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MICRO ECONOMICS ANALYSIS

- Read and understand the Pre-session reading materials before the class.
- Pay attention and participate in discussions and **exercises.**
- **Ask for clarification on concepts you do not** understand to get the most out of the course.
- Proactively think of ways to practice and apply the lessons learned.

LEARNING OBJECTIVE

- The overall objective of this course is to introduce, or refresh your understanding of the basic concepts of economics and its applications using simple language and examples that you can relate to.

COURSE OUTLINE

MODULE ONE

Introduction & Basic Concepts

WHAT IS ECONOMICS ?

Economics: is the study of the ways that individuals and societies allocate their limited resources to try and satisfy their unlimited wants

Economics is a decision science concerned with the choices we make and the consequences of those choices for ourselves

Economics

Economics is a reflective and moral science, often involving the study of problems that puzzle legal scholars, political scientists and philosophers

Economics is a behavioural and historical science, drawing upon and extending the research of psychologists, anthropologists, sociologists and historians

The major task of Economics is studying and evaluating alternatives

What is Economics?

"Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses".

01 Economics is about people and the choices they make.

02 The unit of analysis in Economics is the individual.

03 Individuals group together to form collective organizations.

04 Therefore, the study of collective organizations should also focus on the ways in which their operation is affected by individual choices.

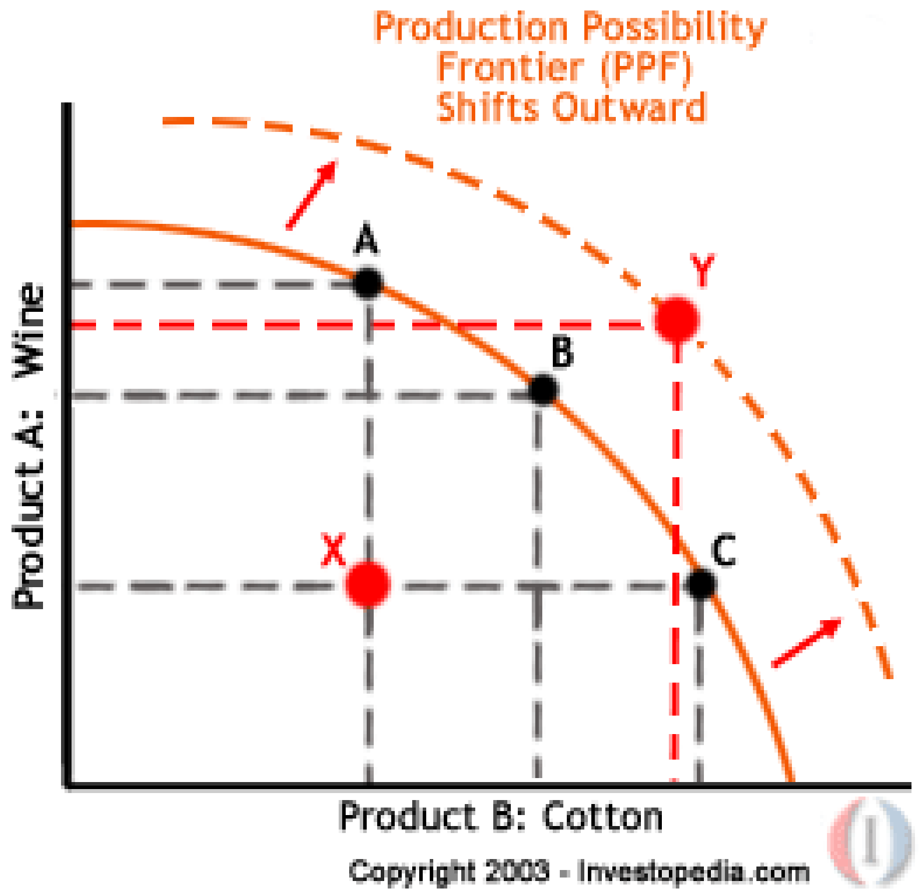
MICROECONOMICS VS MACROECONOMICS

- The main difference between microeconomics and macroeconomics is scale.
- Microeconomics studies the behavior of individual households and firms in making decisions on the allocation of limited resources
- In contrast macroeconomics involves the sum total of economic activity, dealing with the issues such as growth, inflation, and unemployment.
- Macroeconomics is the study of economies on the national, regional or global scale.

SCARCITY AND CHOICE FOR A BUSINESS

Production Possibilities Frontier/Curve

- Illustrates opportunity costs in production
- Shows the maximum amount of any two products that can be produced from a fixed set of resources.
- Possible trade-offs in production between the two goods.
- Different combinations of output for a given amount of inputs
- More of one good = less of another



THE THREE BASIC ECONOMIC PROBLEMS

Each society must make three basic economic choices:

1

The Output Question:
What are we going to produce?

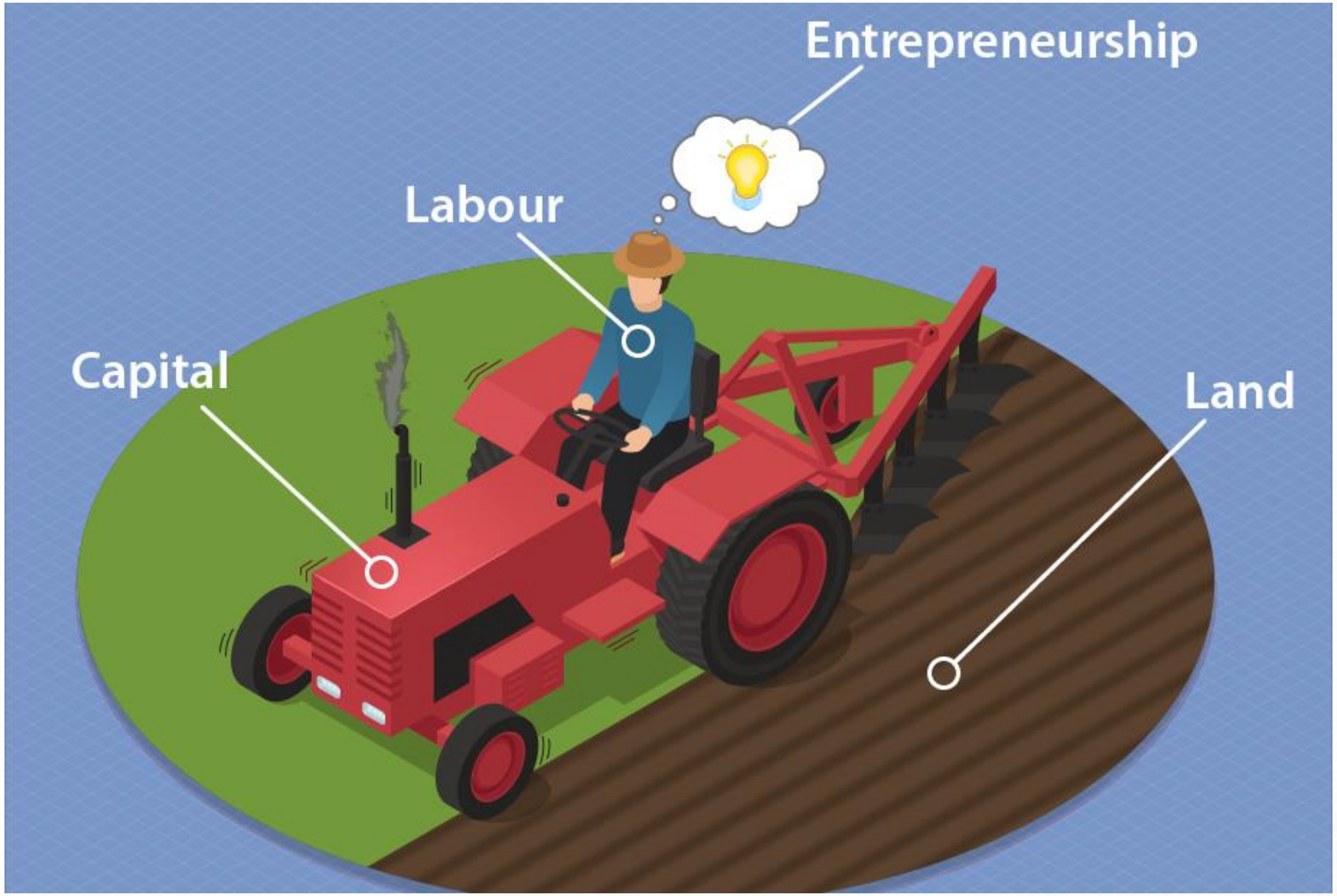
2

The Input Question:
Which resources will we use?

3

The Distribution Question:
How much will each person get?

FACTORS OF PRODUCTION



COST ANALYSIS

Types of Costs:

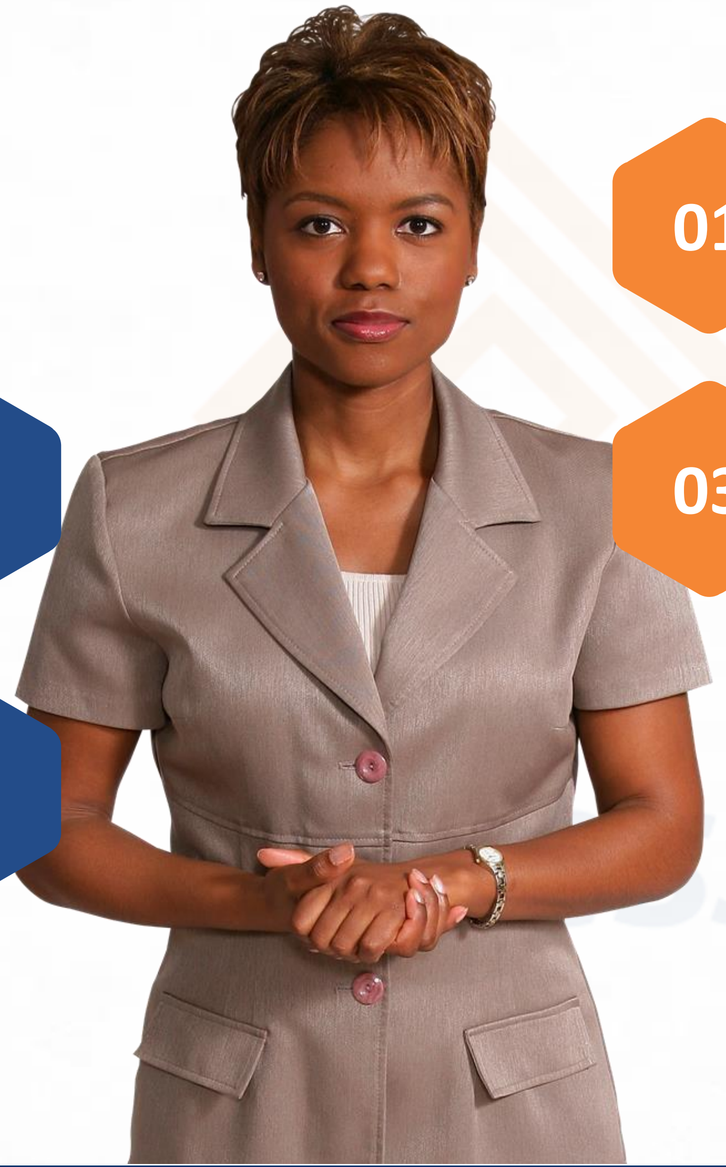
01 **Fixed Cost (overhead):** All the cost you must pay even if you did not produce anything – rent, interest, wages, insurance, taxes.

