bridges etc, and transfer payments such as unemployment benefits and pensions.

The disparity within the table is partially a reflection of the strength of the taxation system (without a strong tax system the government will lack the revenue to cover expenditure on the areas noted above); the need for government to replace private investment expenditure and the position of the government within the economy, that is a “planned” versus a “free” economy. In the case of Australia, although it is classified as a mixed economy the relatively high level of government expenditure is accounted for by the strong taxation system and broad base of social security payments.

Conceptual Questions: Question 4: What are economic resources? Give some examples of each type of economic resource. Economic resources are also termed “Factors of Production” and can be divided into Physical and Human Resources that can then be broken down further into: | | | Land: forests, arable land, minerals and water Labour: physical and mental labour Capital; physical capital such as factories, machinery and infrastructure. Remember MONEY is NOT an economic resource as it does not produce anything.

Entrepreneurship: the ability to put the various other resources together in an innovative manner- also a risk bearer | One of the most important points to

remember is that all economic resources are scarce and therefore we need to make choices. Analytical Questions: Question 3: Graph the data in the table. Are there constant or increasing opportunity costs for the production of missiles? There are increasing opportunity costs in the production of missiles because the production of cars falls at a higher rate as larger quantities of missiles are produced. ECON 7002: Semester 1 2012 Tutorial Topic 1 40? Guided? Missiles? (thousands)? 35? 30? 25? 20? 15? 10? 5? 0? 0? 2? 4? 6? Cars? (millions)? P1? P2? P3? 8? 10? 12? Question 7: Suppose improvement occurs in the technology of producing guided missiles but not in producing cars. (a) Draw the new production possibilities curve on the diagram that you created in answering question 3. P1 is the original PPC and P2 represents an improvement in the technology of producing guided missiles but not in the production of cars.

The production possibilities curve therefore rotates clockwise with the maximum possible production of cars (8 million) unchanged and an increase in the maximum possible number of missiles produced. (b) Now draw a curve that reflects technological improvement in the production of both products. P3 represents an improvement in the technology of producing both cars and guided missiles and therefore an increase in the possible production of both. Discussion Questions: Question 3: Comment on the following statement from a newspaper: ' Our secondary school serves a splendid hot meal for a dollar without costing the taxpayers anything, thanks in part to a government subsidy. ' All government subsidies are ultimately borne by taxpayers. The cost will either result in an increase in taxes to pay for the subsidy or some other government expenditure must be forgone, or the government will

spend newly created money, which will be inflationary and thus be paid for by taxpayers through higher prices for other goods and services. Thus, this statement is incorrect. 2