ASC 287

20/06/18

Agriculture is a business of raising production from the farm. A production raised maybe plants and their products. Agricultural economics is concerned with the allocation of resources in the agricultural industries with the alternative in production, marketing or public policy.

An agricultural economist is concerned with the study of efficiency in farm production with the returns that would result from employing various quantities and combination of increase in farming as with determining the best farm production alternative under the given physical and economic condition. They are concerned with the economics of agricultural market, the cost of marketing various farm products with alternative under the given physical and economic condition.

The scope of agricultural economics points out how a farmer chooses various enterprises e.g production of crops or raising cattle etc. When we study the behaviour of a farmer on a farm level (micro analysis) and the macro aspect such as instability of agriculture, unemployment, research and extension services which are predominantly macro in character. They are; unfavourable weather condition, such problems, their organization and solution are subject matter of agricultural economics.

The scope of agricultural economics is larger than mere economizing of resources, it rather looks at how development of agriculture helps to develop other sectors, how labour and capital flows into the non-agricultural sector, how agricultural development initiate and sustains the development of other sector. It implies that its not only developed concerning the use of scarce resources in agriculture but examine the principle.

1) Regarding the outflow of scarce resources to other sectors of the economy
2) About the flow of the resources from other sectors into the agricultural sector of itself

Differences between agriculture & industries - Agriculture is characterized by certain peculiarity defers by natural, technical & social-cultural environment of its own, which makes it substantially different from industries.

Dependent on nature: Agriculture is a biological entity which excessively depends upon nature. In addition the dependence on unknown & unseen powers of nature influences by physical factors by rainfall, weather, soil composition beyond the control of man, crops are exposed to several calamities like flood, drought, hailstorm, diseases, insects, locusts, pests & stray animals.

Production cannot be progressively controlled as in industry, therefore nature does the business and man is mainly the manager.

2) **Time lag**: This involves a time lag between a time where outlay is incurred and the time when returns are attained. This lag between outlay and returns varies depending on the nature of the farm output. During that interval, there could be a radical change in demand and price which may totally upset the farmer's calculation. Changes in agricultural income, accounts for greater risk and no turnover which makes the problem of agricultural produce more difficult.

3) **Division of labour**: Farming undertakes a small size unit and comparatively little scope of division of labour.

4) **Market competition**: The large position of economic theory which assumes market competition is small in agriculture than in industry. The farmer also disregards the effect of change in his own output than the industrialist.

5) **Factors of production**: Various factors of production are not clearly marked in agriculture than the large scale industries. The distinctions between the employers and employee is not clearly marked in agriculture as in industry.

6) **The seasonal character**: The dependence of agriculture on weather and other weather condition suggests its seasonal behaviour. This applies not only to the changing season but equally hour to hour.

7) **Production of variety of crops**: It is agriculture which supplies raw materials for industrial production. Every farmer produces a variety of crops as a general practise on widely scattered small units and has very small quantities of produced crop sales. On the other hand, industries are supposed to be specialized in the production of limited specified products.

04/07/18

Nature & Scope of Economics.

Economics is the social science that tends to explain the economic basis of the human society. It seeks to solve the three basic problems of daily living which is:

a) What goods & services to produce.
b) How to produce these goods & services.
c) For whom to produce these goods & services.

Thus, Economics is the study of how the society decides what, how and for whom to produce.

Many scientists like "Adam Smith" and "J.S Mill" explores the meaning of Economics and arrives at it as the inquiry into the nature and scope of wealth. While the like of D.C Pigou a wafare economist considered it as a means of studying how total production can be increased so that the standard of living of the people might be increased. In All, Robbins defined economics as a science which studies human behaviour as a relationship between ends and scarce means which has alternative uses.

The various definitions revolves around the central economic problem of scarcity & choice.

The Problem of economizing.

The central economic problem is to reconcile the conflict between people's unlimited demands with the society's ability to produce goods and services that would satisfy such demands.

This problem arises because individual wants are unlimited and the resources available to satisfy them are scarce/limited. The scarcity of resources in solution to the demand imposes on them a way for choice on the range of wants it wishes to satisfy one set of want against the other means sacrificing one against the other this concept is known as "Opportunity cost". The opportunity cost of a decision to produce or to consume more of one goods is the best forgone alternative. Therefore, the basic economic problem is that of allocating scarce resources among the competing and unlimited wants of consumers in the society.

