**Economics Essays – Chapter 4 – The individual as producer, consumer and borrower**

**Essay Question 1**

**Money is said to be of vital importance in all economies. Money, in terms of how we earn it, spend it and save it, is of fundamental importance to everybody.**

**Describe the four functions of money. [4]**

Money is defined as assets that are used widely and accepted as payment. There are four functions of money: medium of exchange, unit of account, store of value and standard for deferred payments.

First, money functions as a medium of exchange. This means that money acts as a device for making transactions, which allows people to trade at a more cost- and time-efficient way. Therefore, money encourages specialization.

Second, money functions as a unit of account. Money is the basic unit for measuring economic value. A single, uniform measure of value is convenient as it simplifies comparison among different goods and services. For example, the price of a commodity and the wage are all expressed in dollars.

Third, money functions as a store of value. Money is a way of holding wealth. For example, individuals keep paper money at home or in the bank to hold personal wealth.

Fourth, money functions as a standard for deferred payment. This means that money facilitates both short-term and long-term transactions. For example, investors take 5-year bank loans for future investment. Therefore, money helps to promote economic growth.

**Essay Question 2**

**Describe the functions of a central bank. [6]**

A central bank is a government-owned bank that provides banking services to both the government and commercial banks. The primary function of a central bank is to manage the nation’s money supply. There are several functions of a central bank.

First, the central bank serves as a banker to the government. It stores tax revenue paid to the government and makes payment for the government.

Second, the central bank serves as a banker to commercial banks. It enables these banks to settle debts or withdraw cash via holding accounts.

Third, central banks serve as the lender of last resort. This means that they can lend to banks or other eligible institutions that are facing financial difficulty or near risk of collapse.

Fourth, the central bank manages the national debt.

Fifth, the central bank holds the country’s foreign reserves, so as to maintain exchange rate stability and facilitate the use of government policies.

Sixth, the central bank issues notes and coins. It is in-charge of the printing and destruction of notes and minting of coins.

**Essay Question 3**

**Commercial banks and stock exchanges are playing an increasing role in the Chinese economy with, for instance, more of the Chinese labour force being employed in the financial sector.**

**Describe the functions of a commercial bank. [4]**

A commercial bank is a private sector bank that aims to maximise profit through the provision of banking services, such as loans. There are three main functions of commercial banks: to accept deposits from customers, to lend and to enable customers to receive and make payment.

First, the commercial bank functions to accept deposits from customers. Deposits can be stored in either the current account or the deposit account. For current account, customers have easy and immediate access to money but interest is not paid on money held. In contrast, for deposit account, customers have to provide a period of notice before money can be withdrawn and interest is paid.

Second, the commercial bank functions to lend money to borrowers. Commercial banks serve as financial intermediaries by channelling money from savers to borrowers. Individuals can borrow either by overdraft or taking loan. It is important to note that commercial banks profit most of their interest from long-term loans.

Third, the commercial bank functions to enable customers to receive and make payment. These banks act as agents for payments and the provision of financial transactions. For example, transaction can be made through cheques, credit cards and online banking.

**Essay Question 4**

**Trade unions play a role in the New Zealand economy, but not every worker belongs to one. This is especially the case in small firms.**

**Describe the functions of a trade union. [4]**

Trade union refers to a group of workers linked together usually by a common occupation with the aim of improving or monitoring the welfare of the group, negotiating working conditions, wages, terms of employment, safety practices. There are several functions of a trade union.

First, a trade union serves to ensure adequate wage increment, so as to help workers manage the cost of living. Workers must have an income level sufficient to cover daily expenses.

Second, a trade union ensures working conditions are desirable and appropriate. For example, health and safety of workers are looked after and there are medical benefits to ensure the workers are healthy.

Third, a trade union ensures job security, which refers to the probability of keeping the job. The workers are protected in terms of staying employed.

Trade union achieves these aims through collective bargaining, which are negotiations between worker representatives and employers associations.

