

# econ

*by* Econ Econ Econ

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Macroeconomics

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1. In this case, the Gross Domestic Product will go down. The reason is that \$5000 is the value-added price. \$1000 and \$5000 gives a total of \$6000 which is the cost of the car. Therefore, selling it at \$3000, it will contribute negatively to the Gross Domestic Product. Sensibly, there will be a decline in GDP by \$3000.

2. The final goods and services being produced in financial domestically comprise of the Gross Domestic Product. Here my friend seems to be a misunderstanding that Gross Domestic product consists only of value goods. This implies that the kind of consumption, in this case, includes both goods and services.

3.a). Both will return to work, and this means the Gross Domestic Product will increase by producing more output at the workplace. The payment of \$600 to a child-care provider is a way of increasing the capacity of expenditure increasing GDP in the economy.

b Here both of them are still going back to work again, and thus the Gross Domestic Product will increase. However, it will not be too much as the case where we have the child-caregiver and thus the mother so Sandra will not be paid in this case.

c. here there will be an increase in the Gross Domestic Product as a return they to work. However, in the case of his brother, the \$600 have no impact to the Gross Domestic product simply because this amount is unreported to Canada revenue agency and this it would not be included in the GDP of the economy.

d. Sharing of child care responsibilities will affect GDP differently. Both of them will contribute to the growth of GDP. Here there a split of time off work and this implies that there will be only a raise of GDP by the period they will get back to work.

e. As Sandra continue working, this will contribute to an increase in Gross Domestic Product. However, in the event where Vinny is not working, it means he is adding nothing to the GDP.

4. Identifying the limitation of GDP relevant to each scenario

- a. There is a limitation of failing to factor in the negative externalities cost towards the environment, and as such it will be challenging to identify and estimate the cost associated with marine life destruction resulting from output's creation (Piros & Pinto, 2013 p31)
- b. There is a Limitation of failing to account as well as representing the nation's income inequality. The Gross Domestic Product will not constitute a big difference in inequality of income between rich and poor in the country.
- c. Here there is a notable limitation of excluding non-market transaction. In this case, the gross domestic product excludes, parent's output staying at home taking care of their babies. Generally, this includes any kind of challenge concerning transactions that covers what has been supplied by producers freely or at a fee, and this fee is economically non –significant.
- d. Limitation of failing to account for human health cost. People are doing a lot of work in the United States, contrary to those in Netherland. Most probably, this can negatively impact their health. However, the GDP contributes to the higher per-capita income of 15% with the health cost being left out.
- e. There is a limitation of non-market transaction exclusion. Concerning Google sources, the transactions seem to be free and are thus uncounted in the calculation

of Gross Domestic Product. Besides, the fact that transactions contribute to Gross domestic product through reduction of asymmetry of information is ignored.

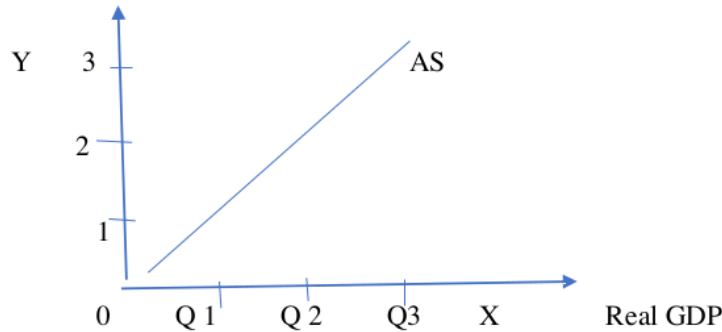
5. The demand and supply micro-economic forces are based on product's demand and supply within a given market besides analysis of its partial equilibrium whereas aggregate demand and supply are based on macro-economy and thus have a broad concept as shown below;

6  
Aggregate Demand = consumption + investment Government spending + Net export(s).

The Aggregate supply concerns overall goods and services that are supplied within the economy (Lee, 2019).

In a macro context market, the opportunity cost of buyers is more than the opportunity cost of buyers in a single market in a micro-market context. Therefore, with an increased number of people demanding certain products, there is also an increase in opportunity cost in the same market.