All nations has to decide in some way what goods and services to provide, how to produce them and for whom to produce them. Therefore, different economic system tackles the basic economic problems in different ways.

Economic System

These are concerned with the ownership and control of resources which are basically known in three systems, which are;

a) Market economy
b) Commands or Government economy
c) Mixed economy.

A) **Market economy** – This is an economy in which resources are allocated through the price mechanism and the ownership and control of such important resources are land, capital are in the hands of the private and individual. The market economy are practised by United states and E.U.

B) **Command or Government economy** – This is an economy where Government makes all the decisions about production and consumption. A Government planning office decides what would be produced, how it will be produced and whom it will be produced for.

Economists that practice combined economy are China and Cuba.

c) **Mixed economy**; In mixed economy, the Government and private sector interacts in solving economic problems, the Government gets a significant share of output through taxation, transfer payments and the provision of goods and services.

Micro economy deals with how firms, how consumers or households influences the use of economic resources. It deals with the problem of resources allocation, it considers the problem of income distribution and its chiefly used in the determination of relative prices of goods and services.

Macro economy is considered with large aggregate particularly for economy as a whole. It deals with the factors that determine the national output & employment, total spending, employment, total spending and savings, imports and exports, demands for and supply of money and other financial aspects.

Economic output.

This refers to the ways in which economists go about the study of their subject matter. The two approaches are (a) Positive economy

b) Normative economy

Positive economy - Deals with the objectives or scientific explanation of the working of the economy. It is concerned with propositions that can be tested by reference to empirical evidence

Normative economy - This is concerned with the propositions that are based on value judgement i.e statements which are expressions of opinions.

11/07/2018

TOOLS OF ECONOMIC ANALYSIS.

Economic model or theory makes a simplifying assumption from which it deduces how people will behave. It is a deliberate simplification of reality. Data are the numerical information about the behaviour of a particular variable at a given time.

Data or facts interacts with models. Data helps us quantify the relationship to which our models draws attention.

Secondly, they help us to test our variable. The two types of data are;

a) Time series data.
b) Cross sectional data.

Time series data - This is a sequence of measurement of variable at different point in time

Cross sectional data - It records at a point in time the way an economic variable differs accounts across different individuals or group of individuals.

DEMAND, SUPPLY AND MARKET.

Economists have found some ways of deciding what, how and for whom to produce. In the private market, the interplay of demand (the behaviour of buyers) and supply (the behaviour of sellers) determines the quantity of goods produced and the price at which it is bought and sold.

The Concept of Demand

An individual demand for a good is the quantity of that good that an individual is willing and able to buy during some period of time and the determinant of acquiring that good

a) The price of the good (P_x)
b) The price of other goods related to that good (P_r)
c) The consumer income (Y).
d) The consumer's expectation about future price (e)
e) Advertisement (a).
f) Other relevant factors
g) Consumer taste (T)

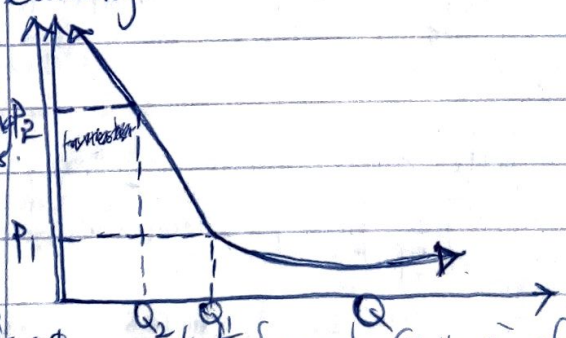
$$D_x = f(P_x, P_r, Y, T, E, A, Z)$$

Economists usually focus on how change in price affects the change in quantity demanded ceteris paribus (All things being equal).

Therefore, a demand schedule shows the various amount of a product which a consumer is willing and able to purchase at each specific price in a set of possible prices during some specific period of time. An individual demand curve for a good shows the relationship between the quantity demanded and the price of the goods.

Market demand

The market of a product is an arrangement in which buyers & sellers come in contact with each other in order to exchange their product. The market demand for a good is a sum of all individual demand in an economy.



