-all Gov. , centralized decision
Mixed economy : all three combined together

Common misconception:

1. In a one-man economy , there is no scarcity
- there is still scarcity , but no market price , as there is no market

2. Scarcity is the result of shortage
- when scarcity exists , shortage may not exist. Shortage is the result of price fixed below equilibrium price.
- no scarcity , no price , no shortage
- whenever there is shortage, scarcity exists

3, competition will still occur when all goods are free-goods or in a one-man economy
- will not occur

3. Definition of economic good
- At zero price, quantity demanded is larger than quantity supplied

4. Opportunity cost still exists with no choice

5. Interest must exist with money

6. Interest can exist without a market

7. Common property = public good

- X know before production
- Rate of return: + , - or 0

DIFFERENCE between labour n entrepreneurship

MAN-MADE
Capital
stock in warehouse # - consumer good not in the hand of consumers
- facilitates production of seling services
, when D increase suddenly

**** Knowledge n beauty – human capital – increase productivity of labour

Characteristics:
1. Increasing productivity of other factors
2. Involve opportunity cost
- produce more capital – less consumer gd
 scarce resources
    - present consumption decreases
    - more capital – productivity increases – raises future consumption standard
    ********investment ******* = interest (as factor income)
    (give up present consumption for more future consumption)

Capital formation : production or purchasing capital
(gross investment)

Capital consumption : wear out of capital
(depreciation)

change in capital stock (net investment/ capital accumulation)
= CF – CC
(can be + or -)

NATURAL- land
must have contribution to production
X deserts , infertile soil##

Characteristics:
1. fixed in supply at any moment(XX OVER TIME e.g. billion of years)
2. immovable
- if moved – human effort is applied > CAPITAL
3. X opportunity cost

Oligopoly

- a small no. of sellers- dominant
- doesn't matter – as the market influence – from entry barriers n market share
- # ENTRY BARRIES :
  1. new entrants with small market share – hard to enjoy the same economies of scale
  2. already build up – brand names + confidence of consumers
  3. government license may be required
- Imperfect info
- Interdependent in behavior – one reduce price – 0thers reduce price too – ####PRICE WAR ####

  - Price searcher – product differentiation – can raise price without loosing c
  ### THERE MAY BE A PRICE LEADER ### others follow

* YES = price n non price

Ch.13 efficiency of a market economy

Total social surplus: net social benefit > Maximized > efficient

- 2. Bring benefit- X income ----   -- underproduction
- > DWL

Positive externality
- private benefit
- external benefit- brings benefit to society- without payment (so only consider their own benefit)

Social benefit – PB+EP (D)
- so, SB> PB – underproduction

Negative externality
- PC- cost bare by an individual
- EC- cost imposes on others (WITHOUT COMPENSATION)
- Social cost – PC+EC (s)

Solved by 1. Government intervention
2. market exchange

1. BY taxes – negative externality

- increase production cost – MPC (make them bare the M external cost)
- discourage production

2.Subsidy – positive externality

- reduce MPC – encourage production

MPC decrease by MEB
S increase

- if unit subsidy= MEB
- no DWL
- no underp

3.Quota – negative externality

-

- Supple decreases

4. Defining and protecting private property rights - + externality

- Intellectual property laws
  - e.g. increase their incentives to invent new stuff – can receive payment from others when they use their design -### increase PB – produce more

Pollution permits
-pay more for more permits
- increases MPC
- decrease output

5. Public ownership – negative externalities

- government become a provider of a good
- can produce according to SC n SB

equal distribution of income welfare	transport , fruit money	
	# DISINCENTIVE EFFECT - DWL to society Discourage production- cause loss	e.g. salaries n profit tax - take away income - lower incentive for working n investing unemployment benefit - discourage the unemployed from seeking jobs
	2. minimum wage legislation	Increase income of low-paid workers - transfer income from the richer to the poor
	# negative effect : DWL to society - excess supply of labour - unskilled – laid off	Unskilled – unemployed The poor become poorer
Equalizing opportunities Equal opportunities to create wealth – with their own strength - under fair rules	1. protecting private property rights and equal opportunities in the market	- in a market economy everyone has equal opportunity – guided by market force - gov. shud protect PPP, - X discrimination - Unfair market practice
	2. Education and training	Free education – children of poor family retraining programme- unemployed workers # accumulate human capital – improve productivity

Ch.16 part 1

GDP= monetary value – final gds n services- by all resident producing unit of an economy – within a specific period of time

Value of Intermediate gd used – included – Final value

Excluded ;