02 **Variable Costs**: All those additional costs which increase as your rate of output increases – raw materials, diesel, advertising.

03 **Total Cost**: Fixed Cost plus Variable Cost

(FC + VC)

04 **Marginal Cost**: The increase in Total Cost resulting from raising the rate or output by one unit **(MC = ΔTC/ΔQ)**

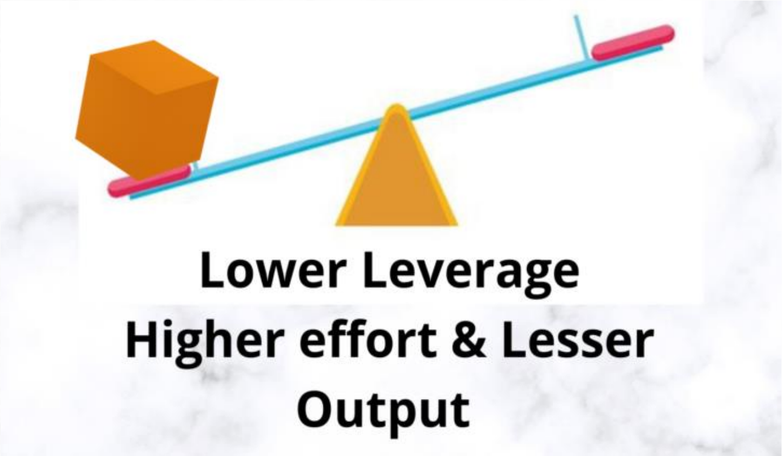


COST ANALYSIS

The Concept of cost structure and operating leverage

- Cost structure refers to a company's mix of fixed and variable costs..….**OPERATING LEVERAGE.**
- **HIGH OPERATING LEVERAGE**….Higher proportion of Fixed costs + Lower proportion of Variable costs.
- **LOW OPERATING LEVERAGE**….Higher proportion of Variable costs + Lower proportion of Fixed costs.

COST ANALYSIS



Low Operating Leverage

- Relatively less profitable when volume of sales and production is high
- Manufacturing Companies that are not highly automated and are, therefore, very labor intensive

High Operating Leverage

- Relatively more profitable when volume of sales and production is high
- Manufacturing Companies that have a high level of investment in property, plant or equipment

Scalability

Returns to scale describes the response of output to changes in factor inputs.

Increasing Returns to scale if increase in factor inputs results in higher increase in output

Constant returns to scale …if increase in factor inputs results in equal increase in output.

Decreasing returns to scale… if increase in factor input results in lower increase in output.

COST ANALYSIS

Scalability

- An industry or a single company achieves economies of scale when it is able to increase its production or selling capacity without a proportionate increase in expenses.

- This denotes increasing returns to scale.

- The business is said to be scalable and has a high operating leverage.

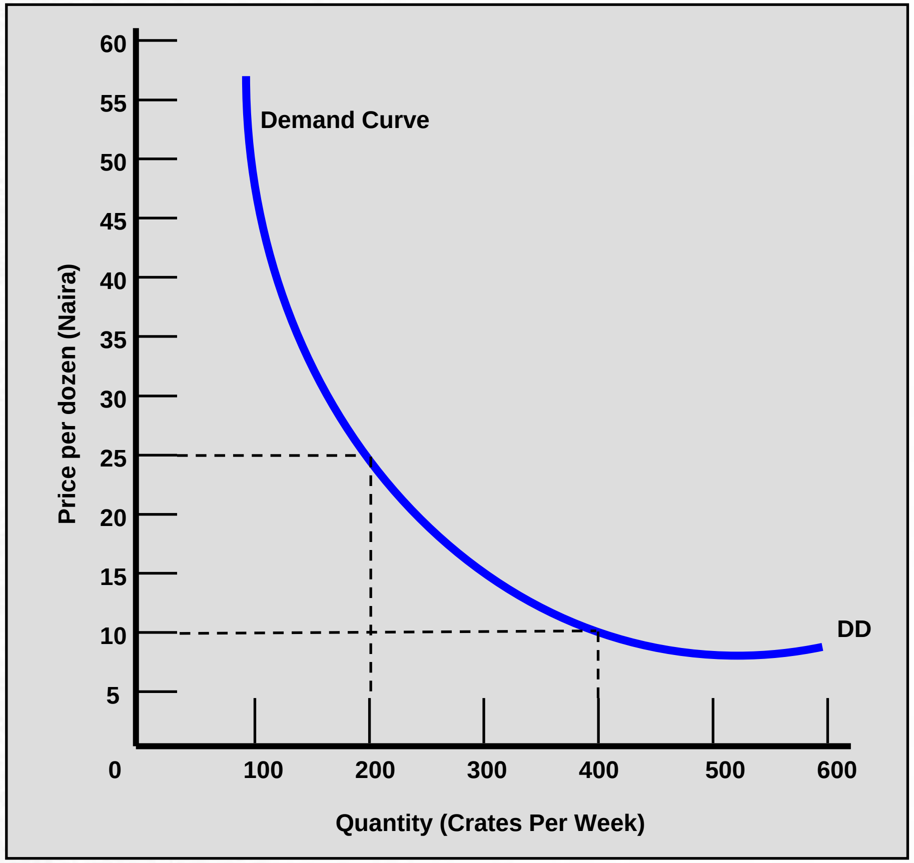
DEMAND AND SUPPLY

Demand and supply is a fundamental concept in Economics and is the backbone of a market Economy.

- Demand refers to how much (**quantity**) of a product or service is **desired by buyers**.

- The purchases of a good that people are actually willing and able to make, given the prices and choices available to them

DEMAND



The Law of Demand: People will buy more of something at a lower price than they would at a higher price

- It shows that at lower prices people would buy more. For example, if the price of eggs moves down from N25 to N10 per dozen, the quantity people would buy increases from 200 crates to 400 crates per week.
- The quantity people buy is very responsive to price movement.
- We would thus say that the demand for eggs in this example is elastic.

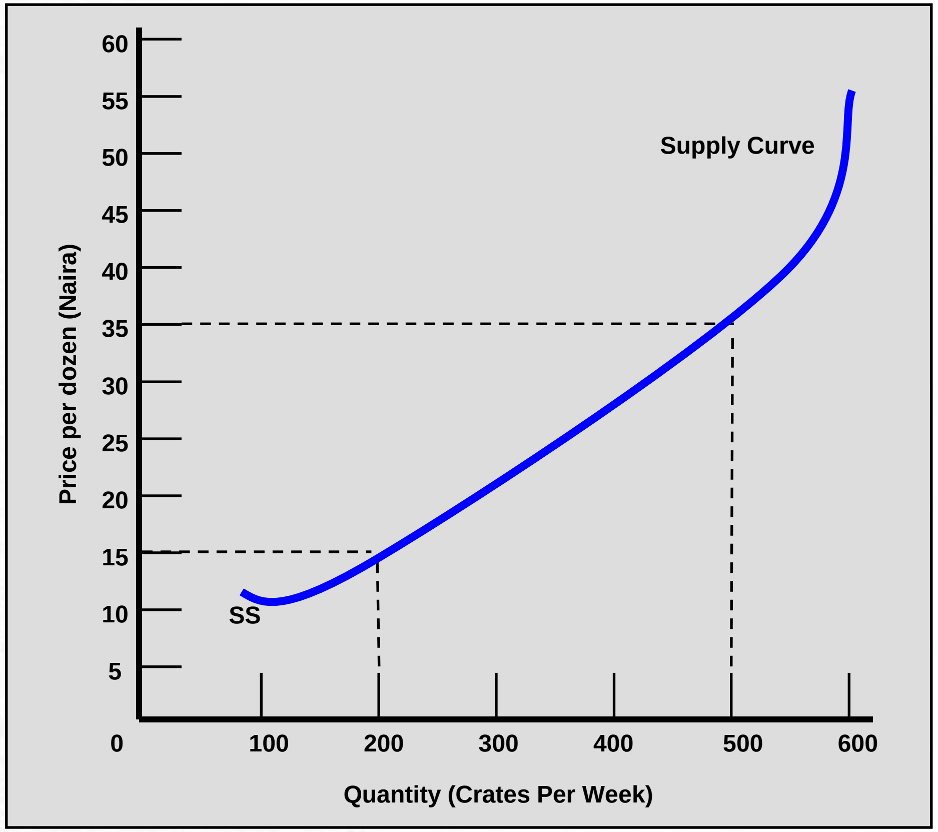
Elasticity means "responsiveness". When the price changes and the quantity bought does not respond very much, we say demand is inelastic, e.g. fuel, cigarettes.

DEMAND AND SUPPLY

- Supply represents how much (**quantity**) the **market** can **offer**.

