

Basic macroeconomics essay sample

[Finance](#), [Investment](#)



1. Suppose that society decided to reduce consumption and increase investment. a. How would this change affect economic growth?

* Doing so will definitely affect the cash flow within the community making it hard for companies to gain profit. Prices will surely be lowered down, and stocks might be put to waste since there are so much available.

b. What groups in society would benefit from this change? What groups might be hurt?

* Groups of people who are obviously into saving but at the same time risk takers would most likely be happy on increasing their investment. These are the type of people who are always frugal and will always have second thoughts on acquiring things. Those with businesses that is in the goods-consumption industry, which is the main source of their income, would not be so happy with this kind of incident.

2. Societies choose what share of their resources to devote to consumption and what share to devote to investment. Some of these decisions involve private spending; others involve government spending. a. Describe some forms of private spending that represent consumption and some forms that represent investment. The national income accounts include tuition as part of consumer spending. In your opinion, are the resources you devote to your education a form of consumption or a form of investment?

* Private spending includes acquiring those needs, eg. Food, clothing, medicine. Investment for me always includes something that would make

your spending much worthwhile and you would gain something out of it. It could be a health insurance, a house or some shares in a small company.

* Education for me can be both a form of consumption and a form of investment. Consumption because you use money to pay for your tuition, and it reduces your cash on hand. Investment because with all that spending, you gain something that will help you out in increasing your net worth and that is called knowledge.

b. Describe some forms of government spending that represent consumption and some forms that represent investment. In your opinion, should we view government spending on health programs as a form of consumption or investment? Would you distinguish between health programs for the young and health programs for the elderly?

* When a government acquires goods and services for current use to directly satisfy individual or collective needs of the members of the community, it is called consumption. But when they acquire such intended to create future benefits, such as infrastructure investment or research spending, it is investment.

* Like I mentioned on education, as long as you use money to pay for things, I consider it consumption but in regards to health programs, acquisition of high technology equipment for health reasons, then it would be more likely an investment. Prolonging someone's life is definitely a form of investment.

* Government spending on health programs is an investment on human capital. This is more evident for spending on health programs for the young rather than the elderly.

3. Most countries, including the United States, import substantial amounts of goods and services from other countries. Yet the chapter says that a nation can enjoy a high standard of living only if it can produce a large quantity of goods and services itself. Can you reconcile these two facts?

* Importing will give you the option to share your specialty to other countries thus making your target market bigger and would most likely make your profit bigger as well. Earning more profit will make your standard of living higher with importing.

5. Suppose that an auto company owned entirely by German citizens opens a new factory in South Carolina.

a. What sort of foreign investment would this represent?

* It represents a Foreign Direct Investment.

b. What would be the effect of this investment on US GDP? Would the effect on US GNP be larger or smaller?

* The investment increases US GDP because it increases production in the US. The effect on US GNP would be smaller because the owners would get paid a return on their investment that would be part of German GNP rather than US GNP.

8. International data show a positive correlation between income per person and the health of the population.

a. Explain how higher income might cause better health outcomes.

* Individuals with higher incomes have better access to clean water, medical care, and good nutrition.

b. Explain how better health outcomes might cause higher income. *

Healthier individuals are likely to be more productive.

c. How might the relative importance of your two hypothesis be relevant for public policy?

* Understanding the direction of causation will help policymakers place proper emphasis on the programs that will achieve both greater health and higher incomes.