The market demand curve is shown with a negative slope. This means that, as price falls, this inverse relationship between price and quantity demanded is summed in the quantity demanded increases. Law of demand

Law of demand - This states that a rise in the price of a good leads to a fall in the total quantity demanded while a fall in the price leads to a rise in the total quantity demanded

↑P ↓Q

Causes of downwards sloppy demand curve

1) The law of demand is based on the law of diminishing returns / diminishing marginal utility. According to this law "when a consumer buys more unit of a commodity, the marginal utility of that commodity continues to decline or decrease". Therefore, a consumer may buy more unit of that commodity when the price falls.

2) Every consumer commodity has a certain consumer, but when its price falls, new customers are attracted to it (price effect).

3) When the price of a commodity falls, the real income of the consumer increases (income effect)

4) With a fall in the price of a commodity, the price of its substitute remaining the same, consumers will buy more of this commodity rather than its substitute (substitution effect)

exceptions to the law of demand.

In some cases, the demand curve has a positive slope. This means that as price falls, quantity demanded also falls and if price rises, quantity demanded also rises. All things being equal (ceteris paribus)

a) Giffen goods.

Named after Sir Robert Giffen. Giffen goods are usually inferior goods of which quantity demanded increases as price increases (and vice versa.

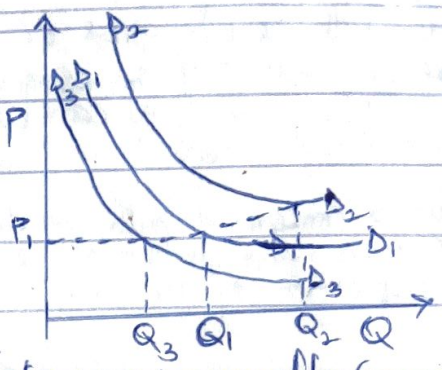
b) Veblen goods

Named after American sociologist. Here, luxury goods like jewelry, perfume. The demand for this good rises with price increase may be due to prestige of the consumer

c) Speculation

Creation of artificial scarcity causes sellers to raise the price of goods

Change in demand – A change in one or more of the determinant or influencing factors except the price of a commodity causes a shift in the demand curve. A change in demand could be caused by rising income, that is, increase in income has increased the quantity of commodity purchased in the market and resulted in a shift of the demand curve to the right. A reduction in income could result in the shift of the demand curve to the left



Changes in quantity demanded – movement along the demand curve represents consumers adjustment to changes in market prices, other things being equal (This reminds us that the price of the good is only one determinant of demand). $D_x = f P_x$.

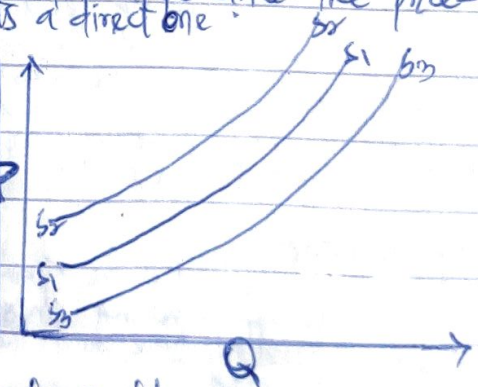
The effect of a change in the price of a good ceteris paribus can be traced by moving along market demand curve. If prices increases from P_0 to P_1, there is reduction in quantity demanded from q_0 to q_1 and vice versa.

Supply & demand market equilibrium.

Concept of supply

Supply is a schedule which shows various amounts of produce which a producer will want to produce and supply for sale in the market at a specific price during some specific times.

The law of supply – The suppliers of commodities are willing to offer more products at higher prices than at lower prices. As prices rise, the quantity supplied rises. As prices fall, the quantity supplied falls. This particular relationship is called the law of supply. The ~~law~~ supply curve has a positive slope since the price-quantity relationship is a direct one.



Determinants of supply

a) Technology

b) The price of other goods
c) The price expectation
d) Number of sellers in the market
e) ~~change in supply~~ Resources (Input)

Change in supply – This is a shift in the supply curve either to the left or to the right. A shift to the right is an increase while to the right, it's a decrease. A supply curve explains what a producer plans to do while a demand curve explains what a consumer will do.