SUPPLY ANALYSIS

Supply: The quantity of a product that producers are willing to sell in the market under various conditions

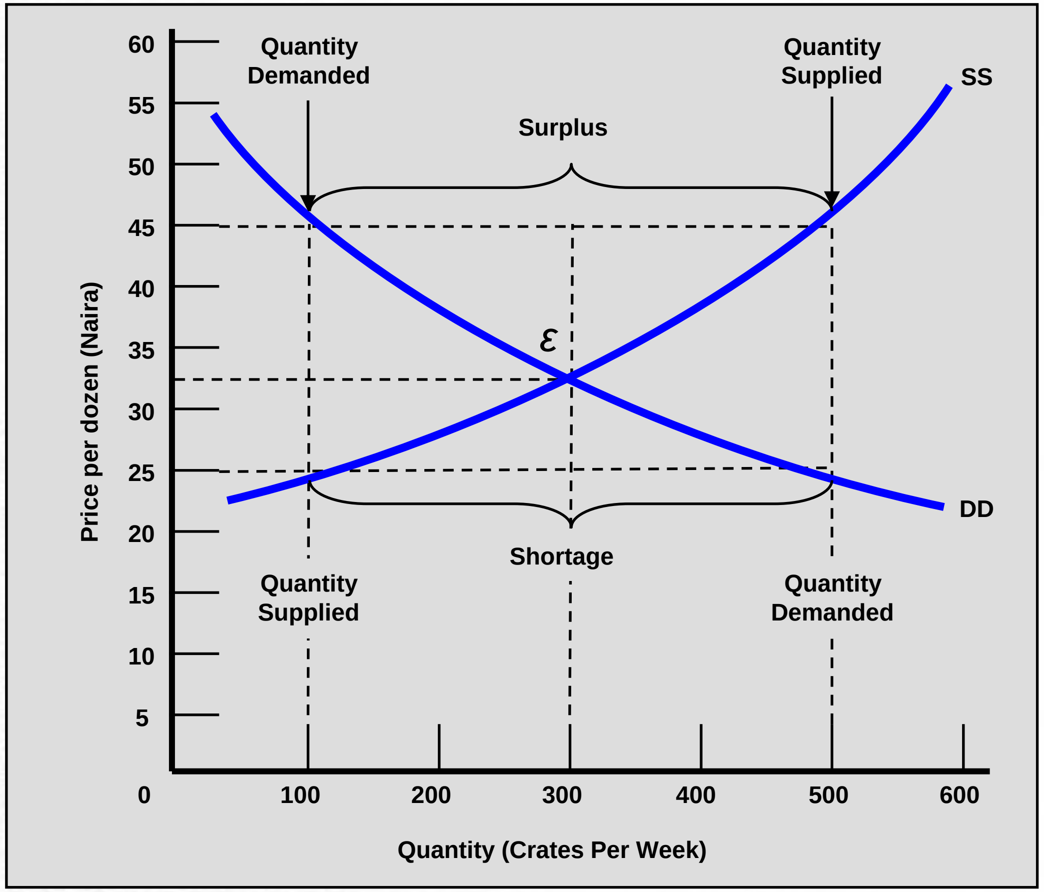


Supply is the "Propensity to Sell".

- How much sellers will be trying to sell if the price was N200 or N500 or N1,000 for example.
- The supply curve shows that at lower prices, small quantities of eggs will be offered for sale.
- Consequently, if the price moves up from N15 to N35 per dozen, the quantity suppliers would sell increases from 200 crates to 500 crates per week.
- How much the quantity offered for sale expands as the price rises depends on the elasticity of supply.

MARKET PRICE DETERMINATION

Equilibrium Price: Price just high and low enough so that the buyers want to buy just exactly as much as the sellers want to sell



It is obvious from the graph that only the price of =N=33 a dozen can be the real price – the price where quantity demanded equals quantity supplied.

At equilibrium point ε, the quantity the sellers are *pushing* into the market (300 crates a week) is exactly the same as the quantity the buyers are pulling out of the market.

Any lower price would leave demanders trying to buy more eggs (shortage) than would be available for sale.

Any higher price would have suppliers shipping in more eggs (surplus) than people would buy.

MODULE TWO

Market Structures

MARKET STRUCTURES

A market structure is **a model** of the way business firms behave under certain conditions.

The market structure is defined by three characteristics:

- The number of firms that make up the market
- The ease with which new firms can enter the market and begin producing the good or service
- The degree to which the products are different

MARKET STRUCTURE

Market Structure: the number and the relative sizes of buyers and sellers in the market

Perfect Competition

- Numerous firms and buyers
- Substitute products
- No entry barriers

Monopolistic Competition

- Numerous firms
- Different products
- Low entry barriers

Oligopoly

- Few firms
- Decision-making is mutually interdependent
- Major barriers to entry

Monopoly

- One firm industry
- No close substitutes for products
- Substantial & effective barriers to entry

PERFECT COMPETITION

Perfect competition is characterized by:

- Many buyers and sellers
- Many products that are similar in nature and
- Many substitutes.

Under Perfect competition situation:

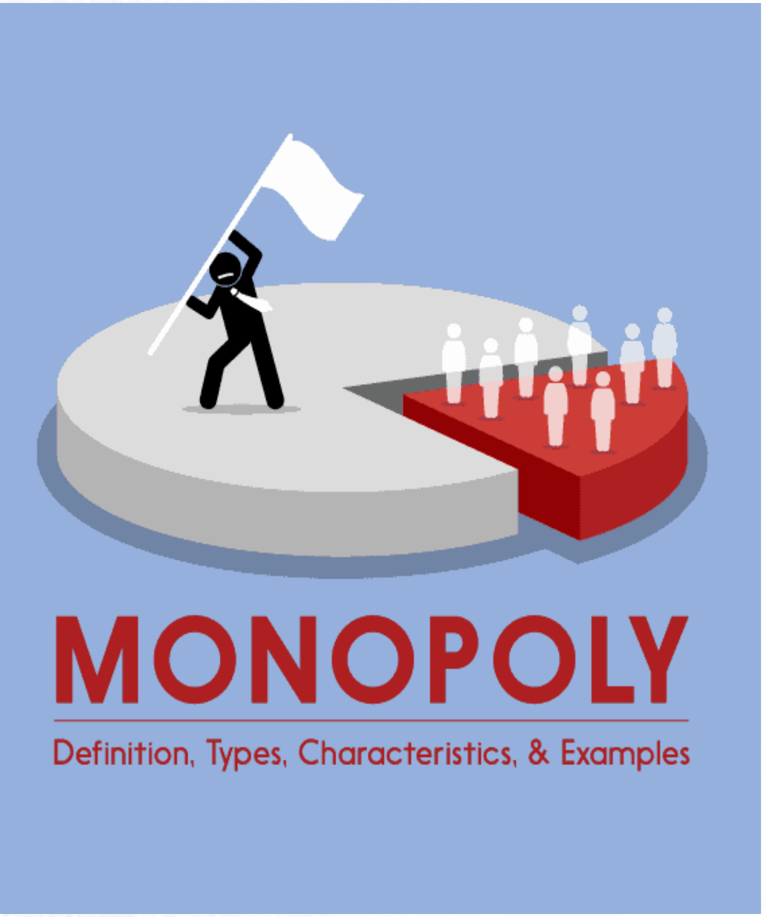
- There are few, if any, barriers to entry for new companies
- Prices are determined by supply and demand.

•Thus, producers in a perfectly competitive market are subject to the prices determined by the market and do not have any leverage

MONOPOLISTIC COMPETITION

- Many firms offer products or services that are similar, but not perfect substitutes.
- Barriers to entry and exit in a monopolistic competitive industry are low.
- The decisions of any one firm do not directly affect those of its competitors.
- Examples of monopolistic competition include restaurants, cereal, clothing, shoes, and service industries

MONOPOLY



1. A monopoly is a market structure with only one producer/seller for a product. In other words, the single business *is* the industry.

2. Entry into such a market has high barriers to entry which may be economic, social or political.

3. One of the barriers against entry into a monopolistic industry is that most times, one entity has the exclusive rights to a natural resource.

4. A monopoly may also form when a company has a copyright or patent that prevents others from entering the market. Pfizer, for instance, had a patent on Viagra.

OLIGOPOLY

- There are only a few firms that make up an industry.
- The firms have control over the market price
- There are high barriers to entry.

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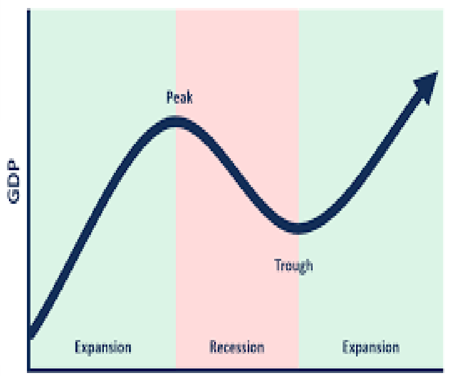
MACRO ECONOMIC ANALYSIS

MODULE THREE

General Introduction to Macroeconomic Issues

ECONOMIC CYCLES



Understanding the economic cycle

- This is the predictable long-term pattern changes in national income.
- The Economy experiences a regular trade or business cycle where the rate of growth of production, incomes and spending fluctuates over time. These movements are captured and used to measure the cyclical movement of the economy. As follows:
- When real GDP (or national output) is rising quickly the economy is said to be experiencing economic growth or recovery. A good example of this was the economic boom in Nigeria in the early 1970s.
- When real output falls or when the growth of output is below its long run trend rate - then economic recession exists.
- With changes in economic cycles, businesses also experience changes in activities and overall business condition ranging from expansion of output to periods of prosperity.
- When economies experience slowdowns and negative growth, business also experience contraction of output and recession.

STAGES OF ECONOMIC CYCLE

Economic Boom

- A boom occurs when national output is rising strongly at a rate faster than the trend rate of growth (or long-term growth rate) of about 2.5% per year.
- In boom conditions:
  - Output and employment are both expanding
  - The level of aggregate demand for goods and services is very high.
  - Typically, businesses use the opportunity of a boom to raise output and also widen their profit margins.

