

**WAGES:** Include salaries and forms of payments for labour, LIEU, stocks shares, stock options

**WAGE DETERMINANTS:**

- **Labour productivity:** how much you can produce per hour.
- **Education:** the higher degree or more education you have, the higher the wage.
- **Work Experience:** the more work experience you have, the higher the wage.
- **Job conditions:** depending on the environment, the more incentives
- **Regional Disparities:** one part of the country to another, there will be different wages. Sometimes you will make more money because people are hesitant to work there or move there (working up North in the cold).
- **Market Power:** How many workers there are compared to, how many jobs there is. Wages will be higher if there are unions for the jobs (jobs at loblaws).
- **Discrimination:**
  - A) **Job Discrimination:** A specific reason on why you do not get hired, a higher salary or promotion. (When you are not being hired because you're too old, not being promoted because you are female).
  - B) **Job Segregation:** The job itself is categorized lower and discriminatory of the occupation (clerks vs secretaries; all though they are the same job, clerks were male and secretaries were female, so clerks made more money)

**LABOUR UNIONS:**

- Influence:
  - Wage rates
  - Workplace standards
  - Employment levels
  - Working hours

**TYPES OF UNIONS:**

- **Industrial Unions (inclusive union):** for a certain industry, regardless of occupation. There are less works because of higher pay.
- **Craft Union:** particular occupation, exclusive unions not everyone can join, obtain union card (usually apprenticeship is requires, higher pay because it restricts workers)

**UNION LOCAL:** for a certain factory, company or geographical area

**CLOSED UNION:** all workers must be part of union

**UNION:** all workers must join union after a certain period of unemployment

**OPEN UNION:** membership not mandatory

**NATIONAL AND INTERNATIONAL:**

- ❑ **National:** headquarters and locals in Canada (ex. CUPE #1)
- ❑ **International:** headquarters + most locals

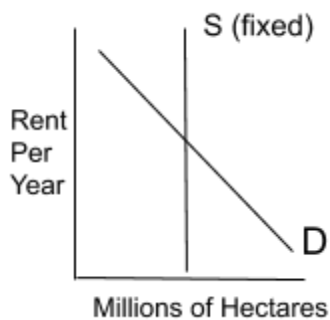
**FEDERATIONS + CONGRESSES:**

- ❖ Provide a collective voice for unionized labour (not in charge!!)
- ❖ Duties are lobbying and settling disputes between unions (ex. Canadian Labour Congress)

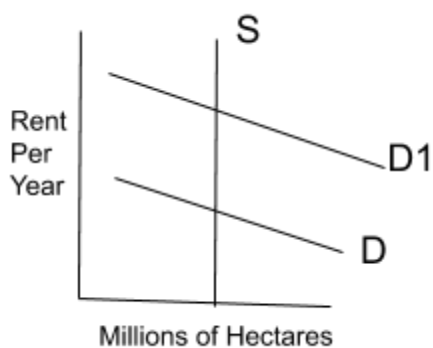
**COLLECTIVE BARGAINING:**

- There is a collective agreement (negotiation of wages and other conditions of employment by an organized body of employees).
- Very long to make a decision
- If negotiations are going poorly... third-parties can come in; there are two types:
  - **Mediation:** an impartial third party that listens to both sides and the mediation and two sides will all collectively make a decision.
  - **Arbitration:** a third party that will listen to both sides and make a decision
- If no settlements reached...
  - **Work to rule**
  - **Strike**
    - **Rotating strike:** A strike organized in such a way that only part of the employees stop work at any given time, each group taking its turn.
    - **Wildcat strike:** A strike action undertaken by unionized workers without union leadership's authorization, support, or approval; this is sometimes termed unofficial industrial action.
  - **Lockout:** A lockout is a temporary work stoppage or denial of employment initiated by the management of a company during a labor dispute.
  - **Hiring replacement workers (SCABS)**

**RENT:** The payment for use of a productive resource that is available only in a fixed amount.



A rise in the price of beef will have farmers wanting more land. Therefore the price per hectare will rise.



**PROFIT:**  $P = TR \text{ minus IMPLICIT COSTS minus EXPLICIT COSTS}$

- Implicit costs (opportunity costs)
- Explicit costs (normal costs)

Why is profit a good thing?

