Aspects of microeconomics and macroeconomics

Economics, Microeconomics

On this assignment will be looking into different aspect of microeconomics and macroeconomics, will be taken into consideration the definition and concept of the whole question as follow below.

Part 1 (Micro section)

Q1

To help understands by defining Demand that is the quantity of a good which consumers want, and are prepared and able to pay for. In this case the demand of organic food and drink has fallen sharply, and the main influence for fallen on demand for those products are: price; income; the price of substitute goods; the price of complements; taste; demographic factors; advertising and expectations. Price is one of the most important factors and it shift demand curve when it rises, the effect is shown by a movement along the demand curve, because consumers are likely to substitute cheaper alternative goods.

http://upload. wikimedia.
org/wikibooks/en/c/c1/DemandCurveMovementExample2. png

The demand curve is downward-sloping, showing that as a price falls, demand rises, and vice versa. In this graphic, a reduction of price from P2 to P1 causes a rise in demand from Q2 to Q1.

Usually, the more people earn, the more they will spend. The demand for most goods increase as income rises, and these goods are known as normal goods. And organic food and drink are normal goods, because the demand falls as consumers' income falls, and vice versa.

Demand can change sometimes, because of the expectation of price changes in the future. For example, post-Christmas sales may push customers to postpone spending until January.

In an article entitled Food Price, Ellis makes the point that (…) “ The proportion of shoppers buying organic food dropped by five per cent in the previous year. In July 2009, research carried out by marketing consultancy Cohn and Wolfe also reported that British shoppers are turning their backs on premium foods, organic produce and Fair-trade goods. According to the Cohn and Wolfe report, 69 per cent of shoppers say they intend to stick to their belt-tightening shopping practices even after the downturn ends” (…). www. bbc. co. uk/food/food_matters/foodprices. shtml#what_about_the_recession.

Q2

The production possibility frontier illustrates the problems of scarcity and choice and the opportunity cost of resources allocation decisions. The opportunity cost of something is what you give up to get it.

To understand the idea the economy, which produce two goods as manufacturing and financial services, with all resources employed, producing more financial services can only be achieved by some sacrifice on manufacturing services.

It can be illustrated on diagram below shown.

B

A

0

The frontier shows all the maximum possible outputs given the economy’s existing quantity of resources. It can have any combination of goods along the line. Point A shows a society which is failing to use all of its resources to the full, either through inefficiency or unemployment. Point B is currently unachievable, but can be achieved throw economic growth.

The shape of the curve is bowed outwards to the origin, is based on the notion of that society progressively allocates more resources to the production of a particular good, the opportunity cost of doing so will increase. In other words the curve is bold because the more input the less is the output.

For example, UK economy is based on services because the government decide not to invest on manufacturing and thought the easiest way to make money is by providing financial services especially banks and shopping’s only 13% of UK GDP comes from manufacturing. Now the services have been beaten by the recession, many banks are facing financial problems, because they use to lend money to people who were at lower income. Many of these people cannot repay their mortgage because they lost their jobs and they are haven their home been repossessed, it is causing serious problems on economy; records can be seen on graphic below.

http://news. bbc. co. uk/1/hi/business/7789844. stm

Q5

It is important to be aware of the differences between theoretical models: a perfectly competitive firm; monopolistic competitive; oligopoly and a monopoly. But here only two will be taking into account.

Perfectly Competitive

Monopoly

Very many small suppliers

One supplier only

Homogeneous goods; Suppliers' products are a perfect substitute for one another

One type of product only; no close substitutes available

One market price

Price set by one firm. Possibly price discrimination

Demand curve of individual firm is horizontal.

Demand curve of firm and industry is downward-sloping

Perfect information

Imperfect Information

No barrier to entry in the long run

Barriers to entry

Clearly the assumptions essential perfect competitive extremely are not likely to apply in the real world; there is no market which obeys all the conditions.

On the other hand, there are some that come close. The stock markets and foreign exchange are examples. Also complying with regulations the market is costly, as is training and equipment needed to operate in such a sophisticated, highly computerised market. As you can see, the conditions are not obeyed perfectly, but it may be that the markets are near enough the formal definition that displays the main characteristics of a theoretical perfectly competitive firm.

The monopolist produces less, and charges more, than the perfectly competitive firm. He makes supernatural profits, which would be competed away in a perfectly competitive market in the long run. He may also be technically inefficient, operating at above minimum average cost.

The monopolist equates marginal cost and marginal revenue. The perfectly competitive market equates marginal cost and average revenue. In perfect competition, each firm produces at the point where P= MC.

PART 2 (Macro section)

Q1

The economy is in recession because production is below its potential capacity, the term recession mean lack of money supplier. To respond this crisis the government is intervene through fiscal and monetary policy to increase aggregate demand, and the way for doing it is by supporting bank balance sheet; cutting in direct taxation(VAT -2. 5); quantitative easing (bank of England) and employment level.

Fiscal policy is basically about government taxation and expenditure. To help in this crisis the government has reduce the consumption tax VAT -2. 5 to 15% to stimulate investment expenditure, but there was a big criticism about this idea, because reducing VAT did not cause long term impact in the economy, would cause more impact if they invest the £12 billion building an public infrastructure to increase an aggregate demand.