STAGES OF ECONOMIC CYCLE

Economic Slowdown

- A slowdown occurs when the rate of growth decelerates - but national output is still rising. If the economy continues to grow (albeit at a slower rate) without falling into outright recession, this is known as **a soft-landing**

ECONOMIC CYCLE

Economic Recession

A recession means a fall in the level of real national output (i.e. a period when the rate of economic growth is negative).

National output declines, leading to a contraction in employment, incomes and profits.

When real GDP reaches a low point at the end of the recession, the economy has reached the trough - economic recovery is imminent.

- **An economic slump** is a prolonged and deep recession leading to a significant fall in output and average living standards.

ECONOMIC CYCLE

Economic Recovery

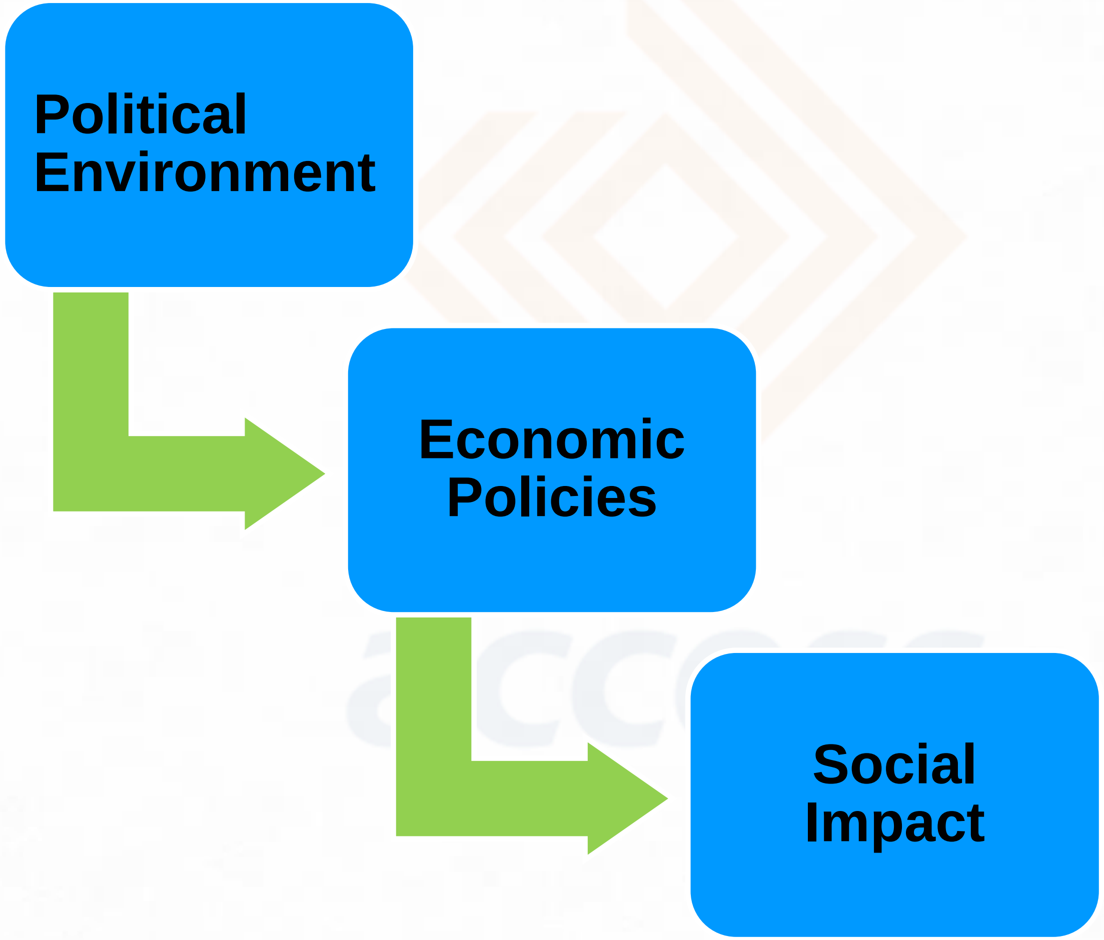
- A recovery occurs when real national output picks up from the trough reached at the low point of the recession.

- The pace of recovery depends in part on how quickly aggregate demand starts to rise after the economic downturn. And, the extent to which producers raise output and rebuild their stock levels in anticipation of a rise in demand.

AFRICA'S MAJOR PROBLEMS

UNDERSTANDING MACRO-ECONOMICS

A THREE TIER APPROACH



THE ROLE OF GOVERNMENT

- As a social organization; the distinguishing characteristic of Government is its monopoly over the legitimate use of force to modify the actions of adults

- Government has two basic functions;
  - Protective Function
  - Productive Function

MODULE FOUR

KEY FACTORS AFFECTING THE MACROECONOMY & ROLE OF GOVERNMENT

KEY FACTORS AFFECTING THE MACROECONOMY

GROWTH RATE

EXCHANGE RATE

INTEREST RATE

INFLATION RATE

KEY FACTORS AFFECTING THE MACROECONOMY

Economic Growth Rate

- Economic growth is defined as the increasing capacity of the economy to satisfy the wants of the members of its society
- Growth rate is a measure of the increased (decreased) capacity of the economy
- Evidenced by consumer spending patterns in any economy which indicate the health of an economy
- Usually recorded as a boom or recession
- The year on year measurements tell whether or not a country has increased its productivity

KEY FACTORS AFFECTING THE MACROECONOMY

Interest Rates

- Rates at which businesses borrow in order to supply their goods and services
- Have a direct impact on production costs and profitability of a company
- High interest rates reduce purchasing power of consumers
- Federal Governments routinely lower interest rates in a weak economy to stimulate demand of goods and services

KEY FACTORS AFFECTING THE MACROECONOMY

Currency Exchange Rates

- The rate of exchange between different countries' currencies

- Movement in exchange rates affect production costs and demand for goods and services

- Stability in exchange rates allows companies to plan and forecast productivity performances

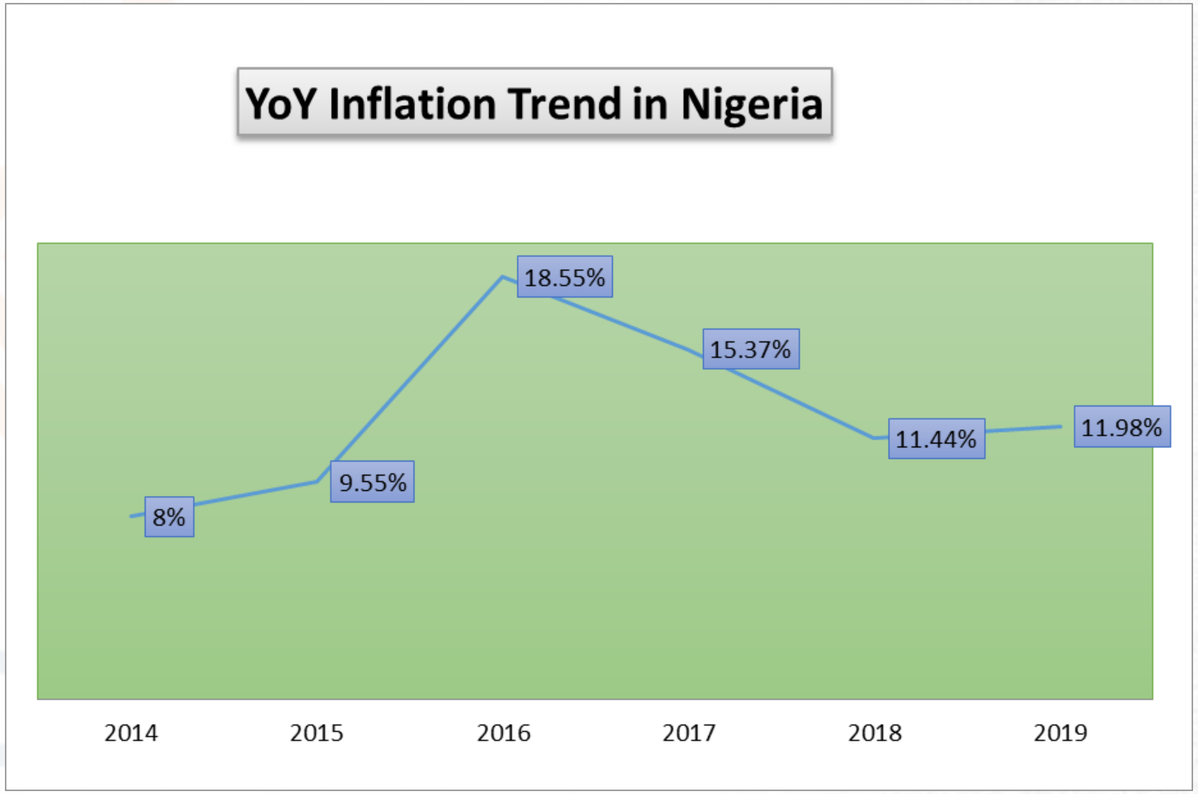
KEY FACTORS AFFECTING THE MACROECONOMY

Inflation

can simply be defined as the sustained rise in the prices of goods and services over time.

Often described in layman's terms as too much money chasing too few goods

There are four main types of inflation:



TYPES OF INFLATION

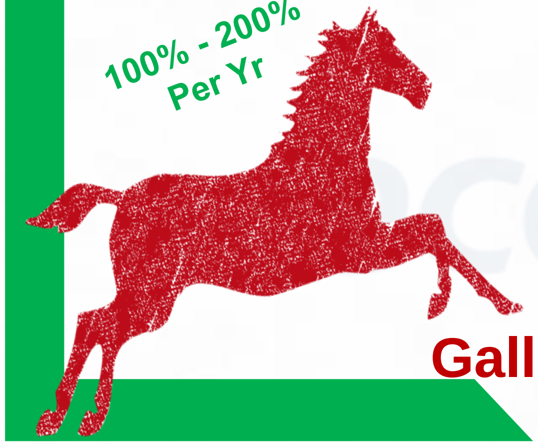
1.