Consider,

Demand function = $Q^d = 100 - 2P$

Supply function = $Q^s = 4 + 4P$

Equilibrium condition = $Q^d = Q^s$

$100 - 2P = 4 + 4P$

$-2P - 4P = 4 - 100$

$-6P = -96$

$6P = 96$

$P = \frac{96}{6}$

$P = 16$

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CIRCULAR FLOW OF INCOME AND NATIONAL ACC

National Income can be defined as the total market value of all the final goods & services produced in a country or economy in a year.

There are two things to be noted,

1) It measures the market value of annual output i.e. National Income is a monetary measure. This is because, there will be no other way of adding up different types of goods and services except in their monetary prices.

2) For calculating national income accurately, goods and services produced in any given year must be counted only once. This is because most goods go through a series of production before reaching a market value as a result. Parts and components of many goods & services must have been bought and sold many times.

Therefore, in order to avoid counting several times the parts of goods that are sold & resold, national income includes the market value of all final goods & ignores the transaction involving intermediate goods.

To explain this clearly, let us assume we have only two agents, the households and the firms are required to produce goods, and to produce this goods, they require the services of factors of production. This factors of production are paid the rewards for their contribution in the production of goods – i.e. income arises from this factor of production. The sales value of made productions must equal to the sum total of payment made by firms to the factors of production in the cause of production in form of wages, rent, interests and profits.

This income in turn becomes the source of expenditure – The income flows from the firm to the households in exchange for productive services. This income again returns to the firm when expenditure is made by the households

in exchange for productive services - this income services - But each money flows in opposite direction to the real flow

again returns to the firm when expenditure is made by the households on the goods made by the firm. Therefore,

National Income = National product

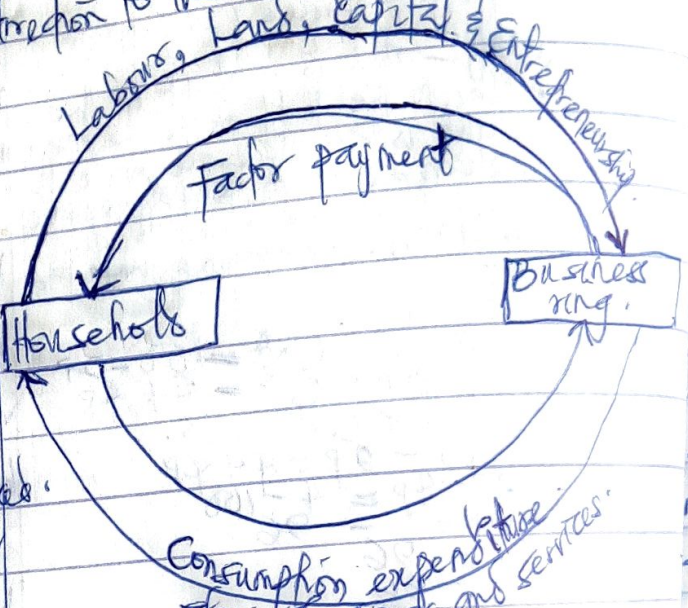
National product = National expenditure

In other words, there are three measures of national income of the country.

1) The sum value of all goods & services produced.

2) The sum of all incomes in cash and kind or according to factors of production in a year.

3) The sum of consumers expenditures, net investment expenditures and Government expenditure on goods and services.



Circular flow of income in a simple two sector economy.

CIRCULAR FLOW OF INCOME

Modern economy is a monetary economy. In the modern economy, money is used as a source of exchange. Money has facilitated the process of barter system. Money acts as a medium of exchange. The household supply the economic resources or factors to the firm and receive payment in terms of money. In the monetary economy, there will be flow of money for corresponding to the flow of economic resources and the flows of goods & services.

Real flows of resources, goods and services is shown in the diagram. In the upper half this figure, the resources such as land, capital, entrepreneur ability flow from household to business firm as indicated by the arrow. In opposite direction to this, money flows from business firms to the household as factor payment such as wages, interest, profits.

