

# Things You Need To Know For Evaluations (For PP1 part b and PP2 part d)

## Microeconomics

### Unit 4: Elasticity

- Usefulness for Firms and Governments
  - Firms: Pricing Strategy
  - Government: Determine What and How Much to Tax

### Unit 5: Govt' Intervention

- Tax
  - Black Market
  - Dependence on PED
  - Identifying who and how much to tax
  - Regressiveness (See later Chapters)
    - Impact on Young Ppl
  - Unemployment
  - Might be ineffective at reducing quantity consumed if inelastic
  - Can be favourable to govt' revenue if inelastic demand
    - High revenue with low unemployment as a result
- Limited, Tradable Permit
  - Limit production and doesn't solve root problem
  - Increase Production Cost
  - Unemployment etc.
  - Difficulty and opportunity cost of enforcement
  - Might be ineffective
- Total Ban
  - Black Market
  - Difficulty and opportunity cost of enforcement
  - Unemployment of entire industries
  - Loss in tax revenue compared to tax
- Subsidy
  - Identifying who and how much to give
  - Opportunity Cost
  - Dependence on PED

- Vocational Training
  - Opportunity Cost
  - Might not be effective, hard to know if effective
  - Long delay until it takes effect
  
- Negative and Positive Adverts
  - Opportunity Cost
  - Might not have effect, hard to gauge
  - Time lag
  
- State Provision or Forced Enforcement (eg: Forced Vaccination or State Healthcare)
  - Opportunity Cost
  - Possible Discontent
  
- Max Price / Price Ceiling
  - Opportunity Cost in Enforcement
  - Excess Demand
    - Black Market Arise as a Result
    - Need to Address Shortage
      - Increase Supply
        - Subsidise Firms
        - Govt' Provision
        - Release Stocks
      - Decrease Demand
        - Tax, Negative Ad etc.
  
- Minimum Price / Price Floor
  - Opportunity Cost in Enforcement
  - Excess Supply
    - Government Buying Excess Goods and:
      - Storage
        - Opportunity Cost
        - Impossible to store some goods for a long time (grain)
      - Destroy the Excess Goods
        - Opportunity Cost
        - Discontent in Citizens
    - Export or Dumping
      - Strain in International Relations

**Unit 6 - 10: Theory of The Firm (Monopoly, Oligopoly, Monopolistic, Perfect Comp)**

- Perfect Competition vs Monopoly

| Monopoly   | Perfect Competition (List disadvantages of Monopoly)  |
|--|---|
| - Larger Economies of Scale (More Produced at lower price) | - Seen as unfair by competitive firms and those who are on low income   |
| - More R&D as a result of that extra scale                 | - Productively and Allocatively Inefficient   |
|  | - Can Charge a higher price for a lower level of output <ul style="list-style-type: none"> <li>- Unable to gain more economies of scale when compared to perfect comp.</li> <li>- No rightward shift of MC curve when market change from</li> </ul> |
|  | - Uses Anti-competitive behaviour to maintain status quo <ul style="list-style-type: none"> <li>- Lower prices to bankrupt the other firm</li> </ul>  |
|  | - The loss of this firm would mean that the entire industry die off   |

- Perfect Competition vs Monopolistic

| Monopolistic Competition | Perfect Competition   |
|--------------------------|---|
| - Increased Variety      | - Allocatively ( $MC=AR$ ) and Productively Efficient ( $MC=AC$ ) in both long and short run. <ul style="list-style-type: none"> <li>- The inefficiency is due to consumer desire for variety.</li> </ul> |
|                          | - Possibly increased price due to greater firm power in determining price   |

**Unit 11: Price Discrimination**

- Advantages and Disadvantages of Price Discrimination

| Firm  | Consumer   |   |
|---|--|---|
| Advantage   | Disadvantage   | Advantage   |
| - Higher Revenue from eroding consumer surplus  | - Loss of consumer surplus                                 | - Possibly enjoy a lower price, higher fee charged for certain customers would "subsidize" others |
| - Enable producers to produce more, with a greater economies of scale and thus benefiting the entire market | - Some customers would pay more under price discrimination | - Increased total output and thus more goods are available  |
| - Increase competitiveness in foreign, more elastic markets   |  | - Economies of scale<br>- Lower cost<br>- Greater Output  |

