بيانات المقرر

اسم المادة : دراسات اقتصادية بلغه

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Introduction

We notice that these notes are written for non – native speakers of English, Particularly students who study economics for the Second time , it is intended that these notes will be use as Supplementary materials in a more comprehensive course in economics taught to students in Arabic.

Hence, the main target is to give student practice in using economic terminology and gradually, develop that ability to understand economic topics written in English.

These notes are written in such a way each topic forms a program. Each program is designed to develop complex economic ideas in small points as follow:

- Microeconomics.
- Macroeconomics.
- International economics.

Chapter (1)

Demand and Supply

Chapter (1)

Demand and Supply

The price of a commodity reflects the value attached by consumer to this commodity. The value attached to a commodity reflects the satisfaction or utility derived from consuming it. In other words, consumers will give different values (prices) to different goods and services because they get different satisfaction from consuming these goods and services. This is the meaning of “Price" from the consumer's point of view.

From the producer's point of view, the price of goods or services is the cost of economic resources (factors of production) used up in its production. Therefore, used up in its production. Therefore, different goods and services will have different prices if they have different costs of production.

To get satisfaction from consuming goods and Services consumer bus goods and services and pay Prices They are called buyers. To make profit from producing goods and services, producers sell goods and services and get prices; They are called sellers. Buyers demand goods and services in order to satisfy their needs (wants), they try to maximum their utilities. Sellers supply goods and services in order to make profit, they try to maximum their profits.

There is a point of contact between buyers and sellers at which the price is determined. This point of contact is called the market. The market may be a place, a personal meeting; or a telephone call.

Demand :

The quantity of a commodity that an individual is able and willing to purchase represents his demand for this commodity or individual demand". Individual demand depends on (is a function of):

a- The price of the commodity.

b-Tastes.

c- Money income.

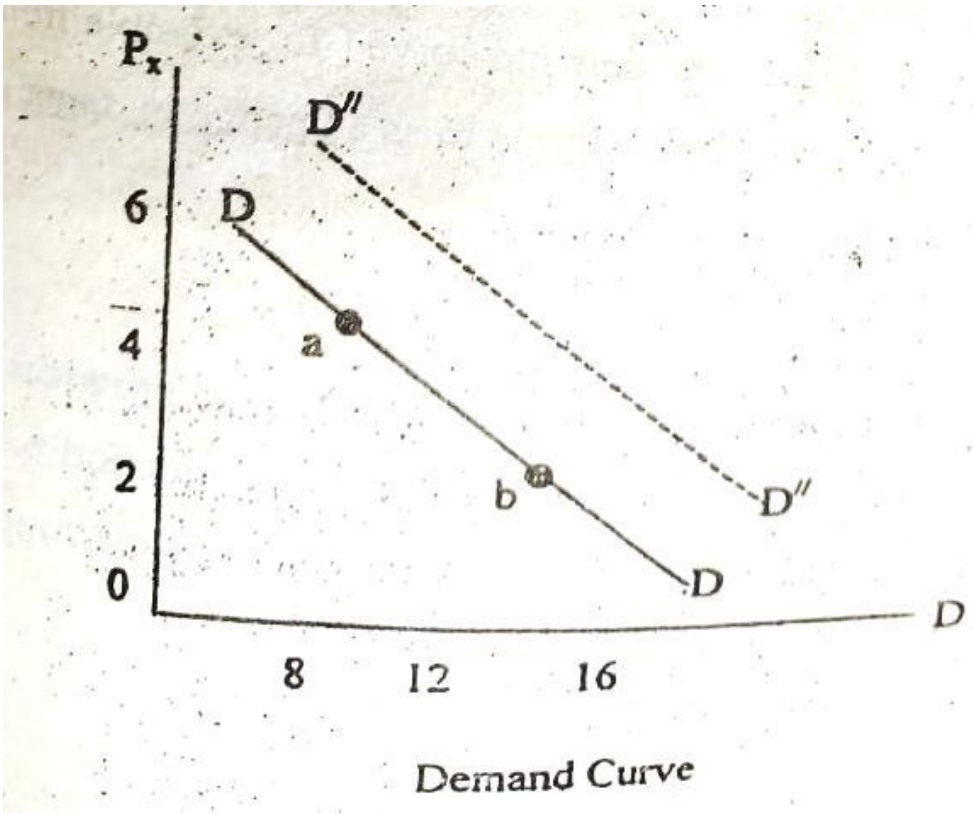
d- The prices of other commodities.

By keeping constant the money income, tastes and prices of other commodities and by varying the price of the commodity under consideration, we will get the demand curve. This means that the demand curve represents a relationship between the quantity demanded of a commodity (D_x) and its price (P_x):

Example:

P_x	8	6	4	2	0
D_x	4	8	12	16	20

This is called the demand schedule. The graphic representation of the demand schedule gives us the demand curve or the demand function: (quantity demanded depends on or ins a function of price).



Demand Curve

The demand curve and demand schedule indicate that the lower the price of the commodity, the greater the quantity demanded. This means that the relationship between price and demand is an inverse relationship. In other words, demand is negatively sloped or the dernand curve has a negative slope.

A movement along the same demand curve (for example from point (a) to point (b) on D'D') is referred to as a change in the quantity demanded due to change in price. A change in demand conditions (for example a change in income, tastes, or prices of other commodities) will lead to a shift in the demand curve [for example from D'D' to D"D"). This is referred to as a change in demand or a shift in demand.

Supply:

The quantity of a commodity that a producer is willing to sell represents his supply of this sine commodity or the Single producer's supply. The single produce's Supply commodity depends on (is function of):

(a) The price of the commodity.

(b) The cost of production (which depends on technology, supplies of factors production, and supplies other inputs).

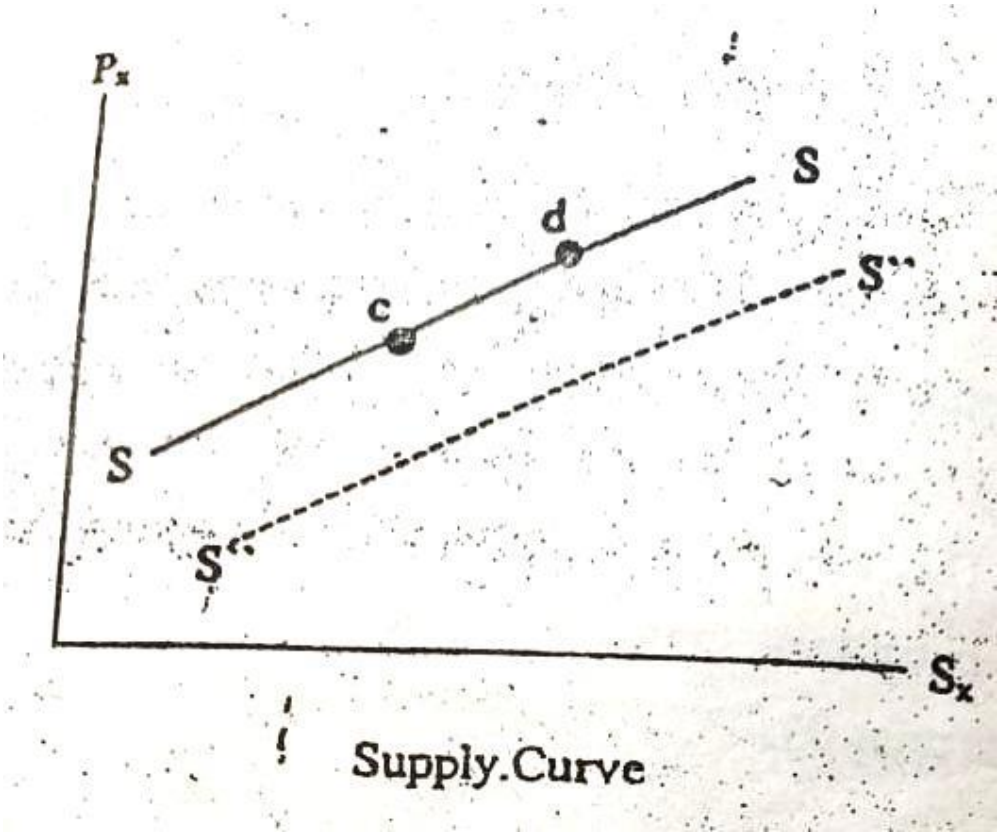
(c) The prices of other commodities.

Be keeping constant the cost of production and price of other commodities and by varying the price of the modity under consideration we will get the supply curve. This means that the supply curve represents a relationship between the quantity supplied of a commodity (S_x) and its price (P_x).

Example:

P_x	8	6	4	2
S_x	24	20	16	12

This is called the supply schedule. The graphic represent : ation of the supply schedule gives the supply curves or the supply function. The supply function is a relationship between the quantity supplied of a commodity: and its price (Quantity supplied is a function of or depends and on the price).



