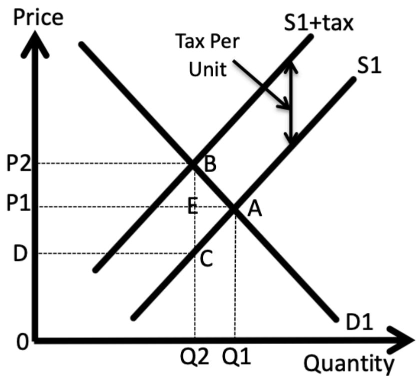
Indirect Taxation



What the diagram shows

1) Government Revenue: P2BCD

2) Consumer Burden: P1P2BE

3) Producer Burden: P1ECD

4) Producer Revenue: Decreases from P1AQ10 to DCQ20

5) Welfare Loss: ABC

How to draw

1) Supply shift left 2) New equilibrium down to old supply curve for tax per unit 3) Multiply this by Q2 for gov revenue 4) Difference in price part of gov revenue box is consumer burden, rest is producer burden 5) Producer revenue is P2 x Q2 minus the government revenue

Subsidy

What the diagram shows

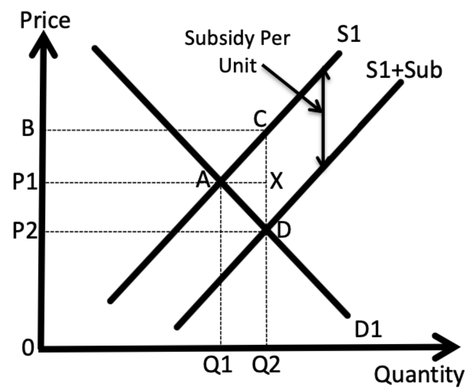
1) Government Cost: BCDP2

2) Consumer Subsidy Share: P1XDP2

3) Producer Subsidy Share: P1XCB

4) Producer Revenue: Increases from P1AQ10 to BCQ20

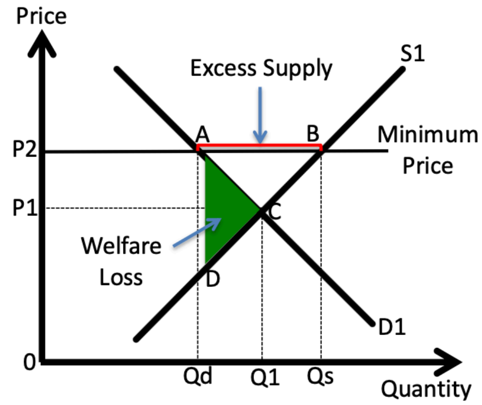
5) Welfare Loss: ACD



How to draw

1) Supply shift right 2) New equilibrium up to old supply curve for subsidy per unit 3) Multiply this by Q2 for gov cost 4) Difference in price part of gov cost box is consumer share, rest is producer share 5) Producer revenue is P2 x Q2 plus the government cost

Minimum Price (Price Floor)



What the diagram shows

1) Excess Supply: QdQs

2) Government Intervention Buying Cost: ABQdQs

3) Producer Revenue with Intervention Buying: P2BQs0

4) Producer Revenue without Intervention Buying: P2AQd0

5) Welfare Loss: ACD

How to draw

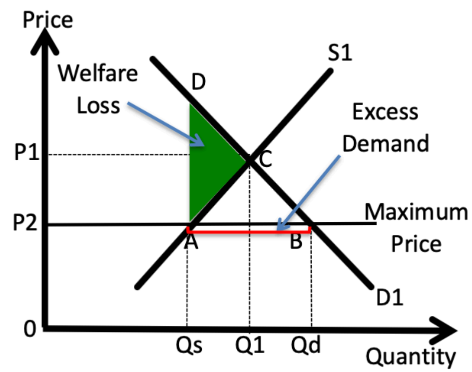
1) Minimum price above equilibrium 2) Quantity difference between supply and demand is excess supply 3) Multiply this by P2 for gov cost of intervention buying 4) Producer revenue with intervention buying is P2 x Qs and without intervention buying is P2 x Qd

Maximum Price (Price Ceiling)

