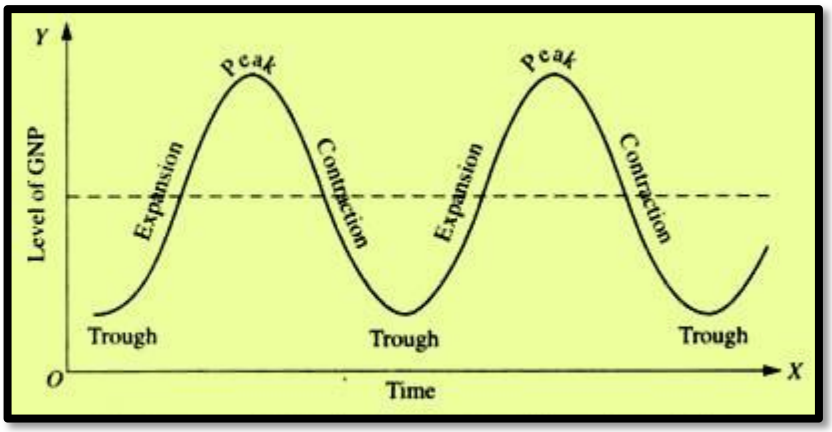
SANGAM SKM COLLEGE – NADI
Lesson Notes-Week1
YEAR 13
Economics

Analysis of Business Or Economic Cycle or Boom-Bust Cycle or Trade Cycle

- A trade cycle is a regular alternation of rising and falling levels of economic activity measured over a period of years.
- Trade cycle represents variation in the level of economic activity and this variation is called a cycle. This term originated from the famous economist Kuznet.

BUSINESS OR TRADE CYCLE



The trade cycle is divided into four phases which are:

- Boom or peak – a period where the economic activity has reached a temporary maximum level. The economy is said to be at full employment level and the economy is experiencing an inflationary pressure.
- Recession/contraction – is a downfall in the level of economic activity i.e. decreases in the level of income output and employment. It is a period of increase in the level of unemployment and decline in the level of consumption and investment.
- Depression /trough /slump - is the lower turning point of trade cycle which means the level of economic activity is at its lowest level. i.e. low level of income, output and employment.
- Recovery – an upward movement of the level of economic activity. This may have resulted from factors such as increase in domestic population, untapped resources or up surged business optimism.

ACTIVITIES

Describe the conditions in the phase of the business cycle as shown in the table. (5 marks)

	Phase of Business Cycle			
Indicator	***Trough***	***Expansion***	***Peak***	***Recession***
1.Interest rate				
2.Consumer confidence				
3. Business profits				
4. Consumer spending				
5.Housing construction				

LABOUR MARKET

- The **labour market** is a ***resource*** (or factor) market.
- The price of labour is the wage rate, the demand for labour comes from the employers and the supply comes from those who are in the workforce.
- Labor markets may be local or national (even international) in their scope and are made up of smaller, interacting labor markets for different qualifications, skills, and geographical locations.
- Workforce –those people who are of working age between18 to 55 and are willing and able to work.

Factors affecting the demand for labour

1. The demand for labour is called derived demand. Therefore demand for labour comes for demand for goods and services.
2. Changes in productivity. A more productive worker is more profitable to an employer. In productivity increases the demand for labou*r*.
3. The level of total spending – the greater the level of spending, the greater the production in the economy, there the greater the demand for labour.
4. The relative cost of labour and capital –the firms seeking to maximize profit use least cost method of production. If cost of labour is low there in high demand for labour and vice versa.
5. Government economic policies- influences demand for labour both directly and indirectly i.e. directly through funding job creation schemes and training programs. And indirectly through policies that affect profitability of the firm.

Supply of labour- the total quantity of workers who wish to work at a given real wage rate.

Factors affecting the supply for labour

1. Population sizes i.e. the birth rate, death rate and net migration.
2. Labour force participation rate.
3. Wage rate and working condition.
4. Education and training.
5. Labour mobility
   a. ***Occupational mobility***- refers to the case which labour can move from one occupation to another in order to take advantage of wage differentials and employment opportunities.
   b. ***Geographical mobility***- refers to the case with which labour can move between different locations to take advantage of wage differentials and employment opportunities.