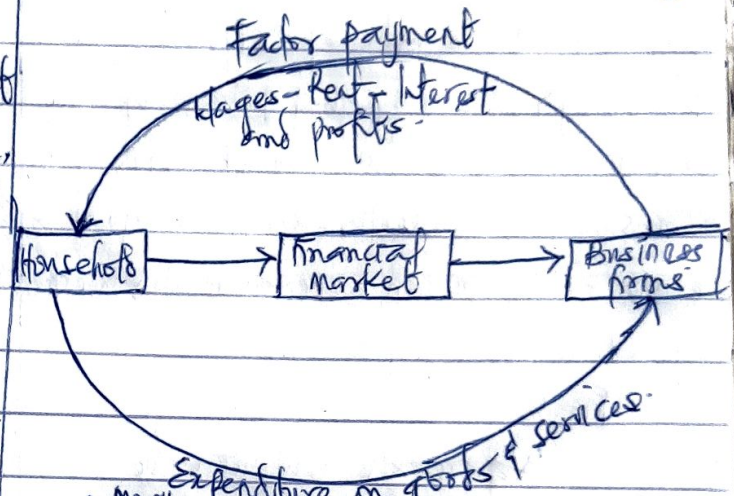
In the lower part of the figure, money flows from the household to firms as consumer expenditure made by households on goods and services by the firm, which the flow of goods and services

in opposite direction from business firm to household

CIRCULAR FLOW WITH SAVINGS AND INVESTMENTS

In our earlier analysis, it is assumed that all income which the households receive, they spend it on consumer goods and services. As a result, circular flow of money spending and income remains undiminished. If households save a part of the income, how their savings will affect money flow in the economy. When households save, their expenditure on goods and services will decline to that extent, as a result, money flows to the business firms will reduce with reduced money receipt, firms will hire fewer workers, lay-off some of the workers or even reduce the factor payment they make to suppliers such as workers. This will lead to the fall in total income of the households, therefore savings reduce the flow of money expenditure to the business firms and will cause a fall in the economy total income. Therefore, savings is considered as a leakage from the money expenditure flow.

When savings by household need not to lead to reduced aggregate spending and income of them as they find their way into flow of expenditure. In three market economies, there exist a set of institutions such as banks, insurance companies, financial houses, stock market where household deposit their savings. All this institutions together are called financial institution or financial market. We assume that there are no inter-household borrowing



Circular flow with Savings & Investments.

It is the business firms who borrows from financial market for investment in capital goods such as machines, factories, tools & instruments, drugs etc. Firms spend on investments in order to expand their productive capacity in the future. Thus the investments, expenditures by borrowing, the savings of the household deposited in the financial market are again brought into expenditure stream and as a result total flow of expenditure

does not decrease.

1-08-2018

Although, people that save are different from the business firms that invest in National income account savings are identical or equal to the investment in a simple two (2) sector economy that has no Government role or International trade. In a simple like that, the value of output produced is denoted by Y which is equal to value of the output sold. Since the value of output sold in a simple two (2) sector economy is equal to the sum of consumption expenditure and investment expenditure, we therefore have;

$$Y = C + I \quad --- (i)$$

Where Y = Aggregate output value
C = Consumption expenditure
I = Investment expenditure

We may ask therefore what happens to the unsold products. The unsold output leads to increase in the inventories of goods and in national income accounting increase in the inventory of goods is treated as an increase in actual investment.

Therefore, the gross national product (GNP) can be either consumed or saved. As such;

$$Y = C + S \quad ------ (ii)$$

From identity (i) and (ii) $C + I \equiv Y \equiv C + S$

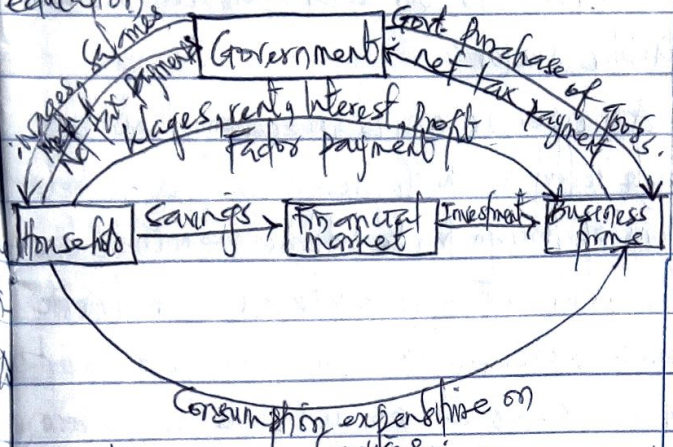
Therefore from the left hand side of the identity (iii) $C + I = Y$ shows the components of aggregate demand vs aggregate expenditure of goods and services produced. At the right hand side of the identity (iii) $Y = C + S$ shows the allocation of national income to either savings or consumption. Thus, the identity (iii) shows the value of output produced or is equal to the total income received. If we subtract the consumption from both side of the identity. We therefore have; $I = S$.