6. In case of an increase in prices within the economy, firms, businesses begin to supply more goods and services in the market. This is because of an increase in their profits. On the other hand, as prices fall the supply of decreases leading to upward shifting of AS curve



7. There is a couple of changes that can make AS curve to shift. They include:

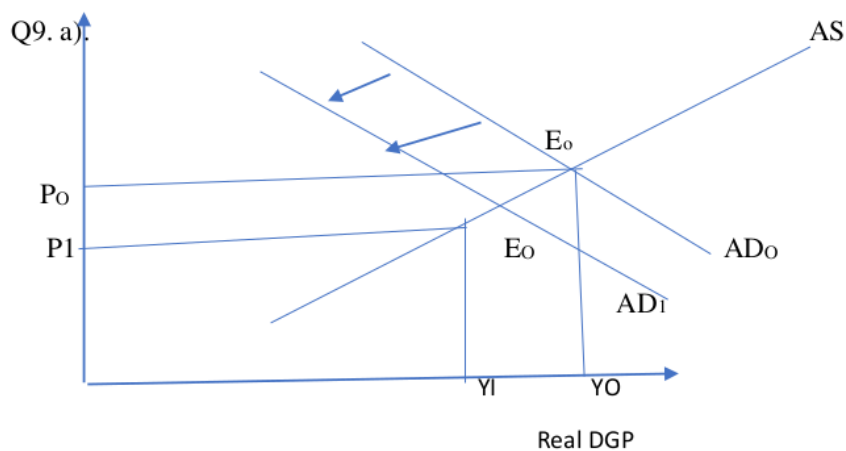
**Changes in the cost of units of labour:** An increase in the cost of labour per every output produced translate into a general increase in the cost of production which attracts high prices for final <sup>1</sup> goods and services making the supply curve for that product to shift inwards.

**Changes in Government subsidies or taxation.** For example, when the government raises tax rate will the high <sup>1</sup> cost of production, and in short-run, the Aggregate supply will shift inwards. As the taxes are lowered the price of products is reduced, and this makes the supply curve to shifts outwards in short-run (Piros,& Pinto, 2013. p 36)

**Changes in the exchange rate:** as the exchange rate depreciates, the cost of imports on raw materials increases and this attracts high prices for final goods; hence this makes the supply curve to shift inwards. Other changes include the entry of new firms in the industry and additional costs of production like the cost of equipment and labour.

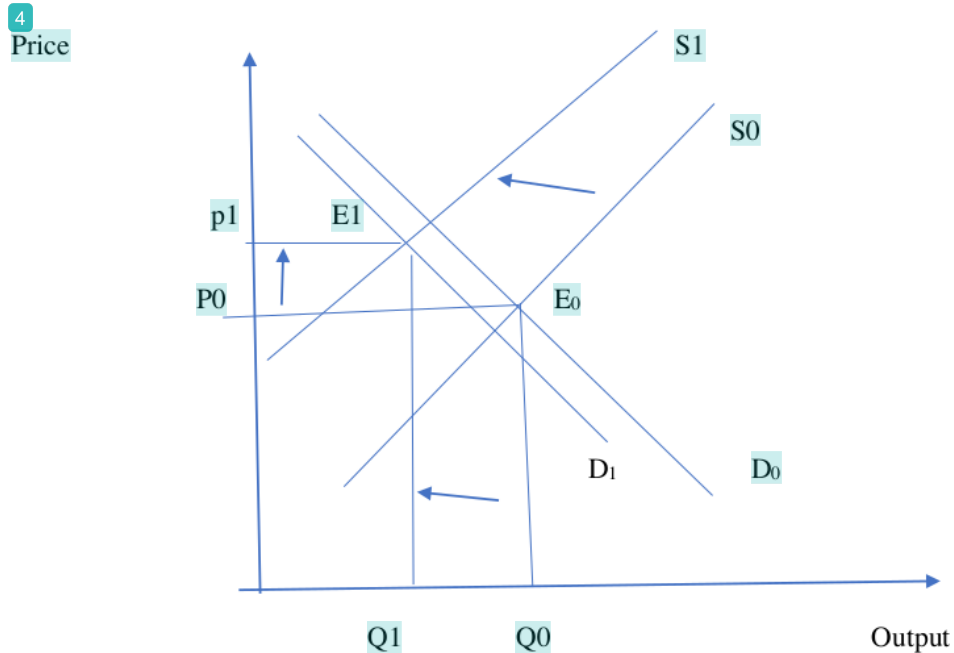
<sup>1</sup> The changes in the level of goods and services in the economy will lead to the movement along the aggregate supply curve(Lee, 2019).

