I.I.5 SPECIALISATION AND THE DIVISION OF LABOUR

Key Points	le.co.ul	K				
WHAT AR	E THE ADVANTAGES AND SADVANTAGES OF SPECIALISATION AND TRADE?	WHAT COUNTS AS MONEY AND WHAT ARE ITS FUNCTIONS?				
IEFITS .	Increased production of G & S due to allocation of resources to production of goods that can be produced more efficiently (i.e. an increase in productive efficiency) Increased consumption by exporting G&S in exchange for other G&S produced more cheaply elsewhere	"NARROW" MONEY Notes and coins in circulation i.e. outside the Central Bank	" BROAD " MONEY Notes and coins PLUS bank deposits			
· BEN		Medium of Exchange	No need for a double coincidence of wants			
Z	• Can lead to structural unemployment e.g.	Measure of value	Ability to compare and value different goods and services			
OSTS/ UATIC	 Manufacturing in Northern England A break down in the supply chain can have severe consequences 	Store of value	Ability to save money enables people to store wealth			
EVAL	 Can lead to primary product dependency → price volatility and deteriorating terms of trade 	Method of deferred payment	Ability to measure future claims e.g. agree a salary for the coming year			

1.2.7 PRICE MECHANISM

Key Points

With reference to the diagram below, explain how the market remail brium mates 36 Frem A to C. Dane

- Demand increases from D1 to D2
- At PI there is now excess demand (a "shortage") equal to Q2 QI
- As a result, prices start to rise due to the **price mechanism**..



SIGNAL EFFECT

Higher prices acting as a signal to other producers that there is a shortage

INCENTIVE EFFECT

Higher prices *incentivises* producers to increase supply and consumers to decrease demand

RATIONING EFFECT

Higher prices reduces the number (i.e. rations) of consumers that are willing and able to purchase the good

Prices will continue to increase until there is no longer a shortage and a new market equilibrium is reached (point C).

1.2.9 INDIRECT TAXES AND SUBS

WHAT IS THE IMPACT OF AN INDEGE Sale.CO.UK Increase in price -> door

- of living, inequality (regressive)...
- Decrease in consumer surplus
- BUT.... Depends on tax incidence

PRODUCERS

- Decrease in price received and decrease in quantity bought/ sold \rightarrow decrease in producer revenue.
- Decrease in producer surplus
- BUT.... Depends on tax incidence

GOVERNMENT AND SOCIETY

- Increase in govt. revenue \rightarrow impact on budget/spending.... ٠
- Welfare gain (assuming correcting negative externality)
- BUT....welfare loss (if no externalities or due to govt. failure) •

WHAT IS THE IMPACT OF A SUBSIDY ON

CONSUMERS

- Decrease in price \rightarrow increase in disposable income \rightarrow standard of living, inequality...
- Increase in consumer surplus
- BUT.... Depends on subsidy incidence

PRODUCERS

- Increase in price received and increase in quantity bought/ sold \rightarrow increase in producer rev. \rightarrow reinvested \rightarrow dynamic efficiency
- Increase in producer surplus
- BUT.... Depends on subsidy incidence & may cause dependency

GOVERNMENT AND SOCIETY

- Welfare gain (assuming correcting positive externality)
- BUT....welfare loss (if no externalities or due to govt. failure) & cost of subsidy (opportunity cost)

I.3.I (a) UNDERSTANDING MARKET FAILURE



LESSON 4 OUTCOMES



I.4.2 Government Failure

Plan a Them I 25 mark question

I.4.I (b) – OTHER METHODS OF GOVERNMENT INTERVENTION

Carbon Pricing, Incentives and Reducing Emissions at the Lowest Grand Cost

Imagine a country had 5 major row or planes operating with the following emissions. The government has a target of relicing emissions by 50%.

INTERVENTIONIST POLICY: the government insists that each power plant reduces their emissions by 50% (NOTE: this is a type of "regulation").

Calculate the costs of emissions reduction using this policy.

	Α	В	С	D	E	TOTAL
Current Emissions (tonnes of CO ²)	800	2000	2000	700	1500	7000
Cost of reducing emissions by I tonne	£I	£1.50	£0.80	£0.50	£2	N/A
New Emissions	400	1000	1000	350	750	3500
Cost of Reduction	£400	£1,500	£800	£175	£1,500	£4,375

MARKET-BASED POLICY: Suppose instead that each firm is issued with permits to emit CO², and that each firm is given a total number of permits equal to 50% of their current emissions levels (e.g. Firm A will be given 400 permits i.e. I permit per tonne of CO²).

Firms may either buy permits or sell permits that they do not need.

The government sets the price of a permit at £1.25.

Calculate the costs of emissions reduction using this policy. (Note: for each firm compare the cost of reducing emissions vs cost of purchasing the necessary permits)

	А	В	С	D	E	TOTAL
Current Emissions (tonnes of CO ²)	800	2000	2000	700	1500	7000
Cost of reducing emissions by I tonne	£I	£1.50	£0.80	£0.50	£2	N/A
New Emissions	0	2000	0	0	1500	3500
Cost of Reduction	£800 - £500 = £300	£1,250	£1600 - £1,250 = £350	£350 - £437.50 = -£87.50	£937.50	£2,750