Tutorial 1
Introducing Economics

1. Which of the following topics/issues belong to either macroeconomics or microeconomic?

(a) the impact of higher national saving on economic growth ....*Micro / Macro*
(b) subsidies paid to farmers ....*Micro / Macro*
(c) the level of China's exports ....*Micro / Macro*
(d) the price of DVDs ....*Micro / Macro*
(e) the rate of unemployment ....*Micro / Macro*
(f) the average wage rate paid to textile workers ....*Micro / Macro*
(g) the total amount spent by UK consumers on clothing and footwear ....*Micro / Macro*
(h) the amount saved last year by UK households ....*Micro / Macro*
(i) a firm's decision about how many workers to hire ....Micro / Macro

2. Economists assume that economic decisions are made rationally. In the case of consumers, rational decision making means:

(a) That consumers will consider all cost when deciding on purchasing goods.... True / False
(b) That consumers will attempt to maximise their individual satisfaction for the income they earn.. True / False
(c) That consumers buy what is in fashion. .... True / False
(d) That consumers seek to get the best value for money from the goods they buy.True / False

3. Make a list of three things you did yesterday. What was the opportunity cost of each? Have a look at your neighbours' lists and see if you agree with their estimates of the opportunity costs.

(a) ....

(b) ....

(c) ....

....

4. Three managers of the Magic Potion Company are discussing a possible increase in production. Each suggests a way to make this decision.

HARRY: We should examine whether our company's productivity—gallons of potion per worker—would rise or fall.
RON: We should examine whether our average cost—cost per worker—would rise or fall.
HERMIONE: We should examine whether the extra revenue from selling the additional potion would be greater or smaller than the extra costs.

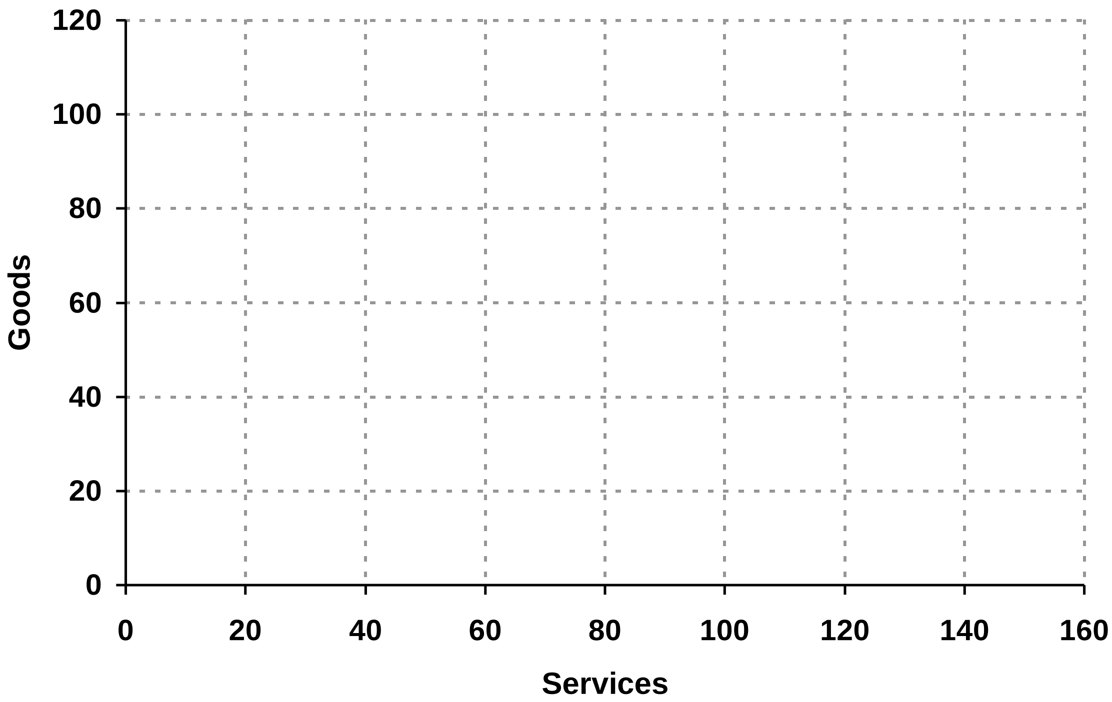
Who do you think is right? Why?