**Unit 12: Market Failure (See Ch.5 for other info)**

| Production        |                     | Consumption  |                        |
|-------------------|---------------------|--------------|------------------------|
| N.Ext.            | P.Ext               | N.Ext        | P.Ext                  |
| Taxes             | Subsidies           | Bans         | Subsidies              |
| Bans              | Vocational Training | Taxes        | Positive Ads           |
| Tradeable Permits |                     | Negative Ads | Compulsory enforcement |

# Macroeconomics

## Unit 15: Aggregate Supply

- Market Based vs Interventionist Supply Side Policies

|              | Interventionist Solution   | Market Based Solution   |
|--------------|--|---|
| Advantage    | <ul style="list-style-type: none"> <li>- Supply of Merit Good</li> <li>- Correct the Position of AD on Keynesian LRAS</li> <li>- Policy has Demand Side, Immediate Effect: Stimulating Economy and Increasing AD</li> <li>- Policy have Supply side, Delayed effect: Shift in LRAS (infrastructure)</li> </ul> | <ul style="list-style-type: none"> <li>- Possible Rise in AD from reduced taxes</li> <li>- Possible Rise in LRAS</li> </ul>   |
| Disadvantage | <ul style="list-style-type: none"> <li>- Opportunity Cost</li> <li>- Delayed effect on LRAS</li> <li>- Choosing which and how much to spend on</li> </ul>  | <ul style="list-style-type: none"> <li>- Possible Reduction in Living Standards in Low income people</li> <li>- Increasing Inequality</li> <li>- Environmental Concerns</li> <li>- N.Ext of Production</li> <li>- Worsening Working Conditions</li> </ul> |

## Unit 17: Unemployment

- Unemployment, Solution, Consequence
  - Dis-Equilibrium Unemployment
    - Demand Deficient
      - Rise AD
  - Real Wage (Trade Unions and Minimum Wage)
    - Reduced Union Power
      - Difficulty
      - Potentially Damaging to Lower Class
  - Equilibrium Unemployment
    - Frictional
      - Limit Unemployment Benefits
      - Increase flow of information
    - Seasonal
      - Flow of Information

- Structural (Can be caused by demand deficient as economies pick up, LD changes)
  - Interventionist Policy (Consider Op.Cost, Time Lag)
    - Education on Occupational Mobility
    - Training Programs
    - Subsidies for Firms to Train Employees
    - Monetary Incentives to Improve Geographic Mobility
    - Support of Apprentice Programs
  - Market Based
    - Decreased Unemployment Benefits
      - Lowered Standard of Living
      - Inequality
    - Lower Labour Regulations to enhance market flexibility
      - Labour Dissentment on Lack of Protection
      - Possible Worsening of Labour Conditions

- Demand Side Vs Supply Side Policy in Stopping Unemployment

| Demand Side  | Supply Side |
|--|-------------|
| Budget Deficit and fiscal problems in the long run                   |             |
| Reduction of Taxes might not work due to lowered consumer confidence |             |
| Lowered Rates might not take effect                                  |             |
| Time Lag and Inflationary Effects when politics finally take effect  |             |

**Unit 18: Inflation**

- Methods and Consequences of Policies to Reduce Inflation
  - Contractionary Fiscal Policies (higher taxes, lower spending)
    - Unpopularity
    - Lengthy Legislative Processes to Change Policy
    - Unemployment and Lowered Output
  - Tight Monetary Policy
    - Harm Indebted Citizens due to high rates
    - Politicians reluctance to use such methods
    - Superior to Fiscal Policies due to its complications