Monetary policy the bank of England is an independent monetary policy institution there a committee people appointed by government to make decision about interest rate, monetary policy is focus in regulating the money supplier in the economy through interest rate it has a big impact on aggregate demand.

The bank of England has reduced its interest rate to 0. 5% to boost the UK economy and start lending money to business and individuals. As the economy beginning to grown some others part of the economy will be automatically adjust, for example an increase on employment. Some company's worker has agreed to have a pay cut on their salaries to reduce people being redundant (BA Line).

Automatic adjust as the economy beginning to grow the employment rate will decline

http://news. bbc. co. uk/1/hi/business/7832714. stm

According to Kyosaki, Robert, Rich dad poor dad 2, E, (2008), few people have anticipated the financial problems we face today were created more than 60 years ago by politicians and lawmakers predecessors.

Q3

In the post-war period government have adopted four central objectives of macroeconomic policy: low inflation; full employment; rising economic growth and balance of payments. But full employment is too hard to archive especially there is a trend for national income to experience cycle of growth and contraction, i. e. boom and recession. These cause severe social problems as failing level of economic activity throws people out of work and causes business to fail.

The term unemployment means those of working age who are without work, but who are available for work at current wage rates. Unemployment could still exist because of many causes mentioned below:

Cyclical unemployment, this occurs due to a deficiency of demand, often refers to the fact that in such circumstances it is possible that prices will fall.

Frictional unemployment, refer those people who are unemployed and jobs available rarely match perfectly, leading to an inevitable degree of unemployment.

Technological unemployment, can occur when industry is growing and moving towards more efficient capital intensive methods of operation.

Seasonal unemployment, relates to fluctuations in demand for labour directly related to cycles in demand for final product. Tourism and leisure industries are the best examples, these can contribute to regional problems as they are strong in particular areas.

Some of the remedies that government can use to reduce the level of unemployment are: direct increase in government spending on public infrastructure; encouragement of business investment by offering grants and loans; encouragement of exports; subsidise firms in financial trouble, guarantee jobs for workers facing redundancy and to restrict imports of competing foreign goods and also using specific measures to get people back into work like new deal programme and so on.

The relation between unemployment and inflation can be explained with Philips curve, by Professor AW Philips in the 1862-1958. Philips observed that the rate of change in money wages was inversely related to the level of unemployment. Rising money wages were identified as a source of inflation and the inflation appeared to be inversely related to the level of unemployment.

http://welkerswikinomics. com/students/wp-content/uploads/2008/08/fig21-300×269. jpg

Q4

The globalization and the environment are linked, because for expansion of economic, environmental damage are produced that are essential to the process of globalization.

Mander argue that “ Globalization is a human creation that aims to remove impediments, such as environmental laws that restrict companies’ access to resources and markets, environmental damage is therefore an intrinsic part of the globalization system.” www. gale. cengage. com/pdf/samples/toc32870. pd

The intention of having a globalized world and to lower trade barriers, protecting free trade and my environment, thus bringing the economic development in poor countries, so that people have access to information, improving their health and liability to environmental protection. The process helps to globalize the ideas run free from one country to another, increasing the availability of knowledge and other opinions, helping the development among the nations.

But for many environmentalists and anti-globalists Globalization will lead to environmental disaster and will gradually lead to the destruction of the environment, because the vision of globalization and produced without precedents to environmental deterioration. Speth points out that “ Since the end of World War II economic expansion has produced enormous environmental damage and global economic development can be expected to bring about even more dire economic consequences.” www. gale. cengage. com/pdf/samples/toc32870. pd

He believes that with globalization the few developed countries are benefiting because there was an opening up huge markets for them, since many of these poor countries produce more effective products and efficient, doing so will be multinationals are setting up in places, boosting investment foreign direct investment, and generating many jobs open to residents, e. g. Asian Tigers of South Korea, Taiwan, Hong Kong and Singapore demonstrated the great benefits of globalization and free trade. www. futureharvest. org/ news / globalization_pir.

In the other hand, there is a great inequality and between rich and poor countries. – Aislin " It has been argued that poor countries are often exploited and pushed into the world trade forums. For example, it is evident when the rich nations are allowed to pay huge subsidies to their farmers, which leaves LDN is a disadvantage industrial Workers."

http://www. abcnews. go. com/sections/politics/dailynews/TheNote_March5. html

Q5

If imports goods are too high it may be possible to reduce demand for them in the economy by imposing tariffs to raise the price of imports goods to prevent unfair competition in the home market. Also to avoid buying product from the market were workers have been exploited to export their product cheap.

This policy is likely to be met by retaliation from overseas countries, which will reduce exports putting the current account back into deficit.

In addition, imposition of tariffs does not reduce expenditure if demand for imports is relatively inelastic, government policy favouring domestic suppliers may mean higher than necessary taxes to pay for the higher necessary purchase cost, and restrictions generally encourage smuggling and black market

For example, a poor country that in main revenue comes from the tax on trade, if withdraw the tax trade its revenue will reduce significantly also the amount of investment on public infrastructure will be reduce, consequently many import goods may come into the market in a low price, causing the domestic goods serious problems on market as well as increase unemployment. The balance of payment also will be affected; because of lack of exportation it may cause government to borrow some money to balance the balance of payment.