8. The aggregate supply curve, in the long run, is vertical at Potential gross domestic product. It is expected that in long -run, the AS curve shifts, and this happens where there are potential changes of GDP resulting from Technology besides other production factors( Kelvin, 2003). any change in aggregate demand, as well as the resulting change in the prices, does hardly affects the potential Gross Domestic Product provided that, there is not shift I aggregate supply curve. Sensibly this will lead to unchanged output and thus in the long run, when determining output, the aggregate demand will not have any effect.



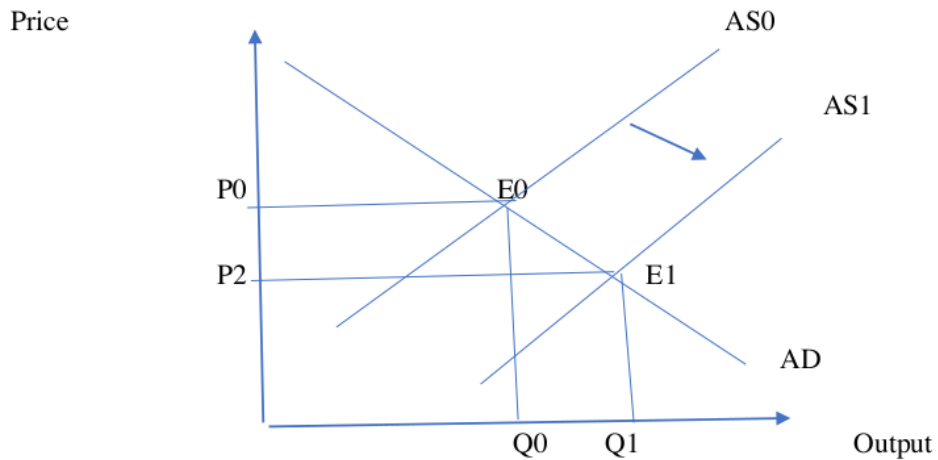
In this case, due to the pessimistic of the consumers translate into a decreased confidence; thus, the businesses in the economy will experience a shift in Aggregate demand to the left-hand side from  $AD_0$  to  $AD_1$ . As aggregate demand shift from towards the left, so it does the equilibrium ( $E_0$ ) with a low price than its original one. The new balance will establish itself at  $E_1$ . This equilibrium will be below potential Gross Domestic Product. Further, as government expenditure decreases or even increased taxes rate will results in less consumer spending and hence shift of Aggregate demand to the left.

Question 8 (b).



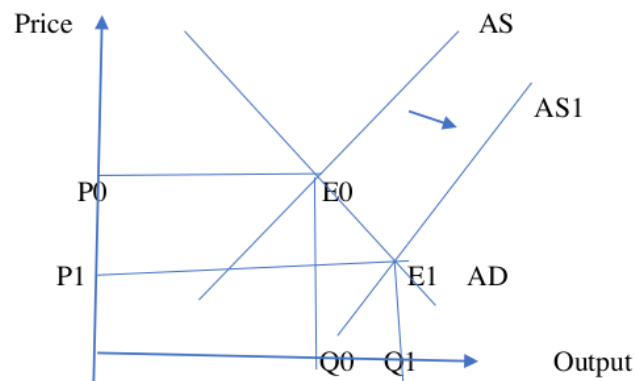
One of the reasons why consumers may decide to use solar cell technology is an increase in the price of other sources of energy in a country. Increase in price makes the demand for electricity to decrease, and this translate into a decline in its supply ( Output). In this case, an increase in energy prices from  $P_0$  TO  $P_1$  will lead to a decrease in supply from  $S_0$  TO  $S_1$  and shifting equilibrium from  $E_0$  to  $E_1$  due to a decline in demand. This will also result in a reduction in output from  $Q_0$  to  $Q_1$ , as shown above.