- A) **Return on Risk taking**
  - If you do good, you can make money
- B) **Measure of Effectiveness**
  - Comparing to competitors
  - Managers and investors are looking to see if we are effective
- C) **Source of Funds**
  - If you don't make money, you cannot expand machinery, tools etc...

**INTEREST:** The cost of borrowing money!!

<b>PRINCIPAL AMOUNT</b>	+	<b>INTEREST</b> for your investment
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\$100 at 5% pa (principal amount) → calculate the value of the investment at the end of the year

$$100 \times 1.05 = \$105$$

### **THE LOANABLE FUNDS MARKET:**

- All monies made available by lenders to borrowers

### **BOND:**

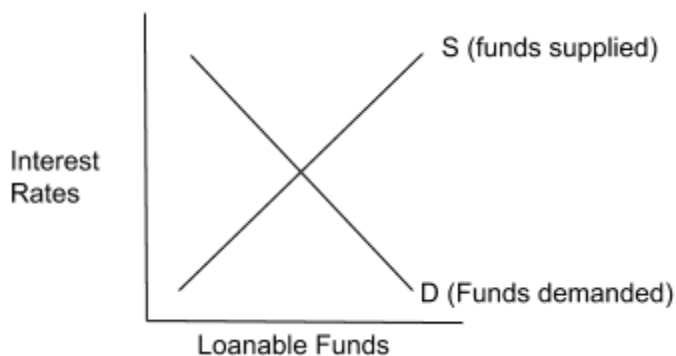
→ P + I, formal contract to maturity date

### **HOW TO DECIDE WHETHER TO GIVE A LOAN OR NOT?:**

**Real Capital** → assets such as buildings equipment (that depreciate)

**Financial Capital** → cash, bonds, shares

Demand for loanable funds and interest rates are inversely related



The supply of loanable funds comes mostly from savers who decide to earn interest instead of spend.

### **EQUILIBRIUM INTEREST RATE:**

- Intersection of demand and supply curves for loanable funds

### **CHANGES IN DEMAND:**

- Rise in consumer purchases of big ticket items
- Opportunity to do a project for businesses to make a large profit, they want to do it NOW, borrow money

### **CHANGES IN SUPPLY:**

- Saving habits of households, it has to be worth their while to save!

### **INTEREST RATE CHARGES DEPENDS ON:**

1. **Credit Risk**
  - Bond Rating (AAA... CC... )
2. **Loan Period**
  - How long does it take to pay back the loan. Shorter time to pay back, means lower interest rates.
3. **Collateral**
  - Assets pledged by a borrower as security.
4. **Size of Loan**
  - The larger the loan, the lower the interest rates

### **DAVID RICARDO:**

#### **Theory of Rent:**

- Landowners receive excess revenue that remains after all costs paid, and normal profit assumed.
- Why? Because land is fixed. Bidding raises the P to its maximum value.
- How much you charge for rent depends on the grade of land and what it can produce.
- If production costs increase more than revenues, **do NOT cultivate.**
- As population increases, less productive land would have to be brought into production.
- LAND OWNERS REAP REWARDS

### **CORN LAWS:**

- Laws restricted the purchase of foreign wheat ("Corn") through tariffs (tax on imports)
- Therefore, the price of wheat increases, the intent was to help domestic farmers, but the landowners increased rent because wheat was lucrative and ultimately the landowners received more money.
- Corn Laws were repealed after Ricardo's death

### **MOVIE NOTES:**

- UAW:
- General Motors was the most influential company
- GM shuts down in U.S and opens in Mexico .∴ reduce labour cost
  - Caused public complaints (Roger Smith, Chairman of GM)
  - Laid Off 18000 jobs in Flint
  - Less taxes for social welfare

