

WELCOME TO ECS1016 DISCUSSION CLASS SESSION, 2010

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Where to find slides

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IMPORTANT CONTACTS

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CALCULATION OF SEMESTER MARK

- Assignment 1 = 50% weight of assignment 20%
- Assignment 2 = 65% weight of assignment 20%
- Assignment 3 = 78% weight of assignment 30%
- Assignment 1 = 40% weight of assignment 30%

- Semester mark = $(0,2 \times 50) + (0,2 \times 65) + (0,3 \times 78) + (0,3 \times 40)$
= $10 + 13 + 23,4 + 12$
= 58

CALCULATION OF FINAL MARK



- Semester mark contributes 10%
- Examination mark contributes 90%
- Semester mark = 58
- Examination mark = 75

- Final mark = $(58 \times 0,1) + (75 \times 0,9)$
= 5,8 + 67,5
= 73,3
= 73

STUDY UNIT 1

WHAT ECONOMICS IS ALL ABOUT

STUDY OBJECTIVES

- In line with **OUTCOMES** listed in study guide, unit 1 enables students to:
- Define economics  Construct the basic economic problem  Apply the fundamental elements of economics
- Differentiate between normative and positive statements.
- Differentiate between levels and rates of change.

SCARCITY, CHOICE & OPPORTUNITY COST

- **All economic questions arise because of**
 - Unlimited wants
 - Scarcity
- **What does this mean?**
 - Think of your “wish list”, it is endless!
 - Limited by availability of resources (.....)
- **Relationship btw **scarcity**, **choice** and **opportunity cost****
 - E.g. You have R20 as lunch money; you could buy: burger and drink, chips and drink, starch and meat or 2 burgers, 2 packets of chips etc.
 - You will have to make choice and sacrifices (opportunity cost).

ILLUSTRATING THE PPC

- Assumptions
- 2 goods produced in an economy, say cars and tables.
- All resources devoted to production of these goods.

Q: What combinations of goods will be efficiently produced?

Combination	Cars produced	Tables produced
A	150	0
B	140	10
C	120	20
D	100	30
E	50	40
F	0	50

PPC- Interpretation

- A, B, C, D,E,F show efficient use of resources
- H shows scarcity
- G shows unemployment or inefficient use of resources
- Movement btw combinations shows opportunity cost