This means that in simple two (2) sector economy that has no Government or International trade, investment (I) = savings (S).

Circular Income flow in three (3) sector economy in Government Sector

In our previous analysis, the analogy is unrealistic because Government absorbs a part of income earned by households. Government affects the economy in different ways. We concentrate on taxing, spending & borrowing. Government purchases goods and services just as households and firms do. Government expenditure takes many forms like spending

capital goods and infrastructure. Capital goods and infrastructure are power, highway, defence, education.



Circular money flow model with Government

Government expenditure may be financed through taxes out of assets or by borrowing. The money flow from households and firms is called tax payment. This money flow includes all tax payment made by households less transfer payment received from the Government. Transfer payment are treated as negative tax payment. Another method of financing Government expenditure is borrowing from the financial market. Government borrowing increases the demand for credit and as such cause rate of interest to rise. This behaviour of the Government becomes a threat to households and firms.

Therefore, with this inclusion of Government in the economy, total expenditure flows in the economy is now sum of ~~but~~ consumption expenditure (C), investment expenditure (I), Government expenditure (G). Therefore,

Total expenditure (E) = C+I+G ---- (I)

Total income (Y) received is allocated to taxes (T), savings (S), consumption (C).

Y = C+S+T ---- (II)

Since the expenditure (E) made must be equal to the income (Y) received

C+I+G = C+S+T ---- (iii)

Removing C from both sides. I+G = S+T (iv)

Since C on both sides are removed.

Now on re-arranging I+G = S+T, we have,

G−T = S−I ---- (V).

Therefore, equation (5) is very significant as it shows what will be the consequences if the Government budget is not balanced. The Government expenditure G is greater than tax revenue T i.e G > T the Government will have a budget deficit. To finance the budget deficit, Government will borrow from the financial market and for this propose, the private investment (I) by business firms must be less than household saving (S). Therefore, I < S. Thus, Government borrowing reduces private investment in the economy

Another inclusion in the 3 sector economy relay is to the condition for equilibrium in the financial market i.e national income identity with Government expenditure will become;

$$Y = C + I + G$$

$$Y = C - G = I \quad --- \text{(VI)}$$

In the expression in equation (6), the left hand side $Y - C - G$ represents national savings (S). Note also that in national income identity, all Government expenditure is treated as Consumption expenditure. To understand the identity in equation (6) we have to breakdown (S) (left hand) into two parts;

(1) private savings $= Y - T - C$

(2) public savings $= T - G$

Thus, the overall savings =

$$S = (Y - T - C) + T - G$$

$$= Y - C - G$$

Note; $Y - T$ is disposable income.

If the economy is to remain in steady stage, the flow in the financial market i.e private and public savings must balance the flow out of the financial market. The expression is;

$$Y - T - C + (T - G) = I$$

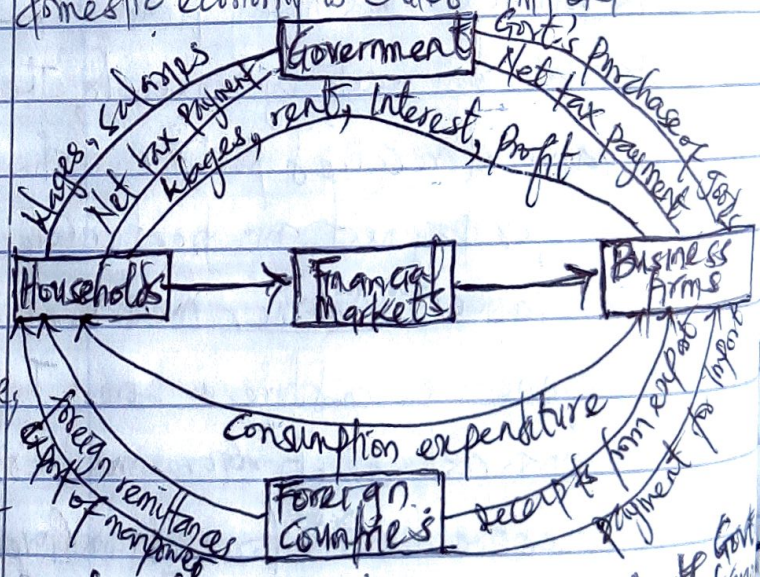
That is, for economy to remain steady, the sum of private and public savings must be equal public & private investments.