### **Measures of Economic Activity:**

### **GDP (Gross Domestic Product):**

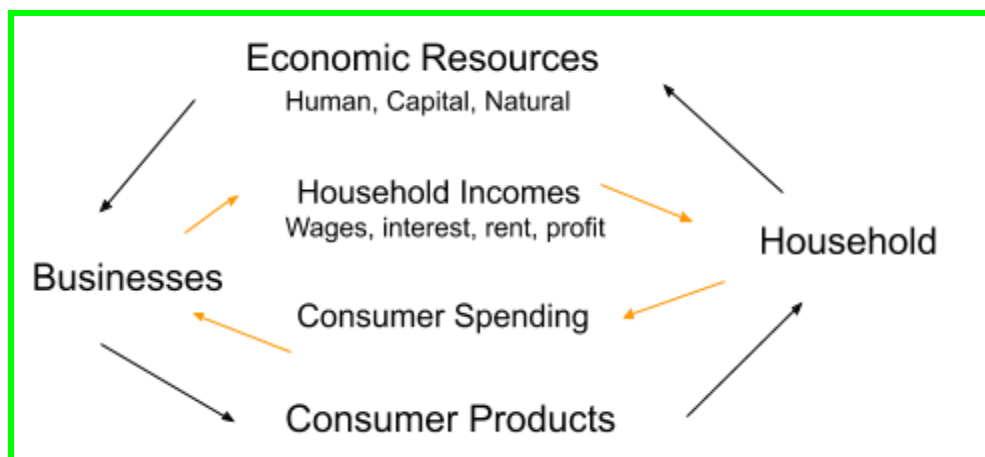
- The total dollar value (at current prices) of all final goods and services PRODUCED in Canada over a given period.

### **National Income Accounts:**

- Accounts showing the levels of total income and spending in the CAD economy

### **Circular Flow Diagram:**

- (outer loop-counterclockwise represents the flow of products/resources)
- (inner loop-clockwise represents the flow of \$)



### **Two Ways To Calculate GDP:**

1. **Income Approach:** add together all the incomes in the economy to give GDP
2. **Expenditure Approach:** add together all consumer spending in the economy to give GDP

**GDP Identity:** GDP calculated as total income = GDP calculated as total spending

### **Expenditure Approach:**

- Final Products: Will not be resold, will not be processed further.
- Intermediate products will be resold and processed further.
- There may be CROSSOVER → apples to eat **FP** (final product)  
→ apples make pie **IP** (intermediate product)

**Double Counting:** counting the same product as IP and FP which would overstate the GDP.

### **Value-Added Calculation:**

	Total Value Paid	Value Added	Business That Reports added Value
Wood Cut	1.00	1.00	Logging
Paper processed + sold to retailer	2.75	1.75	Paper Co.
Paper sold to consumer	4.00	1.25	Retailer
TOTAL	7.75	4.00 (Only need to report \$4 to the GDP)	

### **Excluded Purchases:**

- Does not relate to current production
- 1. **Financial Exchange:** → gift of money
  - bank deposits
  - stock purchases

**BUT service charges are included!**
- 2. **Second Hand Purchases:** → because you have already counted the purchase in GDP at first purchase.

### **TO CALCULATE GDP:**

$$C + I + G + (X-M)$$

- **C** = personal consumption by household
  - ★ Education falls under personal consumption OR government purchases, NOT gross investment because can't measure the revenue!
- **I** = gross investment (purchase of assets intended to produce revenue)
  - Equipment and machines
  - Increase in inventory
  - Construction of buildings
  - Personal savings
  - (subtract depreciation from capital assets)
- **G** = government spending

- Not included: transfer payments to household, subsidies to business, expenditures for government owned agencies for INCOME PRODUCING ASSETS
- **(X-M)** = net exports
  - X= exports
  - M= imports

### **GDP and Living Standards:**

- GDP per capita (  $\frac{GDP}{Population}$  )
- Adjustment for inflation:  $\frac{Real\ GDP}{Population}$
- Exchange-Rate adjustments: in USD to compare to other countries

### **GDP May Be UNDERSTATED Because of The Following:**

1. **Excluded activities**
  - Non market activities (housework, do-it-yourself)
  - Underground economy (work for cash, do not report, do not pay taxes)
2. **Product Quality**
  - Improvements do not factor into GDP only the sale price
3. **Composition of Output**
  - What is being produced:
    - Country A: Military
    - Country B: Education, health care
4. **Income Distribution**
  - (what if only a few people can afford to buy?)
5. **Leisure** (how much leisure time to get this GDP?)
6. **The Environment** (harmful activities or not?, Costs/Benefits not reported in GDP)

