

Economics

Literature, Russian Literature



and Number Economics Part A When the price of a product falls below the equilibrium price, this creates a marketwhere, because the manufacturer or producer are putting out less of their product/merchandise, the demand exceeds the supply. When demand exceeds the supply, there becomes a shortage of the product, and this shortage creates significant competition between consumers. Often times, because of this shortage and the high competition between consumers, prices for the product will be raised in order to maximize profits.

On the other hand, if the price of a product is above the equilibrium price, the manufacturers or producers have too much of their product out on the market. This creates a surplus or supply excess as the demand for the product is low, so consumers do not have to compete for the product.

Because of the fact that the product is not in high demand, and competition between consumers is low, the prices will be lowered in order to make the product more attractive to consumers.

2. Inflation affects people's standard of living and savings in a rather negative way. Inflation is basically a term which indicates an increase in the price of goods and services. In general, inflation occurs within a market as a whole, so the entire economy tends to be impacted. Peoples standard of living is severely affected because their money does not go as far as it once did. This is especially true in an economy with high unemployment and no cost of living increases for their income. Therefore, as prices grow higher, people have to stretch their dollar for daily necessities such as groceries, water, electricity, etc. Therefore, many families have to forgo certain things that are deemed to be luxuries in order to survive, which lowers their daily

standard of life.

According to an article entitled, “ Consequences of Inflation,” savings are affected because “ inflation leads to a rise in the general price level so that money loses its value”(Riley). This means that the money in a person’s bank account is worth less due to inflation. In addition, inflation “ lead(s) to negative real interest rates”(Riley). So, if a person has their money in a bank account that is supposed to gain interest, they are actually going to be losing money as the interest rates are negative.

3. A stock is defined as a security or assurance for an individual or business that allows a person or company to have a certain percentage of ownership in the profits or assets of a specific product, business, or company. The benefits associated with purchasing stock is that they tend to perform better than other investment options, and sometimes, purchasing stock allows an individual or company to have a greater say in the company they own stocks in. Perhaps the biggest risk that goes along with buying stock is that it is very similar to gambling as prices of the stock can go up and down, which means that money can be frequently and easily lost.

According to an article entitled “ Bond,” bond is defined as “ A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate”(“ Bonds”). One of the benefits of buying bonds is that they tend to be a bit more secure as the interest rate is fixed, so the bonds are more likely to increase in value for whoever holds them. Bonds can be risky as well; however, because in an economy with high inflation, the interest rates have a possibility of making the bonds worth a lot less money than it

would be in a healthy economy.

Lastly, a mutual fund is basically a bunch of money that has been gathered from investors in a company. This money is then used to buy different types of investments like stocks and bonds. The benefits of this type of investment is that it helps these investors have a more diverse and, usually, healthier investment portfolio. It can also be slightly less risky since those involved with buying the assets are typically investing in areas that are easier to profit from. Therefore, there is a slightly better chance that money will not be lost or, at least, a smaller amount lost. The main risk associated with investing in mutual funds is that the individual investors are placing their money in the hands of money managers who then invest the money into areas that they deem to be best. This gives the money manager a lot of control, and if they happen to be wrong or, perhaps corrupt, the investors will lose their money.

Part B

1. A restrictive monetary policy is where the government slows down the economy in order to slow inflation. In a restrictive monetary policy, the amount of money circulated in the economy is restricted as well. Also the government does not allow banks to lend as much money. In an economy with high inflation, this type of policy would address the problem because the value of money, on the whole, is able to remain more stable. Too much money being circulated in the economy means that the money is not worth as much, which makes prices increase (also known as inflation). By restricting money flow, the government is able to stave off inflation because money has greater worth.

2. One type of specialization in production would be the assembly line where an item is put together in stages rather instead of all at the same time.

Another type of specialization would be the production of certain products in specific areas of the world due to the climate. For example, cacao beans are grown in South America due to the warm climate. The economic advantage of specialization is that it tends to be a more efficient means of production. Efficiency, in general, makes it easier and quicker to produce products, which leads a company to being able to maximize profits as the output of the product is greater.

3. Dr. Paul Johnson, a teacher of political science, defines a political business cycles as a concept “ where politicians manipulate an economy by increasing or decreasing money supply” in order to gain favor with the public for the purpose of an election(Johnson). Political business cycles are created by the politician or his/her party changing financial policies in the government or influencing these policies in order to change the economy in a positive manner, so that voters will be pleased and then vote for this person. Often times, these financial polices only help the economy in the short term.

4. Financial institutions are required to keep reserves because the reserves allow the banks to operate on a day to day basis. They need to have these reserves in order to provide services to their customers. Without these reserves, financial institutions would not be able to do this.

5. A price ceiling is a limit set by the government on a specific good or service. Once the price limit is determined, the seller cannot go above that limit. The economic effect of a price ceiling is that it can impact whether there is a surplus or shortage of a product. If the price ceiling is too low,

there will be a shortage of the product. This will likely impact the economy in a positive way as more money will be spent on the product as consumers compete. If the price ceiling is too high than there will be a surplus. This will likely impact the economy negatively as less of the product will be sold due to the fact that there is little competition or demand for the product.

6. Off-shoring is a concept which means that part of a business is being moved to a different country. Businesses usually use off-shoring because it presents an opportunity to save money as prices in other countries can be cheaper. An example would be moving factories or the production of a product to a different country because of cheaper labor and costs. Another reason is that businesses might not have to follow as many regulations or rules when they move to another country, which allows them to cut corners, make more of a product, and save money in the process.

7. An economy of scale is when a company has become efficient enough in their production that the overall cost of each manufactured item is less because the overall output has increased. Economic growth relates to an economy of scale in that the cost to the consumer is likely to decrease since the manufacturing of that product is slowly decreasing. Lower prices tends to indicate that consumers will compete to buy the product which results in a shortage. This type of consumer participation can indicate that an economy is growing and becoming stronger. On the other hand, however, as production increases due to efficiency, this might mean that there will be too much of a product on the market meaning that there is a surplus. Customers will not participate in buying this product, which could mean trouble for the economy.

8. Frictional unemployment is where people are not employed because they want to change their jobs or careers voluntarily or because they want to move to another area to work. Structural unemployment is where the economy is responsible for unemployment due to specific and often previously unpredicted changes that have occurred. Cyclical unemployment is the unemployment that is a part of the basic ups and downs within an economy.

9. The multiplier effect is when the government decides to implement an expansionary type of fiscal policies. Banks are allowed to lend more money, which leads to more money being circulated in the economy. This impacts GDP positively at first because the initial amount increases, but, overtime, the GDP will show smaller and smaller amounts of growth because a larger supply of money will make the overall worth a lot less.

10. The business cycle is the overall changes that occur within a business economy that includes both positive and negative elements such as decline and growth. The business cycle is affected by all sorts of economical aspects such as unemployment, inflation and interest rates, etc. According to an article entitled “ 4 Phases of Business Cycles in Economics with Diagram,” the four phases of the business cycle are prosperity, recession, depression, and recovery(Akrani).

References

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