The supply curve and supply schedule indicate that the lower the price of a commodity the smaller the quantity supplied. This means that the relationship between price and , supply is a positive relationship. In other words, the siope of the supply curve is positive..

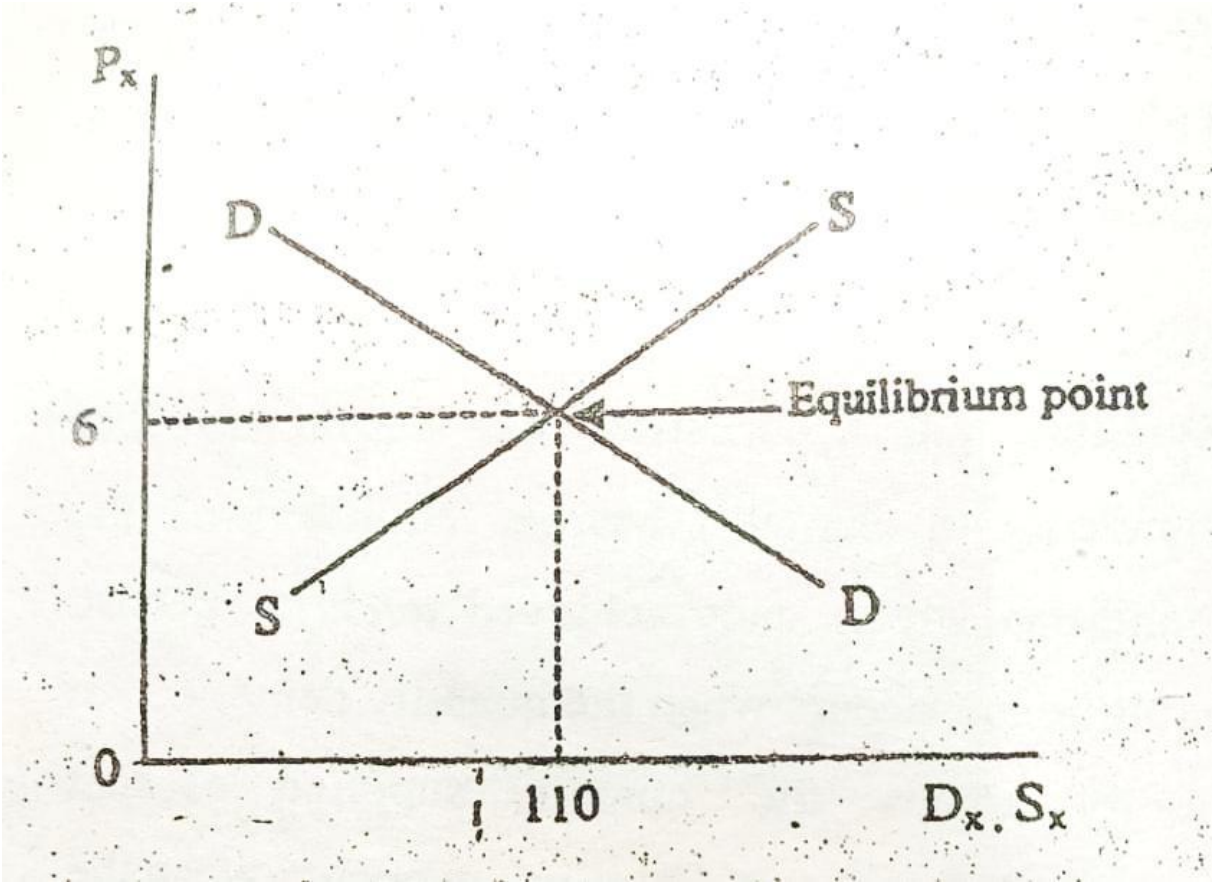
A movement along the supply curve (for example from point (0) to point" (c) to point (d) on S' S') is referred to as change in the quantity supplied due to a change in price: A change in demand conditions (for example a change in the state of technology, factor of production supplies, prices of other commodities) will lead to a shift in the supply curve (for example from s' s' to s"s"). This is referred to as a change in supply or a shift in supply.

Equilibrium:

Equilibrium is a condition that has no natural or essential tendency to change. Market equilibrium is the market condition which once achieved tends to persist.

Market equilibrium occurs when the quantity demanded of a commodity equals the quantity supplied of that commodity. In other words, equilibrium occurs when the demand curve intersects with the supply curve. Therefore, the quantity supplied and quantity demanded are equal when equilibrium occurs.

P_x	D_x	S_x	
10	100	130	
8	105	120	
6	110	110	Equilibrium
4	115	100	



At the equilibrium point the quantity demanded and supplied is called the equilibrium quantity. Also, the price at which equilibrium exists is called equilibrium price.

A.check-up :

1. Consumers will give different ……. To different goods and services because they get different ……. from consuming these goods and services.

2. Different goods and services will have different …….. if they have different …….

3. Buyers …….. goods and services in order to satisfy their needs. they try to maximize their …… Seller …….. goods and services in order to make profit, they try to maximize their …….

4. The point of contact between buyers and sellers at which the price is determined is known as the ……

5. The ……. …….. represents the relationship between the quantity demanded of a commodity and its price. This relationship is also known as the ……..

Price	10	8	6	4
Demand	20	25	30	35

This is called…….

7. The Relationship between price and demand is an ……. Relationship in other words , the demand curve a negative ……

8- A Movement along the same demand curve is referred to as a …… a change in …… will lead to a shift in the demand curve .

This is referred to as a …….. or a …….

??????????????????????????????????????

B- Terminology Practice :

1- Cost of Production	Cost of economic resources (land , labour, and capital plus materials) used up in producation processes .
2- Utility	Satisfaction derived from the consumption of

	goods and services .
3- Market	A point of contact between buyers and sellers at which the price is determined . this point of contact may be a place , a personal meeting , or even a telephone call .
4- Demand	To request – to ask .
5- Individual demand	The quantity of a commodity that an individual is able and willing to purchase in a given time period .
6- Demand Schedule	A Schedule showing alternative quantities demanded at alternative prices , given all other factors influencing demand .
7- Demand curve	The graphical representation of the demand schedule .
8- Demand function	The relationship between the quantity demanded of a commodity and its price .
9- Inverse	Opposite or conttary in effect or direction .

Quantity demanded and quantity supplied are functions of or depend on price. They are also functions of other me such as money income which affects demand, and production cost which affect supply.

Demand and price are inversely or negatively related, if price changes, quantity demanded will change inversely. This relationship between demand and price may be strong or weak. In other words, the responsiveness of quantity demanded to change in price may be high or low. This is known as “Elasticity", or the relative change in one variable (dependent variable) with respect to the relative change in another variable (independent variable).

Because demand depends on price; demand is called " dependent variable”: Also, because price affects demand, price is called "independent variable". The responsiveness of demand to change in price is called" the price elasticity of demand". The price elasticity of demand measures the relative change in demand with respect to the relative change in price. Because the relationship between demand and price is negative, the price elasticity of demo is also negative.

Demand also is a function of or depends on income. The relationship between demand and income is positive. If income change, demarid will change in the same direction. The relative change in demand with respect to the relative change in income is called the "income elasticity of demand". Because the relationship between demand and income is positive, the income elasticity of demand is also positive.

Example:

Suppose the price of apple is P= $8 per kg., and .quantity demanded of apple is D=50 kg. Suppose also that the money income of an individual is Y =$5000.

Now let price drop to $6 per kg. And income rise to $6000. Demand is assumed to rise to 75kg. As a result of the Tall in price, or the increase in income, What is the price (income) elasticity of demand?

$$Price\ elasticity\ of\ demand\ = \frac{\text{Relative change in demand}}{\text{Relative change in price}}$$

$$\text{Relative change in demand}\ = \frac{Change\ in\ demand}{Original\ demand} = \frac{\Delta D}{D}$$

$$\text{Relative change in Price}\ = \frac{Change\ in\ Price}{Original\ Price} = \frac{\Delta p}{p}$$

$$Or\ e_p = \frac{\Delta D}{D} = \frac{\Delta p}{p}$$

$$= \frac{\Delta D}{D} = \frac{p}{\Delta p}$$

$$= \frac{\Delta D}{\Delta p} = \frac{p}{D}$$

$\Delta D = 75 - 50 = 25$

$\Delta p = 6 - 8 = 2$

$$D = 50 \qquad p = 8$$

$$e_p = \frac{25}{-2} = \frac{8}{50} = -2$$

$$Income\ elasticity\ of\ demand\ = \frac{\text{Relative change in demand}}{\text{Relative change in income}} = Cy$$

$$\text{Relative change in income} = \frac{\text{change in income}}{\text{Original income}} = \frac{\Delta\, y}{y}$$

$$Or\ e_y = \frac{\Delta\, D}{D} = \frac{\Delta\, y}{y}$$

$$= \frac{\Delta\, D}{D} = \frac{y}{\Delta y}$$

$$= \frac{\Delta\, D}{\Delta\, y} = \frac{y}{D}$$

$$\Delta y = 6000 - 5000 = 1000$$

$$Y = 5000$$

$$e_y = \frac{25}{1000} = \frac{5000}{50} = +2.5$$

Quantity demanded of a commodity is also a function of prices of other commodities. For example, the quantity, demanded of tea is a function of or depends on (in addition to the price of tea and money income) the price of sugar and the price of coffee. Tea and sugar are consumed jointly in order to satisfy a particular need. They are called “Complements”. Tea and coffee are not complements because they are not consumed in order to satisfy some. particular need; they are called “substitutes".

