Strand 2: Microeconomics imperfect competition

Learning outcome : At the end of the lesson students should be able to identify the different types of market structures ,list the features and explain using graphs

Notes

Monopolistic
Many sellers selling differentiated products and they have slight control over the prices they sell at.

Characteristics	Advantage
1.Large number of buyers and sellers	1. Consumers pay high price
2.Long run barriers are non-existent	2. Research and development undertaken
3.Similar production cost-product differentiation	**Disadvantage**
4.Price makers	3. No firm achieves economies of scale
	4. Productive and economic efficiency not achieve
	5. Misallocation of resources due to many firms producing less. Economically inefficient.

Activity

1. Draw graphs of **Monopolistic Competition** (Label all the curves)

   a**.** Supernormal Profit   **(2 marks)**
   b. Normal Profit   **(2 marks)**
   c. Subnormal Profit   **(2 marks)**

2. Explain the terms
   a.Excess Capacity Theorem   **(1 mark)**
    b.Product differentiation   **(1 mark)**

Notes

 Oligopoly
 Market structure consisting of **few,** relatively large firms selling products with close substitutes.

Characteristics

1.Few large sellers

2.Differentiated products are produced

3.Entry is difficult due to high start up cost .

 4.Limited consumer knowledge

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Obstacles to collusion

1.Demand and cost differences

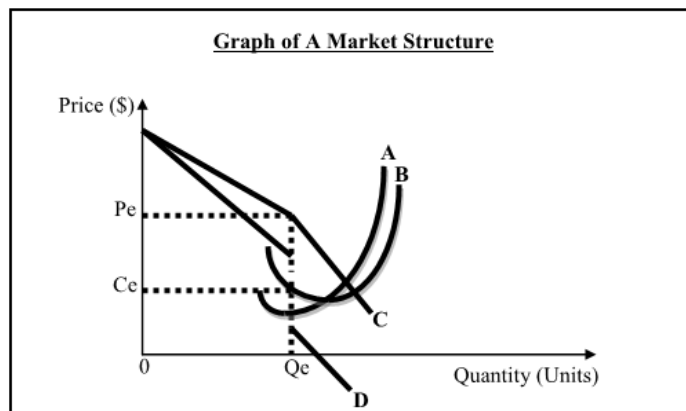2.Large number of firms so difficult to manage

3.Cheating

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Government Control

➢ Competition laws

➢ Taxation

➢ Regulation and legislation

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Activity

1.a. What is meant by the term **Cut Throat Competition** ? **(1 mark)**

   b. What fixed cost is associated with Oligopoly?   **(1 mark)**

(2)   Use the graph given below and your knowledge to answer questions (a) – (c).

Graph of A Market Structure

  a. Identify the type of market structure that is depicted in the graph above.
    State a reason for your answer.   **(2 marks)**

b. Label the curves: A, B, C and D.   **(2 marks)**

c. What type of average revenue curve does this market structure have?   **(1 mark)**

Strand 3: Macroeconomics

Sub Strand :

Lesson Objective
At the end of the lesson students should be able to learn the definition of National Income and how to calculate GDP using Income Approach.

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National Income
Made up of individuals income earned in the economy from the 4 factors of production

Gross Domestic Product (GDP)(-measured in current price)
-is the total value of goods and services produced in an economy in a given year

3 ways of determining GDP
1. Income Approach
    Summing of all incomes earned in production of goods and services.
      Formula: GDP=Rent+ Wages + Interest + Profit + net indirect   tax + depreciation

2.Expenditure Approach
   Measures the total amount of spending on final goods and services in a year.
      Formula: GDP=Consumption + Investment+ Government Expenditure + Net Export

3.Value Added Approach/ Production Approach
 A method of determining GDP by calculating how much value is contributed at each stage
 of production i.e. as goods progress down the chain of production from primary production
 through to the end of tertiary production level; when they are finally distributed to consumers.

Example

Calculate GDP using Income Approach

Operating Surplus	21000
Increase in Stock	900
Compensation of Employees	42000
Imports of goods and services	15000
Gross Fixed Capital Formation	11000
Govt Expenditure	23000
Subsidies	400
Exports of goods and services	14000
Consumption of Fixed Capital	6000
Final Private consumption Expenditure	43000
Indirect Taxes	300
Statistical discrepancy	300

*Note
1. The amount for indirect tax is **$8000** and not **$300** as stated in the example table.

2. The value of rent is 0 and wages is $42000.

Solution
Income Approach

GDP = r + w + P + Depreciation + (Indirect Taxes - Subsidies)

  = 42000 + 21000 + 6000 + (8000 - 400)
  = 69000 + 7600
  = **$76600**

Activity
1. Use the information given below on the national accounts of a hypothetical economy and your knowledge to answer Questions a and b.

	F$ millions
Gross fixed capital formation	30
Gross operating surplus	32
Net exports	-2
Net indirect taxes	26
Physical increase in stock	3
Private consumption expenditure	45
Government consumption expenditure	6
Consumption of fixed capital	12
Statistical discrepancy	22
Compensation to employees	46

a. State the formula to calculate GDP using income approach. **(1 mark)**

b. Calculate GDP using income approach.   **(1 mark)**

2. Write the formula to calculate **Net Indirect Tax**. **(1 mark)**

Lesson Objective

At the end of the lesson students should be able to learn how to calculate GDP using expenditure Approach and Value Added Approach.

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Example: Calculate GDP using Expenditure Approach

Operating Surplus	21000
Increase in Stock	900
Compensation of Employees	42000
Imports of goods and services	15000
Gross Fixed Capital Formation	11000
Govt Expenditure	23000
Subsidies	400
Exports of goods and services	14000
Consumption of Fixed Capital	6000
Final Private consumption Expenditure	43000
Indirect Taxes	300
Statistical discrepancy	300

Solution

GDP = C + I + G + (X- IM)
    = 43000 + (11000 + 900) + 23000 + (14000 - 15000)
    = 43000 + 11900 + 23000 + (14000 - 15000)
    = 76900 - Statistical Discrepancy
    = 76900 - 300
    = **$76600**

Example: Value Added Approach

A South Pacific Island Country, Oceania has the following firms in the economy.
*Treasure Island Ltd pays its workers $600 to collect attractive shells and give $200 to the land owners for collecting from their beaches.
*Sun Shells co-operation buys the shell, washes and sells them. Sun's Shell cooperatives pay its embers $900.
* Designers wonders buys the shells from the cooperative and users them to make ornaments. It sells the ornaments for $5000 and its only expenses are wages and owners profit.
* A forth company, Husky cooperative collects coconut and sells them for $500 which is shared among its members.

Solution

$800   value added of Treasure Island Ltd
$900   value added of Sun Shells Cooperation
$3300   value added of Designers wonders
$500   value added of Husky co operations
_____
$5500

Activity
1 .Use the information given in the table below to answer the questions below.

	F$ millions
Personal Consumption	3 657
Depreciation	400
Wages	3 254
Indirect tax	500
Interest	530
Domestic Investment	741
Government Expenditure	1 098
Rental Income	17
Corporate Profits	341
Exports	673
Net Foreign Income	20
Proprietor's Income	403
Imports	704

a. Calculate the Gross Domestic Product (GDP) using the Expenditure Approach . **(2 marks)**

b. Differentiate between the two methods of calculating Gross Domestic product using **Expenditure Approach** and **Value added Approach**.   **(2 marks)**

2.Explain why statistical discrepancy is included in the calculation of GDP in national accounts.

(1 mark)