5. Discuss each of the following statements from the standpoints of equity and efficiency.
a. "Everyone in society should be guaranteed the best health care possible."
b. "When workers are laid off, they should be able to collect unemployment benefits until they find a new job."

6. A country is capable of producing the following combinations of goods and services per period of time, assuming that it makes full use of its resources of land, labour and capital.

Goods (units)	100	80	60	40	20	0
Services (units)	0	50	90	120	140	150

(a) Draw the production possibility curve for this country on the following diagram.



(b) Is it possible for this country to produce the following combinations of goods and services?
(i) 80 units of goods and 50 units of services .... Yes / No
(ii) 70 units of goods and 90 units of services .... Yes / No
(iii) 40 units of goods and 100 units of services .... Yes / No

(c) What is the opportunity cost (in terms of services) of producing 20 extra units of goods when this country is initially producing:
(i) 60 units of goods ....
(ii) 20 units of goods ....

7. Referring back to question 6, what would be the effect of the following on the PPF of the country?
(a) the demand for the country's services increased
(b) machines are imported into the country to improve production of goods
(c) government eases immigration policy for foreign workers who have expetise in the service industries

(d) the country receives telecommunications infrastructure funds from the world bank.

8. In Country A, which has full employment of its resources, a large increase in the production of goods and services provided by the public sector (such as health, education and new roads) would only be possible if there were a reduction in the production of other goods and services, such as consumer goods. In Country B, however, which is suffering from economic recession, it is argued that an increase in public expenditure on such things as health, education and roads, would result in the production of more consumer goods.

(a) Explain briefly why the effect of an increase in public expenditure on the production of consumer goods would be different in the two countries.

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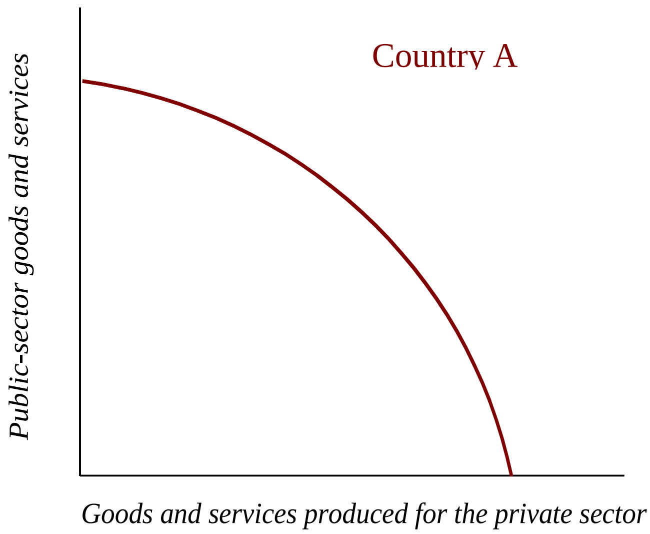
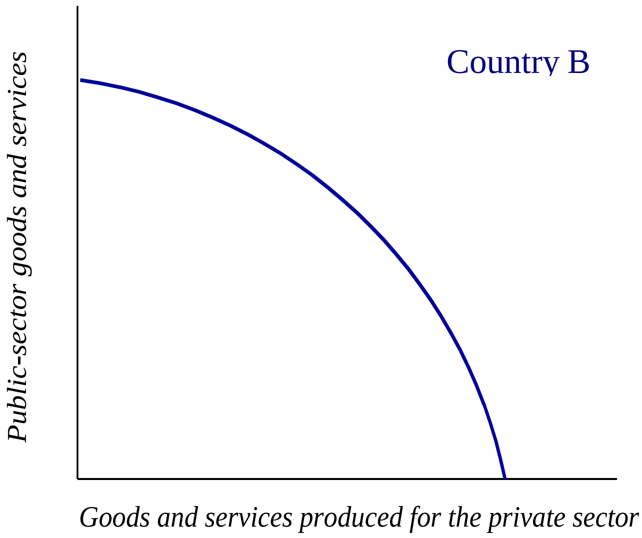
(b) The following diagrams show the production possibility curves for the Countries A and B. Mark the current production point on each diagram at a point consistent with the statement above. Then mark a new position on each diagram that would result from an increase in public expenditure.





(c) Explain your answer to (b).

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