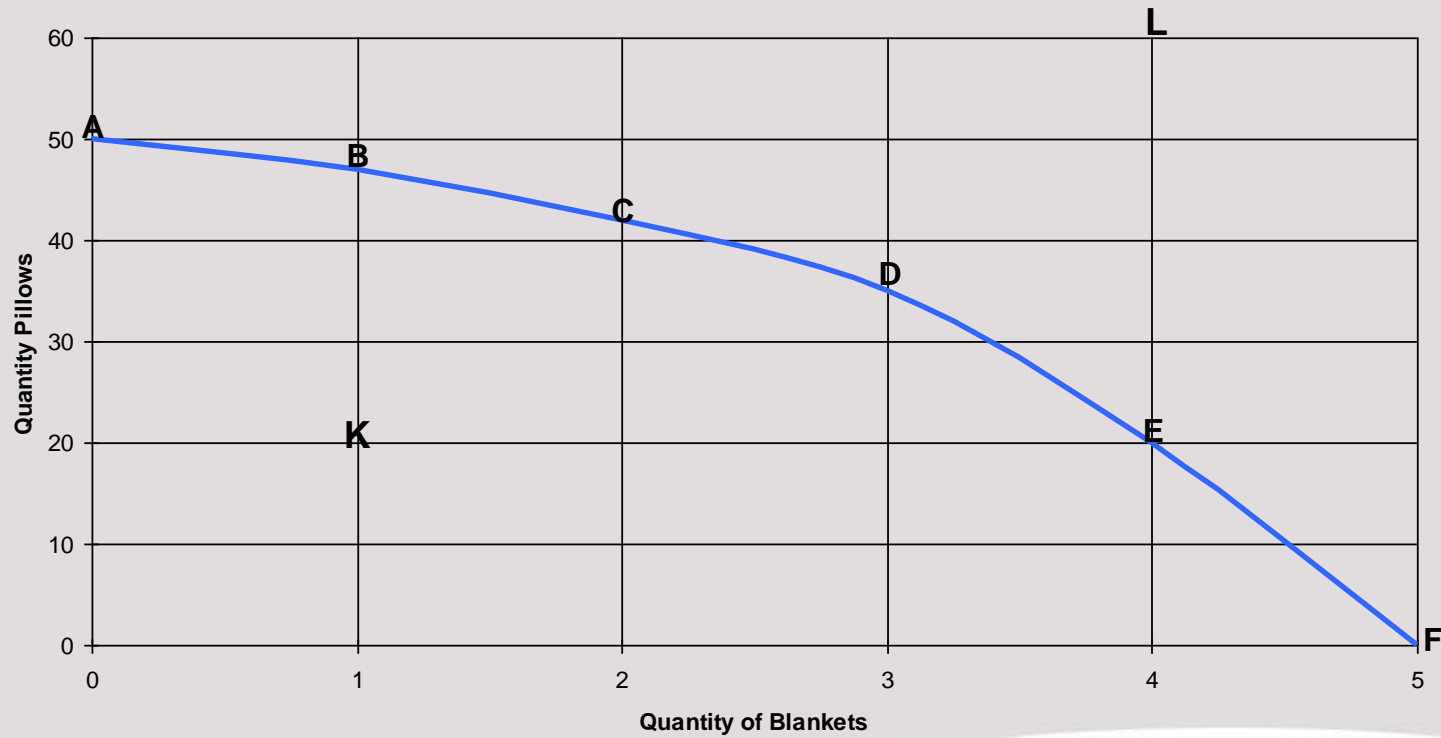
PPC

Combination	Cars	Tables	Opp. cost of cars	Opp. cost of tables
A	150	0	50	0
B	140	10	40	10
C	120	20	30	20
D	100	30	20	20
E	50	40	10	50
F	0	50	0	50

PPC-TABLE: Example 2

Production alternative	Labour for Pillows	Labour for Blankets	Quantity of Pillows/day	Quantity of Blankets/day	Opportunity cost of blankets
A	6	0	50	0	0
B	5	1	47	1	3
C	4	2	42	2	5
D	3	3	35	3	7
E	2	4	20	4	15
F	0	6	0	5	20

PPC-CURVE



PPC - DATA

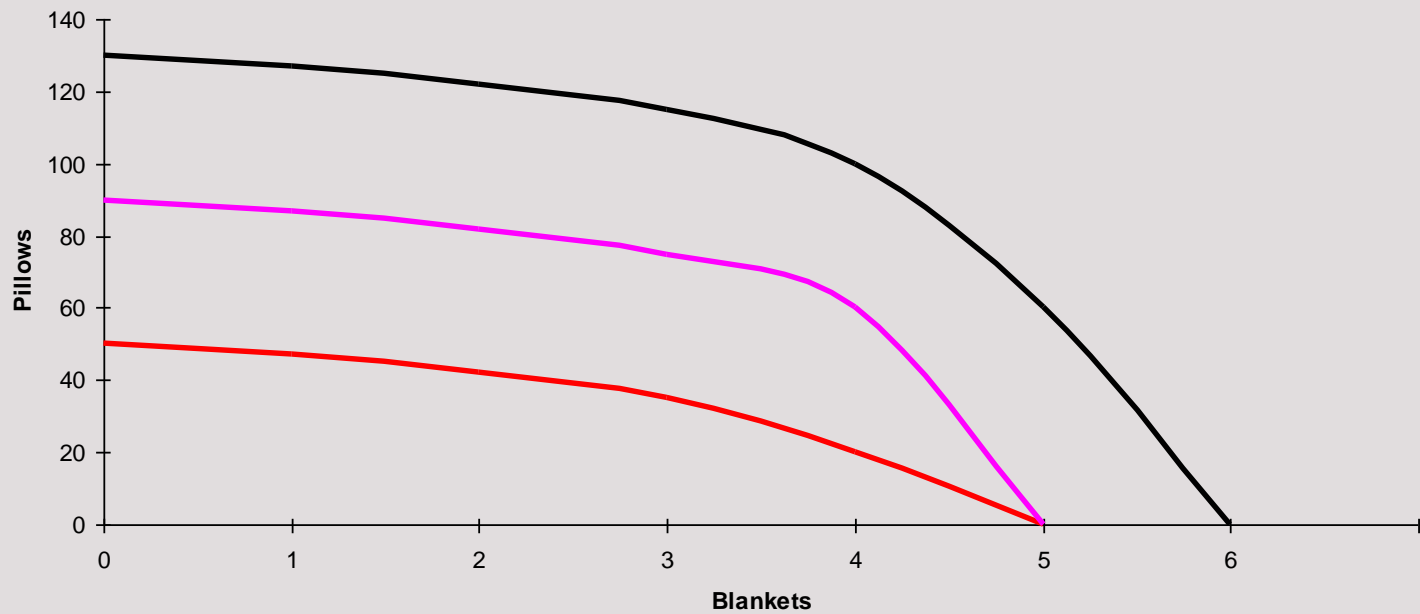
- Point K represents (20 pillows and 1 blanket):
 - **Inefficiency** – since 20 pillows and 4 blankets can be produced (point E) if resources are optimally used.
 - **Unemployment** in a country.
- Point L represents (60 pillows and 4 blankets):
 - **Unattainable** because the economy cannot produce the combination with the available resources.

