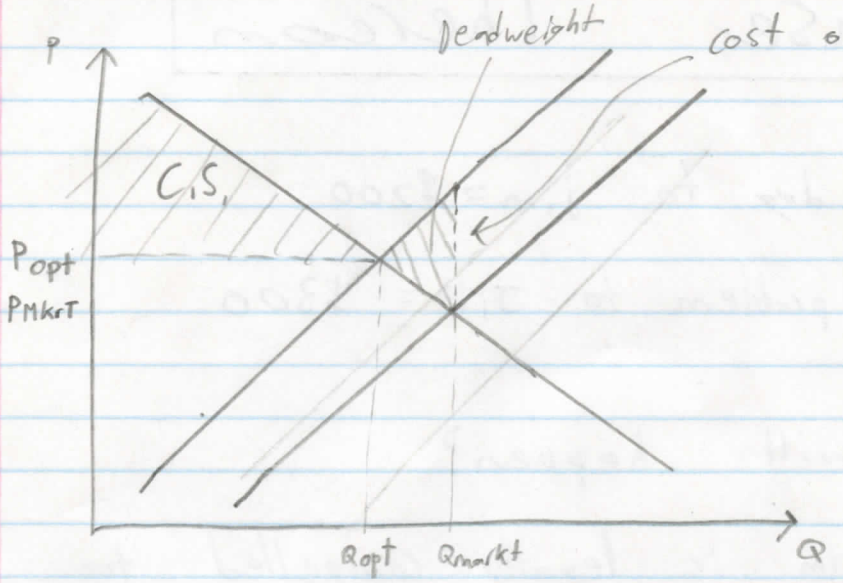
Chapter 10 Externalities

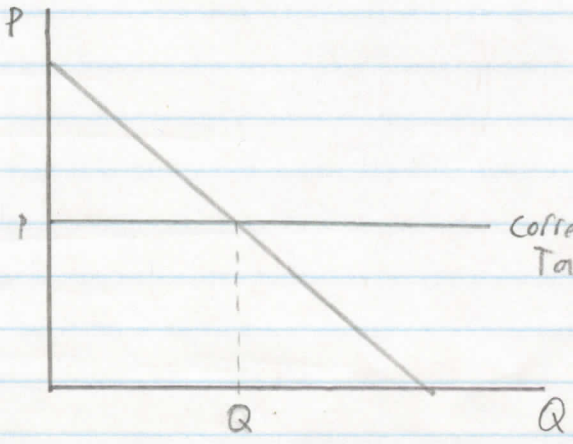


Taxes (Neg)
Subsidies (Pos)

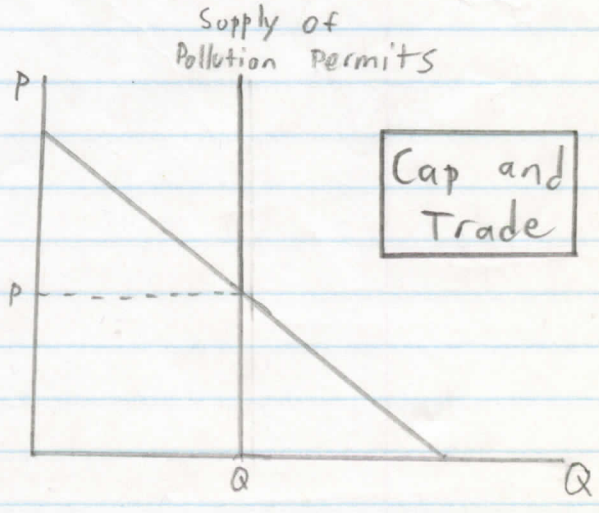
Internalizing the Externality: creating incentives within the market so people take it upon themselves to address the externality. opposed to direct Regulation.

Command and Control: Regulation

Market-Based: Corrective (Pigovian Taxes)



Sets Price of pollution



Cap and Trade

Sets Quantity of Pollution

Coase Thereom

① MB of dog to jim = $200

② Barking problem to Jill = $300

What will happen?