Question 9 (c). The federal government passes a new bill that dramatically increases government spending on the military



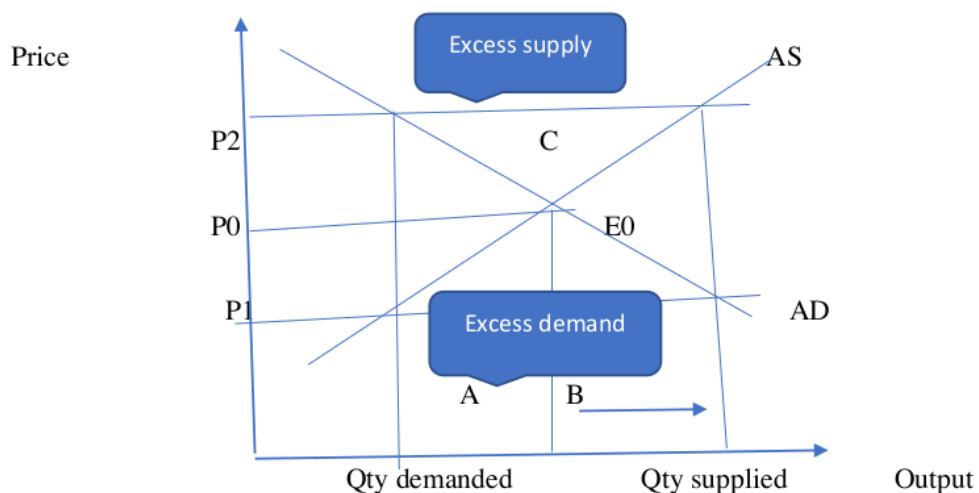
In the above scenario, the government has done expansion in terms of spending. Increase in <sup>3</sup> expenditure will lead to an increase in demand for goods and services. Therefore with increase in demand, the supply (Output) will also increase <sup>2</sup> from Q0 to Q1 with a shift in equilibrium from E0 to E1.

9. d). The Mexican government eliminates the tariffs it charges on goods exported from Canada



The scenario above explains how the elimination of tariffs on exports affects price and output in a country. The removal of tariffs encourages trade, whereby traders will be encouraged to export more. Elimination of tariffs means exporters have relived the high-cost burden, and since can pay lower or no price for exports, they will end up exporting more (Chapplelow, 2019. Besides exports, producers will produce more hence increasing supply (output) from  $Q_0$  to  $Q_1$ . The level of the production will shift from  $AS_0$  to  $AS_1$  <sup>2</sup> a shift in equilibrium from  $E_0$  to  $E_1$

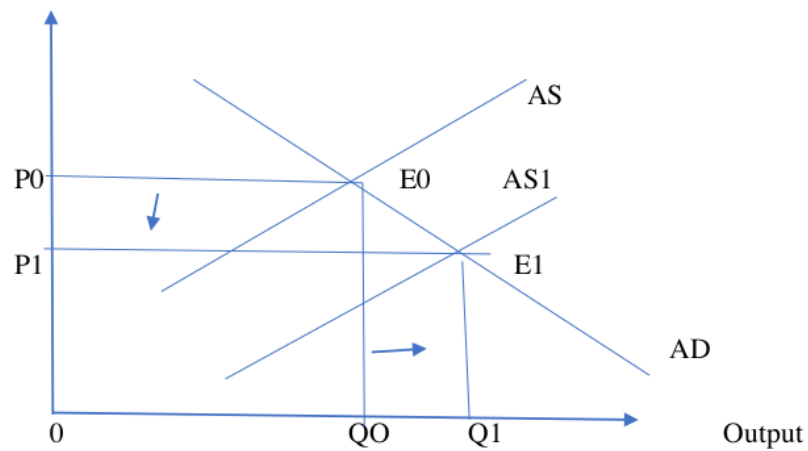
Question e).



In the above situation, due to the ongoing trade negotiation with the influx of trading partners, it means that soon the country will experience market disequilibrium brought by the imbalances of demand and supply forces. In the case where the state will trade with the influx of traders and goods and services, then it will lead to excess supply in the market with a shift in price from  $P_0$  to  $P_2$ . In the region, C shows the excess supply in the market. Region B is the quantity that will be supplied at price  $p_2$ .

Question 9 e).

Price



The Automation and decrease in transport cost mean that there will be a general decrease in prices for goods and services produced by the country from  $P_0$  to  $P_1$ . Now with eased transport, producers will be encouraged to provide in plenty and deliver goods in the market. This will lead the increase in quantity supplied (Output) <sup>2</sup> from  $Q_0$  to  $Q_1$  with a shift in aggregate supply from  $E_0$  to  $E_1$ .

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