2% Inflation/Yr

Creeping

2.

100% - 200%
Per Yr



Galloping

3.

50% per month
or 1000% per Yr

Hyper

4.

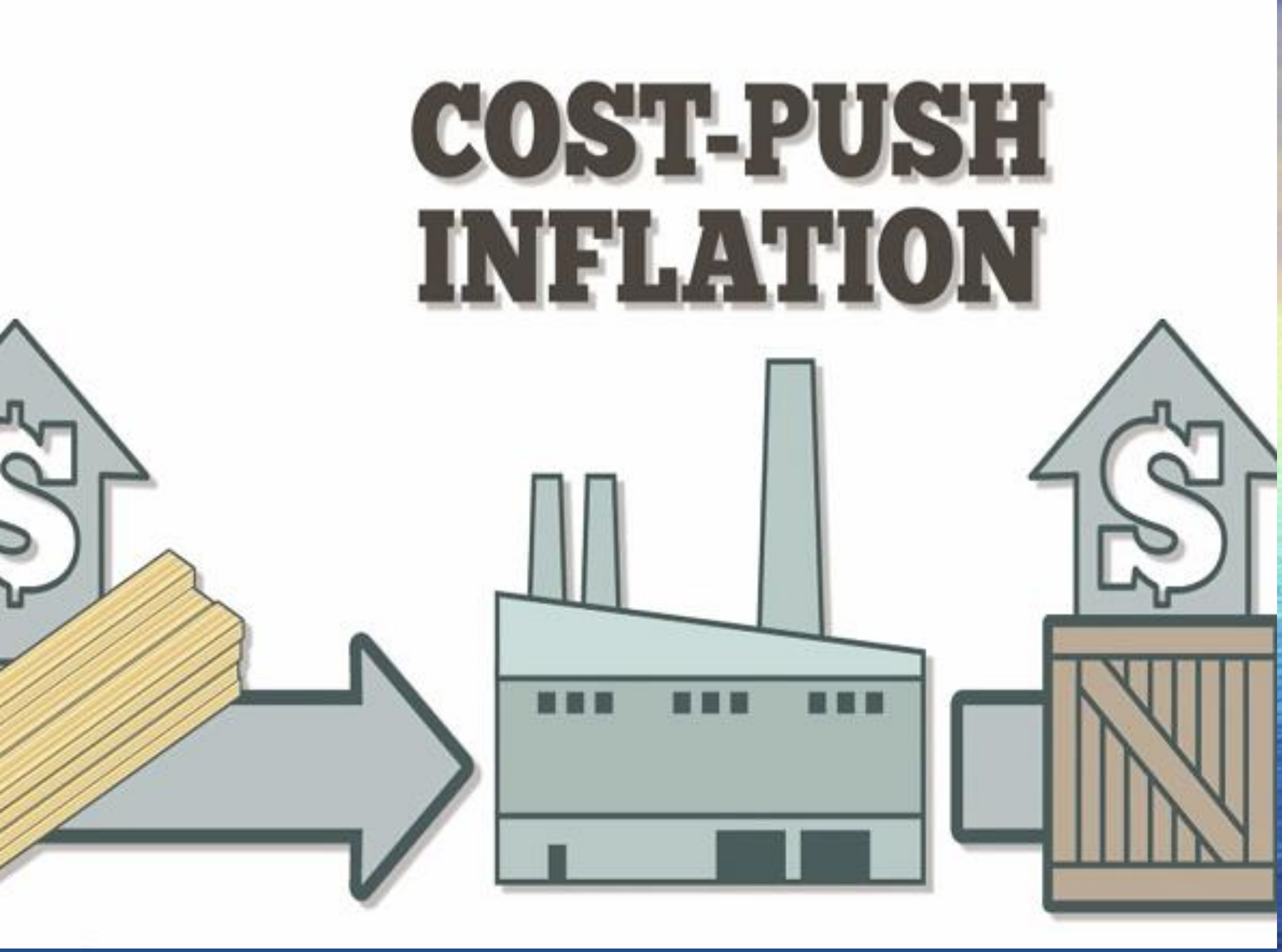
High
Inflation

High
Unemployment

Stag

Stagflation

INFLATION TRIGGERS



INFLATION TRIGGERS

Demand Pull	Cost Push
• Demand-pull inflation occurs when aggregate demand outpaces aggregate supply. • This occurs as real gross domestic product rises and unemployment falls • Can also be caused by an increase in population	• Cost-push inflation occurs when firms respond to rising costs, by increasing prices to protect their profit margins Component costs: e.g. an increase in the prices of raw materials and other components used in supplying goods and services

IMPACT OF INFLATION

Economy

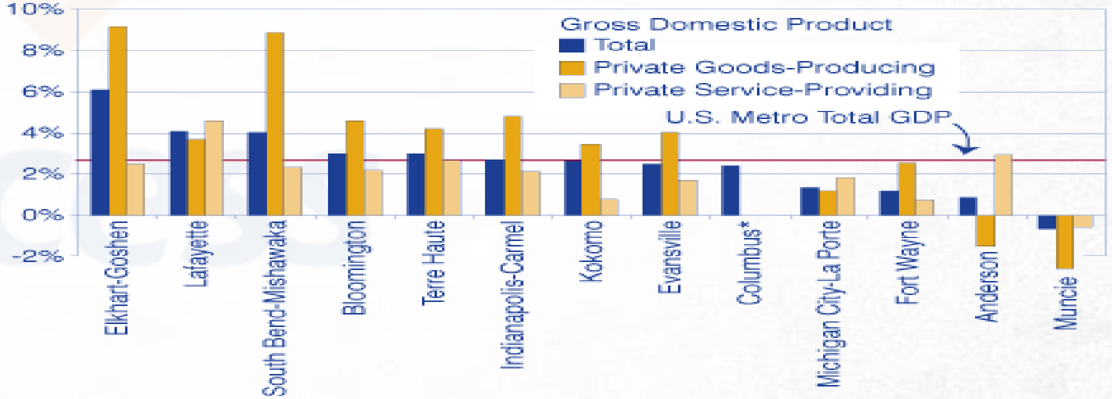
- Slows down economic growth and erodes purchasing power
- Produces high interest rates and volatile foreign exchange rates
- Discourages investments in any country

Businesses

- Reduction in our capacity to produce
- Increased inefficiency in the production and distribution of goods and services
- Increase in the cost of acquiring local inputs.

MODULE FIVE

MEASUREMENT OF ECONOMIC PERFORMANCE



*Private goods-producing and service-producing data are not available for the Columbus metro
Source: IBRC, using Bureau of Economic Analysis data

MEASUREMENT OF ECONOMIC PERFORMANCE

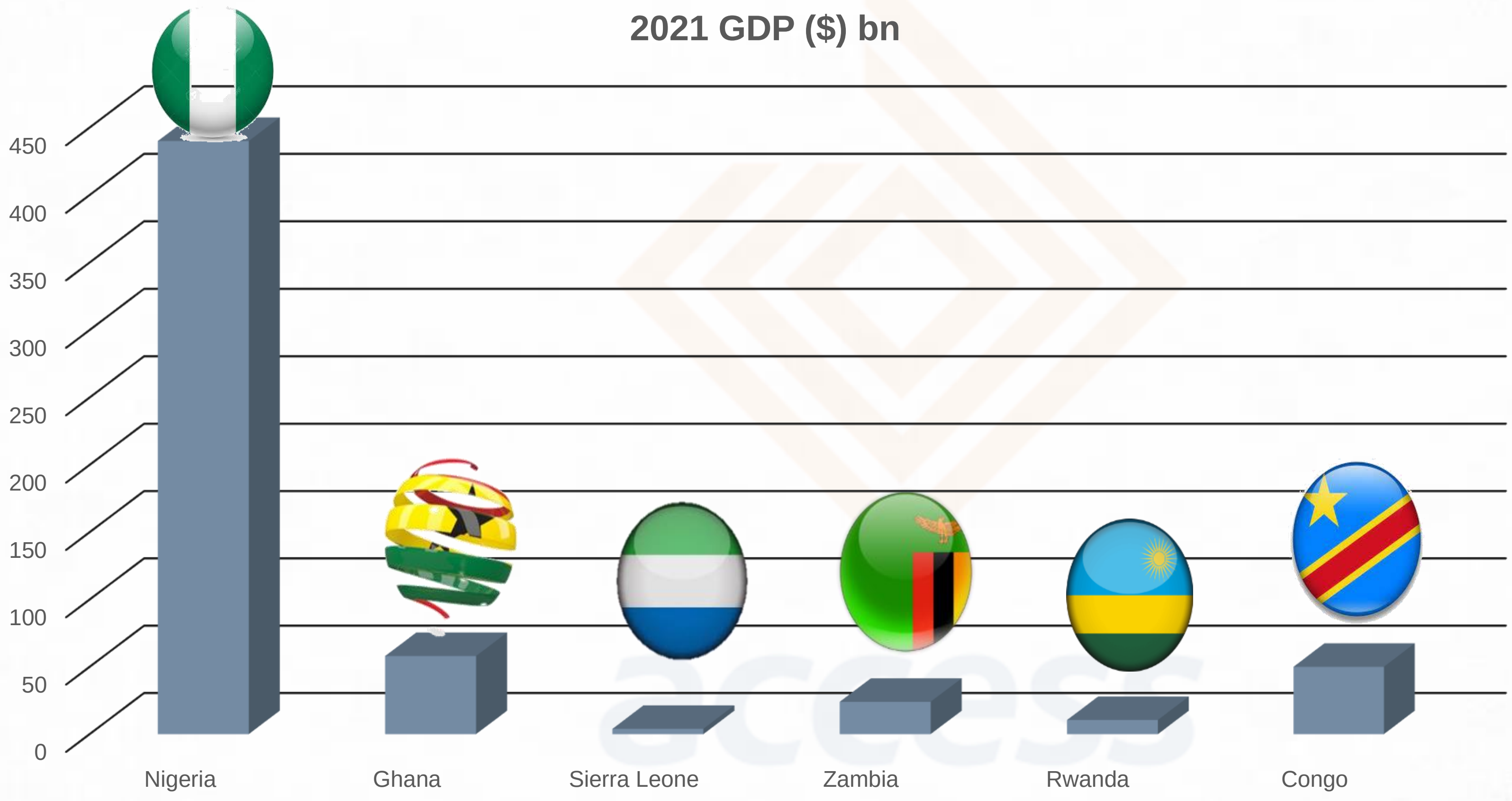
- **Gross National Product (GNP)** is the total value of all final goods and services produced within a year by factors of production owned by the citizens of that country

- **Gross Domestic Product (GDP)** is the total value of all final goods and services produced in a year within that country.

