

ECON5103

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Business Economics

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UNIT 1 The capitalist revolution

Measures of a Country/Group/Population's well-being

GDP Per capita, Total output of the economy (Citizens, Govt & Corps) *divided* by the population at the time

Disposable income, Total income of a group *minused* by the outgoings

Issues, Both forms of measure only measure the average of a group and do not take into account the disparity/inequity within that group. Also is country, time and currency specific

More measures

Nominal GDP, $\sum p_i * q_i$

(Where p_i is the price of good i , q_i is the quantity of good i , and \sum indicates the sum of price times quantity for all the goods and services that we count.)

Real GDP, For comparing two sets of nominal GDP data for growth, a base (money) rate is taken from the first year. When the number of goods (y_2) is multiplied by the price of them from (y_1) the difference is an indication on how much the economy has grown.

Purchasing Parity Power, aims to measure the value of the currency of a nation in that country, compared to other nations (using an international currency e.g. USD)

Rate of Change, growth rate = change in income *divided by* original level of income [e.g. $y_{2001}-y_{2000}/y_{2000} = y_{2001}$ to y_{2000} growth rate].

Growth rate, on a ratio scale, 100% = double the growth or a straight line

Adam Smith, introduced the idea of the *invisible hand* generating the market conditions and market trade rather than a state/government entity. Invisible hand shifts towards equilibrium. Also that the individual works in their best interest which more often than not is in the best interest of the society thus, creating prosperity.

Permanent Technological Revolution

Living standards increased rapidly during the industrial revolution due to scientific and technological advances during the 1800s (19th cent). Production time dramatically decreased. (light for example) thus leading to a dramatic increase in the living standards. Interconnectedness between the world means that the entire world is collaborating and communicating at pretty much the speed of light.

Capitalism

Is the answer to why a generation is better off (bar war & famine) than the preceding one.

Capitalism; an economic system governed by institutions that organise the production and distribution of goods and services in an economy. Institutions in this context: laws, and social customs regulating production and distribution.

Private property is hallmark of a capitalist economy. Centrally planned economy (USSR, China, East Germany, Communist) Government controls production, and distribution.

Markets are a goods distribution method, reciprocation [transfer both ways], voluntary [by choice], beneficial to both parties [in the opinion of both parties]. Competition in most markets, high and low sellers of goods.

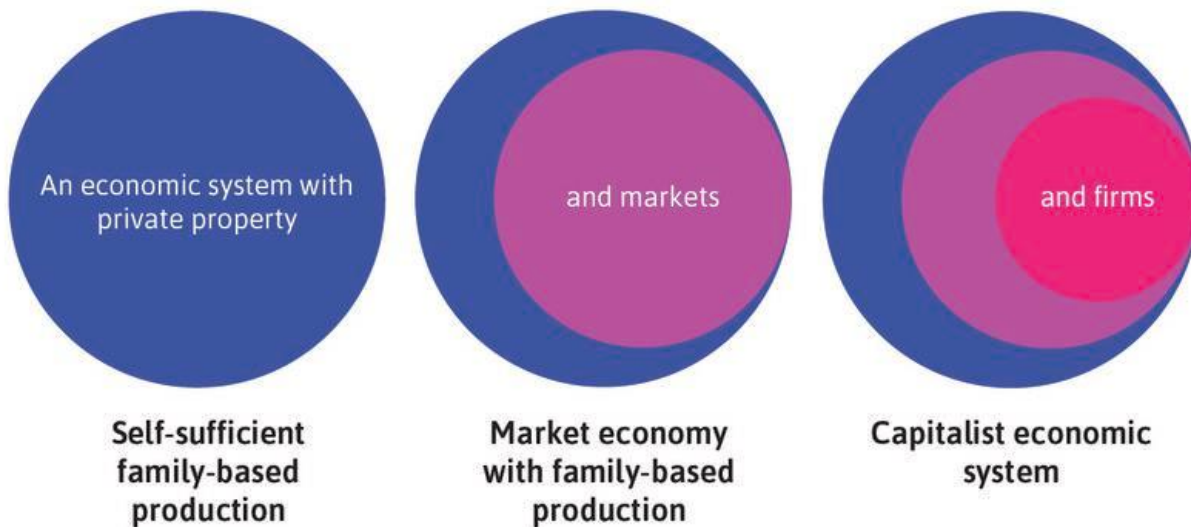
Firms [private companies] are the latest of the institutions in the economy. This led to the creation of the labour market, Firms offering jobs with wages or salaries high enough to attract workers with relevant skills.

Families and Governments are the two other institutions in the capitalist economy.

Families; cannot expand beyond familial ties without becoming a firm, will not fail unless it cannot feed itself (unlike a firm), cannot (reasonably) dismiss children from the family.

Government bodies; limited in expansion capacity, and protected from failure by the Govt.

Example: China and US capitalist economies but operate very differently [Govt intervention].
Social sciences cannot define as precisely as natural sciences



The three institutions of capitalism

Inputs and outputs are **private property**: The firm's buildings, equipment, patents, and other inputs into production, as well as the resulting outputs, belong to the owners.

Firms use markets to sell outputs: The owners' profits depend on markets in which customers may willingly purchase the products at a price that will more than cover production costs.

Capitalism combines **centralisation** and **decentralisation**, *power* to the owners & managers of firms. Then secure large numbers of employees in the process (*power* to employees through wages). Limits power of owners due to competition in the market.

Technology greatly enhanced the emergence of the capitalist structure; firms became the primary form of organising production. Competition forced firms to develop more productive production methods (beyond family groups' reach).

Specialisation in firms with large numbers of employees enhanced productivity rates immensely. (used to produce specific goods due to an advantage in manufacturing)

Helps to improve skills, take advantage of natural surroundings, and provides *economies of scale*

Specialisation doesn't occur unless a way to acquire the other goods is obtained

Division of labour presents the problem of distribution

Labour is used to produce a common outcome (the product) through large numbers of people with distinct skills and capabilities

Has capitalism caused the increase in living standards, technological & industrial revolution etc.?

Hard to say because an economy is a complex machine that is *difficult to quantify*.

A rise in GDP Per Cap is associated with capitalist advances but only when paired with strong institutions (see South Korea vs Nigeria). These are called *developmental states*.

Two conditions to the dynamism of the capitalist economic system: economic & political (govt and how it functions)

Economic Conditions:

Private property must be secure, rule of law, contract law

Competition in the markets must be encouraged (carrot & stick)

Firms must be owned & managed by competent individuals (no nepotism)

Political Conditions:

Private incentives for cost-reducing innovation: derived from market competition & secure private prop

Stable society, biophysical environment, and resource base

Public policy supporting these conditions, supply of essential goods and services that would not be provided by private firms.

Political Systems influence the way in which an economy operates and how successful it is.

Economics is about:

- *How we come to acquire the things that make up our livelihood:* Things like food, clothing, shelter, or free time.
- *How we interact with each other:* Either as buyers and sellers, employees or employers, citizens and public officials, parents, children and other family members.
- *How we interact with our natural environment:* From breathing, to extracting raw materials from the earth.
- *How each of these changes over time*