The relative change in quantity demanded of a commodity (tea) with respect to prices of other commodities (complements or substitutes) is called the "Cross elasticity of demand". The cross elasticity of demand of commodity (X) will be positive, if commodity (X) and commodity (Y) are substitutes. On the other hand, The cross elasticity of demand of commodity (X) Will be negative , if commodity (X) and commodity (z) are complements .

B- Terminology Practice :

1- Responsiveness	Reaction – sensitivity
2- Dependent Variable	A Variable which depends on other variables .
3- Independent Variable	A Variable which depends on other varibles .
4- Elasticity	The relative change in a dependent variable with respect to the relative change in an independent variable .
5- Price elasticity of demand	The relative change in quantity demanded of a commodity with respect to the relative changes in its price , (negative) .
6- Income elasticity of demand	The relative change in quantity

	demanded of a commodity with respect to the relative changes in Money income , (positive) .
7- Cross elasticity of demand	The relative change in quantity demanded of commodity with respect to the relative change in prices of other commodities : positive if they are substitutes and negative if they are complements .
8- Complements	Commodities which are consumed jointly in orde to satisfy some particular need, such as tea and sugar .
9- Substitutes	Commodities which are not consumed jointly order to satisfy some particular need . in other words, one is a substiture of the other, for example tea and coffee .

Review Questions

A fall in the price of a commodity, holding even thing else constant, results in and is referred to as:

(1) an increase in demand.

(2) An increase in the quantity demanded..

(3) A decrease in demand.

(4) A decrease in the quantity demanded.

a-(1) only.

b-(1) and (2)

C-(3) and (4)

d- (2) only.

2-

A fall in the price of a commodity results in an increase in the quantity demanded of that commodity, this is referred to as :

a- Demand Function .

b- Price elasticity of demand .

c- Income elasticity of demand .

d- Cross elasticity of demand .

Chapter (2)

Concepts of Demand

Introduction:

In examining the functioning of the price system we are not only dealing with market forces but also with people. It is therefore necessary to set out the assumptions about human behavior.

First, we assume that people are maximisers : they try to gain as much wealth or pleasure as possible. This action is called utility maximization

Second, we also assume that people are rational, i.e. they will stop to consider which course of action will give them the greatest utility for the least cost

Third, that people are competitive. This is different from acquisitiveness: this implies that people want .

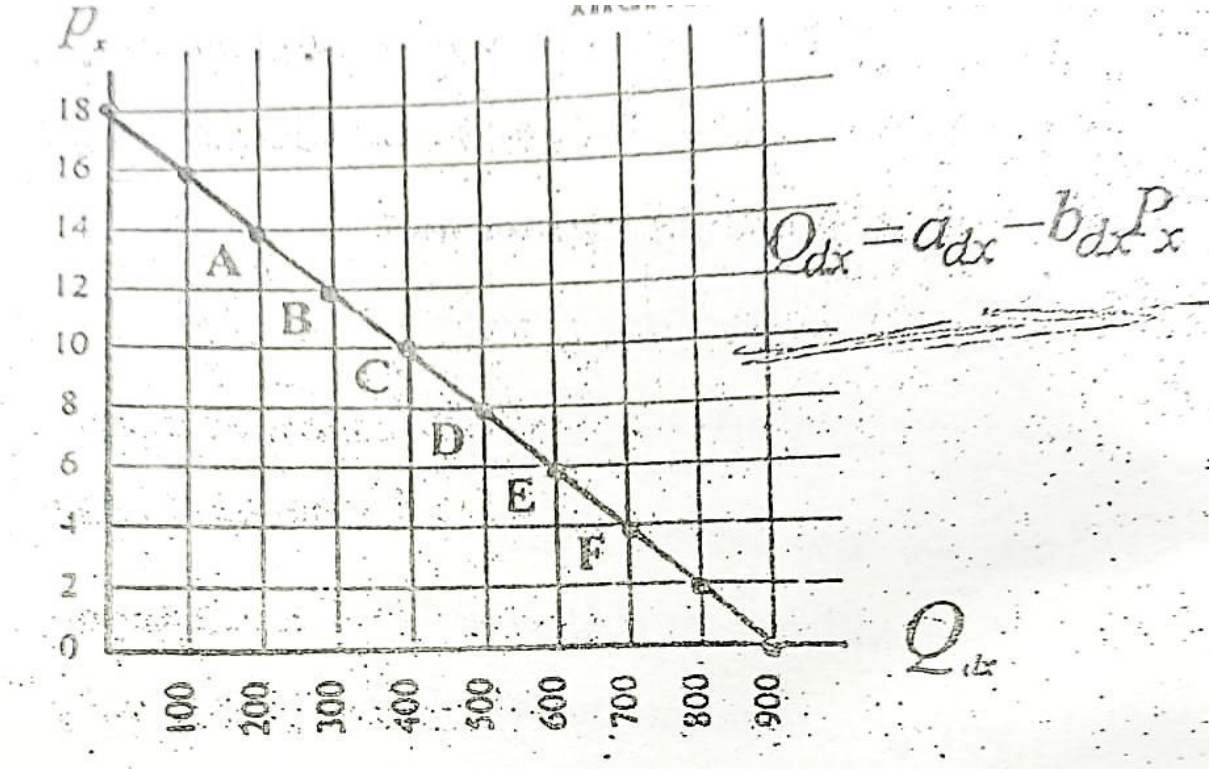
Demand Curve :

From the eable above the demand for Rice by one individual is plotted in fig . (1) . The price is on the vertical axis and the quantity demanded is on the horizontal axis .

Note that both demand curves are negatively sloped, i.e, the curve is downward-sioping since more units are demended at lower prices .

Fig. (1)

Individual Demand Curve



Demand Function :

According to the previous analysis the demand funcation may takes the next formula :

$$Q_{dx} = A_{dx} - B_{dx}P_x$$

Were :

Q_{dx} Quantily demanded of commodity (x) .

A_{dx} The constant term .

B_{dx} The demand funcation slope .

P_x The unit price of commodity (x) .