GROSS DOMESTIC PRODUCT – GDP

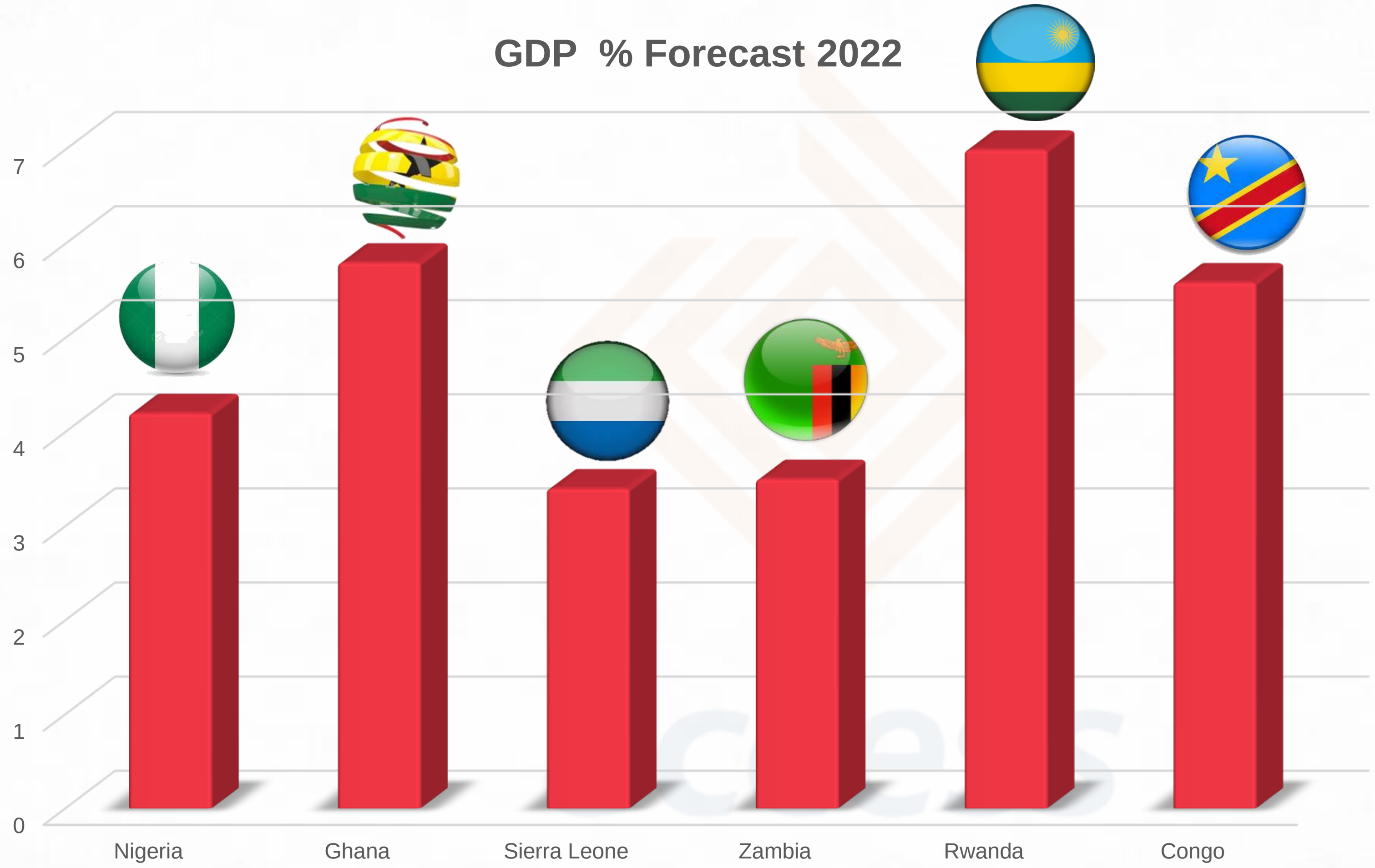
- GDP can be measured at actual market prices or at a set of constant prices.
- When measured at actual market prices – Nominal GDP
- When measured at constant prices usually referenced to a base year – Real GDP

Comparative GDP (in $ bn) for select African countries



Sources: AfDB, statista.com, Ghana Ministry of Finance

Comparative GDP Growth for select African countries



Sources: AfDB, statista.com, Ghana Ministry of Finance

NIGERIA REAL GDP GROWTH RATE 2016 - 2021

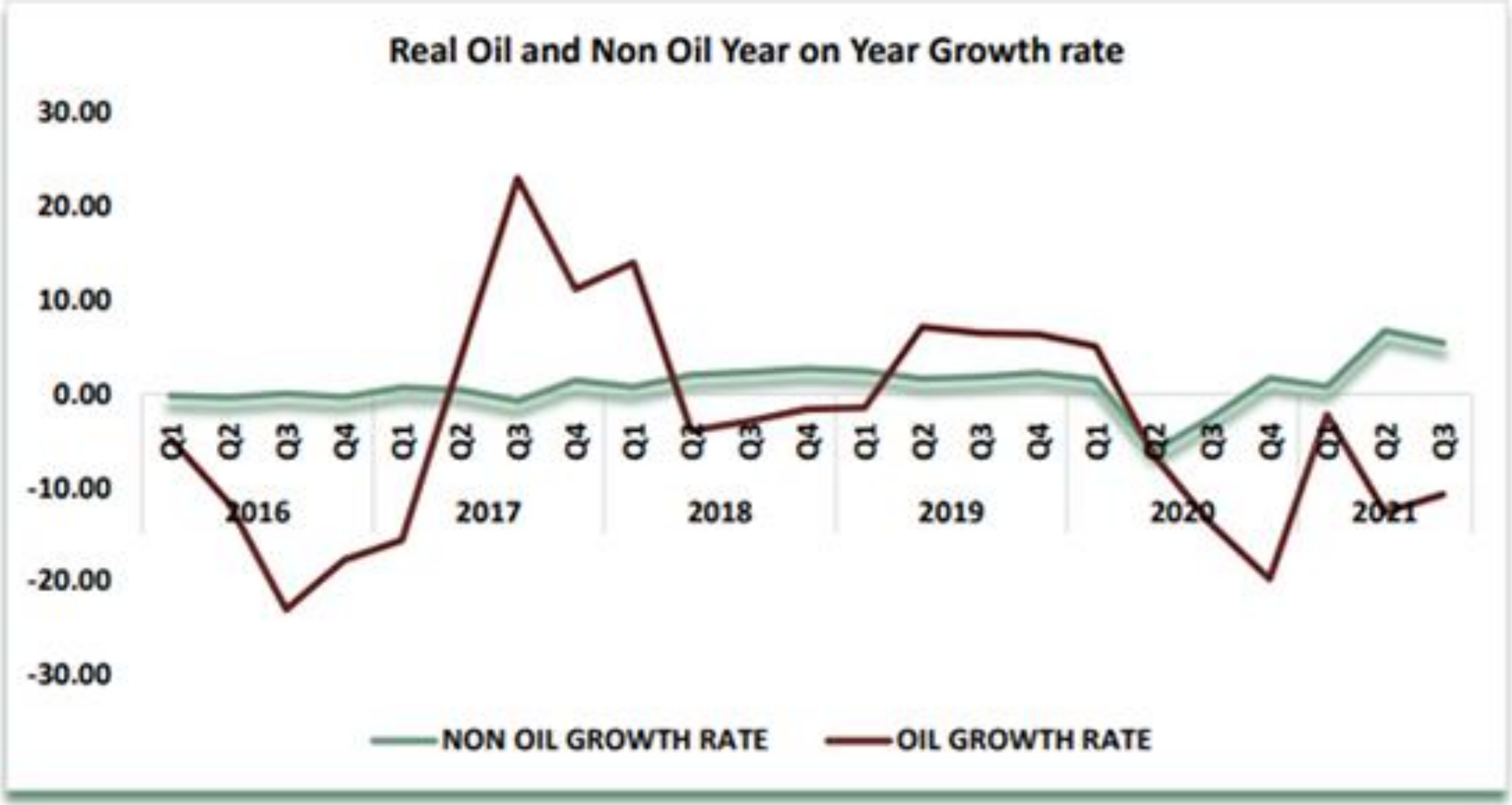


Figure 3: Crude Oil and Non-Oil Growth

MODULE SIX

MACROECONOMIC OBJECTIVES

MACROECONOMIC OBJECTIVES

1
- Increased Output **(GDP)**

2
- Maintain **Stable Prices**

3
- Ensure a high level of **Employment**

4
- **Exchange stability** through increased export and accretion to external reserve

TOOLS FOR ACHIEVING MACRO-ECONOMIC OBJECTIVES

- Fiscal policies
- Monetary Policies
- Income Policies
- Foreign Exchange Policies

FISCAL POLICIES

- Fiscal policies are policies used by the government to manage its revenues and expenditure as detailed in its budget

- Taxation is a significant source of revenue for the Government therefore fiscal policies involve setting tax rates

- The Governments budget is its plan to earn revenue and expend income in a given period

- The budget is used to allocate public resources among the nation's competing socio-economic needs.

- Government expenditure is either recurrent & capital in nature.

FISCAL POLICIES & AGGREGATE DEMAND

How does the government use the budget to stimulate aggregate demand?

- By increasing government purchases of goods and services

- By reducing Tax

FISCAL POLICIES & OUTPUT

The total level of government spending can be changed to help increase or decrease the output of the economy.