Activities

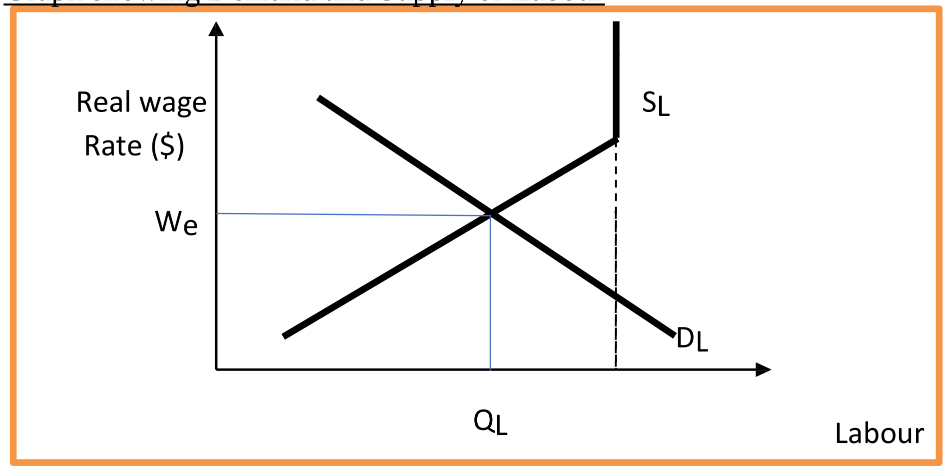
1. Labour as a factor of production is said to be
   A. final demand
   B. derived demand
   C. composite demand
   D. perfectly elastic demand curve
2. Explain the term derived demand.
3. List two occupation that can be classified under occupational mobility and geographical mobility respectively.

SANGAM SKM COLLEGE- NADI
Lesson Notes- Week 2-3
YEAR 13- ECONOMICS

STRAND	Macroeconomics
Sub-Strand	Labour Market
Content Learning Outcome	Explore evolving labour markets in the Fiji economy.

Notes

Graph showing Demand and Supply of Labour

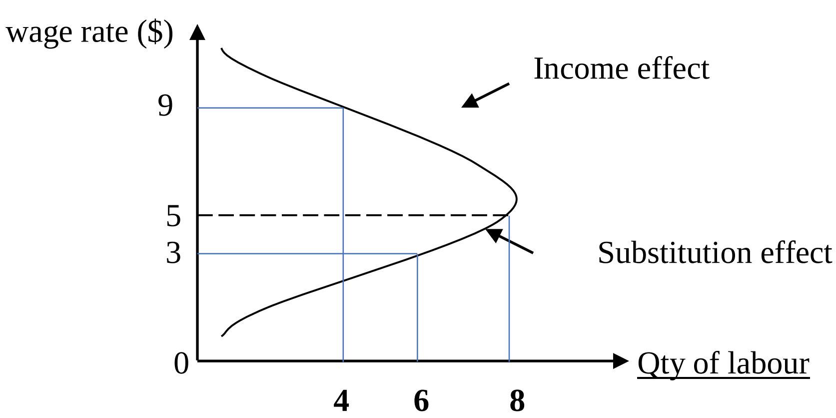


Nominal and real wage rate

- ***Nominal wage rate*** is the current wage rate the worker is receiving without any adjustment.
- ***Real wage rate*** is wage at constant price and is adjusted for changes in price level and it gives indication of purchasing power of wages. This means real wage can be used to find quantity of goods and services that wage can afford to buy.

$$\textbf{Real wage rate (w/p)} = \frac{\textbf{Nominal wage rate (w)}}{\textbf{Price level (p)}}$$