What the diagram shows

1) Excess Demand: QdQs

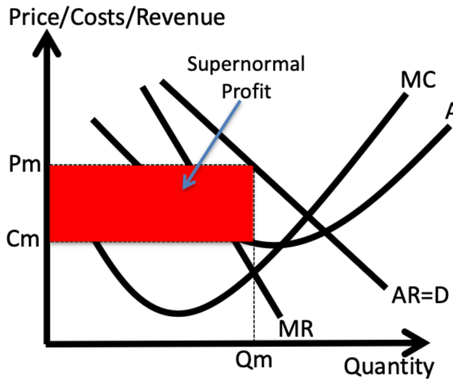
2) Welfare Loss: ACD



How to draw

1) Max price below equilibrium 2) Quantity difference between supply and demand is excess demand

Monopoly



How to draw

1) Draw AR and MR

2) Draw AC below AR

3) Draw MC cutting AC at its lowest point

4) Profit max Q where MC=MR reading price from the AR curve

5) AR>AC at Q indicating supernormal profit per unit

6) Multiply by Q for total supernormal profit

What the diagram shows

1) Supernormal profit being made in the long run 2) Allocative inefficiency as P>MC at Qm 3) Productive inefficiency as the firm is not operating at lowest point of AC at Qm 4) Potential for dynamic efficiency given long run supernormal profit

Where to use in essays

1) Analysing & evaluating monopoly 2) Analysing & evaluating collusive oligopoly 3) Illustrating risks of a merger

Loss Making Monopoly

How to draw

1) Draw AR and MR

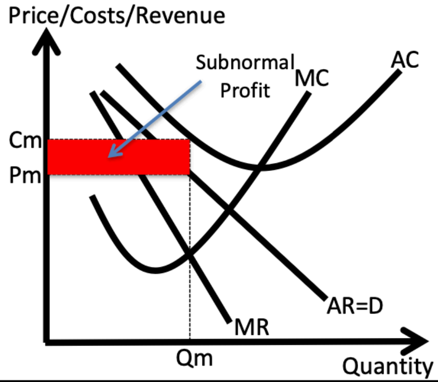
2) Draw AC above AR

3) Draw MC cutting AC at its lowest point

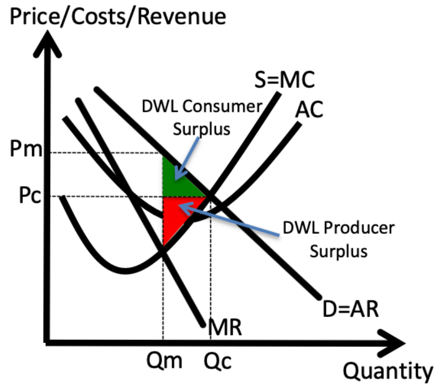
4) Profit max Q where MC=MR reading price from the AR curve

5) AC>AR at Q indicating a loss per unit

6) Multiply by Qm for total loss



Monopoly vs Competitive Market



How to draw

1) Draw AR and MR

2) Draw AC below AR

3) Draw MC cutting AC at its lowest point

4) Profit max Q where MC=MR reading price from the AR curve for monopoly price and quantity

