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129841 lecture's



**ASSIGN  
BUSTER**

## ASSINGMENT

ECONOMICS(ECOM4000)

CAMPUS:

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129841LECTURE'S NAME: DESS PEARSONSUBJECT CODE: ECOM4000SUBJECT

TITLE: ECONOMICSASSESSMENT TITLE: INDIVIDUAL

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## DECLARATION

I acknowledge that, this

assignment is my own work, it has been expressed in my own words and has not previously been submitted for assessment. The information I have provided herein is true and correct.

PART A 1. What are economies of scale? In what market types (i. e. perfect competition, monopoly, oligopoly, monopolistic competition) are economies of scale most important? Why? According to Quarcoo, Bonsi, Tackie and Hunter (2017) economies of scale refers to the concept of cost advantage that is attained when output or production of a product or service is increased manifold.

The theory behind economies of scale is the inverse relationship that exists between quantity produced and the fixed cost of producing a unit. When the quantity produced increases, the cost per unit decreases and this leads to economies of scale (Quarcoo, Bonsi, Tackie and Hunter 2017).

Likewise, according to Burke, Genn-Bash and Haines (2018) economies of scale is most important for oligopoly. The reason is, in an oligopoly the economies of scale can lead to a drop in average total cost if

the competitors are able to out manoeuvre each other. Such a situation ensures that the marginal cost is lower than the average total cost over the scope of production run.

An economy of scale is not useful for monopolistic competition on a longer run and it is also not useful in perfect competition, as it does not affect the cost per unit production under these conditions (Burke, Genn-Bash and Haines 2018). 2. Based on the article above and some limited research what type of market form do you think the airline industry in Australia was in 2002/03? Support your answer with reference to theory.

In the year 2002-03 the Australian airline industry was oligopoly (Kain and Webb 2003). Although it was not a perfect oligopoly because there were small players like Virgin Blue, but because Virgin Blue was not in a position to challenge Qantas directly and evenly, therefore the market structure was similar to a near oligopoly. Furthermore, as the small players were there, the market structure became oligopoly because the competition was there to ensure that no single player dictates the market.

However, as Virgin Blue limited itself to just a few routes as compared to a full-fledged operation of Qantas. Therefore, it will be appropriate to state that Australian airline industry in the years 2002-03 was more or less a near oligopoly (Kain and Webb 2003). According to Toshimitsu (2017) the economic theory explains the market type by stating that the buyers and sellers in a competitive market decide the market type. For example, if there are only a handful of sellers with large market control and lots of buyers, an oligopoly may result. Likewise, one or two sellers and substantial

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number of buyers may create a duopoly and so on. The Australian airline industry in the year 2002 - 03 was affected by the limited number of sellers or just one dominant seller and a large number of buyers, thus creating an oligopoly market type (Toshimitsu 2017).

PART B 1. Based on the current data for France what phase of the business cycle do you think this economy is in? Why? (Hint: Refer to the macroeconomic indicators) France at the given time is going through a trough (depression) phase of business cycle. The main reason the current business cycle phase is called trough because · Economic activity is very low and interest rates are even lower (DeKimpe and Deleersnyder 2018). · Individual income has gone down · National output has decreased dramatically.

· Employment levels are very low. · Low consumer demand (DeKimpe and Deleersnyder 2018) Therefore, these indicators all point towards a trough phase of business cycle. 2. Based on our answer in 1 represent the French economy in 2017 using the AD/AS model.

The graph is exhibiting the current state of French economy. · At present economic activity of any kind is at its lowest in France. · Likewise, the gap between outputs (which is difference between actual and potential outputs) is very high. · In the graph the AD (aggregate demand) line is located near the left side of the aggregate supply curve. This indicates an extremely low level of economic activity, which also means low real GDP located at Y1 position (Mueller 2016). · Furthermore, even if one or more components of aggregate demand are increased, it will affect real GDP but

there will be negligible impact on price levels in the economy because there are still unutilised resources in the economy.

Therefore, in the current scenario AD (aggregate demand) may not be able to improve prices in the French economy (Mueller 2016). 3. What factors contribute to economic growth according to the AD/AS model? According to the article above, what policy should the French government be undertaking to stimulate economic growth.

Increase in real GDP is the most important measure of economic growth. According to the AD/AS model factors that contribute to economic growth are (Dutt 2016):

- Arise in national consumption of goods or service
- Increase in investment by public and private entities
- Increase in government spending in building infrastructure (infrastructure development ensures long term growth)
- An increase in exports from the nation.

- Reduced interest rates
- Increase in consumer confidence
- Increase in asset price like house price
- Increase in real wages
- Improvement in human capital skills
- Technological development to raise commerce and trade (Dutt 2016)

The French government must

- Increase government spending in building infrastructure
- Develop measures to increase consumer confidence
- Focus on increase in real wages
- Focus on human skills and in re-skilling workers
- Invest in technological development that can boost growth by improving avenues of trade and commerce (Dutt 2016).

4. Imagine that instead of his planned reforms to the labour market, Macron invested in educating workers to increase their skills and in infrastructure. How would this affect France's economy in the long-run? Demonstrate your answer with a diagram and explain your diagram. If Macron invests in educating workers to increase their skills and in infrastructure it will increase the long run aggregate supply (LRAS), which can ensure long run economic growth (Mankiw 2017).

It is necessary that LRAS must increase, otherwise the AD (aggregate demand) will lead to inflation, something that is very detrimental. If Macron invests only in labour market, it will create a short-term improvement in economy and the results will be short lived. Therefore, it will be wise to invest in infrastructure and upskilling employees, for a long term economic growth (Mankiw 2017).

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