

Economics

Macroeconomics - the wider
economy

Microeconomics - the individual
economy

Economic Systems

- Planned Economies - government control
- Laissez-faire´ economies - market driven
- Mixed economies - combination of market activity & government regulation

- Economic assumptions & their reality?

Macroeconomics attempts to explain broad economic changes through the examination of a variety of economic indicators & variables.

Macroeconomic indicators -

- Unemployment rates
- Inflation rates & Consumer Price Index
- Balance of Payments
- Current Account
- Wage levels
- Gross Domestic product
- Terms of Trade
- Debt Servicing Ratio
- R&D expenditure & intensity
- Investment - domestic/foreign
- Interest rates
- Fiscal & Monetary policy

Fiscal Policy

- Govt. economic influence through expenditure & taxation
- Expenditure - public g's & s's, public infrastructure, machinery, community welfare
- Taxation - income, company, g's & s's (GST), fees & charges
- Influenced by expenditure (borrowing) & tax levels by all levels of govt.
- Influenced by tax, borrowing & expenditure mix

Monetary Policy

- Reduced impact as policy instrument
- Money supply not used - floating currency
- Interest rates changes - powerful but blunt instrument
- Reserve Bank influence on interest rates - managing inflation & unemployment

Balance of Payments= Current +Capital Accounts

- High dependence on imports & foreign capital investment (debt) - unfavourable BoPs
- Exports useful but struggle to keep up
- About 2/3 of foreign debt is private sector

Australia's macroeconomic position -

- Retain/improve immediate competitive advantage - wages, inflation, interest rates
- Need investment in export oriented / import replacing industries
- Improve productivity, increase national savings
- Create world competitive industries

Microeconomic reform

- Increasing the efficiency of the public sector to aid efficiency increases in the private sector
- Efficiency = \$ (effectiveness = outcomes)
- Efficiency measures - work practices, costs, technology
- Micro-reform = change
= opportunity + threat

Microeconomics

Attempts to explain the economic behaviour of individuals and organisations in market situations.

Economic Value

- Derived by customers from use of g's & s's
- Created by firms - transforming inputs or resources into products
- Specific value = willingness to pay (max. price)
- Opportunity cost = forgone opportunity of one choice/decision over another
- Economic value often subjective and dependent on negotiating skill

Monopolistic Markets

- Existence of monopoly (duopoly, oligopoly) will distort value in markets by limiting supply to enhance demand
- Looks to maintain monopoly through barriers to market entry and competition - high entry costs, lack of substitute product.

Economies of scale

- Economies of scale exist when as output increases long term average costs decrease
- Diseconomies of scale exist when as output increases long term average costs increases
- Aim to produce quantity where marginal cost (cost of one more item) equals lowest point of average total cost.

Perfect Competition - assumptions

- Commodities - homogeneous, divisible, perishable
- Many buyers and sellers in a highly connected, periodic market all with same market information
- Individuals cannot influence market supply or price
- No regulatory control of price or quantity
- Immediate economic interest rules behaviour

Demand & Supply

- Demand displayed as the total amount of a commodity buyers willing to purchase at various prices.
- Supply displayed as the total amount of a commodity sellers willing to supply at various prices.
- General principles -
 - Lower price = increase in demand and lowering of supply
 - Increasing price = decrease of demand & increase of supply

Market Equilibrium

- Point of intersection between demand and supply curves - market clearing point
- Price at which buyers will purchase and sellers will actually sell.

Changes in Demand & Supply

- Price changes in other commodities
- Income changes
- Technology
- Demography
- Regulation
- Taste
- Forces of Nature