5) Allocative efficiency where P=MC for competitive price and quantity

6) Draw the deadweight loss triangles

What the diagram shows

1) Allocative inefficiency and thus monopoly market failure

2) Higher price and lower quantity in monopoly compared to a competitive market

3) Deadweight welfare losses associated with the misallocation of resources

Where to use in essays

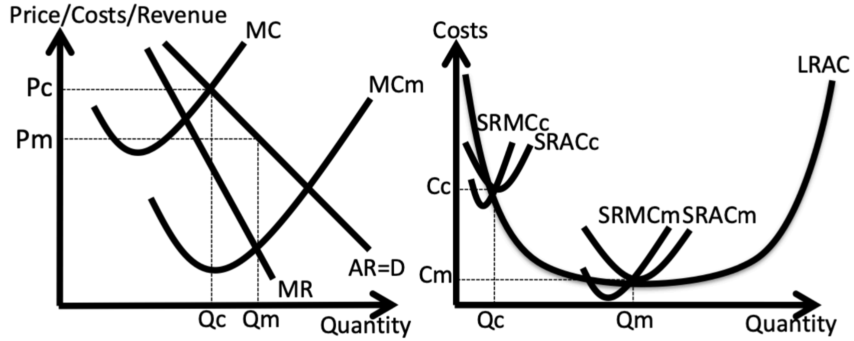
1) Analysing and evaluating monopoly

2) Analysing and evaluating perfect competition or a competitive market

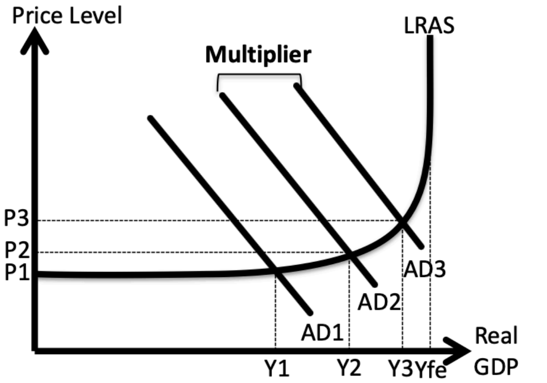
3) Intentions of privatisation, deregulation and nationalisation

4) Risks of a merger, collusive oligopoly and other anti competitive practises

Monopoly Economies of Scale Advantages



Expansionary Fiscal Policy



What the diagram shows

1) AD shift right given higher gov. spending and/or lower taxation

2) Further shift of AD right to AD3 (positive) multiplier effect

3) Higher growth (Y1 to Y3)

4) Lower cyclical unemployment

5) Higher demand pull inflation (P1 to P3)

6) Worsened trade position

Where to use in essays

1) Analysing and evaluating expansionary fiscal policy 2) Analysing and evaluating rising national debt, a higher budget deficit or a budget surplus fall 3) Analysing and evaluating policies to boost growth and reduce unemployment

Contractionary Fiscal Policy

What the diagram shows

1) AD shift left given lower gov. spending and/or higher taxation

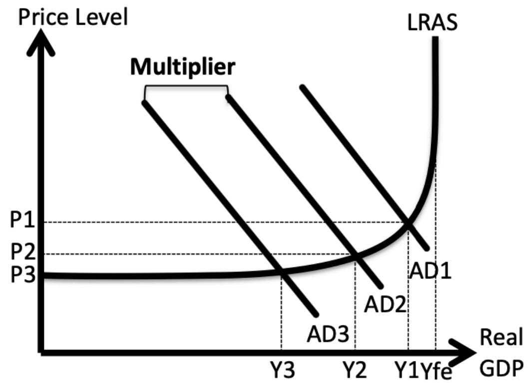
2) Further shift of AD left to AD3 (negative) multiplier effect

3) Lower growth (Y1 to Y3)

4) Higher cyclical unemployment

5) Lower demand pull inflation (P1 to P3)

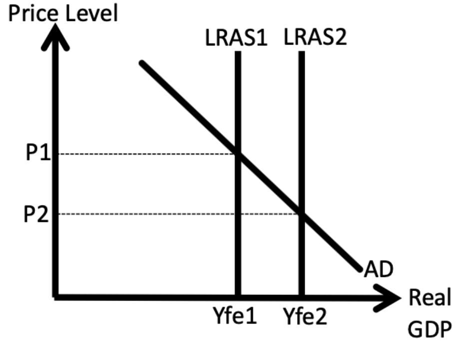
6) Improved trade position



Where to use in essays

1) Analysing and evaluating contractionary fiscal policy 2) Analysing and evaluating falling national debt, a higher budget surplus or a budget deficit reduction 3) Analysing and evaluating expenditure reducing policies or policies to reduce inflation

Expansionary Fiscal Policy and LRAS



What the diagram shows

1) LRAS shift right due to gov. spending on education, healthcare, infrastructure and/or lower income or corporation tax

2) Higher long run growth (Yfe1 to Yfe2)

3) Lower unemployment (natural rate)

4) Lower long run demand pull inflation (P1 to P2)