SHIFTS vs SWIVELS OF THE PPC

- Entire shift of the PPC
 - Quantity of resources
 - Productivity of resources
- Swivel of the PPC
 - Improved technique for producing one good (either good x or good y, not both).
 - Illustration

SHIFT VS A SWIVEL IN THE PPC: Example 2

PPC-CURVE



NORMATIVE VS POSITIVE STATEMENTS

- Normative statements
 - Opinions or value judgments is involved, e.g.
 - unemployment is the most serious problem in the economy.
 - Benni McCarthy is the best attacking player in the South Africa team.
 - Billabong clothes are more fashionable than Diesel clothes.
 - SA inflation rate is too high.
- Positive statements
 - Objective facts that can be proved right or wrong, e.g. global warming is taking place,
 - the economic growth rate in SA was 5,5% during 2006,
 - the Free State Cheetahs won the Currie Cup in 2005,
 - Unisa was one of the top 4 mega Universities in the world in 2008.

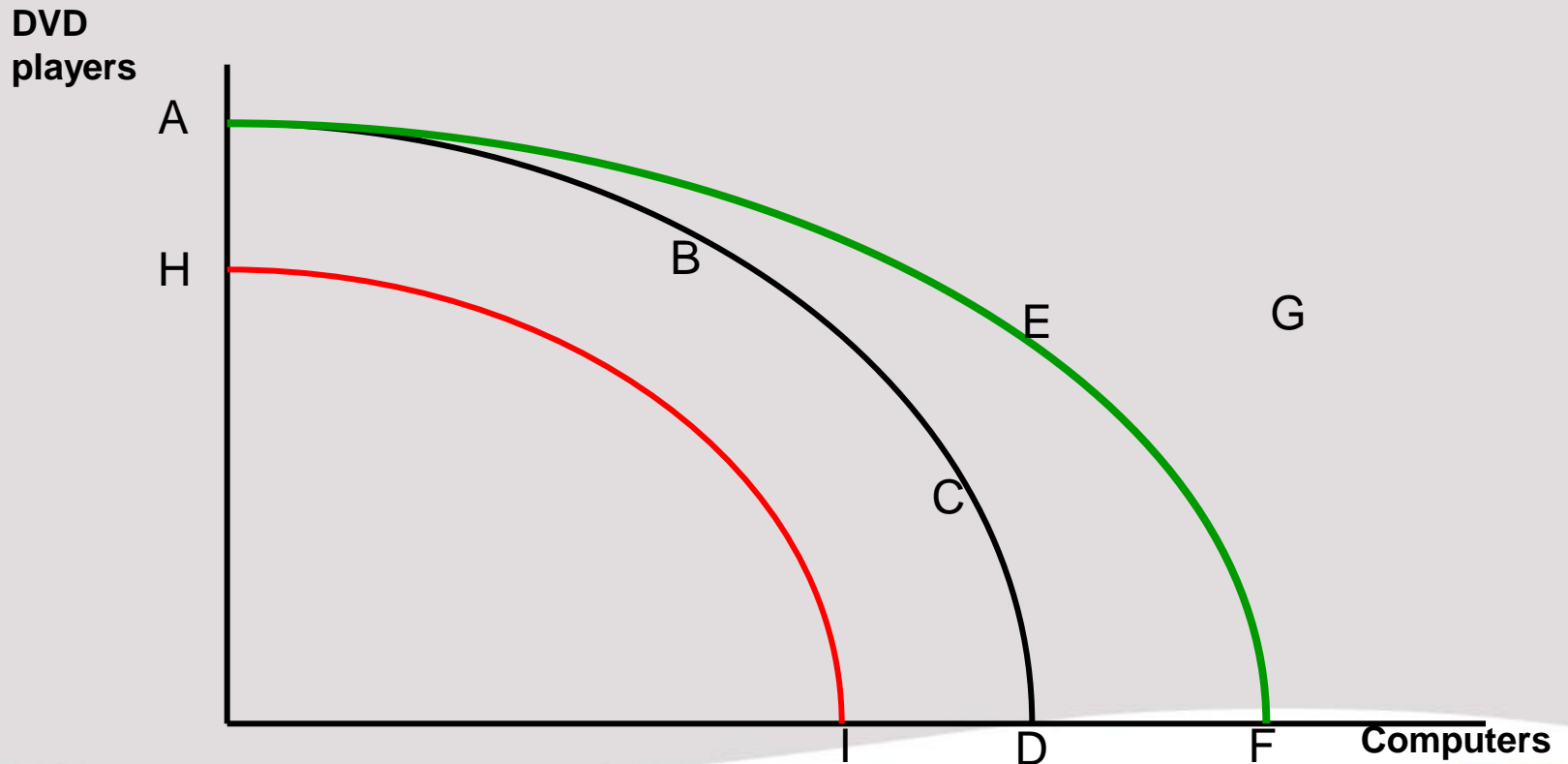
Levels vs rates of change

- **Rate of change:** is expressed as a percentage:
 - Inflation rate in 2009 was 6.3%
 - Electricity charges have been increased by 25%
 - The SA Reserve Bank decreased interest rates by 0.5% in March 2010
 - Economic growth rate for 2008 was 3.3%.
- **Levels**
 - Examples.

QUESTIONS

1. Which factors could lead to an outward shift the PPC?
2. Which factors could lead to an inward shift the PPC?
3. What does the shape of the PPC show?
4. What do the points inside the PPC represent?
5. What do the points outside the PPC represent?
6. What do the points on the PPC represent?

Typical examination question



QUESTIONS

- (a) What does the movement from curve AD to AF represent?
- (b) What does the shift from AD to HI represent?
- (c) What does the movement from B to C represent?
- (d) What does the shift from HI to AD represent?
- (e) What does point G represent?

STUDY UNIT 2

