Free economics essay example

Business, Company

Difference between Nominal & Real GDP:

Nominal GDP is that when the values haven't been adjusted for inflation.

Real GDP: Real Values are the ones which are adjusted for inflation..

GDP an accurate or inaccurate reflection of productivity:

GDP doesn't truly reflect a country's productivity because:

- In developing countries especially and some of the developed countries GDP is underreported, due to the existence of black markets that is illegal sale and purchase of goods and services.
- In Rural areas, a high proportion of income is generated for self-consumption that is for, e. g., the farmers if produce agricultural products they would consume most of it themselves, and their income wouldn't be counted.
- Price of non traded goods isn't usually reflected in the exchange rate.
- Markets aren't competitive always as well as externalities are not reflected in the GDP (Econlib. org, 2014)

Different types of unemployment:

- Cyclical Unemployment:

This occurs as a result of a decrease in aggregate demand of goods and services.

- Structural unemployment

It occurs when specific industries shutdown due to long term changes in market conditions of the country.

- Seasonal Unemployment:

It occurs when specific producers or industries produce goods or sell services at certain times periods of the year only. For e. g, a farmer having a mango farm would be unemployed during the seasons when mango doesn’t grow.

- Frictional Unemployment:

It occurs when an individual leaves or lose one job and is in search of another job; that time period is known as frictional unemployment.

These unemployment’s occur, when the unemployment occurs, those who are employed, have to compromise at lower wages, as companies aren’t ready to give more than specific wage, rest those who aren’t employed, aren’t earning so some of them become dependent on the government, some become deprived of basic necessities of life while others observe falling standards of living, and people going down below poverty line. Moreover, people with no income would make no demand for goods and services which would encourage producers not to produce any further goods and services consequently if would affects the GDP (Economicsonline. co. uk, 2014).

Inflation & Deflation:

Inflation is a rise in the general price level, which causes prices to rise and value of money to decrease

Deflation is the opposite of inflation it is a sustained decrease in the general price level. It causes prices to decline, and the value of money to rise. In addition to this Unemployment would increase, while Output produced by the firms would decrease.

Relationship between Unemployment and Inflation:

It is an inverse relation where the Rise in inflation would cause a decline in unemployment as the prices would rise, which means demand of goods and services is high therefore prices have risen, so to fulfill aggregate demand firms would hire more and more labor thus decreasing unemployment.

Discussion 2:

Concept of Elasticity:

Elasticity is how much change in demand of a good/service is observed by buyers in return to change its prices. Basically, it gives us a measurement of how much the quantity demanded or supplied changes as a consequent of a change in the price. Therefore, price elasticity of demand/supply is the most often used as a measure of responsiveness.

Determinants of Price Elasticity of demand:

- Availability of substitutes
- Size
- Time
- Need/Want (Uri. edu, 2014).

Price elasticity actually helps the manages while making pricing decisions in analyzing how price change would impact the overall sales of the particular product This knowledge would help them decide that amount of price which would earn them highest profits.

For example, the airlines have pre determined knowledge that business men usually have price inelastic demand while tourists or others demand for tickets is highly price elastic. Thus, they have a higher price on business class tickets while flexible prices on economy class tickets.

For example, Telecom companies, introduce various pricing packages for various types of customers, they choose their target audience, about whom they have surveyed that how much they are willing to pay on different call/messaging/data packages.

For example Mobile manufacturers know very well how much is the consumer willing to pay, is that particular type of phone his need or demand according to that it would help him decide the features of mobile, prices etc. (Econport. org, 2014)

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