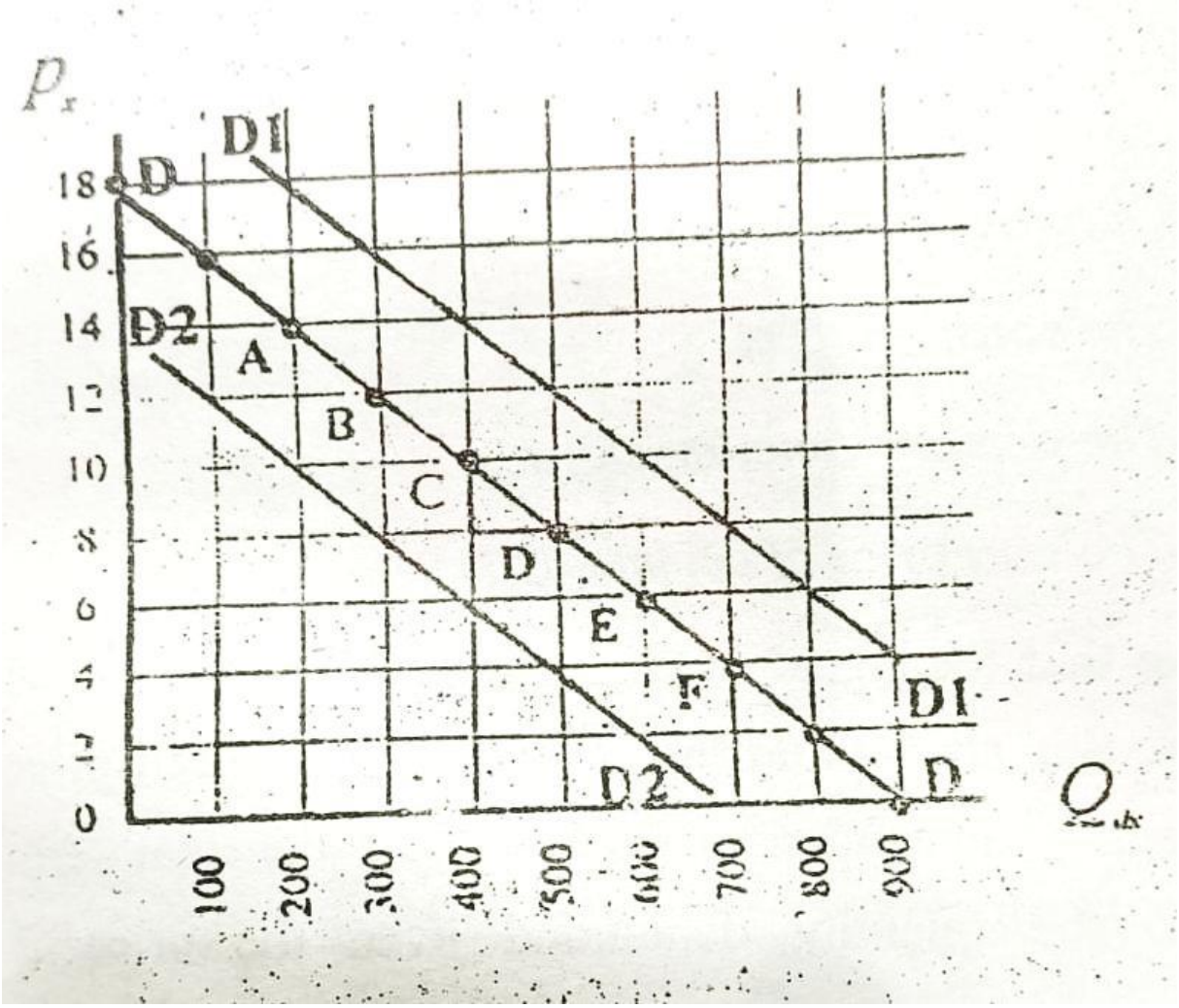
Note that the signal of the signal of the demand function slope is negative , this shows that the relationship between price and quantity demand is inverse . The constant term zero (autonomous demand).

The Previous demand function takes the linear from. This is due to the constant change of demand when the price changed .

variables other than price has changed. A change in quantity demanded occurs when there is change in the commodity's prices, resulting in a movement along an existing demand curve.

Fig. (2)

Shifting the demand curve



Determinants of demand:

We have so far examined market demand and stated that it is the total quantity, of a product which is demanded at a particular price over a given period of time.

The first law of demand tells us that, ceteris paribus, a greater quantity will be demanded if the price is lowered. This is the most important determinant of demand; the determinants of demand other than price are referred to as the conditions of demand.

The conditions of demand :

(1) Income

Since effective demand is the desire to buy a good backed by the ability to do so, it is obvious that there, must be a relationship between the demand for a firm's .

This formula tells us that elasticity of demand is calculated by dividing the percentage change in quantity demanded by the percentage change in price .

The formula of elasticity could be written as follows :

$$\varepsilon = \frac{\Delta Q}{Q} + \frac{\Delta P}{P} \; or$$

$$\varepsilon = \frac{\Delta Q}{\Delta P} + \frac{P}{Q}$$

$$\varepsilon = Demand\ slope\ X\ \frac{P}{Q}$$

The Result of the division process is a number which is larger the greater is the percentage change in quantity demanded compared to the percentage change in price .

The price elasticity of demand may be one (unit elaslicity) or more than one (elastic), or less than one (inelastic). It also may be zero elasticity or infinite elasticity .

We Can Show the various cases of demand dlasticity by the next figures :

(1) Elastic demand : more than one if :

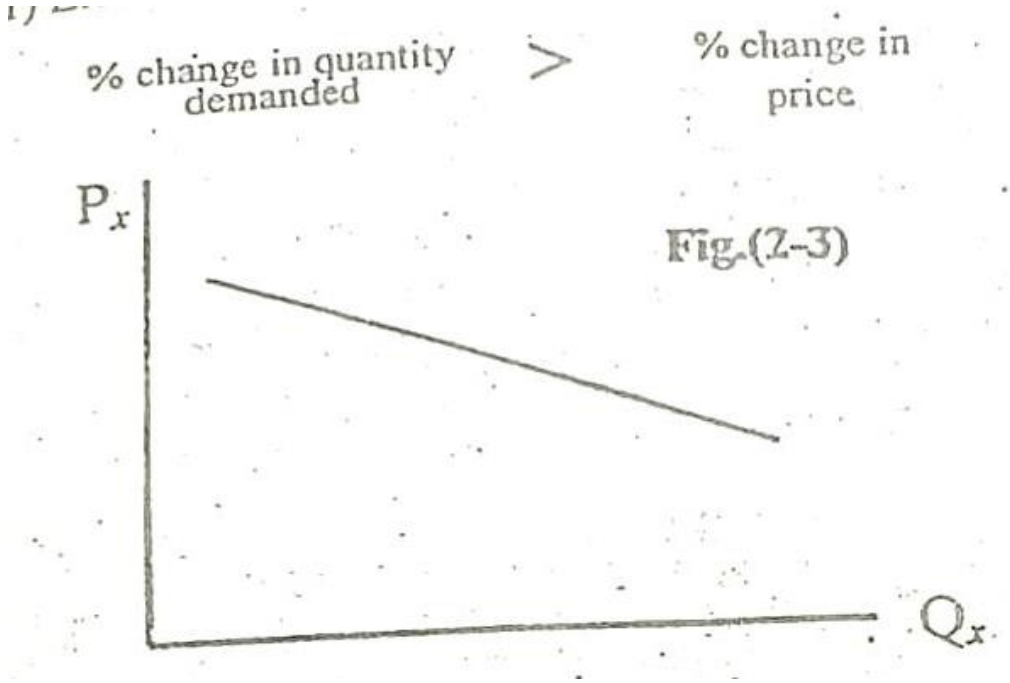


Fig.(2-3)

(2) Inelastic demand : less than one if :

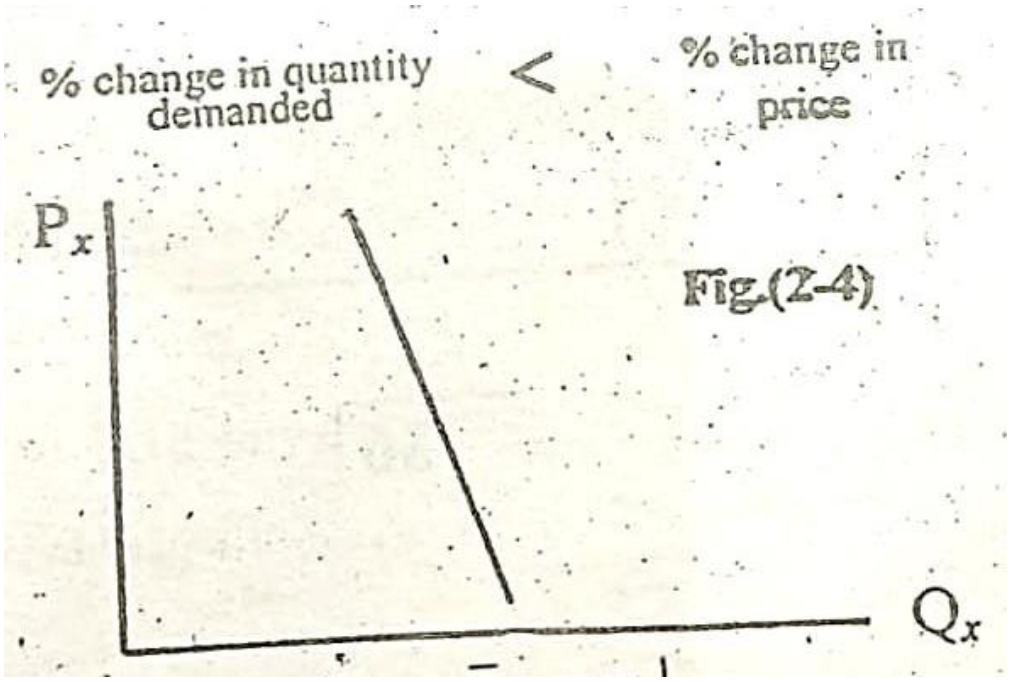


Fig.(2-4)

(3) Unit Elasticity of demand : equal one if :

