

BUSINESS ECONOMICS- MACRO

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407

1. C
2. C
3. C
4. C
5. C
6. C
7. C
8. C
9. D
10. D
11. C
12. C
13. C
14. C
15. D
16. C
17. D
18. B
19. B
20. B
21. B
22. C
23. D

24. C

25. D

26. B

27. B

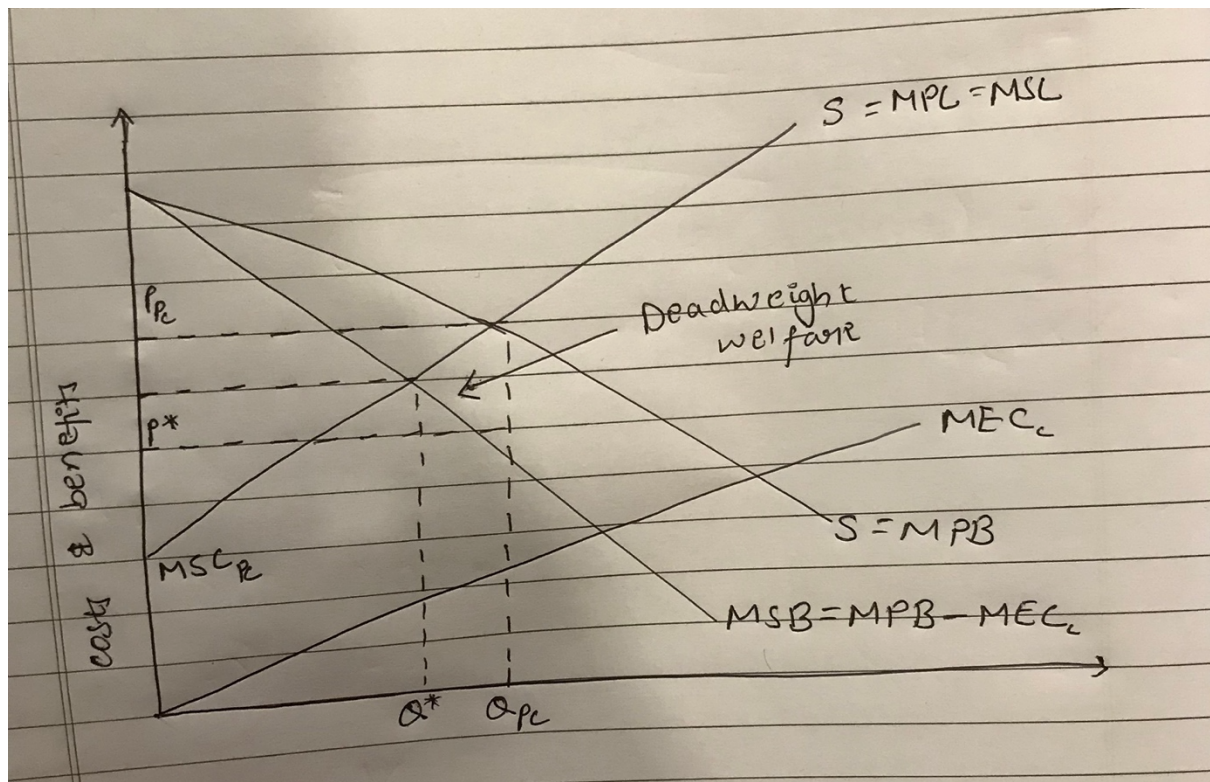
28. D

29. $NDY = 60300$

$GDY = 62000$

$NNY = 60000$

30.



1. MSC- Marginal Social cost

2. MPC- Marginal Private Cost

3. MPB- Marginal Private Benefit

4. MSB- Marginal Social Benefit

5. MECc- Marginal External Cost of consumption

6. Q^* - Socially optimum level of output at price P^*
7. Q_{Pc} - Market level of output at price P_{pc} .
8. Deadweight loss of social welfare happens when $MSC > MPC$
9. Social welfare loss occurs as $Q_{Pc} > Q^*$

