{{ TOC }}

ECON1102 TUTORIALS

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T1

1. Possibly, as while an individual may prefer to buy one product over another, but crowd/market mentality may choose a different good compared to the individiual. *Micro level: everyone knows iphone is shit, *BUT** also know others will purchase them, Macro level: price of asset keeps going up due to speculation, "this smartphone business is ridic yo", better example would be GFC, apply to what I've already written*
2. Theories are based on very, very simplified versions of markets and people, so **ANY** model is by default unrealistic, therefore it's unfair to call one unrealistic.
3.
4. Positive, as it is what will be, rather than what should be. Deals with facts, rather than with ideals.
5.
    1. Consumer Income: exo
    1. exo
    2. exo 4,5,6. end

DEFINE, EXPLAIN, APPLY

T2

1. Less money came into countries from others for both imports and exports, so I'm not sure how big an effect that would have had. Although it would only cancel it out if a country relied equally on imports and exports for income. Local firms would have been relied upon more heavily, helping local economies??? Due to tariffs, which made imports too expensive. Meant to increase local economies over others.
2. PPF = production possibilities frontier. Idfk, I can't think of a way to apply it. Potential Reasons: No trade, less resources as a result, high unemployment. Yes AND no. Shows some effects, but many other things (e.g. demand side and events) are left out
3. Shit was too messed up, normally it would have worked but debt was too large a factor in the economic climate, preventing the return to equilibrium. Cost and wages reduced, so not much change in real income, but debts stayed the same. Feeds off itself, makes it worse. Across diff markets, instead of achieving equilibrium again when one worsens, all markets suffer, and collapse together
4. Graph is saying that stuff was at it's worst in about '32. After that, things started to improve, and in some cases became better than before the crash, such as GDP. Also seems to show that of all the countries represented, America struggled the most.
5. Relationship between the sectors: Increase in financial not always a good thing, whereas graph of increasing Real GDP shows that there was an actual improvement in the economy.

REAL SECTOR = actual production FINANCIAL SECTOR = prices of shit

T3

a. GDP = C + I + G + NX= 5600 billion. SHIT NOT COUNTED: Transfer Payments, NFI. b. Net exports = 200 billion

1. a. no, transactions, no productions even though there is profit. Not in the real economy b. no, resale. Reallocation of resources c. yes, as it is contributing to the economy. Hiring and shit d. yes, if new, no if not e. no, that's part of an 'underground' market f. no, household production
2. 100,000
3. apparently no, guess because as pe
4. a. 34, 24 using (1.03)^n = 2, growth rate is 70/g so 23.33333333333 b. 13, 9 using (1.03)^n = 2, 8.75 c. GDP per Labour is going to go up, because of birth rate

T4

1. a. No, not likely GDP increased, as children would not contribute to the GDP. Even in the longer run, there will be an excess supply of labour, as more surviving children does not mean there is more capital for them to work with. Not sure though: One hand less people dying, increase in health, therefore higher population -> increase in labour force. For Y/L, Y decreases, L increases, as children are not in the labour force. So my answer was pretty okay, just need to add this other maths stuff into it to help make it better.

b. Yes, as less childhood deaths and reduced occurence of diseases generally contributes to a higher standard of living. Productivity increased due to better SoL, Y/L increases. Demonstrates that SoL ≠ more productivity
2. a. False, shows effect of increasing K/L b. False, Shows effect of increasing technology, which is independent of diminishing returns c. True, yay!
3. Diminishing returns implies a ceiling on economic growth. To increase growth in long run, need to increase A on "total factor productivity" (TFP). Technology, Human Capital, Institutions
4. Decreased demand for Australian resources from China, decreased investment in mining sector, decreased I (Australian Investment) because mining sector is a large contributor to Australian GDP, decreased Y, decreased econ. growth. Gdp Growth Rate = Yt/Yt(Yt-1) - 1

Some function from the lectures: Y = AK^alpha L^(1-alpha)

T5

Really gotta watch those two lectures bruh CPI Biases: - new goods bias - quality - substitution - outlet substitution