### **Gross National Product:**

- Total income required by Canadians both within Canada and elsewhere.
- GNP= GDP minus income earned by foreigners on CAD investment plus income earned by Canadians on Foreign Investments
- GNP < GDP

### **Inflation:**

- Measured by: 1. The Consumer Price Index 2. The GDP Deflator
- 1. The CPI monitors price changes in a representative “shopping basket” of consumer products. Compare price to “base” (original) year. P. 207 (1.00 to 1.05= 5% inflation rate).  $Inflation = \frac{This\ year\ minus\ last\ year}{last\ year}$



The cost of Living → the amount consumers must spend on the entire range of goods and services they buy.

$$\text{Real Income} = \frac{\text{Nominal income (income at year end)}}{\text{CPI}}$$

**Example:** If CPI is 10%

Income is \$1050, CPI 10%

Real Income =  $\frac{1050}{1.10} = \$954.55$  ∴ The purchasing power is only \$954.55, and income has not increased proportionally to the cost of living.

- So, if CPI is ↑, real income ↓
- If CPI is ↓, real income ↑ **\*INVERSE RELATIONSHIP**

### **Limitations of CPI:**

- Consumer differences (we don't all buy "basket" items)
- Changes in spending patterns (again, different basket)
- Product Quality (if product quality ↑ with no price change, standard of living ↑ without affecting CPI)

**The GDP Deflator:** indicator of price changes for all goods and services produced in the economy.

Nominal GDP= GDP in current dollars

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{GDP deflator}}$$

### **Effects of Inflation:**

- A) Incomes: → if inflation ↑ faster than household income, lose purchasing power.
- COLA clauses (∴ real income stays the same)
  - pensioners, non-union lose the most from inflations!
  - Indexed = keeps up with inflation

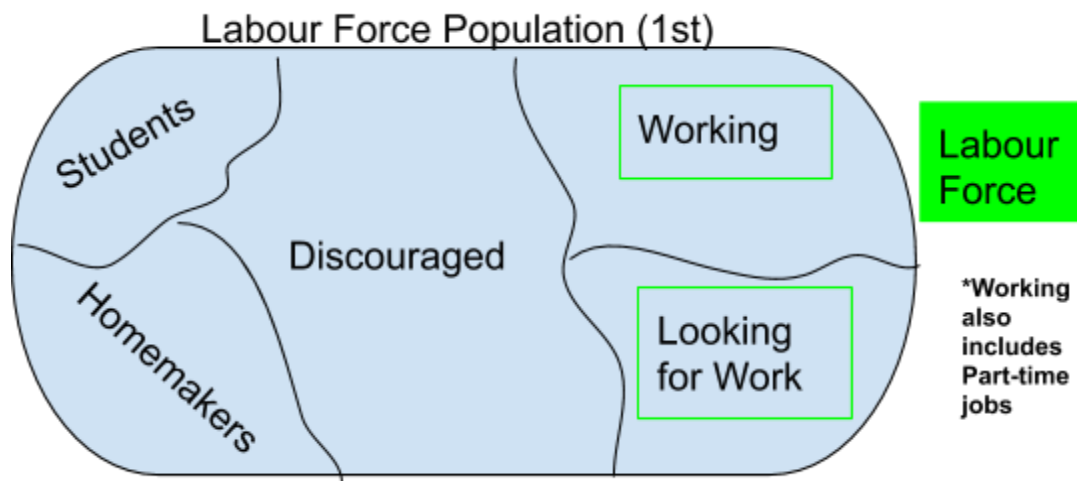
B) Borrowing and Lending:

- Nominal interest rate → expressed in money terms
- Real interest rate → nominal interest rate minus inflation rate
- Inflation premium = how much lenders

### **Unemployment:**

- Labour force population: 15+, except NWT, Yukon, Nunavut, institutions, military
- Labour force: have a job or are actively looking for a job.
- Participation Rate:  $\frac{\text{labour force}}{\text{labour force population}} \times 100$

- Unemployment Rate:  $\frac{\text{Unemployed in Labour Force}}{\text{Labour Force}} \times 100$



### Drawbacks of Unemployment Rates:

1. **Underemployment:** no difference between part-time and full time, not working in a job they want.
2. **Discouraged Workers:** give up looking (understates the rate)
3. **Dishonestly:** Actively looking or not?