- Positives and Negatives of Deflation

| Positive Consequences   | Negative Consequences  |
|---|--|
| <ul style="list-style-type: none"> <li>- Can imply an improvement in production where AS shifts right leading to deflationary effects</li> </ul>  | <ul style="list-style-type: none"> <li>- Discourages Consumer Spending</li> </ul>  |
| <ul style="list-style-type: none"> <li>- Increased International Competitiveness                             <ul style="list-style-type: none"> <li>- Lowering of Prices Domestically would mean that exports elsewhere would be cheaper</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>- Increased Household indebtedness (relative to income)</li> </ul>  |
|   | <ul style="list-style-type: none"> <li>- Inflated Interest Rates                             <ul style="list-style-type: none"> <li>- Same amount of money would have an increased value after a period of time</li> </ul> </li> </ul> |
|   | <ul style="list-style-type: none"> <li>- Ratchet Effect Cause Dis-equilibrium Unemployment</li> </ul>  |
|   | <ul style="list-style-type: none"> <li>- Deflationary Cycle</li> </ul>   |

**Unit 20: Inequality**

- Types of Taxes and Effect on Inequality

|         | Progressive  | Flat   | Regressive  |
|---------|--|--|---|
| For     | <ul style="list-style-type: none"> <li>- Redistribution of Income from Rich To Poor</li> <li>- Does not</li> </ul> | <ul style="list-style-type: none"> <li>- Simplicity</li> <li>- Does not discourage work, no disincentives</li> </ul> | <ul style="list-style-type: none"> <li>- Tax Revenue</li> <li>- Control Demand for certain goods</li> </ul> |
| Against | <ul style="list-style-type: none"> <li>- Decrease Incentive for Rich Entrepreneurship</li> </ul>                   |  | <ul style="list-style-type: none"> <li>- Worsen Inequality</li> <li>- Worsen Discontent</li> </ul>          |

- Arguments Against Redistribution

- Inefficiencies when Income is redistributed (DWL in Policies)
- Unemployment when Firms are disincentivized to hire less employees
  - Social Securities and Insurances
- Does not create favourable tax climate
  - Discourage FDI
  - Discourage Domestic Entrepreneurship
- Slow Growth Due to Disincentives



# International Economics

## Unit 22: Free Trade and Protectionism

- Gains From Trade
  - Economies of Scale
    - Lowered Costs
    - Greater Consumer Choice
    - Increased Firm Accessibility to FOP
  - Competition and Rising Efficiency as a Result
    - Allocative Eff.
  - Source of Foreign Exchange
  
- Forms of Protectionism
  - Supply Side
    - Tariff
    - Subsidy
    - Quota
  - Admin. Barriers
    - Quality Check
    - Embargo
    - Nationalistic Campaigns
    - Red Tape
  
- Arguments Against Protectionism
  - Rising Prices of Goods
    - Harm Producers and Consumers of that good
  - Lowered Choice for Consumers
  - Inefficiencies and Lower Innovations for Local Firms
  - Global Allocative Inefficiencies
  - Hinder Growth
  - International Relations
  - Lowered Consumer Surplus
  - Lowered Global Supplier Surplus

- Arguments For of Protectionism

| Arguments   | Reasons for Invalidation   |
|---|--|
| Protection For Sunrise Industry<br>- Until they gain a sustainable Scale            | Invalid for developed markets due to their good capital market                           |
| Fair Global Labour Competition  | Invalid due to its violation with principal of comparative advantage                     |
| Trade Revenue for Gov't<br>- Gov't must tax imports due to shoddy local bureaucracy | Can be true but invalid argument<br>- Why not fix local system                           |
|   |  |
| Protection of Diverse Local Industries  |  |
| Strategic Concerns  | Overstated since wars aren't that common   |
| Protection from Dumping   | Difficult to Prove Other Country's Dumping   |
| Uphold Product Standards  | Overstated and might lack objective measure  |
| Correct BoP Deficit   | Valid in the Short Run but not for Long run<br>- Does not get to the root of the problem |

**Unit 23: Exchange Rates**

- Reasons for Exchange
  - Purchase
  - Investment
  - Banking Services
  - Speculation