A CLOSER LOOK AT THE ECONOMIC PROBLEM

STUDY OBJECTIVES

- Differentiate between the five types of goods.
- *Graphically illustrate how changes in inputs influence the PPC-curve.*
- Differentiate between the four factors of production .
- Differentiate between the various production sectors of the economy.
- Differentiate between the various economic systems.

THE CENTRAL ECONOMIC QUESTIONS

- 1. What goods & services to be produced and in what quantities?**
 - Output question
- 2. How will the goods & services be produced? how much of scarce resources will be used?**
 - Input question
- 3. For whom will it be produced, how much, how will they receive it, where will production occur?**
 - Distribution question

THE OUTPUT QUESTION - WHAT SHOULD BE PRODUCED?

- **WHAT SHOULD BE PRODUCED?**
 - **Goods & services to be produced to satisfy human wants.**
 - **Goods are all tangible objects such as food, clothes, bricks etc.**
 - **Services are all intangible things such as medical services, legal services, etc**

THE OUTPUT QUESTION - WHAT TO PRODUCE?

- **CLASSIFICATION OF GOODS:**
 - **CONSUMER GOODS VS CAPITAL GOODS**
 - *Consumer goods* - used by consumers, or households
 - *Capital goods* - goods that are not consumed but used for production purposes e.g. machinery, roads, dams bridges.
 - **CLASSIFICATION OF CONSUMER GOODS**
 - *Non-durable goods* are used only once e.g. food, wine, water.

THE OUTPUT QUESTION - WHAT TO PRODUCE?

- **CLASSIFICATION OF GOODS:**
 - **CLASSIFICATION OF CONSUMER GOODS**
 - *Semi-durable goods* are used more than once and last for limited period e.g. clothing, shoes, linens.
 - *Durable goods* lasts for a number of years e.g. furniture, television, Hi-Fi
 - **FINAL GOODS VS INTERMEDIATE GOODS**
 - *Final goods* are used or consumed by individuals, enterprises, households.

THE OUTPUT QUESTION - WHAT TO PRODUCE?