### Types of Unemployment:

- A) **Frictional:** looking for 1st, or in-between job
- B) **Structural:** do not have the qualifications necessary for available jobs (due to changes in the economy)
- C) **Cyclical:** high/low demand in a particular industry (by offs), peak/trough
- D) **Seasonal:** tourism, construction

**Full Employment:** Highest “expectation” of employment for the economy

**Natural Employment Rate:** “full employment” rate is defined as 100% - 6% frictional unemployment.

### Why Increase in Unemployment?:

1. Structural change: (change in what/how/where good produced)
2. EI: (don't have to take 1st job that comes up...)
3. Changing Participating Rate: (more retired people, teens looking for jobs)
4. Minimum Wage: (increase min wage, decrease employment teenagers)

### **Costs of Unemployment:**

- Financial Hardship
- Stress
- Poor Family Life
- Low Self-Esteem
- Crime Rate Increases

### **GDP GAP is the Cost of Unemployment:**

- Difference between ACTUAL OUTPUT and potential output if there were full employment.

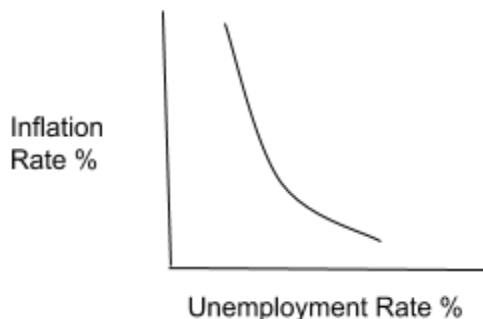
### **INFLATION:**

→ There is an inverse relationship between **INFLATION + UNEMPLOYMENT**

**Demand-Pull Inflation:** economic expansion that causes inflation

### **Phillips Curve:**

- Keynesian thought that as inflation  $\uparrow$ , unemployment  $\downarrow$
- So, if expansionary policy, unemployment decreases and inflation increases.
- If contractionary policy, unemployment increases and inflation decreases.



**Stagnation:** consistently low output

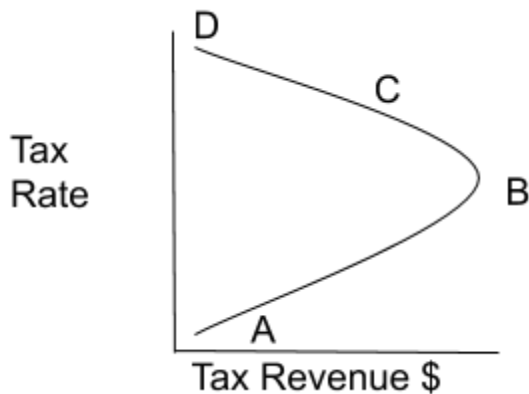
**Stagflation:** - consistently low output and high inflation.

- direct relationship between unemployment and inflation \*p. 318 (RARE)

**Cost-Push Inflation:**  $\uparrow$  production costs causes  $\downarrow$  aggregate supply  $\therefore$  prices  $\uparrow$

**Fiscal + Monetary Policies are GOOD, but they can only affect Inflation OR unemployment, not both at the same time! \*FOR STAGFLATION\***

### **LAFFER CURVE:**



- Tax increases at lower tax rate, increase tax revenues (A to B)
- Tax increases at high tax rate, reduce tax revenues (B to D)
- Therefore cut in tax rate increases tax revenue!!

### **BALANCE OF PAYMENTS:**

- Receipts (+)
- Payments (-)

### **Current Account:**

- Summarizes ALL foreign transactions affecting current economic activity in Canada

#### **INCLUDING:**

- A) Merchandise Balance of Trade
  - $(X-M)$
- B) Non-Merchandise Transactions
  - Investment, services, transfers of AID, gifts etc.