Core Inflation: CPI - (food + energy prices) **GDP Deflator**: (Nominal GDP / Real GDP) * 100 **CPI Inflation**: (CPI Current - CPI Previous)/(CPI Previous) * 100

1. i. cpi decrease, understating because quality not reflected properly (hope this'll make sense later on), substitution bias. *Understating b/c substitution bias. Core excludes food prices, therefore no change. Prices decreased -> GDP Def decreased ii. if *not* in basket, then it's a new product -> underestimating, assume paying less when actually paying more. No change in Core Inflation, as all components remain the same. GDP Deflator: No change, as no change in price. iii. Potentially no bias, because quality increase and price decrease, No change. Prices decrease, Def decrease iv. New outlet cheaper goods, outlet bias because Aldi is cheaper but alternalive prices are used. Core doesn't change because no change in CPI. GDP Def goes down

Types of Unemployment: 1. Structural (skills unsuited to available jobs) 2. Cyclical (recession = job loss) 3. Seasonal (due to change in events, not restricted to weather seasons) 4. Frictional (Takes time to find employment.)

2.a. Structural b. Cyclical c. Frictional d. Seasonal

Reminder that labour force is employed + unemployed in labour force 3.a. Something like 4.7% b. Something like 4.07%

1. LFPR = LF / Working Age Population. 3 or 4 in LF, 3/5 = 60%, 4/5 = 80% b. 2/3 or 3/4 : 66.67%, 75%

2. a. 112.3 million b. 66.25%, c. d. Unemployment went up, or Labour Force down. For graph, use Labour Market, Y = Wages, X = Labour. Comparative Static = explain transition

T7

1. book
2. book
3. Large unplanned inventories -> decrease in production until inventories down to desired level. This at start of recession is bad, means less contribution to economy -> decrease in income. Also an increase in cyclical unemployment. Both of these things make the recession worse. Could do this with a diagram, but who wants that?
4. Decrease consumption, as wealth has gone down (value of assets goes down, less wealth -> less spending)
5. a. $1.2 trillion b. $0.9t c. increase in MPC -> increase in C, decrease in MPC -> decrease in C d. Higher the MPC the larger the fiscal mutliplier
6. # T10
7. a. $20k, 20% reserve ratio. Gross money creation = deposits / reserve ratio. $100000 b. $100000 - $20000 = $80000 (max) c. assumptions: a.) sufficient demand for loans, b.) sufficient supply of funds (bank **only** holds reserve ratio
8. Open market operations (OMOs) = "cleaning" liquidity shortages/surpluses
    - If excess liquidity, RBA takes money and gives bonds in return (taking money out of system to restore equilibrium)
    - If other banks have a shortage of liquidity, RBA buys bonds and gives money to the other banks
9. a. 6 + 0 = gp + 3, ergo gp = 3%, b. gp = 4%
10. Effect on MD . a. Shift MD down b. Movement MD up c. Shift MD up

11. Buying of private assets using public funds. Why? a.) increase liquidity in financial system b.) restore confidence in the financial system c.) artificial demand for assets -> increases their return b. Has it worked? No clear solution

T11

Discretionary = changes in G or T, at a federal level 1. a. i) discretionary, if there is a macroeconomic objective ii) contractionary b. i) yes, if there's an objective (such as reducing unemployment) ii) expansionary c. i) "" ii) expansionary d. i) "" ii) expansionary e. i) no, state government ii) expansionary f. i) maybes ii) expansionary g. i) ye ii) ((first and second round effects)) first: won't change, second: expect expansionary effects, as people have to get a job h. i) not discretionary, automatic stabiliser ii) expansionary

3b. i) information lag -govt. doesn't know the true LRAS or effect of policy until the next period (always backward looking with respect to info) ii) implementation lags - takes time for F.P to filter through and have an impact 4. immediate, therefore not discretionary 5. Still moving into deficit because of interest payments 7. Bhutan would have a better credit rating due to higher GDP growth. 8. Decreases in C, I and NX, no real clear answer