SANGAM SKM COLLEGE – NADI
Lesson Notes-Week1
YEAR 11
Economics

Strand: Microeconomics

Sub Strand: Price Control

Learning outcome: Define the term price control /differentiate between Price ceiling and price floor/use graphs to explain the effects of price ceiling and price floor

Copy the notes given below/paste the notes

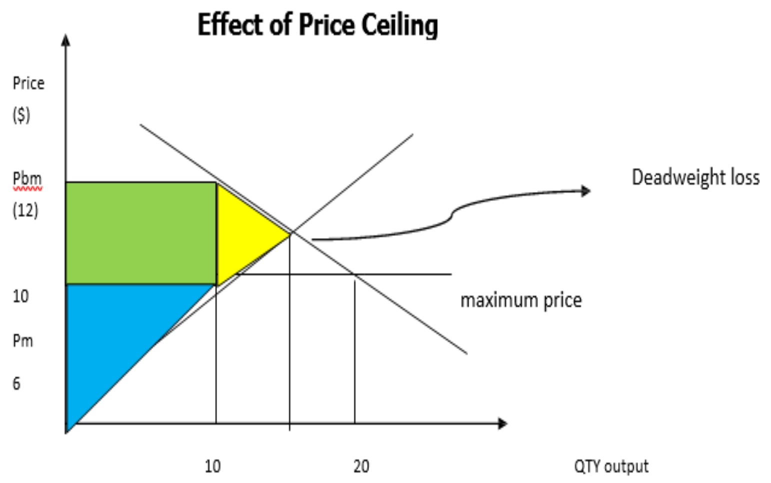
Price Control

- It is the control of prices by government either at maximum or minimum level.

1. Price Ceiling (Maximum Price)

- It is the maximum price set by government **below** equilibrium level to ensure certain essential goods and services are affordable.
- Price ceiling is set to protect the buyers or consumers.

  Example: rent ceiling, interest ceiling.



KEY:

Increased consumer surplus after price ceiling.

Reduced producer surplus after price ceiling.

Deadweight loss –is sum of loss of consumer and producer surplus not transferred to any party.

Effects of Price Ceiling

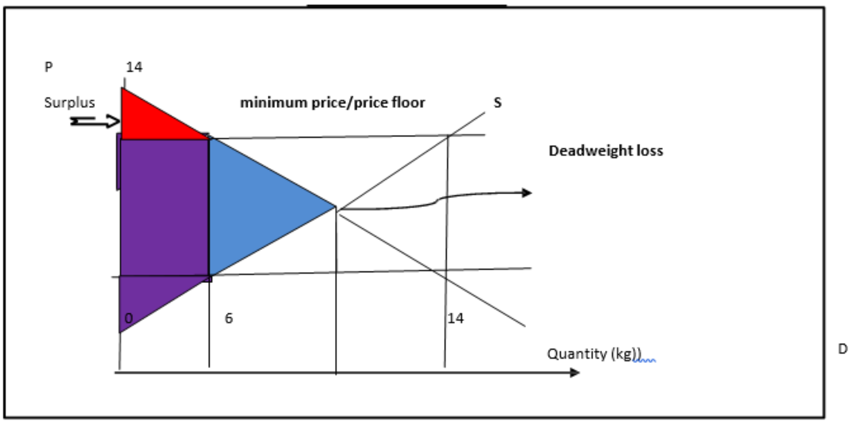
- It creates a shortage of (Qd –Qs) i.e. 20-10= 10 units.
- It results in black marketing and producers will charge higher price
- Some customers may remain unsatisfied due to shortage.
- It reduces the value of producer surplus and increase the value of consumer surplus

2. Price Floor (Minimum Price)

- Is the minimum price set by government above the equilibrium level to protect the producers

  Example, Agricultural Price floor, minimum wage rate

Effect of Price Floor



KE Y: 67

Reduced consumer surplus after price ceiling

Increased producer surplus after price ceiling

Deadweight loss –is sum of loss of consumer and producer surplus not transferred to any party.

Effects of Price Floor

- It creates a surplus of Qs - Qd i.e. 14kg-6kg =8kg
- It will result in the illegal lowering of prices in the market.
- The surplus created will be wasted if government does not come in to buy up the surplus.

Activity

(i) Explain why the government may set a price ceiling.

(ii) Explain what happens to the price if a price ceiling (maximum legal price) is imposed

(iii) Indicate whether a price ceiling creates a surplus or a shortage. Why?

SANGAM SKM COLLEGE- NADI

Lesson Notes- Week 2

YEAR 11

ECONOMICS

STRAND	3. Macroeconomics
Sub Strand	3.1 National Income
Content Learning Outcome	Define, differentiate and calculate Nominal GDP and Real GDP

Notes

National Income

- Is made up of individual incomes earned in the economy, that is income earned by Factors of Production

Gross Domestic Product (GDP)

- Value of goods and services produced in an economy in a given year.

Nominal versus Real GDP

1. Nominal GDP (GDP at current price)

- Measures the value of output of all final goods and services at **current price.**

$$\text{Nominal GDP} = \frac{\text{Real GDP}}{\text{Base Year Index}} * \text{Price Index}$$

2. Real GDP (GDP at constant price)

- Measures the output of all final goods and services at constant price.
- It is nominal GDP adjusted for Inflation.

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{CPI}} * \text{Base Year Index}$$

Activity

(i) Differentiate between Nominal GDP and Real GDP

(ii) Use the information given below and your knowledge to calculate the missing figures.