If current account DEFICIT, current account has a **NEGATIVE BALANCE.**

If current account SURPLUS, **POSITIVE BALANCE.** (Page 410)

### **Balance of Trade:**

- Represents both goods and services  $\therefore = (X-M)$

### **CURRENT ACCOUNT:**

- Goods, services and investment income

### **CAPITAL + FINANCIAL:**

- **Capital:** includes migrants' funds, inheritances, and government pension payments to Canadians living abroad.
- **Inflow:** \$ in from another country
- **Outflow:** \$ out to another country
- **Financial:** direct investment by Canadians abroad or foreigners in Canada
- **Portfolio Investment:** investors who get dividends or interest in stocks or bonds

### **FOREIGN TRADE:**

What is traded is determined by:

- RESOURCES
- MARKET SIZE (big enough to warrant production there)
- CLIMATE (some agricultural goods)

### **WHY TRADE:**

- Product variety
- Competition (low price)
- Specialization (efficiency)

### **ABSOLUTE ADVANTAGE:**

- Can produce one product using fewer resources than other producers

### **COMPARATIVE ADVANTAGE:**

- The lower opportunity cost of producing one product

### **THE LAW OF COMPARATIVE ADVANTAGE:**

- Output is maximized when producers specialize in what they can make at a lower opportunity cost than other producers can.

### **ABSOLUTE ADVANTAGE EXAMPLE:**

Who will be goalie in soccer?

	#Goals	#Blocked Goals
Sara	14	12
Micah	5	6

1. Who has the comparative advantage in the production of goals?

**Solution:**

Sara:  $\frac{12}{14} = 0.86 \rightarrow$  must give up 0.86 blocked goals for an extra goal  
 Micah:  $\frac{6}{5} = 1.2 \rightarrow$  must give up 1.2 blocked goals per goal

2. Who has the comparative advantage in blocked goals?

**Solution:**

Micah:  $\frac{5}{6} = 0.83 \rightarrow$  opportunity cost is 0.83 goals per block

Sara:  $\frac{14}{12} = 1.16 \rightarrow$  opportunity cost is 1.16 goals per block

**EXAMPLE:** Food production without specialization (units)

<u>Family</u>	<u>Corn</u>	<u>Meat</u>
Sanchez	8	10
Jacobson	35	6
<b>Total:</b>	43	16

**EXAMPLE:** Food production with specialization (units)

<u>Family</u>	<u>Corn</u>	<u>Meat</u>
Sanchez	0	10
Jacobson	50	0
<b>Total:</b>	50	20

**EXAMPLE:** Food production without specialization (units)

<u>Family</u>	<u>Cloth</u>	<u>Meat</u>
Sanchez	5	10
Martin	4	6
<b>Total:</b>	9	16

1. How much cloth would the Sanchez and the Martin family give up to produce one additional unit of meat?

**Solution:**

Sanchez:  $\frac{5}{10} = 0.5$   $\therefore$  They would have to give up  $\frac{1}{2}$  unit of cloth to produce one extra unit of meat.

Martin:  $\frac{4}{6} = 0.67$   $\therefore$  They would have to give up  $\frac{2}{3}$  unit of cloth to produce one extra unit of meat.

2. Which family has a comparative advantage in meat?

- The Sanchez family.

3. How much meat would the Sanchez and Martin family give up to produce one additional unit of cloth?

**Solution:**

Sanchez:  $\frac{10}{5} = 2$   $\therefore$  They would have to give up 2 units of meat to produce one extra unit of cloth.

Martin:  $\frac{6}{4} = 1.5$   $\therefore$  They would have to give up 1.5 units of meat to produce one extra unit of cloth.

4. Which family has the comparative advantage in cloth?

- The Martin family

**EXAMPLE:** Food production with specialization (units)

<u>Family</u>	<u>Cloth</u>	<u>Meat</u>
Sanchez	0	20
Martin	9	0
<b>Total:</b>	9	20

### **TRADE PROTECTIONISM:**

**Tariffs:** excise tax on imported goods

**Import Quotas:** non-tariff barriers

**Domestic Regulations:** rules for labelling grade of product, ingredients/drugs acceptable

**Export Subsidies:** (government gives extra \$ if exporting so they can sell cheaper abroad + compete)

### **WHY USE TRADE BARRIERS?**

- Protect domestic employment/industry
- Balance of payments (trade deficit?)
- Restrict overall supply... to protect infant industries
- Terms of trades → Retaliatory? Do other countries have these barriers for us?
- Cheap foreign labour
- National security (don't want to depend too much!!!)
- Cultural sovereignty