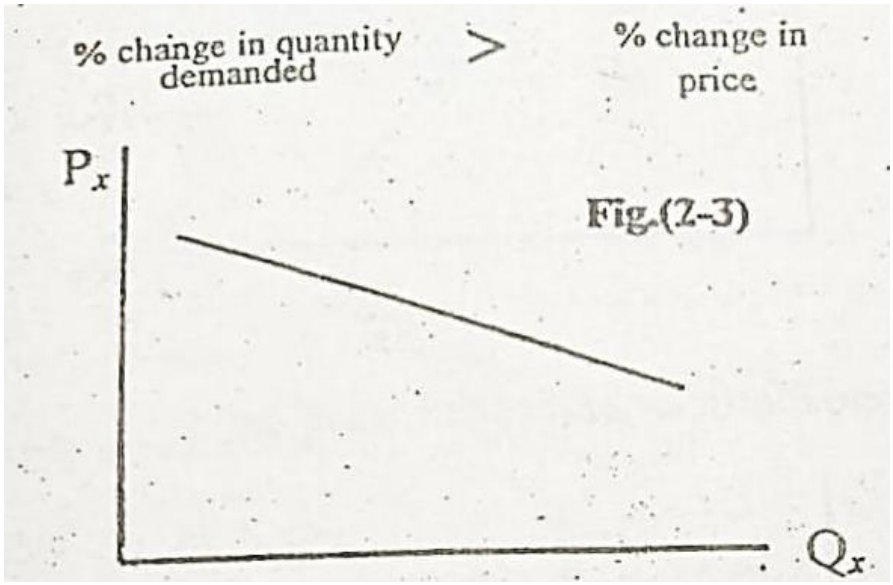


Fig.(2-3)

(4) Zero Elasticity of demand : equal Zero if :

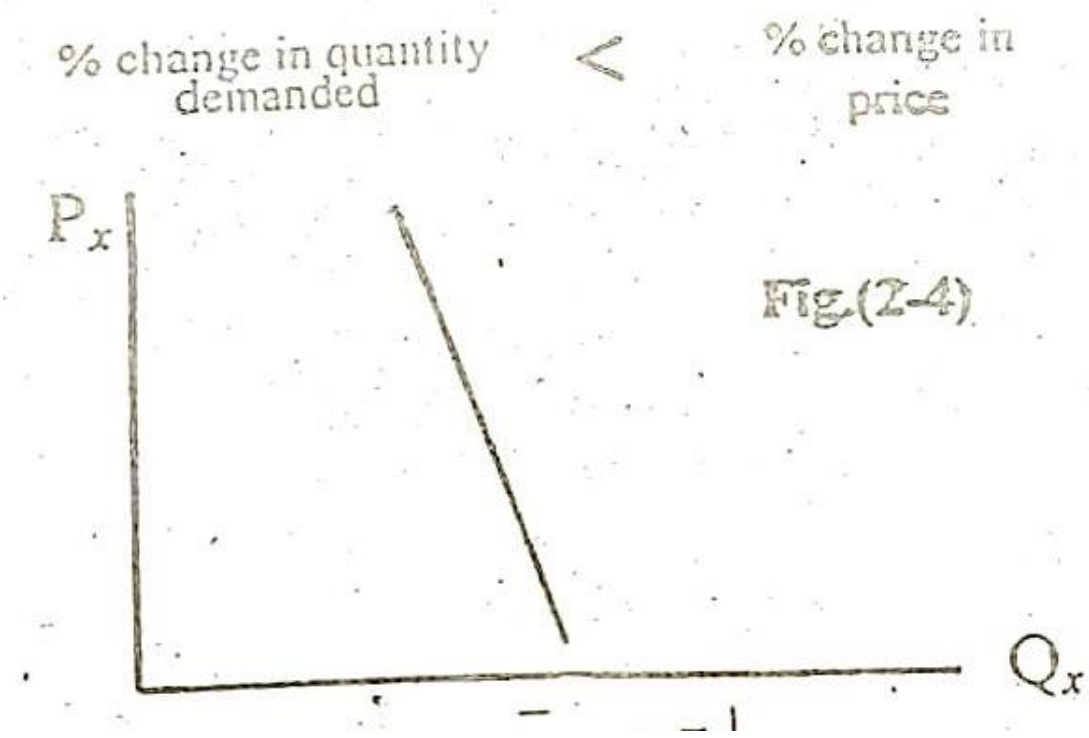


Fig.(2-4)

(5) Infinite Elasticity of deman : equal ∞ if :

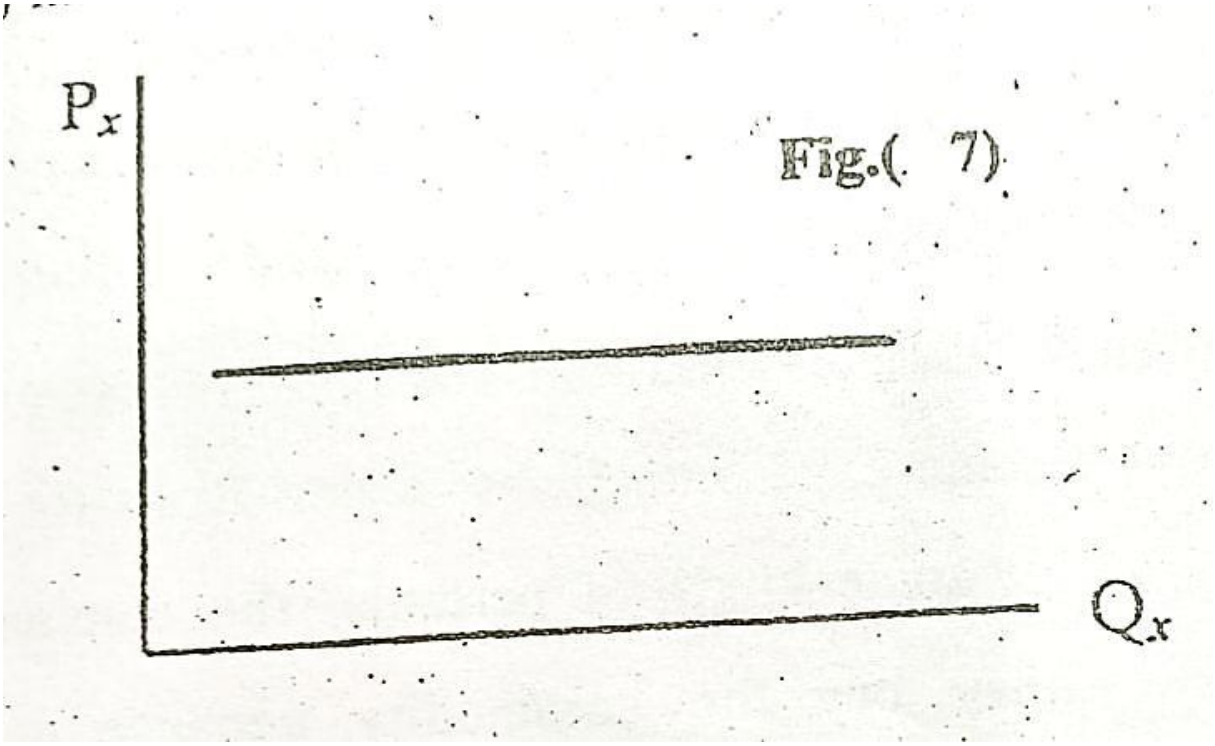


Fig.(7)

Factors determining elasticity :

Although we know how to measure elasticity we have not yet discussed the reasons that some demands are elastic and others not so.

Why is it, for example , that the demand for wheat is very inelastic while the demand for cakes, which are made from wheat , is much more elastic?

The most important determinants of elastiticity are discussed below .

Demand law Exceptions :

There are a number of exceptions to the first law. demand, i.e. situations when a fall in the price of a good actually causes people to buy less of it, or a rise in price causes them to buy more.

Exception 1 : Goods demanded for their price. With some expensive items, e.g. a Rolls-Royce or some kinds of perfume, the consumer may buy the commodity because it is expensive, i.e. the price is part of the attraction of the article and a rise in price. may render it more attractive.

Exception 2 : A further change in price. You may also observe a perverse demand relationship where purchasers believe that a change in price is the herald of further price changes. On a stock exchange, for example, a rise in The price of a share often tempts people to

buy it and vice versa .

Exception 3 : Giffen goods. Sir nineteenth-century statistician and economist, noticed that a fall in the price of bread caused the laboring classes to buy less bread and vice versa.

Price Elasticity of demand:

The measure of the responsiveness of the quantity demanded of a good to changes in its price is known as Price elasticity of demand,. The elasticity of demand is defined by the following formula:.

$$\varepsilon = \frac{\%\ \text{change in quantity demanded}}{\%\ \text{change in price}}$$

In the case of the determinants of demand we ha discussed above - price, income and the price of other goods - the relationships are quantifiable and we have been able to illustrate them with graphs. However, many factors which influence demand are not so readily quantifiable. Some of these are considered below.

(3) Other factors influencing demand

a) Tastes, habits and customs. These are extremely important as most people tend to continue their habits of eating, etc. A change in taste in favor of a commodity causes an increase in demand.

b) Changes in population. Demand is influenced both by the overall size of the population and by the age, sex and geographical distribution .

c) Seasonal factors. The demand for many products such as clothing, food and is influenced by the season.

d) The distribution of income level of income which influences the distribution of income . A more even

distribution of income, for example, might increase the demand for hi-fi equipment but decrease the demand for luxury yachts.

e) Advertising A successful advertising campaign increases the demand for a product. Advertising might also be aimed at making the demand for a product less elastic.