- **CLASSIFICATION OF GOODS:**
 - **FINAL GOODS VS INTERMEDIATE GOODS**
 - *Intermediate goods* are purchased for inputs in producing other products.
 - Example of bread and flour
 - **PRIVATE GOODS VS PUBLIC GOODS**
 - *Private goods* are goods that households can consume. Exclusion is an important characteristic.

THE OUTPUT QUESTION - WHAT TO PRODUCE?

- **CLASSIFICATION OF GOODS:**
 - **PRIVATE GOODS VS PUBLIC GOODS**
 - *Public goods* are goods that are used by the community/society at large. Non-exclusion is a characteristic e.g. traffic light, defence, public roads, etc.
 - **ECONOMIC GOODS VS FREE GOODS**
 - *Economic goods* are produced from scarce resources.
 - They have a fixed price
 - It is limited
 - Measure welfare of society

THE OUTPUT QUESTION - WHAT TO PRODUCE?

- **CLASSIFICATION OF GOODS:**
 - **ECONOMIC GOODS VS FREE GOODS**
 - *Free goods* are not scarce, and have no price.
 - Examples are fresh air, sunshine, sea water.
 - **HOMOGENEOUS VS HETEROGENEOUS GOODS**
 - *Homogeneous goods* are exactly alike e.g a fine ounce of gold.
 - *Heterogeneous goods* are goods that have different varieties, qualities or brands e.g. video recorders, cell phones, televisions, motor vehicles, shirts, watches, shoes, etc.

THE INPUT QUESTION - HOW TO PRODUCE?

- **PRODUCTION FACTORS:**
 - Natural resources
 - Capital
 - Labour
 - Entrepreneurship

- **PRODUCTION TECHNIQUES**
 - Capital intensive
 - Labour intensive

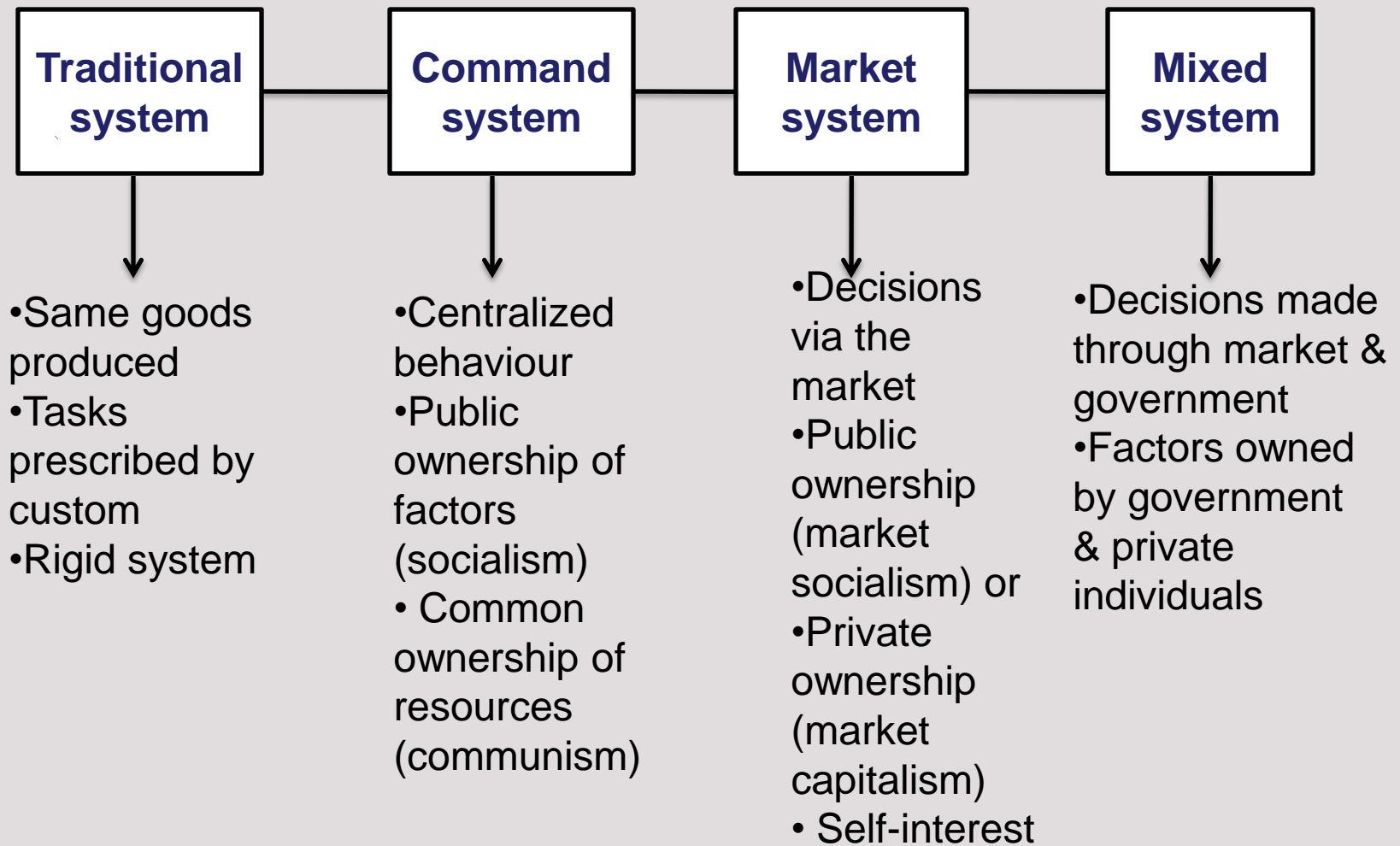
THE DISTRIBUTION QUESTION - FOR WHOM TO PRODUCE?

