Framework for discussion

**1. Demand and Supply**

Determinants of demand and Supply – Price and Output – affected by price-elasticity of demand and supply – how it affects the total revenue – further influenced by the price elasticity of demand

**2. Government regulation**

Types of regulation – price floor, price ceiling, taxation and subsidies – purposes – determinants – effectiveness

**3. Cost of Production**

Economies of Scale – types of EOS – internal and external EOS – affect AC as output increases or external eos occurs (AC falls) – increase profit – use MR and MC to determine how AC decreases to raise profit

**4. Market Structure**

Market concentration ratio – market share – degree of market power – shaped by BTEs – determined the slope of MR and AR – determines price and output – determines profit level

Price and Output level – determines production efficiency, allocative efficiency, dynamic efficiency to raise consumer welfare as consumer surplus increases (welfare of society)

Market concentration – determines types of competition (price and non-price competition)
- why firms do not use price competition / why firms use non-price competition

* Price strategy, product differentiation, product promotion, R & D, mergers and acquisition

Price strategy – why price is high or low / why price is stable

***Other areas of development***

Price discrimination, forms of government regulation

5. Market Failures

Source of market failures:
1. Negative externalities – gambling, pollution, smoking alcoholic drinks

2. positive externality – education, healthcare, library services,

3. public good – defence, flood control

4. imperfect market information – underconsumption and overconsumption

5. market dominance

6. Market solutions – use the price level to affect the quantity of consumption and production – taxes, quotas, subsidies

7. non-market solutions – do not price but enforcement or persuasion to influence qty of consumption – public education, rules and regulation, banning.

8.1 taxation –

Advantage - derive tax revenue, internalise external cost, a monetary disincentive

Disadvantage – PED undermine effectiveness, increase cost of living, undermines the lower income group

8.2 subsidies – strong incentive, help lower income group.

 Disadvantage - worsen budget deficit and raise public debt, must set criteria for the issue of subsidies

8.3 Public education – change mindset, solve root cause of market failures (erase negative externalities, solve imperfect market info, disadvantages – time factor, not easy to implement

8.4 direct provision – merit and public good – can provide benefits to all, reap eos in production, ensure equity and help lower income group / disadvantage -lacks technological knowledge, high cost worsen budget deficit and increase public debt

8.5 rules and regulations – tackle the root cause of market failures by confining the solutions on the problem, corrective solutions with punitive punishment

9. factors determining the choice of solutions

- fiscal position

- time duration for implementation

- efficacy of government

- availability of resources

- severity and causes of market failures – eg imperfect knowledge

- behaviours of consumers seen through concepts like PED – habitual consumption, staple food

Macroeconomics

1. ad-as (explanation for ST EG(actual growth), potential growth, slow growth, inclusive growth) – **sustained growth – increase in real GDP w/o increase in GPL**

2. ad-as – (cost-push inflation, demand-pull inflation, stagflation, deflation(decrease in AD> decrease in AS – decrease in real GDP and GPL ), deflation (increase in AS > increase in AD – decrease in GPL but increase in real GDP), policies to curb inflation – clear the excess demand by increase in the SRAS and LRAS,
3. Ad-as on unemployment – (increase in real GDP – under stock – need to increase production – increase in demand for labour to produce – reduce unemployment
4. AS-AD – increase in GDP > increase in GPL (deflation ) – increase in real GDP per capita

**Factors affecting the choice of policies or effectiveness of supply side policies**

1. fiscal position – in relation to budget deficit and public debt

2. severity of the economic issue

3. Constraints of the economy- size of the economy

4. Restraints of the policy – small multiplier

5. efficacy of the government – complexity of solution

6. availability of resources