F) Government influences. The government fre - quently influences demand, an example of this being the government's legislation making its compulsory to wear seat belts. This increased the demand for them. Conversely, the government might prohibit or restrict the purchase of some goods. e.g. firearms.

product and the consumer's purchasing po Purchasing power is usually closely linked to inco The nature of the relationship between income demand will depend upon the type of product considered and the level of consumers' income. Under normal circumstances 'a rise in income leads to increase in demand. . Ceteris pariņus if the demand for a commodity increases as income increases it is said to be a normal good.

Fig. (8) represents the income demand. As you can see, demand rises continuously with income. However, the graph tends to flatten out at higher levels of income because people will not want more and more. For some normal goods the income demand curve will flatten very: quickly as people reach their desired level of consumption .

With a small number of products, usually inexpensive foodstuffs such as sa remain constant at all but the very lowest levels of income.

Finally the demand will decline as income increases. Such products are termed inferior goods and may be defined as follows:

Ceteris paribus if, as income rises, the demand for a product goes down it is said to be an inferior good.

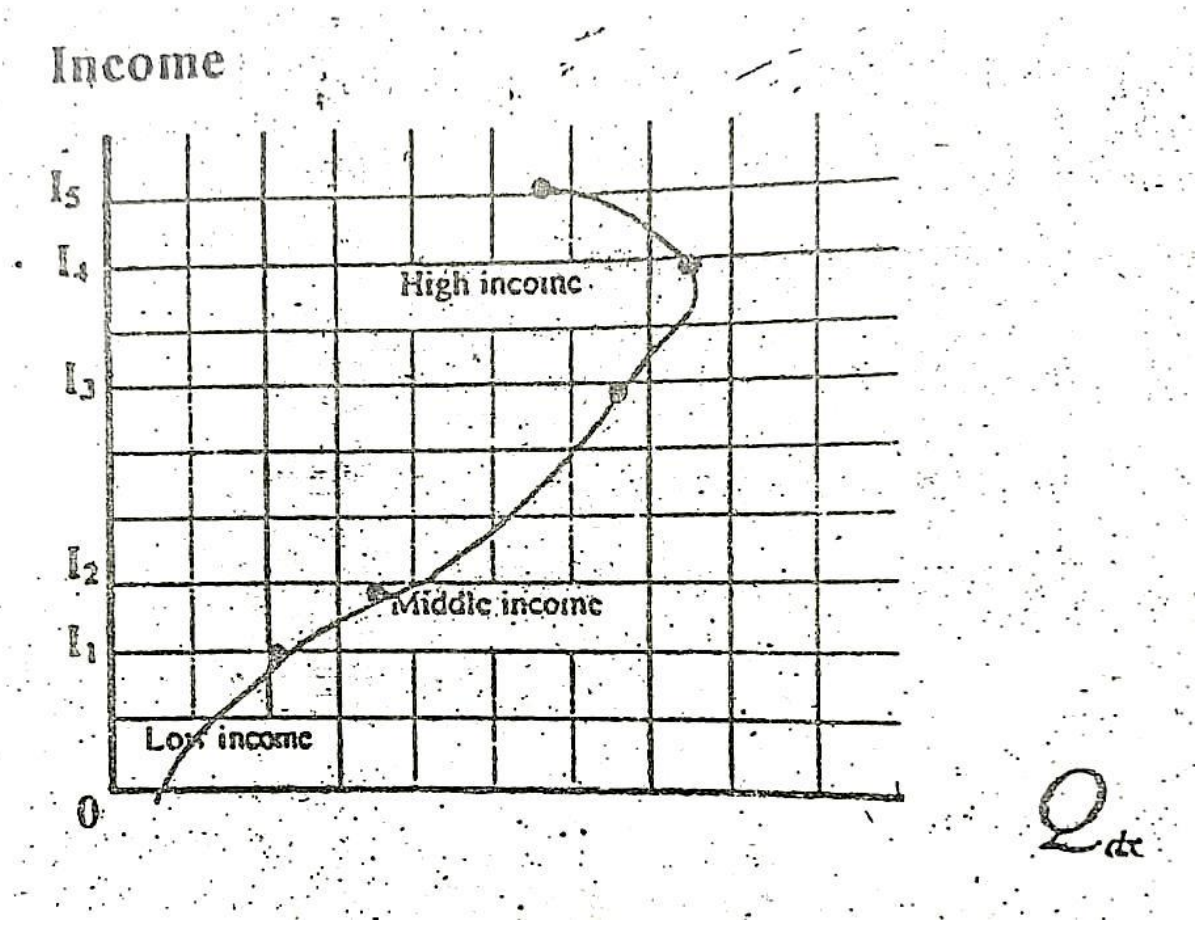
The effect may be observed with products such as bread and potatoes. At low levels of income people will tend to consume large amounts of these products but, as their incomes rise, they will buy other foods - more meat, fish, etc. -and thus require less bread and potatoes.

You should note that the demand for inferior goods behaves like the demand for normal goods at lower levels of income.

All inferur goods start out as normal goods and become inferior und 45: income continues to rise. For example, cotton sheets might be considered inferior if, as you become very wealthy, you substitute silk sheets. In t other words the goods are not intrinsically inferior; it is the commodity's relationship with income which is inferior.

Fig. (8)

Income demand relationship


Income
I5
I4
I3
I2
I1
0
High income
Middle income
Low income
Qdt

(2) The price of other goods

à The demand for all goods is interrelated in the sense In that they all compete for consumers' limited income.

is This relationship is obviously too generalized to be is measured, but there are two particular interrelationships of demand which may be quantified: where goods are substitutes one for another or are complementary.

Examples of substitutes commodities would be tea and coffee, or butter and margarine. The case of complementary or joint demand is illustrated by commodities such as cars and petrol, or strawberries and cream.

In all these cases there is a relationship between the price of one commodity and the demand for the other. You can see that as the price of cars is lowered so the demand for petrol increases, and as the price of butter increases so the demand for margarine increases.

Shifting the demand curve:

The demand for a good or service is influenced only by the commodity's price but also by:

1. The price of other goods and services.

2. Consumer income.

3. Consumer tastes and preferences 4. Size of the market.

In presenting the demand for a good or service as a schedule relating price and quantity demanded, variables other than the

commodity's price are held constant. (other things being equal or ceteris paribus) Thus, the market demand for riceginversely related with its price, suming holding constant the price of wheat and other commodities, consumer preferences, income the size of market. This relationshin Qd = f (P), ceteris paribus, where ceteris paribus

indicates that variables other than unchanged. When one or mo change, there is a change in dem demand and therefore a shift he demand curve. For example, the market demand curve shifts, up and to the right when the number of individuals in the market increases. More people in a market area indicates that more units are demanded at each prices. The market demand curve also shifts up and to the right when there is an increased preference for the commodity, when nominal income increases, and when the pricc of a substituie commodity rises and/or the price of a complementary good declines.

A common error made by the beginning economics. student is the failure to differentiate between a change in demand and a change in quantity demarided. A change 'in demand refers to a shift of the demand curve because a Time .

The period of time we are considerung also plays a - role in shaping the demand curve. Suppose, for example. that the price of meat rises disproportionately to other foods. Eating - habits established over years will be slow to change, but, if the price remains high, people will begin to seek substitutes.

Following a change in price elasticity of demand will tend to be greater in the long run than the short run. Durability:

"If the price of potatoes rises it is not possible to eat the same potatoes twice. However, if the price of furniture rises, we can make our existing tables and chairs last a little longer. Thus we can say .

The greater the durability of a producta the greater its clasticity of demand will tend to be.

Addiction :

Where a product is habit-forming, for exam cigarettes, this will tend reduce its elasticity of demand.

Elasticity and total revenue

When the price of a commodity falls, the total revenue of producers (price times quantity) increases:

If $E_p > 1$

Remains unchanged if $E_p = 1$ and

Decreases if $E_p < 1$.

This is because when Eo > 1, the percentage increase in quantity exceeds the percentage decline in price and so total revenue (TR) increases.

When $E_p = 1$, the percentage increase in quantity equals the percentage decline in price and so, total revenue TR remains unchanged.

Finally, when $E_p < 1$, the percentage increase in quantity is less than percentage decline in price, and so, total revenue(TR) falls.

We can also say that as price falls, demand will increase, but total revenue will rises, remains unchanged, or declines depending on whether the demand elasticity, e.g. (elastic, unitary elastic, or inelastic) respectively.