1. 2nd hand good	X current production Value included in 1st transaction
2. illegal activities	Hard to get reliable data
3. Goods are not produced in that period	X current production
4. Transaction on shares and bonds	X production, transfer in ownership
5. insurance compensation from injury	X current production of service
6. social welfare (fund raising)	X production, transfer payment
7. unpaid services- by household – own consumption	X market value , X reliable data

Special case (included)

1. Commission , stamp duty, dividend received	PRODUCTION OF SERVICE
2. buying insurance	PRODUCTION OF SERVICE
3. interest payment to mortgage loans	PRODUCTION OF lending SERVICE
4. rental value of self occupied property	Provision of rental service for oneself
5. Value added of intermediate good	
6. ppl spend welfare on services	Production of services

Circular flow model

Household Firm

1. output (value-added) = total revenue
   = Value of output- value of intermediate gd from other firms
   # add up each stage

special

1. contribution of Amy's garment factory	Only require one od the stage
2. Electricity and water charged	Included (from other firms)
3. Wage , profit tax	XXXXXXXX

Ch.17 unemployment

Labor force – all person age 15 or above – perform any work for payment or profit – or available for work and seeking work

X include:
1. retired person
2. full-time students
3. below 15
4. without working ability

composed of :
1. employed population

(include underemployed – work less than his maximum cap. , available for seeking more job)
- with formal job attachment (on holiday , leave)
- payment / profit

2. unemployed population

###Unemployment rate:
- depends on % change in U population and labor force
- real GDP – increase with the increase in employed pop.

Rate :

$$\frac{\text{unempolyed}}{\text{labor force}} \times 100\%$$

1. A group of teacher quit their job- enroll a full-time course in Uni	LF decrease	Unempolyed population unchanged	U rate increase (as 分母 decrease)
2.foreign top students come and work in hk , total no. of job remains unchange	Increase	Increase	Increase (as 分母, 分子 increase by the same no.) % change: 分子》 分母
3. foreigners come and fill up the long-vacant post	Increase	Unchange	Decrease

	easier
4. store of value	Purchasing power of money can be stored up for future consumption - more convenient for storing wealth

Qualities of good money

1. generally accepted	Everyone accept it as medium of exchange
2. scarce in supply	- relatively scarce
3. Durable	- durable/ long-lasting -to perform he function of store of value
4. Divisible	- can be divided into small unit without losing its value
5. Homogeneous	- each unit of $= uniform in quality for easy recognition - gd enough to prevent forgery
6. Portable	- easy to carry around *large transaction
7. Stable value	- rather stable over time - people trust it

Forms of money

1. Commodity money	Physical good – had intrinsic value - heavy metals are inconvenient to carry around
2. Convertible paper money	Gold/ silver certificates (representative commodity money) - system: gold standard / silver standard - limited by supply of gold and silver
3. inconvertible (fiat) money	- coins and banknotes legal tender: issued by government treasury, central bank or private commercial banks (declared by the gov. , accepted by law) coins: token coins , metal content is less valuable than the face value of a coin

Deposits money

1.Demand deposit (current account) (as store of value/	- write cheques to make payments - x interest - transactions involving large payment amount

Max. banking multiplier : 1/ RRR
Banking multiplier : 1/ARR

Method 1

Max. increase in total deposit :	Initial increase in D x (1/rrr)
MAX. increase in loan:	Initial increase in loans (initial increase in D (1-rrr)) x mc
Max. increase in $ SUPPLY:	Change in c in pc + max. change in total deposit (new max. – old D)
Max. possible amount of deposit :	Max. change in D + original amount

Method 2 (when new D added / withdrawn)

1. Max. possible amount of total deposit :	Actual reserve / rrr
2. Max. change in loans	(actual reserve/rrr – AR) – ORIGINAL loan
3. Max. change in deposit :	Actual R/ rrr- original D
4. Max. change in $ supply :	Change in cp + change in mx D #: REMITTED OVERSEAS = x DEDUCT THE CASH FROM SUPPLY
5. Total money supply	Total Cp + total deposit
6. Immediate change / change in excess reserve :	- find new reserve - find new rr -find new er = new er- old er

WHEN there is new deposit to the bank ,
Max. increase in $ supply < max increase in deposit
(increase in D – decrease in cash) (increase in D)

when there is a fall , in the rrr, (X change in pc)
max. increase in money supply = max. increase in deposit
(increase in D -0) (increase in D)
NO CHANGE IN PC

Explanation:
1. deposit creation
- after the bank receives the D ($x m), there is excess reserve ($xm) ,