- **PRODUCTION SECTORS:**
 - Primary sector
 - Secondary sector
 - Tertiary sector

- **FORMAL SECTOR vs. INFORMAL SECTOR**

- **FORMAL SECTOR**
 - Public sector
 - Private sector

Solutions to the central economic questions

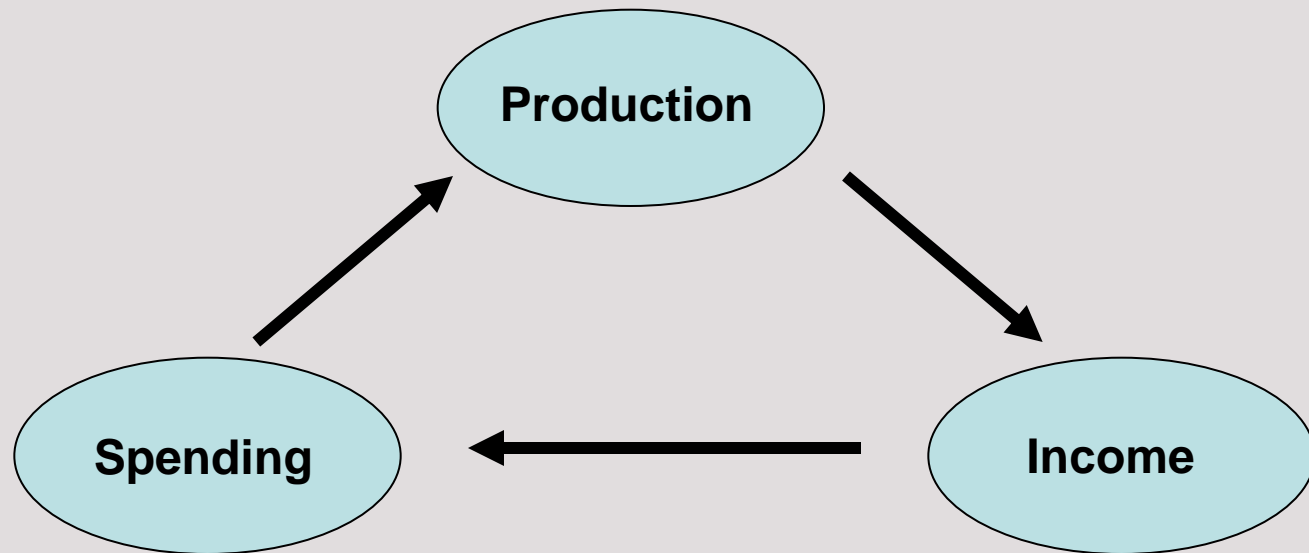


STUDY UNIT 3

THE INTERDEPENDENCE BETWEEN THE MAJOR SECTORS, MARKETS AND FLOWS IN THE MIXED ECONOMY

Production, income & spending

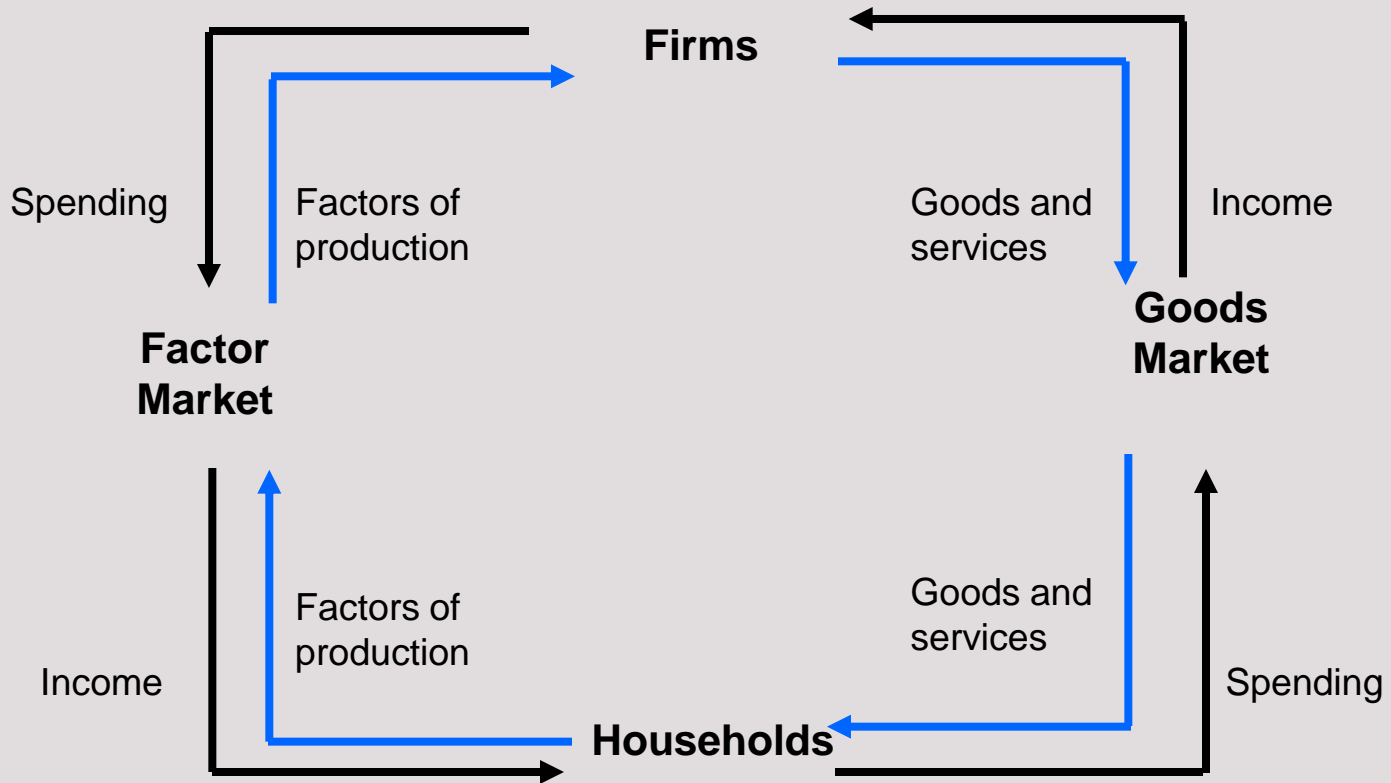
- How does the economy function?
- What interrelationships exist between the production side and the consumption side of the economy?



Flow variables vs Stock variables (Box 3-1)

- Stock variable
 - Measured at a specific time e.g. on 31 March you had R12 000 in your bank account,
 - Capital is a stock variable since you measure it at a certain time.
 - Population is determined every four years during the census period.
- Flow variable
 - Measures quantity of a variable over a time period e.g. the monthly expenditure of households, the number of tourists that visited SA during the past year.
 - Production, income and spending are major flow variables

THE SIMPLE CIRCULAR FLOW DIAGRAM



Characteristics of households

- Households:
 - Represent demand in the economy
 - Buy goods and services from producers in the product market
 - Are decision makers on the consumption side of the economy
 - Aim at maximising utility
 - Possess the factors of production
 - Are entrepreneurs in the economy
 - Purchase consumer goods

Characteristics of firms/producers/businesses

- Firms:
 - Are decision makers on the supply (production) side of the economy
 - Aim at maximising profit
 - Represent supply in the economy
 - They are the buyers of the factors of production in the factor market
 - Purchase capital goods, e.g. machinery and raw materials