

10) Functions of a central bank:

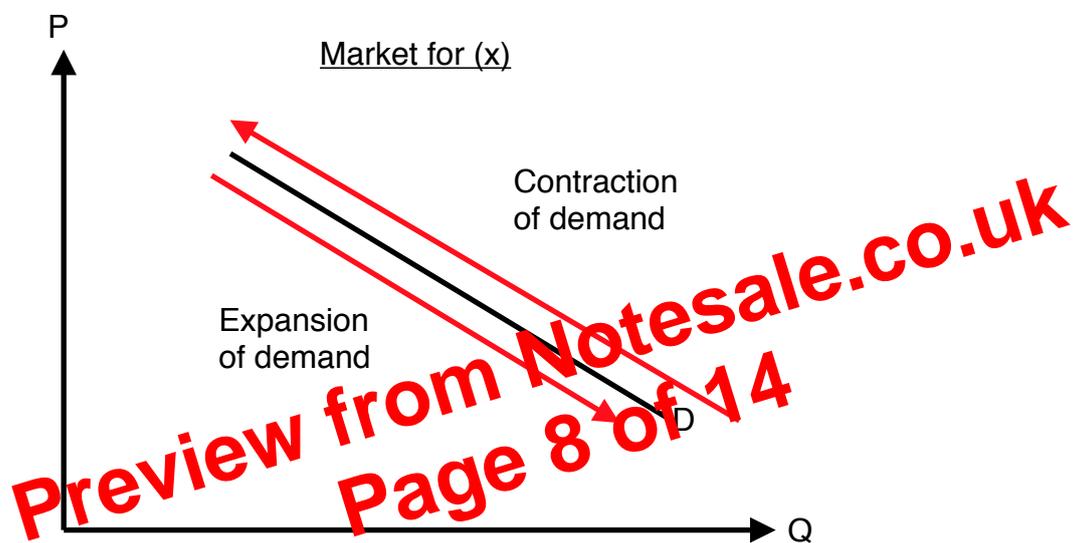
- A. Manage currency (production and distribution)
- B. Government's bank
- C. Holds gold and foreign currency reserves
- D. Sets official interest rate
- E. Supervises banks
- F. Banker's bank

Chapter 7: How Prices are Determined

1) In markets, prices are determined by the demand and supply of foods/services.

2) Demand:

- A. How much of a good consumers are willing and able to buy at each price.
- B. The law of demand - price of a good inversely affects quantity demanded.



- C. When $P \rightarrow$, $Q_d \leftarrow$ (Contraction of demand)
- D. When $P \leftarrow$, $Q_d \rightarrow$ (Expansion of demand)

3) A shift in the demand curve is caused by a change in demand, which is caused by a change in a condition of demand; which are:

- A. Rise in income of consumer
- B. Population increase
- C. Change in price of a substitute good
- D. Change in price of a complimentary good
- E. Advertising campaign (or bad PR)
- F. Change in interest rates

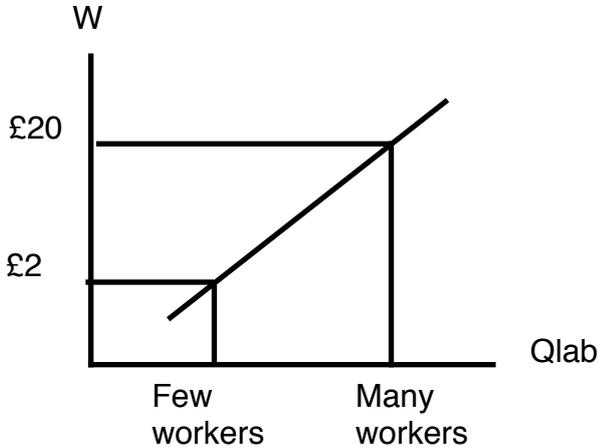
4) Supply:

- A. Willingness and ability of firms to sell goods
- B. Firms are profit maximisers

4) Supply of labour - the quantity of workers that are willing and able to work at each wage:

A. Factors affecting SI:

- i. Skills, experience and qualifications required for a job
- ii. Change to the non-wage benefits/satisfaction (holidays)
- iii. Changes to the wage/non-wage benefits of a substitute form of employment (result of increased demand for that form of employment)

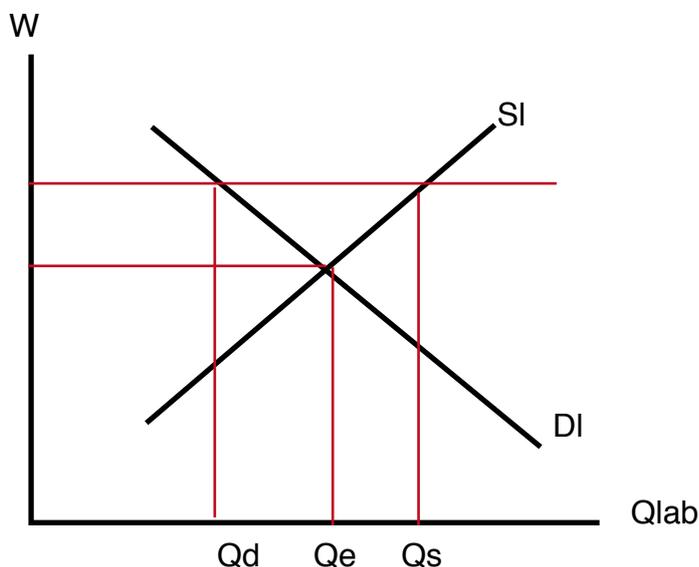


5) Wage differentials - reasons different workers in different jobs receive different wages:

- A. High and inelastic demand, low and inelastic supply (GPs) - high pay, high barriers to entry (training) - demand determines pay
- B. Low and elastic demand, high and elastic supply (unskilled jobs, low qualification, low productivity) - receive low wages - Apparent capital substitutability.
- C. Compensating differentials - non-wage benefits/conditions (dirty jobs, unsociable hours)
- D. Satisfaction

6) Government intervention in the labour market:

- A. National minimum wage - minimum hourly rate for all over 21 of £6.08.
 - i. Reason for NMW - raises standard of living for workers on very low wages, prevents exploitation of vulnerable workers
 - ii. Governments must be careful not to create unemployment with high NMW
 - iii. Best to set NMW at W_e (no unemployment, protects workers)



There is an excess of supply, which is unemployment.