Year	Price Index	Nominal GDP	Real GDP
1	100	800	**(i)**_______
2	260	**(ii)**______	500
3	286	1716	**(iii)**_______
4	300	2046	**(iv)**_______
5	320	**(v)**______	937.50

Consumer Price Index (CPI)

- Is defined as a standard market basket of goods and services purchased by a typical urban family.
- In Fiji, CPI = 100

Measures of CPI

- It measures the cost of living.
- Used to calculate Inflation rate of the country

Limitations of CPI

- It does not take into account the market basket of goods and services purchased by all families in the economy.

Economic Growth

- Is the increase in Real GDP over a period of time
- Thus, there are more goods and services available for consumption
- There is more productivity and employment leading to an increase in the standard of living.

Measures of Economic Growth

- Real GDP
- Real GDP per Capita

Note:

$$\text{Real GDP per Capita} = \frac{\text{Real GDP}}{\text{Total Population}}$$

SANGAM SKM COLLEGE- NADI

Lesson Notes- Week 3

YEAR 11

ECONOMICS

STRAND	3. Macroeconomics
Sub Strand	3.1 Circular Flow
Content Learning Outcome	Illustrate the inclusion of Circular Flow to identify the components of GDP

Notes

Circular Flow

Two Sector Circular flow Model

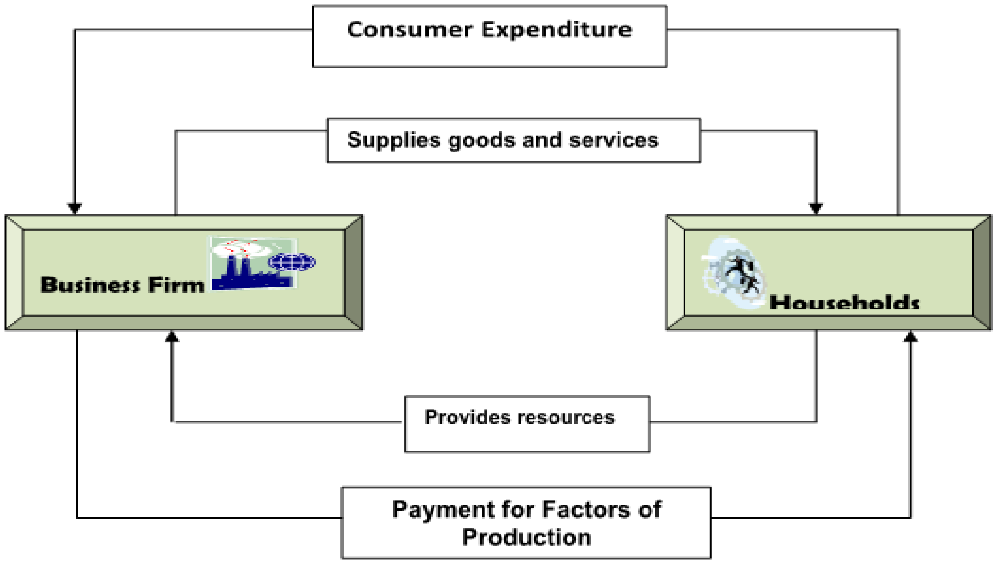
1. Household Sector

- Provides factors of production to business firms and receive factor income in return
- It also buys goods and services from the business firms

2. Business sector

- Buys factors of production from the household to produce goods and services
- It also sells goods and services to the household

Two Sector Circular Flow Model



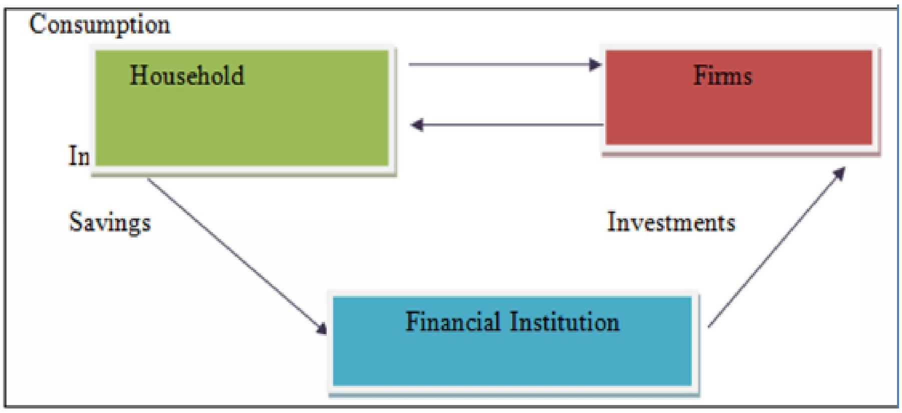
Three Sector Circular Flow Model

Three sectors involved in this model includes Household sector, Business sector and Financial Institution

Financial Institution

- The sector which involves borrowing and lending of money
- Includes banks, financial institutions, life insurance companies, FNPF, etc

Three Sector Circular Flow Model



Savings

- Savings is a leakage from the circular flow and will lead to a decrease in the size of circular flow
- Thus, there is a decrease in income , output and employment in the economy

Investment

- Investment is an injection in or addition to an income stream in the circular flow
- It increases the size of circular flow, leading to an increase in income, output and employment in the economy

Equilibrium Condition for a Three Sector Model

Savings	=	Investment
S	=	I

Activity

(i) Define Interdependence and state an example from the three sector circular flow model.

(ii) Describe Leakage Effect and give an example.