- Strong Vs Weak Currency
  - Exports and Imports
    - Effect on Local Industries and GDP
    - Living standards
  - Competition
    - Efficiency
  - Purchasing Power
    - Inflation

|              | Strong Currency  | Weak currency  |
|--------------|--|--|
| Advantage    | <ul style="list-style-type: none"> <li>- High Global Purchasing Power               <ul style="list-style-type: none"> <li>- Downward Inflation Pressure due to low costs</li> </ul> </li> <li>- Force Domestic Producers to Improve Competitiveness</li> <li>- Cheap Imports and Higher Living Standards</li> </ul>                                 | <ul style="list-style-type: none"> <li>- Strengthen Export Industry               <ul style="list-style-type: none"> <li>- Increased Employment and AD</li> </ul> </li> <li>- Assist Local Industries to Avoid Global Competition               <ul style="list-style-type: none"> <li>- Due To Expensive Imports</li> </ul> </li> </ul> |
| Disadvantage | <ul style="list-style-type: none"> <li>- Harm Domestic Producers as Cheap Imports Take Away from Domestic Goods               <ul style="list-style-type: none"> <li>- Cheap Imports</li> </ul> </li> <li>- Lowered Employment Levels due to Foreign competition</li> <li>- Stifle Exports as Domestic Goods would be expensive elsewhere</li> </ul> | <ul style="list-style-type: none"> <li>- Expensive Imports and Lower Global Access To Goods</li> <li>- Lowered Purchasing Power               <ul style="list-style-type: none"> <li>- Upward Inflation Pressure</li> </ul> </li> </ul>  |

- Fixed Vs Floating Exchange Rates
  - Maintaining Status Quo
    - Stability for Business
    - Stability for Inflation
    - Speculation
  - Tradeoffs
    - Monetary Policy Freedom
    - Money Reserves
  - Stable Trade Balance
  - International Disputes

|              | Fixed Rates   | Floating Rates  |
|--------------|---|---|
| Advantage    | <ul style="list-style-type: none"> <li>- Stability for a Business Friendly Environment               <ul style="list-style-type: none"> <li>- Fluctuations would favour one side of business deal</li> </ul> </li> <li>- Inflation Management               <ul style="list-style-type: none"> <li>- Weak Currency would mean importing inflation</li> </ul> </li> <li>- Reduced Speculation on Currencies</li> </ul> | <ul style="list-style-type: none"> <li>- Enable Free-er Monetary Policy               <ul style="list-style-type: none"> <li>- Take Away Concerns for impact on Exchange Rates</li> </ul> </li> <li>- No Need to deplete Foreign Exchange and Gold Reserves</li> <li>- Absolute Trade Balance               <ul style="list-style-type: none"> <li>- Rates would adjust to trade and demands</li> <li>- See Below:</li> </ul> </li> </ul> |
| Disadvantage | <ul style="list-style-type: none"> <li>- Loss of Control over Interest Rates               <ul style="list-style-type: none"> <li>- Change in Interest Rates could contradict the act of controlling currency</li> </ul> </li> <li>- Drain on Foreign Exchange Reserves and Currency Reserves</li> <li>- Deciding the correct rates to fix currency</li> <li>- International Trade Disputes</li> </ul>                | <ul style="list-style-type: none"> <li>- Hard to Control Trade Balance</li> <li>- Uncertainty               <ul style="list-style-type: none"> <li>- Fluctuations</li> </ul> </li> <li>- Importing Inflation</li> </ul>   |

**Unit 24: Balance of Payments**

- Methods of Stopping a Current Account Deficit
  - Expenditure Shifting
    - Promote or increase the competitiveness of domestic goods
  - Expenditure Reducing
    - Lowering Level of Overall Spending to Lower Spending on Exports
  - Supply Side Policy
    - Improve Competitiveness of Local Firms and Improving their Incentives to Perform Well
  
