

## Economics is...

- the study of how we make decisions about the use of scarce resources
- a social science because it's a study of people making decisions
- a self-sustaining system in which independent transactions create distinct flows of money

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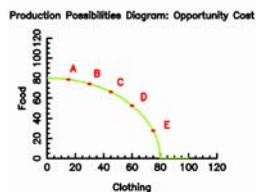
## About Economics

- Difficult to predict individual human behaviour it is often possible to predict group behaviour
- Economic decisions should be effective (achieve goal) and efficient (use least amount of resources)
- Three questions:
  - What to Produce
  - For Whom to Produce
  - How to Produce

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## More about Economics

- Positive (inflation was 2% last year) vs. Normative (inflation may rise)
- Opportunity Cost – the sum of all given up when making a choice



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## Laws

- Law of increasing relative cost says resources do not shift easily and it costs progressively more of one good to produce more of the other
- Law of Diminishing Returns states outputs increase with a particular input but only to a point
- Law of Increasing Returns to Scale states output can increase if **all productive resources** are increased at the same time and in the same quantity

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## Types of Economies

- Traditional
- Command
- Market
- Mixed

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## Political Economies

- Democracy vs. Dictatorship extremes
- Communism (the left)
- Socialism (left centre)
- Capitalism (right)
- Facism (right)

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## Canada's Economic Goals

- Political Stability
- Reduced Public Debt
- Economic Growth
- Increased Productivity and Efficiency
- Equitable Distribution of Income
- Price Stability
- Full Employment
- Viable Balance of Payments and Stable Currency

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## Economic Thought

- Adam Smith (laissez faire, invisible hand)
- Robert Malthus (pop. Greater than food production)
- David Ricardo (specialize and trade through comparative advantage)
- Karl Marx (labour exploited)
- John M. Keynes (gov't must intervene in the market)

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## Economic Thought

- John Galbraith (Mgmt had too much power and public goods lacking)
- Milton Friedman ("supply side" should be encouraged and money supply ensured)
- Frederick Von Hayek (pro market economy – Reagan, Thatcher)

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## Microeconomics

- Deals with how individuals and companies compete and react in the market

## Macroeconomics

- Deals with how industries, countries, and international forces react with each other

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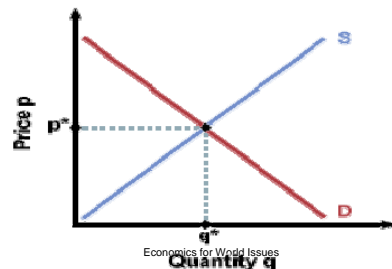
## Supply and Demand

- Market is where buyers and sellers meet
- Exchange rate (price) determined by interaction of supply and demand
- Law of Demand – price varies inversely with quantity demanded
- Law of Supply – price varies directly with quantity supplied
- Ceteris Paribus – all other things remain the same

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## Market Equilibrium

A change in price will change the Quantity Demanded and Quantity Supplied... but market forces will return the equilibrium price and quantity



## Demand determinants (shift curve at every price)

1. Income
2. Population
3. Tastes/Preferences
4. Expectations
5. Price of Substitute Goods

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## Supply Determinants (changes in Supply at every price)

1. Costs
2. Number of Sellers
3. Technology
4. Nature
5. Prices of related outputs

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## Applications of Supply & Demand

- Elasticity
  - Leaf tickets inelastic; cars elastic
- Utility Theory – how much we value goods
  - Diamonds have more marginal utility whereas water has more total utility
- Government Interventions
  - Subsidies, quotas, rent controls, ceiling and floor prices, minimum wage, etc.

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## Theory of the Firm

- Perfect Competition
  - Prices and products identical so companies compete on cost; many firms
- Monopolistic Competition
  - Products different so price can vary; many firms
- Oligopoly
  - Few firms control market; may “collude”
- Monopoly
  - One firm controls market

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## Labour Economics

- Supply and Demand forces at work
- Demand for labour depends on demand for products produced or services delivered
- Minimum wage increase
  - Decreases quantity demanded of labour

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## Macroeconomics

- Deals with total or Aggregate Demand & Supply for entire country (GDP)
- Four main Governmental Tools:
  1. Fiscal – Taxes & Interest Rates
  2. Monetary – Money Supply & Spending
- Used to deal with inflation, growth, unemployment, etc.

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## International Economics

- Trade occurs to increase GDP
- Trade (export) surplus goods for those needed (import)
- Tariffs were imposed in late 1800's to "protect" domestic industry
- GATT created in 1947 to liberalize world trade
- World Trade Organization (WTO) replaced GATT in mid 1980's

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## International Economics

- Regional Trade Agreements
- European Common Union (ECU)
- North American Free Trade (NAFTA)
- NAFTA critics claim Mexico didn't improve our exports while proponents suggest a market of 360 million people is worth it

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## Dollar

- The value of our dollar is relative
- Determined by:
  - Demand for our goods and services
  - Supply of the dollar
  - Interest rates
- Our Current and Capital accounts measure the flow of dollars in and out of the country

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## International Issues

- Globalization
- MNC (Multinational Corporation)
- Trade Barriers
- Global Financial Markets (IMF, World Bank, lack of regulation)
- Underdevelopment

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## Barriers to Economic Development

- **LACK OF FREEDOM AND STABILITY (WARS, OPPRESSIVE GOV'T)**
- **MALNUTRITION**
- **LOW LEVELS OF INVESTMENT – MANY EARNING LESS THAN A LIVING WAGE**
- **POPULATION GROWTH TOO HIGH FOR GDP**
- **DEPENDENCE ON CHILD LABOUR (250 MILLION!)**
- **NATURAL RESOURCE-BASED ECONOMIES**
- **DEBT BURDEN**

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## International Debt Crisis

- Bretton Woods set up in 1947 to oversee world financial market
- BW ended in the early 1970s which triggered massive problems with third world countries (although debt problems existed well before then)
- They exported low price agri goods and metals while importing expensive manufactured goods
- Deficits arose .. IMF intervened with "loans"

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