**Essay Question 4**

**(a) Describe the non-wage factors that can influence a person’s choice of occupation. [4]**

* job satisfaction - e.g. a person may enjoy a challenging occupation/an occupation such
* as nursing that involves helping people
* type of work/working conditions - for instance, an occupation may usually be
* undertaken in a clean and safe environment
* working hours - most people like to avoid occupations which involve very long hours
* unsociable hours
* size of the firm - some people like to work in occupations that are usually undertaken
* in small firms as there may be closer contact with employers and fellow workers/some
* people like to work in occupations that are usually undertaken in large firms as there
* may be greater diversity in tasks undertaken and greater promotion prospects
* career prospects/opportunity for promotion - some occupations have clear career
* progression e.g. teaching
* fringe benefits - such as subsidised housing/a company car
* number/length of holidays - most people like regular and long holidays
* pension scheme - people are attracted by a generous and safe pension scheme
* job security - people are likely to be reluctant to undertake an occupation in which
* workers are often made redundant/the industry is in decline
* location of job/distance and time to travel - most people prefer to work close to
* home/some people’s choice may be restricted to a particular area because of the
* difficulty/cost of travel

**(b) Discuss whether a worker in the services sector is always likely to receive a higher wage than one in the manufacturing sector. [9]**

Why service sector workers earn more than manufacturing sector workers

* service sector includes banking (banker), insurance (insurance worker), health (doctor) and education (teacher) etc.
* increase in demand for services will increase demand for labour - pushing up the wages of workers
* profits in the service sector may be high - increasing ability of firms to pay higher wages
* workers in the services sector may be more skilled than those in the manufacturing sector - increasing their productivity/bargaining strength
* Idea of deindustrialisation - unemployment increasing in manufacturing

Why service sector workers may not earn more than manufacturing sector workers

* manufacturing sector includes e.g. car production (car workers), food processing (food processing workers) and furniture making (carpenters)
* demand for workers in some manufacturing industries may be increasing more than demand for workers in service sector industries
* not all workers in the service sector are skilled - may have low productivity/bargaining strength
* some workers in the manufacturing sector will be in more promoted posts will have more experience
* more workers in the manufacturing sector may belong to trade unions may have stronger bargaining power

**Essay Question 5**

**(a) Analyse why there are often differences in the earnings of workers in the public sector and workers in the private sector. [10]**

* demand for workers may be higher in one sector, higher demand results in higher earnings
* supply of workers may be lower in one sector, lower supply results in higher earnings
* job security may be greater in one sector, this may encourage higher supply and so lower earnings
* pensions provided by one sector may be worth more, as a result people may be prepared to work for lower earnings
* trade unions may be stronger in one sector, this will give workers stronger bargaining power, which may push up earnings
* public sector may be more likely to comply with minimum wage legislation, this could raise average earnings in the sector
* there may be more overtime available in one sector, pushing up earnings
* skill/qualifications required may be higher in one sector, reducing supply, raising earnings
* risks involved in jobs in one sector may be higher, reducing supply, raising earnings
* status of working in one sector may be higher, increasing supply, reducing earnings.

**Essay Question 6**

**It was reported in the Netherlands in 2010 that the proportion of income that was saved, rather than spent, had actually increased for the first time in many years. At the same time, borrowing fell.**

**(a) Explain what could influence people to save more. [6]**

* interest rates, especially real interest rates
* availability of appropriate savings schemes
* advertising of/knowledge about what is available at financial institutions
* confidence/trust in financial institutions
* size of real disposable income
* rate of inflation
* wealth
* save for a future purchase, e.g. a house
* precautionary factors, e.g. ‘saving for a rainy day’
* satisfaction of wants and needs
* tastes and preferences of consumers
* consumer confidence/expectations about future changes in the economy, e.g. risk of unemployment.

**(c) Discuss how a government could encourage people to spend a higher proportion of their income. [8]**

* reduction in income tax to increase disposable income
* reduction in an indirect tax on expenditure, e.g. VAT
* government controls through maximum prices to keep prices of products affordable to many people
* a reduction in interest rates to make saving less attractive
* changes in savings schemes to make them less attractive, e.g. an increase in the minimum deposit to open one
* reduction/withdrawal of tax advantages of savings schemes.

**Essay Question 7**

**Trade unions play a role in the New Zealand economy, but not every worker belongs to one. This is especially the case in small firms.**

**(a) Describe the functions of a trade union. [4]**

* they exist to protect the interests of their members
* gain appropriate wage/salary increases; idea of collective bargaining
* job security
* working conditions/health and safety
* dismissal/redundancy
* possible influence on government at national level.

**(b) Why might some workers not belong to a trade union? [4]**

* union doesn’t exist in a particular line of work
* person is self-employed
* cost of annual fee/subscription is expensive
* worker doesn’t agree with views/actions of union
* employees are satisfied with their pay and working conditions
* they are illegal in some countries.

**(c) Why might a worker join a trade union? [4]**

* Define trade union
* Explain the possible benefits of trade union membership in terms of:
* wage/salary negotiations
* improvements in working conditions/health and safety
* negotiations on holiday provision
* negotiations on pension provision
* legal advice/representation
* social activities
* special discounted deals, e.g. on insurance.