08/08/19

Money flow Info four Sector open economy & public sector

An open economy is an economy that has trade relations with foreign countries. The dimensions of foreign trade interactions with the domestic economy. Foreigners interacts with domestic firms and households through exports and imports of goods and services as well as through borrowing and lending through financial institutions.

Goods and services produced within the domestic territory sold to the foreigners are called "EXPORT" while products produced from foreign countries to domestic economy is called "IMPORT".



Circular flow Income in open economy with foreign

In the analysis, we assumed that it is only the business firms of the domestic economy that interact with the foreign countries in importation and exp

of goods and services.

From the diagram, you see the flow of goods and services from the domestic economy to the foreign economy and vice versa it is called Import and export. However, if the value of export excesses and the value of import is called "TRADE SURPLUS" on the other hand if the value of Import excesses Import is called "TRADE DEFICIT".

In the open economy, there is also interaction between countries not only through exports or Imports of goods and services but also through borrowing and leasing funds through the financial markets.

~~Foreign net relations~~

Savings - Investment in the open economy.

From the circular flow that occurs in the open economy, the national Income must be measured by aggregate expenditure that includes the net of exports (Total exports - Total imports) i.e Trade Surplus. $(x-m)$

Where x = Export

m = Import.

Import must be subtracted from the total expenditure made by foreigners on our domestically produced exported to them to get the value of net export, and it is represented as;

National Income $= C + IG + NX$

Since national Income can either be Consumed, Saved or paid as taxes to the Government - we have; $CH + G + NX = C + S + T$.

Since C is common in both sides

The above situation shows that in the open economy, some of the private Investment (I), Government's expenditure (G) and net export (Nx) is equal to the sum of savings, services & tax.

Relation of aggregate domestic output and expenditure with trade balance.

The national Income account identity of the open economy can be further shown as how domestic output (Y) and aggregate expenditure (C+I+G) and net export are related. If we re-arrange the equation of the national Income economy

$Y = C + I + G + Nx$ = Aggregate Domestic expenditure.

Thus, $Nx = Y - (C + I + G)$

Net export — National domestic product — Aggregate domestic export.

From the above equation, shows that in an open economy, aggregate domestic expenditure need

not to be equal to the aggregate domes
tic output (Y) exceeds the aggregate
domestic expenditure (C+I+G) - we export
the excess of domestic output that is,
Net export are positive ($Nx > 0$) on the other
hand, if output is less than domestic
expenditure, what we import is a shortfall
and its = $Nx < 0$

Foreign capital flows and trade balance
as in case of close economy.

Goods and markets are closely related to
the financial market in the close economy to
show this, we re-arrange to the national
income identity.

$Y = C + I + G + NX$.

$Y - C - G = I + NX$.

The left hand side of the equation
represents the national savings. Note also
that all government's expenditure are treated
as consumption expenditure, therefore it
follows that; $X = I + NX$ or $X - I = NX$.

The National Income identity of the X or
above shows that the economy Net export
(Nx) must always be equal to the difference
between savings and investment. The net
export is also called "trade balance" because
it shows the differences between export and
import of an economy, the trade balance may
be positive (+) or negative (−). If export exceed
import and trade balance positive, but if it
otherwise, trade balance is negative.

Assignment; Review critically the concepts of
national income (state your references)

15/08/18

THEORY OF INCOME AND EMPLOYMENT:

Full employment Model

Classical theory of employment is based on t
two basic notions;

1) Says law.
2) Wage-price flexibility.

Says law

According to theory propounded by Richard
Smith, it states that levels of income and
oyment are governed by fix capital stock o
hand and wage goods funds on the other h
The theory believes that full employment or
full employment is prevalent in the economy a
Says law is based on the fact that sup
its own demand. It means that every in
production is made possible by the incre

Savings is a leakage in income flow (Discuss)

*likely exam question.