Chapter Two Terminology

Basic Concepts	مفاهيم أساسية
Demand	الطلب
Price System	نظام الأسعار
Market forces	قوى السوق
Human Behavior	السلوك الإنساني
Maximization	تعظيم
Utility	المنفعة
Rational	رشيد
Least Cost	أقل تكلفة
Competitive	تقاضى
Acquisitiveness	شديد الحرص علي الاستحواذ أو الاكتساب
Individualistic	حب الانفراد أو الذات
Price mechanism	آلية السوق
Elasticity of demand	مرونة الطلب
Demand schedule	جدول الطلب
Inverse relationship	علاقة عكسية

Substituti on effect	أثر الإحلال
Income eftect	أثر الدخل
Slope demand curve	ميل منحنى الطلب
Alternative prices	أسعار بديلة
Vertical axis	محور رأسي
Horizontal axis	محور أفقي
Autonomous demand	طلب مستقل
Demand funcation	دالة الطلب
Signal	إشارة
Shifting the demand curve	انتقال منحنى الطلب
Moving along the demand curve	التحرك علي نفس منحنى الطلب
Consumer preferences	تفضيلات المستهلك
Ceteris paribus	بقاء العوامل الأخرى ثابتة
Complementary good	سلعة مكملة
Substitute commodity	سلعة بديلة
Responsiveness	درجة الاستجابة
Elastic	مرن

Zero elasticity	عدم المرونة
Infinite	لانهائي المرونة
Inelastic	غير مرن
Unit Elasticity	مرونة الوحدة
Determinants of demand	محددات الطلب
Law of demand	قانون الطلب
Conditions of demand	ظروف الطلب
Effective Demand	الطلب الفعلي
Purchasing power	القوة الشرائية

CHAPTER (3)

CONCEPTS Of SUPPLY

Chapter (2)

Basic Concepts of Supply

Supply :

A supply schedule specifies the units of a good or service that a producer is willing to supply (Qs) at alternative prices (P) over a given period of time. The graphic presentation of a supply schedule is a supply curve.

The supply curve normally has a positive (upward) slope, indicating that the producer must receive a higher price for increased output because of the principle of increasing costs. A market supply curve is derived from each producer's supply curve by summing the units each producer is willing to supply at alternative prices.

Supply schedule shows the number of kgs. of rice supplied by an individual producer at alternative prices and the number of kgs. of rice supplied by producers each year in a market area. From columns 1 and 2 in the table (1) we find that the producer supplies 100 kgs of rice at price L.B 2. At L.E 4. The producer supplies 200 kgs. arid 500 kgs. at price LE 10 and so on.

This producer's supply schedule is plotted in Fig. (1)

Table (1)

Individual and market supply

Price (P) (LE per Kg).	Quantity supplied by one Producer	Qunantity Supplied by All Producers in the 100 producers market (Q)
0	0	000
2	100	10000
4	200	20000
6	300	30000
8	400	40000
10	500	50000
12	600	60000
14	700	70000
16	800	80000
18	900	90000

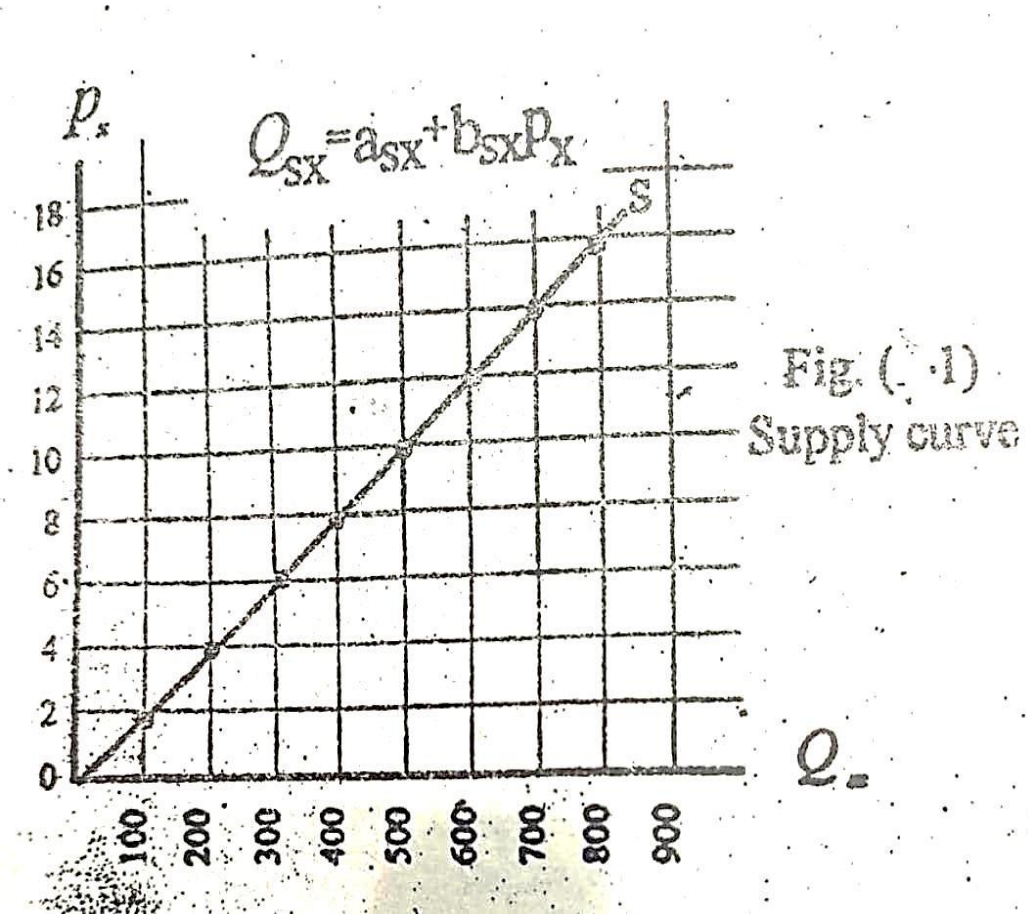


Fig. (1)
Supply curve

We have assumed that there are 100 rice producers in the market area and that each producer is willing to supply the same quantities. A market supply schedule for these 100 producers is presented in column 3. when the. price of rice is LE6 per kg. 30000 kg. are supplied; smaller amounts are supplied at lower prices.

Supply Function:

According to the previous analysis the fiunction may takes the next formula:

nalysis the supply

$$\mathbf{Q_{sx} = a_{sx} = b_{sx} P_x}$$

Were:

$\mathbf{Q_{sx}}$ Quantity supplied of commodity (x)

$\mathbf{a_{sx}}$ The constant term

$\mathbf{b_{sx}}$ The supply function slope.

$\mathbf{P_x}$ The unit price of commodiy (X).

Note that the signal of the supply function slope is positive, this shows that the relationship between price and quantity, supplied is positive. The constant term refers to the quantity supplied even the price is zero. If the commodity's price is zero, then it will be a free commodity.

Shifting the supply curve :

The supply curve shifts when the number and/or size of producers changes, factor prices changes (wages interest and rent paid to economic resources) the cost of matrials ++++++++++++++++++ government subsidizes or taxes +++++ .

