

Advantages and disadvantages of national specialisation

Advantages:

- More competition leads to greater productivity which lowers C.O.P which makes their goods internationally competitive
- Increased exports can result in economic growth which can increase living standards
- Income gained from exports can be used to purchase imports which will increase variety
- Economies of scale

Disadvantages:

- Resource depletion over time
- MNC's can dictate prices and output in many regions
- Infant industries will find it harder to compete due to global competition
- Specialisation creates over dependency
- Many firms in an entire industry may close leading to structural unemployment

Advantages and disadvantages of MNC's

- **More profit:** MNC's earn profits and send money back home. Host countries get some benefit if profits are reinvested locally
- **More markets :** Home country businesses can sell to customers abroad. Host countries get more product choices
- **Lower costs :** MNC's can produce goods more cheaply abroad and offer low prices at home. Host countries may benefit from local job creation and cheap production
- **Risk reduction:** MNC's can survive if they sell in many countries. Host countries may experience more stable job markets

Disadvantages:

- **Job loss:** Jobs move abroad where production is cheaper. Host countries may become too dependent
- **Poor working conditions:** MNC's at home may be criticised. Workers in host countries may face low wages
- **Unfair power:** MNC's might pressure home governments for favourable rules. In host, MNC's might influence politics and gain too much control
- **Damage to environment :** MNC's can be blamed for pollution caused in host countries. Host countries may suffer from environmental damage if rules are weak

Explain two reasons why income may become more unevenly distributed:

- Regression tax (more burden on the poor)
- Fall in NMW, fall in progressive taxation,

Analyse the influences on whether demand for shoes is elastic or inelastic

- Shoes have substitutes which make them **elastic**
- Lower the proportion of income spent on shoes more the **inelastic**
- Shoes are considered a necessity so they are **inelastic**
- Demand for some shoes may be addictive so they are **inelastic**
- May not be possible to delay the purchase of shoes so they are **inelastic**

Discuss whether or not living in a mixed economy will benefit ppl living in that economy:

Why it might:

- Public goods provided
- Production of demerit goods discouraged
- State benefits provided
- Unemployment low by government measures

Why it might not:

- State owned enterprises may be inefficient
- Less choice in the public sector
- High taxation may discourage enterprise
- There may be market failure in the private sector

Causes of a decrease in enterprise:

- Reduction in education
- Reduction in retirement age
- Recession

- Nationalisation of a certain industry

Analyse how changes in conditions of supply can affect a firm's prices:

- Natural disasters create shortages which increase price
- Good weather can cause surplus which lowers prices
- Increased cost of production due to rise in wages/ raw material costs raise price to maintain profit
- Indirect tax is passed onto consumers in the form of high prices

Discuss whether a rise in national minimum wage may benefit an economy:

Why it may:

- Reduce poverty
- Encourage an increase in labour force
- Increase productivity as workers are more motivated
- Encourage firms to train workers to gain better return

Why it may not:

- Increase unemployment if firms can't afford to pay high wages, high unemployment reduces total demand which reduces output
- High unemployment leads to low tax revenue
- Higher wages paid leads to inflation

Analyse how a cut in corporation tax rate can increase economic growth:

- It will increase the amount of profits kept by the firm which may attract MNC's which will create job opportunities and raise consumer expenditure and firms grow faster
- Higher investment will increase demand which increases output

Discuss whether or not a decrease in government spending will reduce inflation:

Why it might:

- If it's demand pull inflation, a decrease in spending will decrease demand
- If economy is near full employment, a decrease in demand will have a significant impact
- Decrease in spending will lower need for taxes, lower indirect taxes may reduce price

Why it may not:

- Low subsidies raises prices
- Low spending on education and training decreases productivity which increases C.O.P
- Low spending on infrastructure can reduce transport costs
- High C.O.P will increase prices
- There may be other reasons for the inflation like high wages

Analyse how an increase in investment can result in a rise in a country's HDI value:

HDI is based on health, education, and L.S

- Investment can increase G.D.P which may increase g.d.p per head, this will increase tax revenue enabling the government to spend more on education and healthcare
- Higher wages enable families to pay for better healthcare and education
- Increase in investment in healthcare can increase life expectancy
- Increase in investment may introduce more advanced technology which may make work less physically demanding which can improve health and life expectancy

Discuss whether or not a floating exchange rate benefits the economy:

Why it might:

- Enables government to concentrate on other aims
- No need to keep reserves of foreign exchange
- May eliminate current account imbalance
- No need to change interest rates to influence exchange rate

Why it might not:

- May make it difficult for firms to plan
- Creates uncertainty
- Discourages investment
- Speculation can cause significant changes in exchange rate

Analyse the advantages of an increase in labour mobility:

- Provides more choice of jobs
- Can reduce structural unemployment as it enables workers to find new jobs quickly and higher paying jobs

- Reduces labour shortages
- Increases output therefore economic growth
- Raises tax revenue

Discuss whether or not the demand for chocolate is likely to be price elastic

Why it might:

- May have substitutes
- May be seen as a luxury
- PED of particular brands will be more elastic than demand for chocolate as a whole

Why it might not:

- Takes up a small % of income
- May be addictive
- May be seen as a necessity

Anyase how division of labour can benefit firms:

- Workers can specialise at what they are best at producing, this will save time, reduce waste, increase productivity, increases output and lower the average C.O.P
- Lower prices increase demand which increases sales which generates profit
- Reduce training costs

Discuss whether or not consumers will benefit from only one firm producing shampoo:

Why they might:

- One firm may be able to benefit from economies of scale
- Lower costs
- Firm may spend a lot of money on research and development due to high profits which leads to high quality products
- Less time and effort choosing shampoo

Why they might not:

- Lack of competition drives up prices
- Lack of choice
- If quality is poor there is no substitute
- Firm may experience diseconomies of scale

Anyase how an increase in direct taxation could increase unemployment:

- Increase in income tax would reduce disposable income which would reduce consumer spending, lower demand, and demand for workers depends on demand for products
- Reduced incentive to work as workers may now rely on unemployment benefit, as they may receive more from benefits than from
- Increase in corporate income tax will reduce the amount of profit that can be kept, firms may reduce profit, this may reduce output, which reduces economic growth which may cause a recession

Anyase how an increase in household spending could cause inflation:

- Household spending is a component of demand, so an increase in household spending could cause demand pull inflation
- Total demand could exceed total supply
- Higher demand may encourage firms to raise prices which may cause inflation
- An increase in household spending could encourage firms to invest and increase their output which will increase demand for raw materials which will raise the price of raw materials. This will increase cost of production which will increase

Discuss whether or not a government should increase imports:

Why they should:

- May save scarce resources
- Reduce shortages in home market
- Lower exchange rate
- Increase choice
- Increase revenue from tariffs

Why they should not :

- May worsen current account balance
- May reduce exchange rate
- May lower living standards

- Reduce employment

Analyse how building roads can help the government achieve its macroeconomic aims:

- Creates jobs , reduces unemployment which increases income and expenditure which helps support other industries, which increases total demand
- Cheap transport , greater efficiency in all industries , reduces C.O.P, increases investment attracting MNC's causing economic growth, increasing exports , improves current account balance
- Reduce unemployment which reduces poverty

Analyse how differences in healthcare can lead to differences in economic development between countries:

- Workers will be healthier, take less time off of work and productivity will be higher, leading to higher income and improved L.S,
- Firms may gain more profit, productive capacity of the economy will increase, leading to economic growth.
- Exports may rise , investment may increase creating more jobs and reducing unemployment

Discuss whether or not competitive markets are beneficial for customers:

Why they are:

- More firms lead to lower prices
- Higher quality
- More choice
- More innovation in terms of production methods and products

Why they aren't:

- Lower profit for firms (less innovation and quality)
- Too many choices which take up time
- Competition may lead to resource depletion and negative externalities
- Firms may be small and won't experience economies of scale

Discuss whether or not economic growth will improve living standards:

Why it might:

- It may increase job opportunities
- Government revenue
- Increase amount of investment in the city - more choice of G&S

Why it might not:

- Increase negative externalities like pollution and congestion
- Overcrowding as more attracted people come to cities
- Increase inequality
- May produce inflationary pressure

Analyse the benefits a country may gain from exporting to and importing from other countries:

- Allows countries to specialise in what they are best at
- Export creates demand for the output of domestic producers which causes economic growth in that country creating employment
- Imports allow consumers to enjoy a large variety of products
- Imports provide competition

Discuss whether or not an increase in government spending will benefit an economy:

Why it might:

- Increase total demand
- Healthcare may increase productivity
- Reduce unemployment
- Increase economic growth

Why it might not:

- Increased inflation
- If spent on imports c.a deficit
- Increased taxation to pay for increased spending
- Increased government debt

Analyse the influences on whether supply of a product is inelastic or not:

- Elasticity of supply is as measure of responsiveness of supply to a change in price
- Elastic supply is when $PES > 1$, and inelastic supply is when $PES < 1$

- Elastic supply occurs when supply changes by a greater percentage than the change in price / inelastic supply is when supply changes by a smaller percentage than the change in price
- When items can be stored : elastic
- When items are able to adjust quickly to changes in price : elastic
- With time supply usually becomes more elastic

Discuss whether or not a government should ban the burning of wood to heat homes :

Why it should:

- Reduce externalities
- Improve health
- Wood can be used for other purposes
- Protect forests

Why it shouldn't :

- Wood may be a source of fuel for poor people
- Difficult to enforce
- May cause unemployment
- Some alternatives may be more polluting and more expensive

Discuss whether or not an increase in the money supply will benefit the economy :

Why it might:

- Raise consumer expenditure
- Reduce interest rates
- Increase total demand
- Provide finance for firms to expand

Why it might not :

- May cause demand pull inflation
- Increase imports
- C.a deficit
- Fall in interest rate

Analyse the causes of an increase in the demand for foreign currency:

- To buy more goods from that country
- That country is experiencing inflation
- Foreign tourism
- To invest more in that country
- To send more money home to family (remittances)
- Government may buy it to influence the exchange rate

Discuss whether or not inflation will harm a country's firms

Why it might:

- May increase price of raw materials and capital
- Increase cost of production
- Increase menu and shoe-leather costs
- Cost-push inflation

Why it might not:

- Demand-pull inflation can increase sales
- Revenue may rise by more than costs, increasing profit
- May reduce real value of debt
- May be able to reduce real cost of wages

Explain why commercial banks increase their lending

- To increase profit
- Earn more interest
- Private-sector banks aim to profit-maximize
- Increase demand for loans
- Due to low interest rates
- Take advantage of economies of scale
- Lower average costs

- Promote social welfare by reducing poverty
- Keep up with competitors and attract more customers

Analyze how an aging population may affect a country's economic growth rate

- May increase GDP as aging population have more experienced, productive workers
- May have more spending power, increasing total demand
- May train young workers to be more reliable
- May reduce economic growth as may have out-of-date skills
- Not able to operate new technology
- Lack of mobility
- More retired people, more economically inactive
- May save more, reducing total demand
- May be less healthy workers in the economy

Discuss whether supply-side policy measures will reduce a government's budget deficit

Why they might:

- May raise productivity, increasing economic growth and employment
- Raise direct and indirect tax revenue
- Revenue raised from sale of privatized firms
- Unemployment benefits may be cut to increase incentive to work
- Privatization may reduce government spending on state-owned firms

Why they might not:

- May increase government spending and may not be successful
- Lower tax rates may reduce tax revenue
- Regulation involves costs to enforce
- Spending on infrastructure may require high government spending

Analyze the economies of scale a school may gain from an increase in size

- Economies of scale reduce average cost of production
- Purchasing economies: bulk buying at discount
- Management economies: employing a school accountant
- Labour economies: teachers specializing in subjects like biology
- Technical economies: facilities like a film studio for media studies
- Financial economies: school may borrow at lower interest rates and find it easier to get loans

Discuss whether or not having a high proportion of a country's population over 64 is a benefit to its economy

Why it might be:

- May still be in work and efficient due to experience
- May provide family support
- May result from rise in life expectancy
- Smaller proportion of young dependents

Why it might not:

- High proportion of older dependents
- High healthcare costs
- High cost of pensions
- Older workers may be out-of-date with technology

Analyze how fiscal policy can increase unemployment

- Rising government spending
- Expansionary fiscal policy may increase total demand, encouraging firms to expand and reduce cyclical unemployment
- Increased government spending on education and training increases skills, mobility, and attractiveness to employers
- Government spending on infrastructure can attract MNCs
- Government spending on housing increases geographical mobility of labour
- Subsidies may encourage firms to expand and employ more workers

Discuss whether or not a government should provide free food to all consumers

Why it should:

- Fruit is a merit good
- People may not appreciate private benefits
- Social benefit exceeds private benefit

- Without intervention it may be under-consumed
- May increase population health and workers' productivity
- Benefits food farmers
- Enables the poor to consume it

Why it should not:

- Higher-income groups can already afford it
- May be over-consumed
- Some may be wasted
- Opportunity cost

Analyze the reasons why PED for one brand of luxury chocolate differs from that of salt

- Luxury chocolate has substitutes
- Narrowly defined
- Not a necessity
- Purchase can be postponed
- Takes a large proportion of income
- Demand is price elastic: rise in price → greater % fall in quantity demanded
- Salt has no close substitutes
- Widely defined
- Takes a small proportion of income
- People may be addicted to taste
- Seen as a necessity
- Demand is price inelastic

Discuss whether or not a country should import most of the food it consumes

Why it should:

- May lack resources to produce food
- Allows country to produce other goods and services
- Wages may be higher in secondary and tertiary sectors
- Working conditions may be better in secondary and tertiary sectors
- Food output affected by weather and natural disasters

Why it should not:

- Makes country dependent on others
- Agriculture may be strategic
- Foreign producers may raise prices
- Food is essential
- Risk of supply disruption

Discuss whether or not discovery of oil will benefit a country's economy

Why it might:

- May increase GDP
- May increase employment
- May increase income
- May increase tax revenue
- May increase exports
- May decrease imports of oil

Why it might not:

- May create pollution
- May damage wildlife habitats
- Oil might not be in demand
- Poor working conditions
- Extraction may be short-term and deplete quickly

Analyze why countries' exports may decrease

- Price of exports may rise due to higher cost of production
- Rise in exchange rate
- Demand may fall
- Quality of exports may fall and workers become less skilled

- Investment may decrease
- Incomes abroad may decline
- Trade restrictions may be imposed
- Government may restrict or ban exports to conserve resources

Discuss whether or not private firms are likely to charge lower prices than public-sector firms

Why it might:

- competition may encourage private sector firms to charge low prices
- private sector firms may seek to reduce waste and costs to avoid going out of business
- private sector firms may have more funds to invest
- higher investment may reduce costs of production
- may be an MNC with significant economies of scale

Why it might not:

- profit motive may encourage private sector firms to charge high prices
- private sector firms may be monopolies
- public sector firms may be subsidised
- public sector firms may charge low prices to make the products affordable
- public sector firms may produce on a large scale

Discuss whether a government subsidy on the export of sugar will help it achieve its macroeconomic aims

Why it might:

- lower price of exports and increase their supply
- increase export revenue and improve the current account balance
- higher output of sugar can contribute to economic growth
- more people may be employed in growing sugar and processing sugar cane

Why it might not:

- other countries' sugar may still be cheaper
- may make farmers and mill owners lazy
- sugar sellers may not lower their prices
- demand for sugar may be price-inelastic
- introduction of capital equipment may lower employment
- other countries may retaliate against the subsidy and so current account position may not be improved
- higher exports may increase total demand resulting in inflation
- opportunity cost – e.g. spending on education which may be more effective.

Analyse how advances in technology may improve the current account balance on a country's balance of payments

- Raise productivity
- Reduce C.O.P
- Increase competitiveness
- Increase exports
- Increase export revenue
- Reduce import revenue

Discuss whether or not a country with a high population growth rate is likely to experience a high economic growth rate

Why it might:

- may have an increasing labour force, capable of producing a higher output
- likely to have higher demand, encouraging higher output
larger markets can enable greater advantage to be taken of economies of scale
- may have higher tax revenue, enabling the government to spend more on e.g. education which can promote economic growth

Why it might not:

- may have an increase in the number of dependents, reducing resources which can be devoted to increasing productive capacity
- rise in birth rate may reduce the size of the labour force as people leave the labour force to bring up children
- resources may be depleted, reducing productive capacity
- external costs e.g. congestion and pollution may increase which may reduce productivity.

Discuss whether or not the government should reduce the amount of money it gives to each state pensioner

Why it should:

- Reduction in state pension could reduce budget deficit
- May persuade ppl to work longer (more tax revenue)
- Opportunity cost
- Ageing population means that amount spent on pensions is rising

Why it should not:

- Reduce living standards of pensioners
- Reduce total demand
- Increase ppl in poverty
- Low spending by pensioners can increase unemployment