Backwards Bending Supply Curve For Labour



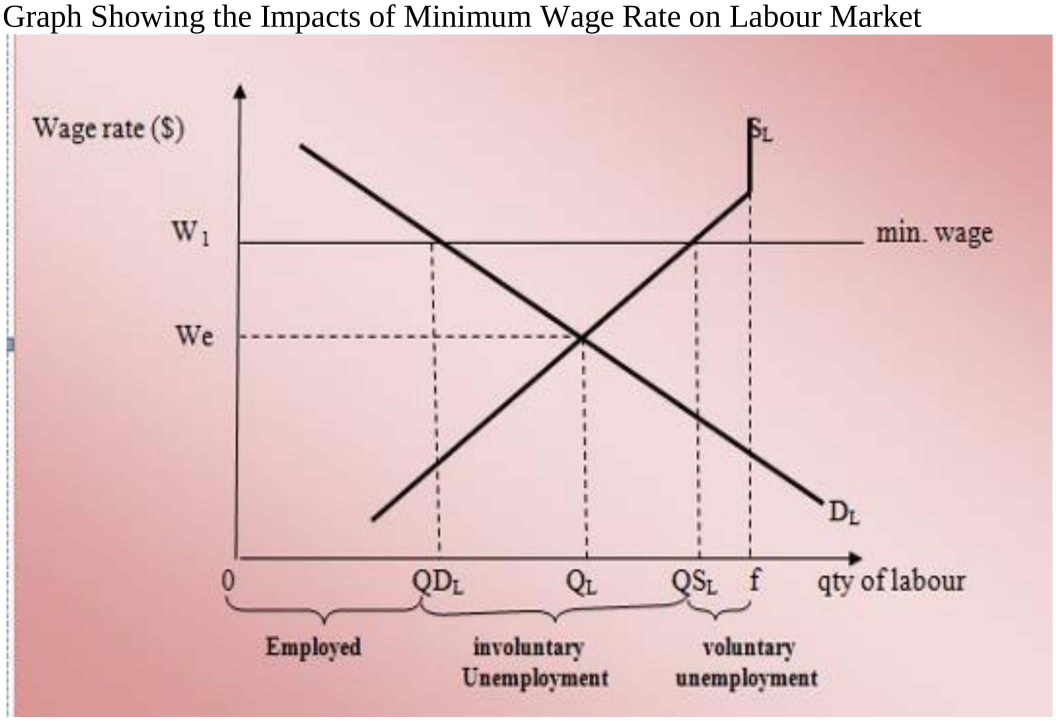
Note

1. Looking at the shape of supply of labour it is said to be backward bending. The reason for such shape of supply of labour is; initially at $3 dollar real wage rate the worker is willing to work 6 hours.
2. As the wage rate increases to $5 worker is willing to work for 8 hours. The worker prefers leisure to work which is known as ***substitution effect.***
3. As wage rate keeps increasing for instance increases to $9 per hour the worker prefers leisure to work hence the supply of labour declines. This is known as ***income effect***.
4. It leads to backward bending supply curve due to substitution and income effect which clearly shows workers reaction upon changes in wage rate.

Government intervention in labour market

- When the equilibrium wage rate is below the subsistence level the government intervenes to impose *minimum wage rate*.
- A minimum wage rate is the lowest remuneration that employers may legally pay to workers.
- Equivalently, it is the price floor below which workers may not sell their labor. The minimum wage rate is fair and equitable ensuring the minimum welfare needs of consumers is satisfied.
- For a developing nation like Fiji's new minimum wage of $2.68 per hour announced by the government came into force on August 1- 2017.The National Minimum Wage (NMW) Regulations had been gazetted and all relevant employers adjusts their workers' wage levels and employment conditions to comply with the NMW Regulations and the Employment Relations Promulgation 2007 (ERP).

Graph Showing the Impacts of Minimum Wage Rate on Labour Market



Note:

- At W_e the equilibrium quantity of labour employed is Q_L.
- At equilibrium condition there is 0 involuntary unemployment and voluntary unemployment is full employment (f) minus Q_L. (voluntary employment= f- Q_L).
- At minimum wage rate W_1:
  - ✓ Employment has decreased from Q_L to QD_L.
  - ✓ *Involuntary unemployment* has increased from 0 (nothing at all) to QS_L minus QD_L.
  - ✓ *Voluntary unemployment* has decreased from (f –Q_L) to (f-QS_L).
- Involuntary unemployment –occurs when an individual is willing to work at the given wage rate but is unable to find a suitable job.
- Voluntary unemployment – occurs when an individual is willing to work but do not accept the job unless wage rate increases.

Activities

Activity 3.3.1 Pg 125-127 Ref: Advanced Economics Year 13

Multiple Choice

Question 1-3

Short Answer Question

Question 1

FY13CE ECONOMICS 2018 PAPER

Question 3 Part d

Y13CE ECONOMICS 2016 PAPER

Question 3 Part f

Notes

STRAND	INTERNATIONAL ECONOMICS
Sub-Strand	The Mechanics of Exchange Rates
Content Learning Outcome	Explore the impacts of changes in exchange rate on balance of payments.

STRAND 4 INTERNATIONAL ECONOMICS

EXCHANGE RATES

Exchange rate- is the price one currency in terms of the other currency.
Exchange rate is expressed as the foreign currency equivalent of one unit of domestic currency for e.g., FJ$1=US$0.46.

Forex market

- Is the foreign exchange market (forex, FX, or **currency market**).
- It is a situation in which currency of one country is traded for that of another.
- The foreign exchange market involves many buyers and sellers.

- The existence of buyers and sellers implies the operation of the market forces of supply and demand.

Process in foreign exchange market
- The process of trading the currency of one country for the currency of another occurs in forex market.
- This process is necessary for international trade to take place in a world of different currencies.
- The value of one currency versus another is determined by the international exchange rate.

Equilibrium in foreign exchange market
The demand for currency
- The demand for currencies is derived from the demand for a country's exports, and from speculators looking to make a profit on changes in currency values.

The supply of currency
- The supply of a currency is determined by the domestic demand for imports from abroad.
- For example, when the Fiji imports Cars from Japan it must pay in Yen (¥), and to buy Yen it must sell (supply) Fiji dollars.

Note:
1. Exchange rate is determined by the currency requirements of exporters and importers only.
2. The demand for Fiji $ is expressed by those who have overseas currencies in foreign exchange market.
3. The supply of Fiji $ is provided by the importers who wants to buy other currencies.
4. In the foreign exchange market, there is both demand for a currency as well supply of the currency for example Fiji dollar. Therefore, the exchange rate is simply determined by equating demand and supply of the currency.

Graph showing demand and supply of Fiji's currency