5) Improved trade position

Crowding Out Effect of Expansionary Fiscal Policy

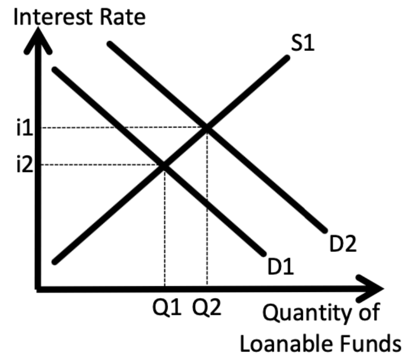
What the diagram shows

1) Demand shift right for loanable funds due to debt fuelled expansionary fiscal policy

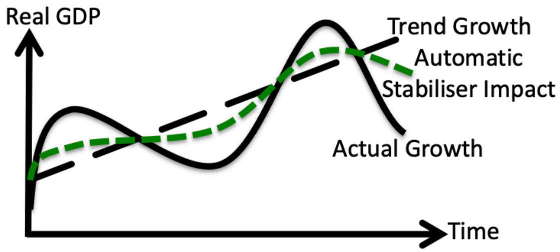
2) Higher interest rates (i1 to i2) crowding out private sector investment

Where to use in essays

1) Evaluation of expansionary fiscal policy



Automatic Stabilisers of Fiscal Policy



What the diagram shows

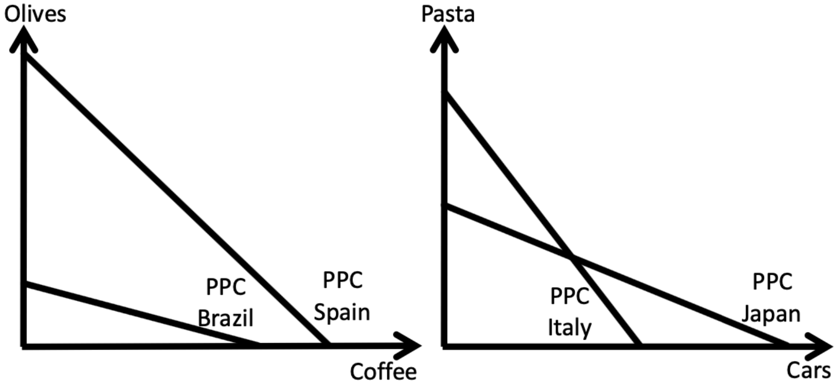
1) Automatic stabilisers reducing fluctuations of actual growth

2) Shallower recessions and booms

Where to use in essays

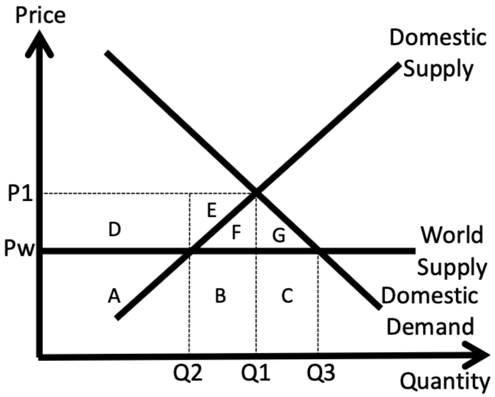
1) Evaluation of discretionary fiscal policy

Comparative Advantage



What the diagram shows	**What the diagram shows**
1) Spain has absolute advantage in both goods	1) Both countries have an absolute advantage
2) Brazil has a comparative advantage in coffee and Spain a comparative advantage in olives	2) Japan has a comparative advantage in cars and Italy a comparative advantage in pasta
3) Drawing trick: Country with the shallower PPC has the comparative advantage for the good on the X axis, the other country has it for the good on the Y axis	3) Drawing trick: Country with the shallower PPC has the comparative advantage for the good on the X axis, the other country has it for the good on the Y axis

Free Trade



What the diagram shows

Price: Decreases from P1 to Pw

Domestic Supply: Decreases from Q1 to Q2 (contraction of supply)

Domestic Demand: Increases from Q1 to Q3 (extension of demand)