In order to increase output;

- The Government implements an ***Expansionary Fiscal Policy*** by deliberately increasing its expenditure and/or reducing taxes.

- This will increase output but increase the size of the Government’s budget deficit

- This approach is often adopted to stimulate the Economy during Recession

FISCAL POLICIES & OUTPUT

In order to reduce output;

- The Government implements an **Restrictive/Contractionary Fiscal Policy** by deliberately reducing its expenditure and/or increasing taxes.

- This will reduce output and reduce the size of the Government's budget deficit

- This approach is adopted in response to a threat of inflation generated by excessive aggregate demand

MODULE SEVEN

GOVERNMENT FINANCE & BUDGETING IN AFRICA

GHANA – 2022 BUDGET

- Themed as **"BUILDING A SUSTAINABLE ENTREPRENEURIAL NATION".**
- The 2022 Budget aims to build on growing the economy by focusing on fiscal consolidation & job creation.
- It aims to build on the successes achieved post global pandemic.

- The proposed aggregate expenditure is GHc137.529 billion, while proposed aggregate revenue and grants is GHc100.517 billion, thus reflecting a budget deficit of 7.4% of GDP to be financed from both domestic and foreign sources.
- **The macroeconomic targets or Outlook for 2022 are:**
  - Overall GDP growth rate of 5.8% **(5% in 2021)**
  - Non-oil GDP growth rate of 5.9% **(6.7% in 2021)**
  - End period inflation rate of 8.0% **(same as 2021)**
  - Fiscal deficit of 7.4% of GDP
  - Primary balance (surplus) of 0.1% of GDP and
  - Gross Foreign Assets to cover at least 4 months of imports of goods and services **(same as 2021)**

ZAMBIA - 2022 BUDGET

- Theme: **“Sustainable growth, Job creation & taking development closer to the people”.**
- It proposes an aggregate expenditure of 173.0 billion Kwacha or 37.1% of GDP, which is K53.4 billion more than the 2021 budget of K119.6billion.

- The strategy deployed to revive the economy include:
  - Stimulating economic activity by increasing Constituent Development Fund to K 25 Million per constituency (from K1.6 Million).
  - Job creation through recruitment of 30,000 teachers and 11,200 health care personnel.
  - Restructuring external debt obligation.
  - Create conducive environment to stimulate mining (focus on copper)
- **The specific macroeconomic Outlook for 2022 are:**
  - Achieving real GDP growth rate of 3.5% **(more than 1.8% of 2021)**.
  - Maintaining year end inflation within the range of 6% to 8% **(same as 2021)**.
  - Attaining domestic revenue mobilisation of at least 21% of GDP **(from 18% in 2021)**.
  - Limiting domestic borrowing to no more than 5.2% of GDP
  - Increasing Non-oil GDP growth rate by 5.9%
  - Limiting the overall fiscal deficit to 6.7% of GDP **(from 9.3% in 2021)**..

RWANDA –2022 BUDGET

- Theme of budget is “Economic recovery through industrialization & inclusive growth.”
- Proposed aggregate expenditure of Rwf3,807 billion, compared to the 2021 budget of Rwf3,246 billion.
- 67% of the budget will be financed through domestic resources.(Tax revenue RWF1,717.2 billion, RWF 275.8 billion from other sources.
- Total external sources of revenue RWF 1.26 Trillion (External grant RWF 612.2 billion, External loans RWF 651.5 billion)

Macroeconomic Outlook for 2022:

- The economy is projected to grow at 7.0%
- End of period inflation rate at 4.9%
- Fiscal deficit of 7.2% of GDP

SIERRA LEONE BUDGET 2022

- Themed as **“Building resilience for inclusive green recovery”.**
- Total expenditure is estimated at Le11.9 trillion (more than the Le10.3 trillion of 2021).
- Of this amount, Le7.646 trillion or 15.1% of GDP derives from domestic revenue,
- Le2,346 billion is from grants, while Le13,692 trillion shall be from domestic loans and external debt estimated at Le 25,534

Macroeconomic Outlook for 2022:

– Real GDP Growth at 3.4%

– Fiscal deficit of (4)% of GDP

– Inflation to stabilize at 13.3%

– Gross foreign reserves will remain above the threshold of 5.4 months of imports of goods and services

NIGERIA - 2022 BUDGET

Themed the “**Budget of Economic growth and sustainability”**.

- Building on the strength of recovery from the global pandemic, the present administration thought it wise not to rest on her oars.
- The theme proposed sets out to achieve a number of laudable objectives; diversification of the economy, Investment in critical infrastructure, reducing poverty and minimizing disparities.
- The proposed aggregate expenditure of 16.39tn is 1.82tn higher than the original estimates of 14.57tn in 2021.
- .

NIGERIA - 2022 BUDGET

- For expenditure, 4.891tn has been budgeted for capital expenditure and N6.83tn for recurrent, N3.61tn for Debt Service and N768.28 billion is allotted for statutory transfers.

Assumptions and Macroeconomic Framework :

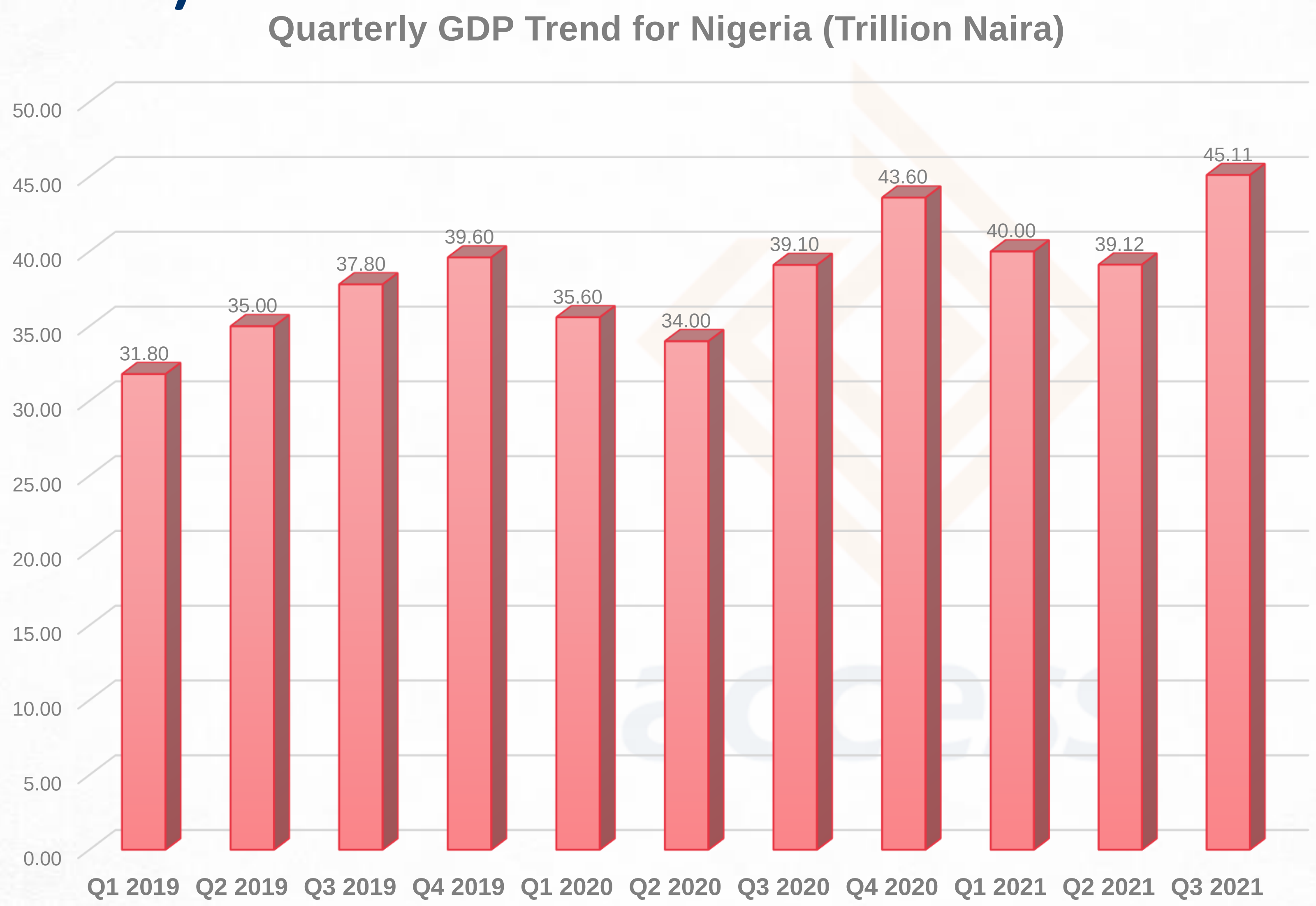
- Oil production of 1.88 million barrels per day (bpd)
- Benchmark oil price of $57/Barrel
- Exchange rate of =N=410.15 to the U.S. dollar
- Projected GDP growth rate of 4.2%
- Projected inflation rate of 13% (19.64 in August)

NIGERIA - 2022 BUDGET BREAKDOWN

S/N	Key Parameters	NGN TRN		Key Parameters	NGN TRN
1	Recurrent Expenditure	N6.83		Oil Revenue	N3.16
2	Capital Expenditure	N5.35		Non-Oil Revenue	N2.13
3	Debt Service	N3.61		Grants & Donor Funding	N0.634
4	Statutory Transfers	N0.768		FGN Independent Revenues	N1.82
5	Sinking Fund	N0.292		**Total**	**N7.74**
	Total	**N16.85**		**Deficit**	**N9.106**

S/N	Recurrent (Top Ministry)	NGN BN	Capital (Top Ministry)	NGN BN
1	Interior	7.919	Power, Works , Housing	0.87
2	Education	593.473	Transport	15.892
3	Defense	996.091	Defense	241
4	Health	380.21	Agriculture	75.544

Quarterly GDP Trend for Nigeria (Trillion Naira)



Source: The World Bank and IMF

MODULE EIGHT

GOVERNMENT MONETARY POLICY OBJECTIVES & IMPLEMENTATION

MONETARY POLICIES

- The basis of Monetary Policy is that there is a long run relationship between the amount of money in circulation and inflation

- Monetary policies are changes in the money supply which influences the interest rate – the price of money.

