

Economic problems of a nation

[Economics](#)



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Why the choice of the textbook ECONOMICS, An Introduction by Villegas and Abola? * The book is contextualized to the Philippine economic setting--- learning of economic principles is immediately related to the current situation and issues facing the economy. Students will therefore be learning not abstract or foreign concepts but concrete ones they can relate with and use to explain socio-economic phenomena they experience, and most likely motivate them to take constructive action on these phenomena. * The book offers a holistic coverage of the essentials of economics just enough to have a basic understanding of the science and to be able to be covered in one semester. Review Reading 1 THE ECONOMIC PROBLEMS OF A NATION Introduction * The Asian financial crisis that started in 1997; Global financial crisis that started in the US in 2008; the crisis is not yet over, in fact it is spreading (Middle East, Europe). * These more frequently recurring and more widespread crises is baffling economists, and putting them back to their tools. * Our textbook tries to develop the framework and the analytical tools for the study of economics in a bigger scope, that of a nation. The focus is not on the analysis of the smaller units, such as the firm, or industry, or region, but the entire nation. To be able to diagnose and understand the specific it is oftentimes necessary to have a good view of the whole, the system, e. g., poverty, corruption, health condition, environmental problems, etc. * This approach to discussion of economics will help us understand the issues that concern us all as citizens. * The textbook however does not ignore the microeconomic concepts necessary for functional understanding of the science. Questions that concern us all * We are affected by external developments: increase in prices of oil/gasoline/lpg; global financial/economic crisis. How do we protect ourselves from these adverse

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external developments? * Internal developments: increase in transport fare, prices of commodities, tuition and miscellaneous fees, etc. Why are prices rising and how could we prevent it accelerating in the future? Will employment opportunities be better? Can our parents earn more in the coming years? Can the government do anything about these things? * Some of the questions border on the political. How should we deal with foreign investors? Should the government raise taxes? Should the government continue borrowing money from abroad? Should we repudiate or seek a partial cancellation of our foreign debt? * Economics, as a science pioneered by Adam Smith in the 18th century, will help us answer these questions. * This book focusing on the macroeconomic concepts of income, jobs, prices and dollar reserves on the national level, while tackling issues relevant to the smallest firm and household in the economy (microeconomics), will help us answer these questions.

Man's Needs and Wants

1. Types of Needs
 - a. Basic needs (survival needs): man's needs he cannot live without: food, shelter and clothing.
 - b. Needs essential to decent and comfortable living (security & enabling needs): goods and services such as fuel, light, water, household furnishings, equipment, personal care, medical care, education, recreation and leisure.
 - c. Luxury goods
2. Created wants. Some needs can be created thru advertising, demonstration effect
3. Varying needs and wants. Factors are age, rural-urban setting, climate, etc.
4. Public wants. Desired by larger groups or communities in common, no one person would spend for the because of large expense, yet many others will benefit from it: parks, postal systems, roads, bridges, ports, airports, etc. Usually provided by the government and financed by tax revenues. Public goods.
5. Private wants. Those that are clearly specific to individuals: clothings, cars, restaurants,

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imported goods. Served by the private sector. How Needs and Wants are Satisfied Through Products: * Goods: Material objects or things which satisfy needs. Need for food: rice, fish meat. Need for shelter: house or apartment made from construction materials. * Services: Need for education: schoolhouses, books, teachers. Need for transportation: jeepneys, buses, trimobile, airplane, ferryboat. Need for healthcare: hospital, doctor, medicine. Products Come from Resources Goods and services have to be produced. Resources (factors of production) are indispensable elements to produce these goods or services: * Land. Consists of all natural resources, including land and everything beneath and above it, minerals, water, air, trees, poultry, livestock, and all other forms of raw materials used to produce food * Labor. Comprises all human beings who extract these raw materials, process the raw materials for consumption or investment goods, transport and sell raw materials or finished products, or are engaged in services (househelp, barbers, clerks...) and professions (lawyers, doctors, teachers, accountants...) * Capital. Materials such as tools, machinery and equipment which man uses to extract materials and process materials into finished goods, as well as buildings, roads and other infrastructure. In a strict sense, capital only refers to man-made goods used to produce other goods. Capital goods differ from the so-called financial capital. Financial capital represents all the money put into or retained for use in business. (discussed fully in Chapter 8) * Entrepreneur. A person who puts together or organizes the other factors of production (land, labor, capital) to make the needed goods and services * (Foreign exchange). Dollar, Yen, Euro Fact of Scarcity * Concept of scarcity. Unlimited wants and limited resources. We cannot satisfy all our needs and wants all at the same time. * Poor families that

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cannot have the required number of meals or nutrition, or minimum shelter that befits a human being * Enough labor force but few jobs available (unemployment) * Even rich or developed countries are not spared of scarcity (manpower shortage due to declining population growth) * Scarcity is a relative concept. No one has everything. * One other view on scarcity: aggravated by over-accumulation, inequitable access to or distribution of productive resources