- Surplus Vs Deficit in the Current Account

|              | Surplus  | Deficit   |
|--------------|--|---|
| Advantage    | <ul style="list-style-type: none"> <li>- Gain in Revenue Through Trade</li> <li>- Gain in Foreign Reserves and Assets</li> <li>- Foreign Markets as a Source of Revenue</li> </ul>   | <ul style="list-style-type: none"> <li>- Not a Real problem if amounts to less than 5% of GDP</li> <li>- Can Indicate A Booming Economy where more is consumed than produced</li> <li>- Can imply an import of foreign capital goods in the development of industries</li> </ul>  |
| Disadvantage | <ul style="list-style-type: none"> <li>- Consuming Within its Productive Capacities                             <ul style="list-style-type: none"> <li>- Lower Standard of Living</li> </ul> </li> <li>- Reliance on Foreign Markets</li> <li>- Inflict Trade Deficit Upon Others and Cause Retaliatory Action</li> <li>- If it is a result of trade barriers favourable to a country, it would not be allocatively efficient</li> <li>- Surplus would pressure exchange rates to appreciate due to an increased level of outward trade</li> </ul> | <ul style="list-style-type: none"> <li>- Can indicate low export competitiveness</li> <li>- Inability for an economy to be self sustaining</li> <li>- Outflow of financial assets and capital                             <ul style="list-style-type: none"> <li>- Loss in Economic Sovereignty</li> </ul> </li> <li>- Drain on Foreign Reserves</li> <li>- Possible Rise in Foreign Debt to Finance imports                             <ul style="list-style-type: none"> <li>- Loss in National Income</li> <li>- Future Trade Earnings must be Diverted                                     <ul style="list-style-type: none"> <li>- Decreased Future Growth</li> </ul> </li> </ul> </li> </ul> |

- Depreciation leading to better BoP?
  - Depends on the Elasticities of Imports and Exports
    - If Both are Inelastic,
      - The Rise in Import Prices and Fall in Export price Would Incur More losses than Gains
    - If Both are Elastic
      - Rise in Import Price and Fall in Export Price would Positively Change the Balance of Trade
  - Depends on the Time Period after Adjustments in Exchange Rates
    - J Curve
      - 1st Stage
        - Gain in Import Prices Immediately Hamper BoP as Domestic Producers are Stuck with Purchasing Imports
        - No gain in import revenue yet as Foreigners not aware of such change
      - 2nd Stage
        - Gains In Import Price Discourage Domestic Consumption and Consumption Shifts from Imported Goods to Domestic
        - Fall in Export Price Attracts Consumers Elsewhere and Generates Positive Revenue for Country
  - Gains From Trade
    - Economies of Scale
      - Lowered Costs
      - Greater Consumer Choice
      - Increased Firm Accessibility to FOP

## **Unit 25: Economic Integration**

- Consequence of a Customs Union
  - Trade Diversion
    - Production of goods transferring from a low cost producer to one that is high cost
    - Lowered allocative efficiency
    - Goods from within the Union favoured over other goods
  - Trade Creation
    - Production of goods transferring from a high cost producer to one that is low cost
    - Improved allocative efficiency
    - Removal of tariffs within the Union

- Advantages and Disadvantages of Joining a Monetary Unions
  - Advantages
    - Ease of Trade within the Monetary Union
      - Unified currency, Lowered fluctuations that would skew business deals within the union
    - Strengthened Creditable of Country's Currency
      - Increased stability, hard for an individual to influence the system
    - Increased Business Confidence
    - Elimination of Currency Exchange Costs
    - Equalizing Prices within Union
  - Disadvantages
    - Loss of a Country's Control of Monetary Policy
      - Decided by the Union's Central Bank
        - Country could not decrease the currency supply
        - Interest rates are decided by central bank
    - Might be weak without a fiscal union
      - Some countries pursue different fiscal policies that may contradict each other
      - Some countries might be less fiscally responsible than others
    - Cannot increase competitiveness of a country's goods if needed
    - Op.Costs of converting into / joining a monetary union