① If Jim is legally compelled to make his dog stop barking vs. if he isn't

* Transaction costs (costs during the bargaining process) sometimes get so big the problem isn't resolved

Chapter 11

Rival in Consumption — If one person uses it can someone else then not use it?

Excludable \ Rival in Consumption	Yes	No
Yes	**Private Goods** - Ice-cream cones - Clothing - Congested toll roads	**Club Goods** - Fire Protection - Cable TV - Uncongested toll roads
No	**Common Resources** - Fish in the Ocean - The Environment - Congested non-toll roads	**Public Goods** * will not arise in a private Market - Tornado siren - National Defense - Uncongested non-toll roads - Firework display

Excludable: Can someone be stopped from using it?

Free Rider: *problem
Someone who enjoys the MB of something but does not pay for it

*Common Resources are a problem because anyone can use them but it is possible to use it all up and then everyone loses

Chapter 19 Intro to Macro

Recession: A fall in GDP
- long term growth
- short-Term Fluctuations

nominal national income: total income in current dollars

Real National Income: Total income in Constant $'s. only changes when quantity changes

Y = Actual Output

Y^* = Potential Output = If all Resources is put to use

$Y < Y^*$ = recessionary Gap

$Y > Y^*$ = Inflationary Gap

*note, this can still happen

Employment= Number of adults with jobs

Labour Force: Total # of people employed or unemployed

Unemployment= # of adults who are unemployed and are looking for work

Unemployment rate:

$$\frac{\#\text{ of people unemployed}}{\#\text{ of people in Labour force}} \times 100\%$$

Frictional unemployment: Standard turnover of people between jobs but are not currently working

YES

Structural Unemployment: Labour force skill set ≠ Skills in demand for jobs

Clyclical Unemployment: Actual GDP ≠ Potential GDP

NO!

Full Employment?

Price Level: "P"

↑P = Inflation

* Inflation reduces purchasing power of money and the real value of money

Nominal interest rate:
Standard interest

Real interest rate:
adjusts to take into consideration the change in buying power of money

Consumer Price Index (CPI):
choosing a base year and then seeing how much the same goods cost at a later date and measuring the % increase in price

↑ Exchange Rate = **Depreciation**
∴ It now takes more Canadian dollars to buy a Euro

↓ Exchange Rate = **Appreciation**
∴ It now takes less Canadian dollars to buy a Euro

Chapter 20 National Income

Intermediate Goods:
not the finished product.
ie: flour which will become bread

Final goods:
Final product, goods that will be consumed by consumers

Value added:
solution to the double counting problem
Value Added = Sales Revenue - Cost of intermediate Goods

National income = National product

GDP on the Expenditure side

1. **Consumption Expenditure:** both durable and non-durable goods, Goods or services which will eventually be consumed. (C_a)
2. **Investment Expenditure:** goods not presently ready for consumption. ie: warehouse metal, machines, factories. (I_a)
3. **Government Purchases:** Govt. spending on stuff ie: roads, firehouses, soldiers, etc.... (G_a)
4. **Net Exports:** Foreign Trade. (NX_a)

$$C_a + I_a + G_a + NX_a = GDP$$

GDP on the income side

1. Factor Incomes:
   - Wages and Salaries
   - Interest
   - Business Profits
2. Non-Factor Payments (Positive Taxes)
   - Indirect taxes
   - Subsidies (net of subsidies)
   - Depreciation

Factor Incomes + (Indirect Taxes - Subsidies) + Depreciation

= GDP

GDP Deflator $= \frac{\text{GDP at Current prices}}{\text{GDP at base-period prices}} \times 100 = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$

* CPI (Consumer Price Index) measures the avg change of price of goods

* GDP Deflator measure avg change of price of goods <u>produced in Canada</u>

Not Everything Gets included in GDP Calculation

- **Illegal activity**
  ie: Prostitution, drugs, illegal gambling

- **Environmental costs**
  ie: oil spills

- **Underground Economy**
  ie: A plumber fixes your sink and gets paid in cash and doesn't report the transaction