ECONOMICS: STUDY OF MEN AT WORK AGAINST

SCARCITY * The word “ economics" come from the Greek word oekonomia which means management of the household. Economics started as home

economics. * During the past 2 centuries the science of economics has developed rapidly beyond the boundaries of a home. Economics of the firm, industry, sector, region, nation, and nations taken together. *

Microeconomics, labor economics, industry economics, agricultural

economics, economics of corruption... * There is a common ground which

underlines all economic questions---that is the battle of matching scarce resources against vast needs and wants---in a word, scarcity. * Scarcity is a

fact of life: man’s material wants are never fully satisfied because the

resources he has are limited while his wants are almost unlimited. * The fact

of scarcity has given birth to the science of Economics which, in a broad

sense, can be defined as the science that studies how men work to

overcome scarcity. * From the resources point of view, some would define

Economics as the study of the efficient allocation of scarce resources. * In a

broad sense, Economics can be defined as a social science that studies and

seeks to allocate scarce human and non-human resources among their

alternative uses in order to satisfy unlimited human wants and desires. The

Need to Choose 4 fundamental choices every society has to make as a result

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of scarcity: 1. What to produce 2. How much to produce 3. How to produce 4. For whom to produce More fundamental choice: who will make these fundamental choices? Any or a combination of the following types of economic systems of decision-making: Tradition Command Market Tradition. Economic choices are decided by the past experience. Command. Or planned economy. Market. Where competition reigns, the price of a commodity determines what and how much of it will be actually produced, how, and for whom. Through the price system, consumers express their votes on a certain product. Ours is a mixed economy. Tradition has a lot to do with farming methods, government regulates professions, and the market system allows rising prices of basic commodities. The choice of an economic system is more fundamental than the choice of what, how much, and for whom. The form of economic system determines the other choices. In a predominantly command economy (like Cuba) the production of non-basic goods is discouraged. In a market economy, non-essential goods can easily flood the market. What is the best economic system? Honest economists avoid to answer this question categorically. What is the criteria for best, or a successful economic system? * Equity in income distribution or Consumer sovereignty?... The study of economics should equip us with the ability to distinguish between the normative and positive statements that we will encounter in the practice of this science. Inherent consequences of making a choice * Trade-offs and Opportunity Cost Trade-offs. Because resources are scarce, once a decision is made about producing a particular product, say rice, a society is simultaneously giving up the opportunity of producing some other products, like sugar, pineapple, etc. with the same resources. Opportunity cost. The benefits foregone by a resource owner in making a

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choice; what you give up to get what you have chosen. What to Produce *

People tend to desire what is readily available, for example rice, which is grown on our soil in large quantities. * Our wants are also affected by our customs and historical circumstances, for example lechon, bicol express, pinangat, siopao, hamburger, pizza, etc. * Say's law: " supply creates its own demand", for example cellular phones. * The desire to produce what people want may be limited by the country's resources. Hence, we have to satisfy these desires by maximizing the use of our available resources. These twin factors---determines what goods to produce. How Much to Produce * This will depend substantially on how much people want. It will not always be sufficient to rely on how much was consumed in the past. A knowledge of our people's tastes and desires is important. * It is equally important to know how much can be produced (remember opportunity cost). * Since production is costly, the system should first be aware of the people's desires and resource limitations before deciding how much to produce. How to Produce *

In producing the same kind of good or service, a producer may choose from a possible combinations of resources. Each one represents a resource mix, or method of production, or technology. (labor-intensive or capital-intensive?). * The choice of technology to adopt would depend basically on two factors: the objectives of the producer, and the limits of his resources. * Whatever the producer's objectives and constraints are, he must choose the best technology because choices would entail opportunity costs which, again, consists of the benefits he foregoes for not choosing the best alternative. * The producer needs to gather the necessary information which can help him evaluate the merits of possible alternatives before making any decision on how to produce. For Whom to Produce * Of greater importance is for whom

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the society must produce. * for the poor or for the rich?; for agricultural workers or for industrial workers?; for this region or for that region? * In a command economy with a communistic ideology, capitalists do not exist and are never favored. Goods and services are more or less equally distributed. There is theoretically not much difference in the incomes of the different sectors and professions in the economy. * In a free market economy, no individual or organization dictates how incomes and outputs are to be distributed among the various contributors to the production process. Income distribution follows the law of supply and demand. * Even after a society has chosen what economic system to adopt, it is still important to decide on how goods will be distributed because again, every wrong decision entails an opportunity cost. If more goods are produced for consumers, less goods will be produced for investors. If more of the budget of the government is allocated to military uses, less will have to be available for public school rooms and teachers. If more government funds are allocated to develop the National Capital Region, less will be available to develop the regions.