Imports: Q2Q3 units

Domestic Producer Revenue: Decreases from A+B+D+E+F to A

Foreign Producer Revenue: B+C

Consumer Surplus: Increases by D+E+F+G

Producer Surplus: Decreases by D+E

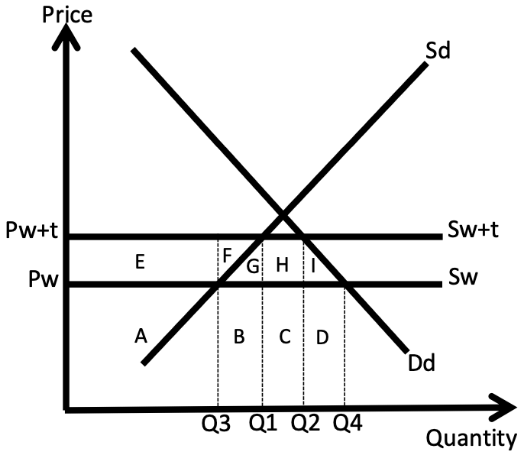
How to draw

1) Draw domestic supply and demand with equilibrium price and quantity 2) Add world price below equilibrium 3) Draw world supply at Pw 4) Add domestic supply and demand quantities

Where to use in essays

1) Analysing and evaluating benefits and costs of free trade 2) Analysing and evaluating reasons for protectionism

Free Trade – Tariff Removal



What the diagram shows

Price: Decreases from Pw+t to Pw

Domestic Supply: Decreases from Q1 to Q3 (contraction of supply)

Domestic Demand: Increases from Q2 to Q4 (extension of demand)

Imports: Increase from Q1Q2 to Q3Q4 units

Domestic Producer Revenue: Decreases from A+B+E+F+G to A

Foreign Producer Revenue: Increases from C to B+C+D

Lost Government Revenue: H

Consumer Surplus: Increases by E+F+G+H+I

Producer Surplus: Decreases by E+F

How to draw

1) Draw domestic supply and demand and add world price plus tariff below equilibrium 2) Draw world supply with tariff at Pw+t 3) Add domestic supply and demand quantities at Pw+t 4) Add world price below Pw+t 5) Draw world supply at Pw 6) Add domestic supply and demand quantities at Pw

Where to use in essays

1) Analysing and evaluating benefits and costs of free trade areas or negotiating free trade deals 2) Analysing and evaluating reasons for protectionism 3) Analysis and evaluating costs and benefits of trading blocs 4) Illustrating, analysing and evaluating trade creation

Microeconomics Definitions – Economic Problem

Basic Economic Problem	How to allocate scarce resources given unlimited wants. This forces choices to be made; what to produce, how to produce and for whom to produce for
Capital Good	Man made aid to production
Command Economy	Economic system whereby the government allocates scarce resources with no, or a limited, private sector
Division of Labour	When specialisation has taken place and the production process is broken down into narrow tasks
Entrepreneurship	Risk taking business activity for profit
Factor Income	Income of each factor of production; rent, wages/salaries, interest and profit
Factors of Production	Scarce resources used to produce goods and services; land, labour, capital and enterprise
Free Market Economy	An economic system where consumers and producers interact to determine prices and resource allocation with no, or limited, government intervention
Labour	Human resources to produce goods and services
Labour Productivity	Output per worker per hour
Land	Geographic land and natural resources from which goods and services can be produced
Mixed Economy	An economic system where resource allocation is partly left to the free market and partly to the government
Normative Statement	A value judgement/opinion that can't be tested
Opportunity Cost	The value of the next best alternative foregone when a choice is made
Positive Statement	A statement that can be tested
Production Possibility Curve/Frontier (PPC/PPF)	The maximum production of two goods or services that can be produced using all factors of production
Scarcity	The problem of finite resources when there are unlimited wants
Specialisation	The concentration of production on a narrow range of goods or services

Microeconomics Definitions – Markets and Elasticity

Ad Valorem Tax	Tax as a percentage of the price of a good/service
Allocative Efficiency	Making best use of scarce resources; Where resources perfectly follow consumer demand