- The objective of price stability through the containment of inflation is the preserve of the Central Banking system.

- By speeding or slowing the growth of money supply, Central Banks can contain inflation, as well as reduce or increase interest rates.

MONETARY POLICY OBJECTIVES

- Stimulation of financial savings and capital formation.
- Reduction of Excess Liquidity in the Banking System.
- Maintenance of Exchange rate stability.
- Maintenance of financial sector stability.

MEASURES OF MONEY SUPPLY

Measures of money supply: M1, M2 are

- **M1**- Narrow measure of money supply
- **M1-** This is also called transaction money because it is money available to settle transactions immediately
  - Notes and coins in circulation
  - Balance on demand deposit accounts

MEASURES OF MONEY SUPPLY

M2 is also called quasi money or Broad Measure of Money Supply

- Balances on savings accounts
- Balances on time deposits accounts
- notes, coins, demand deposits, savings deposits and time deposits

MONETARY POLICY TOOLS

- Every Central Banking system in the world controls money supply with:
  - Reserve requirements (called Cash Reserve Ratio in Nigeria).
  - Rediscount Rate (called MPR in Nigeria)
  - Open Market Operation
  - Liquidity Requirements (also known as Liquidity Ratio)

KEY RATES FOR THE NIGERIAN ECONOMY

POLICY TOOL	RATE
Monetary Policy Rate (MPR)	15.5
Cash Reserve Ratio (CRR)	32.5
Liquidity Ratio	30

How the MPR Affects The Economy

The Monetary Policy Rate is basically the rate at which the apex bank (Central Bank) lends money to other commercial banks in the country. Depending on what the rate is at a particular time, the monetary policy rate has a rippling effect on almost every aspect of the economy and essentially the quality of life of citizens. Below are six (6) ways the monetary policy rate affects the economy

1. **Cost of borrowing increases:** Every adjustment in the policy rate has a direct corresponding effect on the interest rate at which businesses and individuals get loans from the banks. This means the higher the Monetary Policy rate, the higher the interest you will likely pay on your loan acquired from the bank.
2. **Cost of servicing loans:** The monetary policy rate also affects the rate you pay on servicing loans you have already acquired. For example, if the policy rate were 11.5% in November 2021 and you acquire a loan at the rate of 19.5% in at that time, which will be 8% more than the policy rate, and the policy rate increases to 14.5% in February 2022, you will pay 3% more on the interest rate you were required to pay when you first contracted the loan at 19.5%

How the MPR Affects The Economy

3. Inflation Rate: Inflation rate is the rate at which prices of goods and service increase at a particular time. And the monetary policy rate affects the rate of inflation, quite simply because if business are made to pay more or less on loans, the extra cost is likely to be passed on to the consumer in the form of higher prices.

Same way if the monetary policy rate decreases and banks are made to pay lower prices on their loans, prices of goods and services are likely to be maintained or even reduced.

4. Availability of Credit: When the monetary policy is reduced, banks are more willing to grant loans to companies. This means that you are more likely to get a loan and also at a cheaper interest rate if the monetary policy rate is reduced.

5. Increased Employment: Under a reduced monetary policy rate, businesses are likely to expand with ease, because of access to cheap credit or loans to expand. This is likely to boost employment, increase revenue and tax payable to government.

6. Increases Inflation: On the downside, a decreased monetary policy rate will increase the supply of money in the system, increasing both demand induced inflation as well as supply-induced inflation. This is due to the fact businesses are in the position to produce more, and consumers are, on their part, in a better position to buy more .

A SUMMARY OF MONETARY TOOLS

MONETARY TOOL	EXPANSIONARY MONETARY POLICY	RESTRICTIVE MONETARY POLICY
Reserve Requirements	Reduce Reserve Requirements – This will create additional excess reserves and induce Banks to extend additional loans and expand the money supply	Raise Reserve Requirements – This will reduce the excess reserves of Banks, causing them to make fewer loans. As the outstanding loans of Banks decline, the money stock will be reduced
Open Market Operations	Purchase additional Treasury Bills and Bonds – This will expand the money supply directly and increase the reserves of Banks, inducing Bankers to extend more loans to expand the money supply indirectly	Sell Previously Purchased Treasury Bills and Bonds – This will reduce the money stock and excess reserves. The decline in excess reserves will indirectly lead to an additional reduction in the money supply
Rediscount Rate	Lower the Rediscount Rate – Will encourage more borrowing from the Central Bank. Banks will tend to reduce their reserves and extend more loans because of the lower cost of borrowing from the Central Bank if they temporarily run short on reserves	Raise the Rediscount Rate – Will discourage borrowing from the Central Bank. Banks will tend to extend fewer loans and build up their reserves so they will not have to borrow from the Central Bank

IMPACT OF MONETARY POLICY ON INTEREST RATES

- While expansionary monetary policy can reduce interest rates in the short run, in the long run the result will be just the opposite. A persistent expansionary monetary policy will lead to inflation and higher nominal interest rates. Examples are the cases of Argentina and Brazil in the 1980s and Russia in the 1990s, and Zimbabwe in the 2000s.

- A shift to a more restrictive monetary policy will increase interest rates in the short run. But when pursued over a lengthy time period, restrictive policy will lead to deflation (falling prices) and low interest rates. An example is Japan in the 1990s when interest rates fell to below 1% due to its highly restrictive policy.

FOREIGN EXCHANGE POLICIES

Trade policies which influence tariffs and import quotas

- A tariff is a tax on imports from foreign countries. Governments use this tool as a measure to discourage imports and encourage domestic production of goods, especially where countries have comparative advantage in producing such goods.
- An import quota is also designed to restrict foreign goods and protect domestic Industries. It is a ceiling on the amount of a product that can be imported during a given period (typically a year). Thus local Industries are protected from foreign competition.

Exchange rate management and the supply and demand for foreign currencies, which have direct influence on exchange rates.

- These are policies that impact on the foreign exchange market which is one where currencies of different countries are bought and sold.
- It is significantly influenced by a country's volume of exports and imports. Thus exchange rates amongst the different currencies fluctuate significantly and leaves room for profiting from currency trading.
- There are various methods employed in regulating foreign exchange rates. Some systems leave exchange rates completely to market forces, while others fix their exchange rates vis-à-vis other currencies
- Exchange stability and price stability are the two conflicting objectives of monetary policy. Both of these objectives cannot be achieved simultaneously; any one of these objectives can be achieved only by sacrificing the other

DEVALUATION VS DEPRECIATION

- Devaluation means the official lowering of the value of a country's currency within a fixed exchange rate system, by which the monetary authority formally sets a fixed rate with respect to a foreign reference currency. Source: Wikipedia

- Depreciation of a Country's currency occurs when market forces create a situation in which exchange rate of the local currency depreciates against the foreign currency.

REASONS FOR DEVALUATION

- To boost Exports
- To shrink trade deficits
- To improve Balance of Payments

MODULE NINE

INCOME POLICY& ECONOMIC DEVELOPMENT

TOOLS FOR MACRO-ECONOMIC MANAGEMENT

INCOME POLICIES

- Collective governmental effort to control the incomes of labour and capital, usually by limiting increases in wages and prices. The term often refers to policies directed at the control of inflation, but it may also indicate efforts to alter the distribution of income among workers, industries, locations, or occupational groups.
- One of the fundamental principles of free market economics is that inflation must not be allowed to get out of control. When inflation rises, there is a tendency for governments use incomes policies.
- In the past, Nigerian governments tried to control inflation via wage and price controls. The result was inefficient allocation of resources due to controlled markets. In more recent years, government policies have tended more towards free market influenced prices.

DEMOGRAPHY AND INCOMES POLICIES

- **Factors influencing Income Distribution –**
  - Age Distribution
  - Education
  - Tax Rates

AGE STRUCTURE (2017 ESTIMATES)	0 - 14	15 - 64	65 AND OVER
RWANDA	41.38%	54.2%	2.43%
ZAMBIA	46.3%	51.65%	2.33%
NIGERIA	42.54%	54.32%	3.13%
GHANA	38.01%	57.74%	4.25%

Source: The World Factbook (CIA)

THE ISSUE OF UNEMPLOYMENT

- **Types of Unemployment**

Frictional Unemployment	Structural Unemployment	Seasonal Unemployment	Cyclical Unemployment:
unemployment caused by labour turnover – people voluntarily switching jobs and first job seekers	when there is a mismatch between the unemployed and the available jobs due to skills, education or obsolescence	unemployment that varies with the season	results from the downturn in the business cycle. People are laid off during a recession and rehired when the economy recovers

Full Employment is not 100% employment, but the natural rate of employment required to keep the economy running (often estimated as employment less frictional + structural)

GROWTH & DEVELOPMENT

- ISSUES THAT CONSTRAIN MEDIUM-TERM GROWTH IN MANY AFRICAN ECONOMIES
    - Low domestic savings and domestic investment.
    - Many African countries are still not credit-worthy internationally
    - Poor infrastructure particularly
        - Power
        - Telecommunications
        - Transportation
    - Dispute resolution through the law courts is slow
    - High unemployment
    - Insecurity of life and property
    - Financial markets that lack depth in terms of medium to long term finance.

ELTP Course Evaluation

After: Completing the training course

Before: Taking the exam

Complete and Submit the course evaluation questions

Do not rush: be accurate and complete all questions

Give constructive feedback: focus on ***how*** to improve

Note – Exam will be hidden until feedback is completed!

LMS Navigation – How to get there

Login
Dashboard – go straight to course
or navigate via Library

- Program Category (i.e., 2022 ELTP 13-20 Courses)
- Choose Course Group (i.e., Bank Lending – NDIS)
- Choose Course
- Choose Feedback
- Choose Answer the question
- Anonymous mode is preselected
- Click group (i.e., ELTP 13)
- Click facilitator
- Click on options

Then: Fill in the boxes
Note "!" = compulsory question
Then click: Submit your answer
Then click: Back to course page