OVERCOMING SCARCITY How does a society overcome scarcity and satisfy its wants more adequately? Let us consider two periods: the short-term, and the long-term. Full employment. Maximum use of all of society's resources. (It does not refer only to labor.) There would be growth (the economy moving from B to A). It is a matter of efficiency. Of course, there are obstacles to full employment. Overcoming these obstacles is a major concern of economics. Over the long term, the economy's efforts to overcome the consequences of scarcity are geared towards: increasing productivity and achieving growth (shift from PPF₁ to PPF₂). Growth. Economic growth refers to expanding production, or output. Since production

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inevitably translates to income, it also refers to the increase in income. 2 sources of growth: 1) an increase in the available resources (discovery of more lands to cultivate, expansion of the labor force, and the addition of capital) raise the economy's capacity to produce and therefore raise future output; 2) even with the same resources, more output could be produced with higher productivity. Increase in Resources. Growth in resources represents a shift to a higher production -possibility frontier. (Fig. 1. 4). Productivity. Another way of moving the PPF curve is through an increase in productivity. This means raising the economy's capability to produce more from the same resources. This means greater efficiency, and often refers to labor. Higher productivity may mean reallocating the same resources to produce more of at least one good without correspondingly producing less of another, and/or from the distribution side, redistributing what are being produced to increase the share of at least one user without correspondingly decreasing the share of another. Higher productivity may be attained in production by training and education, improved technology, by a good system of infrastructures, etc. These are discussed in detail in Chapter 10. Low productivity is often the result of a number of factors of which the most important are: a) wrong choice of technology, b) defective organization of resources, and 3) poor quality of resources. Full employment, productivity and growth of resources are all interrelated. Where the labor force is productive, there is a better chance for more resources to be used efficiently and discovered. When more resources are used and discovered , more employment can be generated. Other Economic Goals Indeed, the expansion of productive capacity, and the employment of all available resources are primary goals in the economics of a nation. However, along with these, other

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objectives cannot be ignored. The equitable distribution of income, for instance, would provide more meaning to growth. Economics place high value on human welfare, thus it aims that the various members of society receive approximately equal earnings. How does one attain this ideal? Again, the economic system tells us how. In a market economy, a society strives to attain equity through the provision of equal opportunities to the different sectors. In this manner, it does not truly consider equality of earnings as its goal, for it recognizes that human beings are inherently different. The market economy values more the fair distribution of rewards based on the contributions of individuals or groups to the economy. In contrast command economies strive for an equal distribution of earnings, regardless of the contributions of individuals to society. Another economic goal is stability. It is very important because the attainment of other economic goals hinges on it. In the Philippines, the central focus of stabilization is the peso. The local currency is society's fuel for economic activity, hence, its value is always being protected. Its power to purchase goods and services is maintained through policies that prevent high levels of inflation, and runaway devaluation. This does not mean, though, that local policymakers should strive to maintain prices and the peso-dollar rate at all cost, because a reasonable amount of inflation may be inevitable, and some amount of peso depreciation may be strategic to the growth of exports. However, policymakers avoid unmanageable price increases and wild fluctuations in the peso-dollar rate. For once the peso loses its worth, production would surely decline. Summing up, the five economic goals are: growth, full employment, higher productivity, greater equity, and stability. In addition to these, we might even think that sovereignty should be another economic

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goal. But if we look at the European Union, the individual countries have sacrificed some of their sovereignty in terms of economic policy, in order to achieve the five goals above. What society ultimately tries to achieve is the adequate satisfaction of its wants. SUMMARY 1. Needs and wants can either be basic or luxury, with many needs and wants falling in between. They can be classified as needs and wants of the population taken as a group (public wants) or that of specific individuals (private wants). They can vary among groups of people depending on income, age, environment, occupation, and sex, among others. 2. The factors of production---the goods that go into the production process---can be classified broadly into land, labor, capital, and entrepreneurship. 3. Scarcity arises because man's wants are infinite, while his resources are limited. Thus, society has to allocate these resources among conflicting needs and wants. It is forced to choose between what, how much, how, and for whom to produce. Every choice entails an opportunity cost, which consists in the benefits foregone in not choosing the best alternative. 4. As economics helps society make the best choices on what, how much, how, and for whom to produce, its recommendations can either be normative---that based on value judgments, or positive---that based on scientific inquiry and backed by quantifiable data. 5. Every society faces a production possibility frontier---a set of combinations of goods that can be produced at a given time. This frontier exhibits society's trade-offs and opportunity costs brought about by the scarcity of resources. Producing one good always entails giving up of another. The production possibility curve's concave slope illustrates the law of diminishing returns which states that as increasing units of a variable input are used in producing a certain good, with other inputs fixed, eventually, the additional output resulting from

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the last unit of input declines. 6. To overcome scarcity, society has to make full use of its available resources, increase productivity, and achieve sustained growth. Meanwhile, it needs a stable economic environment, and one that equitably distributes incomes among its members.