Ceteris Paribus	All other things being equal
Complementary Good	Good in joint demand i.e. often bought with another good
Composite Demand	When different goods compete for the same input
Consumer Surplus	The difference between the price consumers are willing and able to pay for a good or service and the price they actually pay
Cross Elasticity of Demand	Measures the responsiveness of quantity demanded for good A given a change in price of good B
Demand	The quantity of a good or service consumers are willing and able to buy at a given price in a given time period
Derived Demand	Input demand; when demand for a good or service comes from the demand for something else
Disequilibrium	When demand does not equal supply
Equilibrium	Where demand equals supply
Free Market	Where consumers and producers meet to exchange goods and services free from government intervention
Income Elasticity of Demand	Measures the responsiveness of quantity demanded given a change in income
Indirect Tax	An expenditure tax that increases a firm's costs of production but can be transferred to consumers via higher prices
Inferior Good	A good where, as income increases, demand decreases and vice versa
Joint Supply	When the production of a good results in an increase in supply of another
Maximum Price (Price Ceiling)	A price ceiling enacted by the government usually set below the equilibrium market price
Minimum Price (Price Floor)	A price floor enacted by the government usually set above the equilibrium market price
Normal Good	A good where, as income increases, demand increases and vice versa
Price Elasticity of Demand	Measures the responsiveness of quantity demanded given a change in price
Price Elasticity of Supply	Measures the responsiveness of quantity supplied given a change in price
Producer Surplus	The difference between the price producers are willing and able to sell a good or service for and the price they actually receive
Specific Tax	A tax per unit sold
Subsidy	Money grant to firms by the government to reduce costs of production and encourage and increase in output

Satisficing Decision (Heuristic)	When consumers sacrifice some utility to make a satisfactory decision
Shoves	Policies designed to influence consumer behaviour by taking choices away from the consumer

Macroeconomics Definitions – Macroeconomic Objectives

Base Year	The benchmark year with which all other values in a series are compared
Distribution of Income	How evenly income is distributed across the economy
Economic Stability	The avoidance of volatility in economic growth, inflation, unemployment and exchange rates to promote confidence and investment
Economy	The exchange of goods and services between consumers, producers, government, international and banking sector
Gross Domestic Product (GDP)	The final value of all goods and services produced in an economy in a year
Gross National Income (GNI)	The total income earned by a country's factors of production regardless of their location: GNI = GDP + Net Factor Income
Growth Rate	The rate of growth of real GDP in an economy from the year before
Index Number	Number form that compares a data figure to the base year
Inflation Rate	The rate of growth of average prices in an economy from the year before
National Expenditure	The total expenditure on a country's goods and services in a year: C+I+G+(X-M)
National Income	The sum of all factor incomes earned in an economy in a year
National Output	The final value of all goods and services produced in an economy in a year
Nominal GDP	The final value of all goods and services produced in an economy in a year not adjusted for inflation, measured using current prices
Real GDP	The final value of all goods and services produced in an economy in a year adjusted for inflation, measured using constant prices
Sustainable Growth	Growth without excessive environmental damage and inflation – where the same benefits of growth can be enjoyed by both current and future generations
Unemployment Rate	The number of unemployed people as a percentage of the labour force

Macroeconomics Definitions – AS/AD

Accelerator	When an increase in the rate of growth increases investment which increases the rate of growth further
Actual Growth/Output	The current level of real GDP in an economy determined by the level of AD
Aggregate Demand	The total expenditure on a country's goods and services at a given price level in a given time period; C+I+G+(X-M)
Budget Deficit	When government spending is greater than tax revenue in a year (government borrowing or debt in a year)
Budget Surplus	When tax revenue is greater than government spending in a year
Business Confidence	Business expectations about future economic conditions and profitability which affects investment
Circular Flow of Income	The flow of income and spending throughout an economy
Consumer Confidence	Household expectations of future economic conditions and personal finances which affects consumption
Consumption	Household spending on goods and services in an economy
Discretionary Income	Income after tax, benefits and bills
Disposable Income	Income after tax and benefits
Economic Shock (Negative or Positive)	An unanticipated negative or positive impact on AD, SRAS or LRAS
Exports	The sale of domestic goods and services abroad
Imports	The purchase of goods and services from abroad
Injection	Expenditure on goods and services in an economy consisting of investment, government spending and exports (I, G and X)
Investment	Spending by firms on capital goods
Long Run Aggregate Supply	Represents the maximum output an economy can produce using all factors of production sustainably
Marginal Propensity to Consume	The willingness of households to spend extra income
Marginal Propensity to Import	The willingness of households to spend extra income on imports