# Developmental Economics

## Unit 30: International Trade and Economic Development

### - Advantages and Disadvantages of Different Trade Strategies

|                              | Advantage  | Disadvantage  |
|------------------------------|--|---|
| Import Substitution          | <ul style="list-style-type: none"> <li>- Protect jobs in domestic markets from foreign competition</li> <li>- Preserve local customs and cultures</li> <li>- Avoids MNC domination</li> </ul>  | <ul style="list-style-type: none"> <li>- Protects Jobs in short run only               <ul style="list-style-type: none"> <li>- Lack of domestic spending</li> </ul> </li> <li>- Does not benefit from comparative advantages and specialization</li> <li>- Lack Innovation</li> <li>- Inflationary, AS constrained</li> <li>- Retaliatory Tariffs</li> </ul> |
| Export Promotion             | <ul style="list-style-type: none"> <li>- Everything that goes with economic development</li> <li>- Benefit from comparative advantages and specialization</li> </ul>   | <ul style="list-style-type: none"> <li>- Tariff Escalation</li> <li>- Lowering Revenue from Primary Goods               <ul style="list-style-type: none"> <li>- Increase Supply</li> <li>- Increasing Substitutes</li> </ul> </li> <li>- Vulnerable to Protectionism</li> <li>- MNC Overpower</li> <li>- Inequality</li> </ul>                               |
| Trade Liberalization         | <ul style="list-style-type: none"> <li>- Lowered government intervention               <ul style="list-style-type: none"> <li>- Lowered allocative efficiency caused by the government</li> <li>- Increased incentive for profit creation as taxes decrease</li> <li>- Lowered barriers to profit creation, Lowered paperwork and bureaucracy</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>- Loss of domestic culture due to strong MNC influence</li> <li>- Inequality</li> <li>- Might not take effect as the MNC might not have the trickle down effect</li> </ul>   |
| Preferential Trade Agreement | <ul style="list-style-type: none"> <li>- Everything that goes with economic development</li> <li>- Benefit from comparative advantages and specialization</li> </ul>   | <ul style="list-style-type: none"> <li>- Does not guarantee growth               <ul style="list-style-type: none"> <li>- Even if there is a lowered barrier to access market in another country, domestic environments might not be favourable to utilize it.</li> </ul> </li> </ul>   |
| Diversification              | <ul style="list-style-type: none"> <li>- Everything that goes with economic development</li> <li>- Avoid Overspecialization               <ul style="list-style-type: none"> <li>- Influence ToT (commodity)</li> </ul> </li> </ul>  | <ul style="list-style-type: none"> <li>- Vulnerable to Tariff Escalation</li> <li>- Required a well trained workforce and capital for developing more sophisticated industries</li> </ul>   |



**Unit 31: Foreign Direct Investment and Economics Development**

- Advantages and Disadvantages of FDI

| Advantages  | Disadvantages   |
|---|---|
| - Fill savings gap and input money into circular flow of income (multiplier effect) | - Un-guaranteed transfer of skills<br>- Bring their own labour  |
| - Skill transfer<br>- Improve quality and quantity of labour / entrepreneurs        | - Overpower local governments<br>- Reduce their positive effects  |
| - Access to new R&D, and technologies   | - Transfer Pricing to Lower Tax Revenues<br>- Transfers of profits from one branch to another                           |
| - Improved Tax Revenue from MNC   | - Environmental damages   |
| - Lead to improvements in infrastructure  | - Stir up local unrest from nationalists  |
| - Improved domestic consumer choice   | - Capital intensive methods of production that doesn't benefit local labour force<br>- Inappropriate production methods |
| - Allocative Efficiency   | - Purchasing local firms through stock<br>- Stop flow of money into local economy                                       |
|   | - Transfer of profits out of country  |

**Unit 32: Aid, Debt, and Economic Development**

- Concerns About Aid

- Unequal Distribution
  - Distributed to benefit the rich instead of relieving the population
- Used to influence and exploit a certain country
  - Gain diplomatic or political favours
  - Use it to politically or diplomatically manipulate another country
- Tied aid
  - Increased costs for the aid recipient, forced to purchase goods from a more expensive firm
- Does not create new factors of productions/ capital goods
- Disrupt Local Industries
  - The free goods might replace local industries as free goods are dumped into the economy
- Dependencies on Aid
  - Welfare Mentality