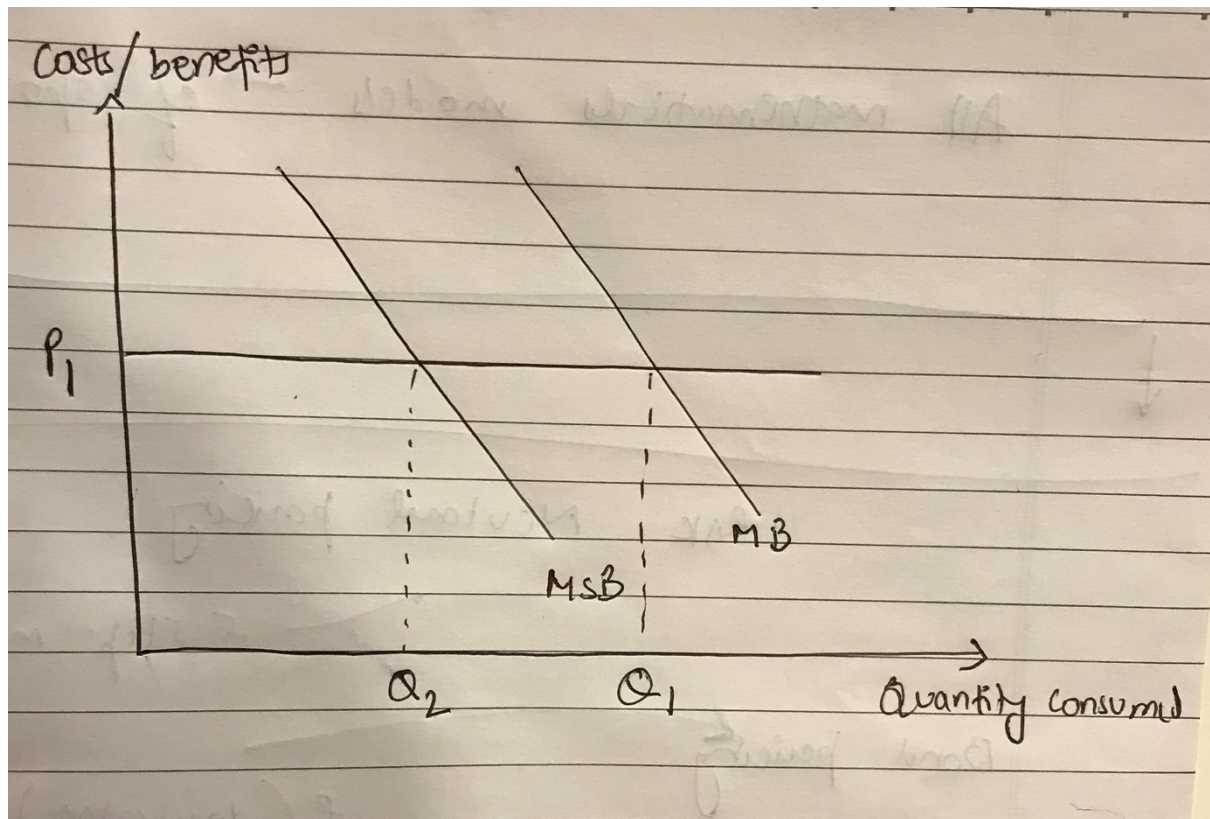
- Plastic has a societal cost since it pollutes the environment. People use plastic because it is convenient for them. As a result, the Marginal Social Cost (MSC) is distinct from the Marginal Personal Cost (MPC) (MPC).
- The use of plastic bags pollutes the ecosystem, and animals may die as a result of their ingestion. As a result, there may be a minor external cost associated with keeping water bodies clean and protecting animals from plastic eating.
- As a result, MSB is less than MPB. $MPB - MEC_c = MSB$ The MSB curve is shown below the MPB curve in the diagram. The market will be in an equilibrium situation with Price P_{pc} at Q_{Pc} . $MSB = MSC$ in a socially optimal equilibrium at output Q^* of price P^* .
- External costs of consuming result in output levels that are higher than the socially optimal level, $Q_{Pc} > Q^*$ Plastic bags are being created and consumed in excess, according to society. Overconsumption causes a dead weight welfare loss, which is depicted by a triangle in diagram A.

32. Negative Externality Definition - When production and/or consumption impose external costs on third parties outside of the market for which no acceptable remuneration is made, negative externalities develop. As a result, societal costs outweigh private expenses. A negative externality is something like this: i. People may smoke in public locations while ignoring the negative health effects of toxic passive smoking on nonsmokers. ii. Passive smoking can affect non-smokers' health and cause a variety of respiratory disorders. iii. Passive smoking in young women can lead to preterm delivery and asthma. iv. Passive smoking puts children at risk for respiratory disorders such as asthma, bronchitis, and pneumonia. v. Health-care costs associated with the treatment of smoking-related illnesses.

ii) Price Related Intervention:

a) The Government imposes a tax on the producer that reflects the marginal cost of the externality. b) Fines are imposed if smoking is done in public places
 Non- Price Related Intervention: a) Smoking is banned in public places like gardens, restaurants, libraries, work places, etc. b) A law prohibiting any manufacturer, retailer, or distributor of tobacco from selling or distributing products to persons under age eighteen. c) Use of media / advertisements, public education to emphasize ill effects of smoking and motivate smokers to leave smoking d) Specially designed medical care and or programs for smokers to quit smoking. iii) Diagram- marginal social benefit curve and

marginal private benefit curve when a negative externality in consumption exists



Q_1 - Consumption by private sector

Q_2 - Socially optimal level of consumption

MSB - Marginal Social Benefit

MB - Marginal Private Benefit

P_1 - Market price

33. Because it is influenced by changes in demand in an economy, actual economic growth is also known as demand side economic growth. It refers to a rise in output as measured by real GDP/national income. It can be achieved by shifting AD (Aggregate demand) to the right by increasing AD, by influencing any of the factors of aggregate demand. (As shown below)
- Consumption
 - Government Spending
 - Net Exports
 - Investment (However this is also a component of LRAS)
- On the other hand potential deals with the supply side of

the economy. It is an increase in the amount of work that can be done (potential). Increases in aggregate supply, both short and long term, can lead to economic growth. The short term is concerned with production costs, whereas the long term is influenced by changes in the quality and quantity of production inputs.

34.

- Income measure : This is the sum of all factor earnings. These are payments made to land, labour, and capital as a result of factor payments. Payments for transfers are not included (to avoid double counting).
- Output measure: This is the sum of all factor earnings. These are payments made to land, labour, and capital as a result of factor payments. Payments for transfers are not included (to avoid double counting).
- Expenditure method: This comprises all expenditure in the economy (including exports minus imports) as well as what would have to be spent to purchase inventory increases (or stocks). Only expenditure on final items is included to minimise double counting.

The three concepts are all the same. In practice, however, measurement and data gathering challenges (such as the black economy) mean that the three measures will not be equal.