- In the theory of says law supply creates its own demand (Discuss).

productive capacity or the stock of fixed capital will be sold in the market and there would be no problem of lack of demand. Therefore, the classical economy rules out the possibility of overproduction. In this says law, it means that greater production automatically leads to greater money income which creates the market of greater flow of goods. Thus, there would be no deficiency in demand. In this case, the process of capital accumulation and expansion of productive capacity will continue until all people are employed and there will be no reason why the productive capacity created will remain unutilised. According to this theory, the income which is not spent on consumer goods is not saved but spent on consumer expenditure. Therefore, Investment = Savings.

The leakage caused by savings in the income flow is made possible by investment expenditure. A classical theory of employment was based on two basic assumptions,

1) There is always enough expenditure or aggregate demand to purchase the total production at full employment level of resources. In other words, there is no consideration of the problem of demand.

2) Even when there is problem of demand, the prices, wages and interest would adjust quickly so that equilibrium is restored at full employment level of output. Therefore, Says law is expressed as, Supply creates its own demand.

Wage-price flexibility and full employment

According to this theory, the amount of products which a business firm can supply does not depend on aggregate demand or expenditure but depends on the price of products. When aggregate demand for goods and services decline due to foreign investments, the economy will still remain at full employment level of output i.e products price will fall quickly so that quantity demanded increases to restore equilibrium at full employment level of output. In this way, the economy express the ~~fact~~ mean that despite the decline in aggregate demand caused by the decline in ~~demand~~ investment, the real output, income and investment, will not fall provided the fall in prices of products brings about balance between demand and supply at full employment level of output.

Classical economy believes that a free market capitalist economy is saved correctly due to the intence competition between the sellers of products as a consequence of the fall in demand, the price will decline.

The classical theory of employment & output (Income)

Why does an increase in interest rate cause a fall in investment? The ~~amount of~~ firms can adjust to increase in interest rates, 2) - cutting down level of production - Lay-off of workers (2)

A full employment model:

According to Ricardo and Smith, the growth of income and employment depends on the growth of the stock of fixed capital and inventories of wage-goods. But, in the short run the stock of fixed capital and wage-goods are given and are constant. So, even in the short run full employment of labour force, will tend to prevail an economy will not experience any deficiency of demand. The short run theory of income and employment can be expressed through the following ways;

1) Determination of income and employment when there is no savings & investment.

2) Determination of income and employment in an economy when there is savings & investment

3) Determination of income and employment in the role of money and prices.

Determination of income and employment without savings & investment; According to the classical theory, the magnitude of national income and employment depends on aggregate production function and the supply and demand of labour. To express this, let's assume the economy produces one homogenous and

Let Y stands for the output of Yam.

$N^d = f(N/y)$

The demand for labour is a function of wages & prices

To produce this good, there are two factors;

- Labour (L)
- capital (K)

At a given technology (T)

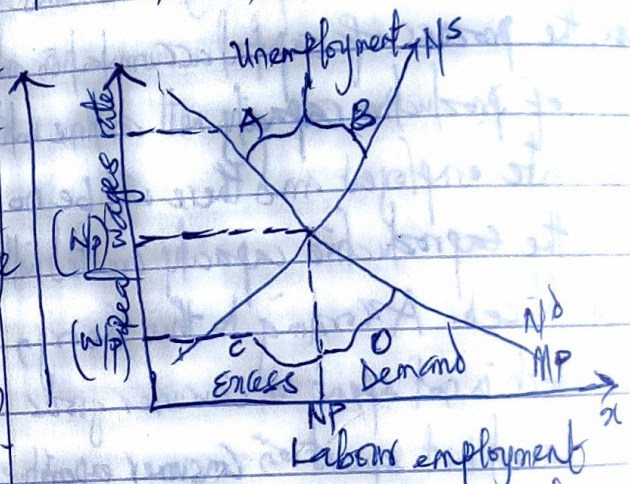
Y = Total quantity of Yam produced

K = capital

N = Labour

T = Technology.

$Y = F(N, K, T)$



Labour market expenditure; Determination wages and employment.

It is worth noting that changes in stock and technology will cause a shift in production. With a fixed capital stock and a given technology, the output Y or real income increases only when employment of labour increases i.e. ment of labour and output (income) rises together. According to this classical theory a fixed capital stock and given technology employment of labour increase, marginal pr

labour will diminish - This is the famous law of diminishing returns -

Labour Market equilibrium -