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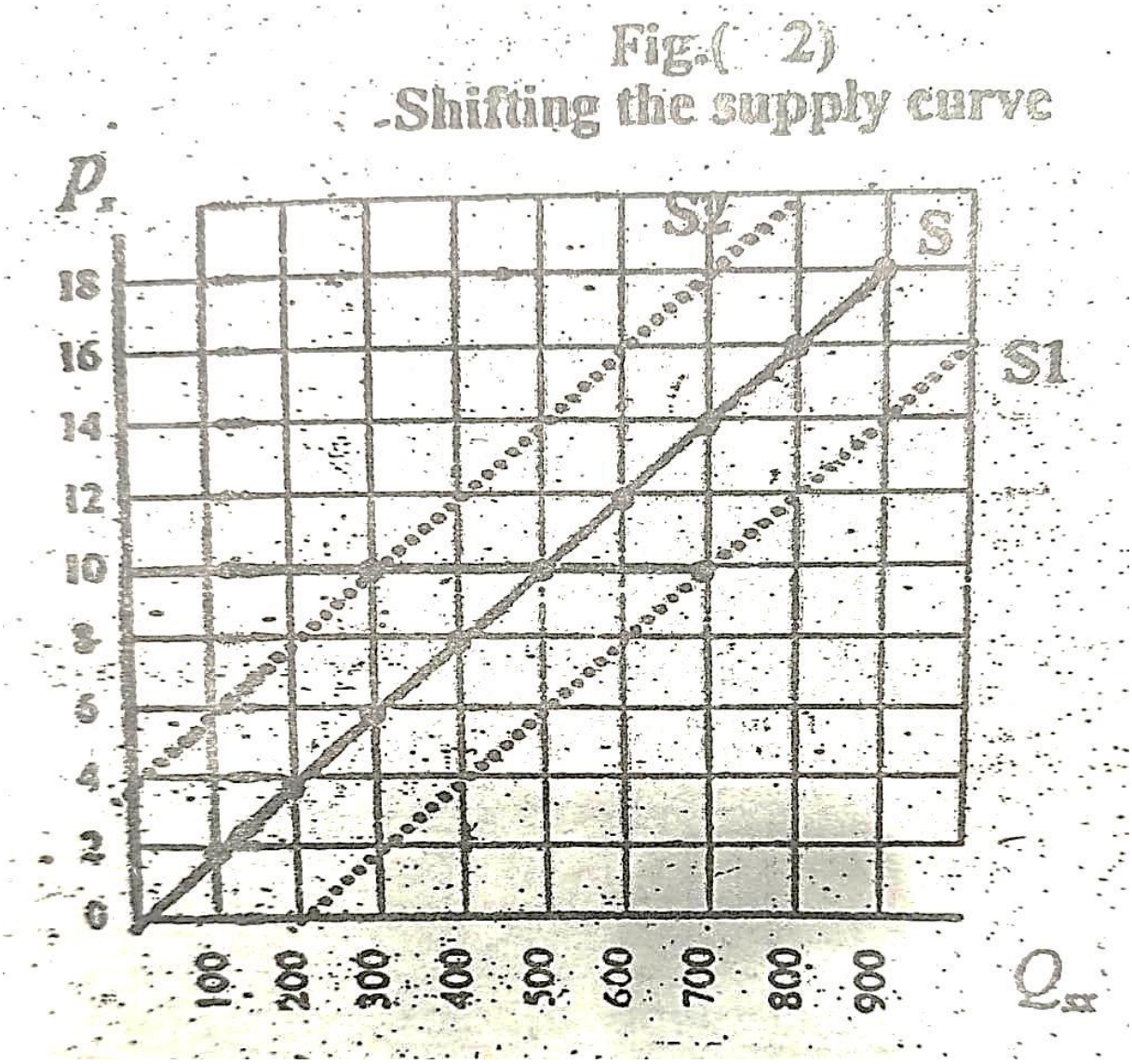
The supply curve for rice was plotted in (1). When the number of producers of rice increases, (assuming that each producer has the same willingnes to supply rice as the one producer in Table 1), the market supply curve in Fig. 2), shifts down and to the right, from S to si. If a technological improvement in rice production also develops, the market supply curve shifts further. downward and vice versa .

Fig (2)

Shifting e supply



Price Elasticity of Supply:

The measure of the responsiveness of the quantity Supplied of a good to changes in its price-is known as Price elasticity of supply. The elasticity of supply is defined by the following formula:

$$\varepsilon = \frac{\%\ \text{change in quantity supplied}}{\%\ \text{Chang in price}}$$

This formula tells us that elasticity of supply.is calculated by dividing the percentage change in quantity supplied by the percentage change in price.

The formula of elasticity could be written as follows:

$$\varepsilon = \frac{\Delta\, Q}{Q} + \frac{\Delta\, P}{P}\ or$$

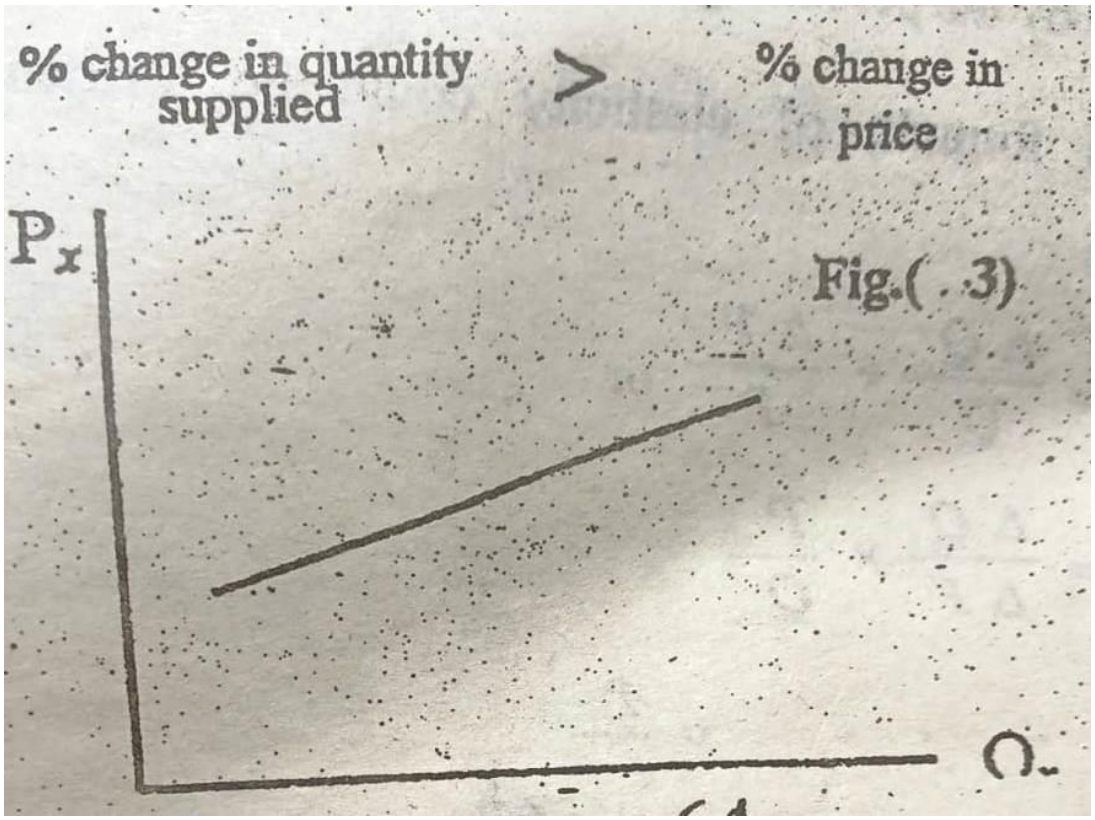
$$\varepsilon = \frac{\Delta\, Q}{\Delta\, P} + \frac{P}{Q}$$

The result of the division process is a number which is larger the greater is the percentage change in quantitu supplied compared to the percentage change in price

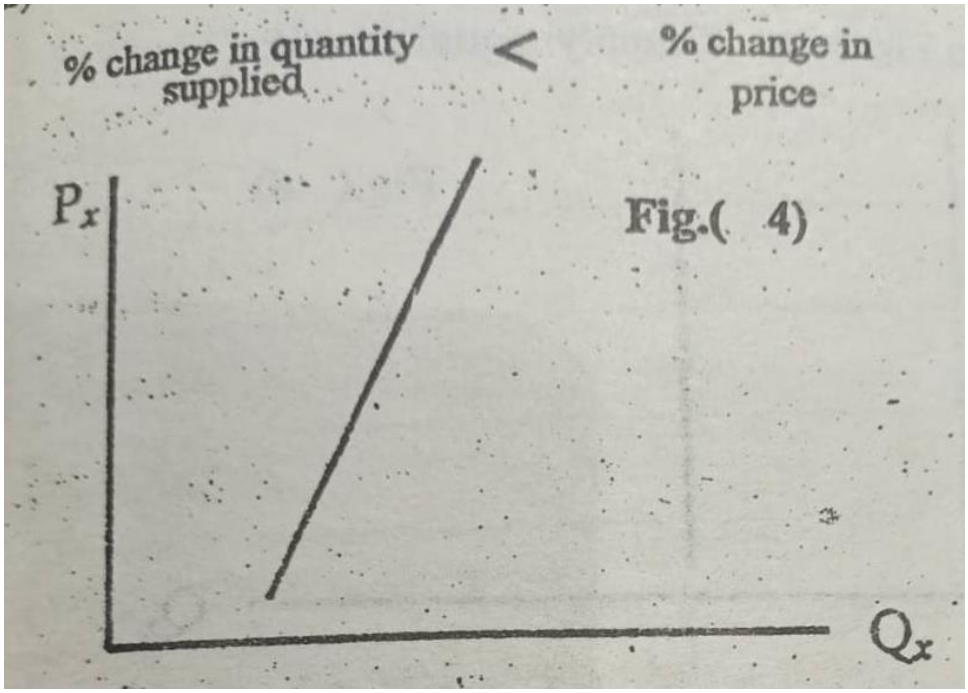
The price elasticity of supply may be one (unit elasticity) or more than one (elastic), or less than one (elastic). It also may be zero elasticity or infinite elasticity:

We can show the various cases of supply clasticity by the next figures:

(1) Elastic supply: more than one if:



(2) Inelastic Supply : less than one if :



(3) Unit Elasticity of Supply equal one if :

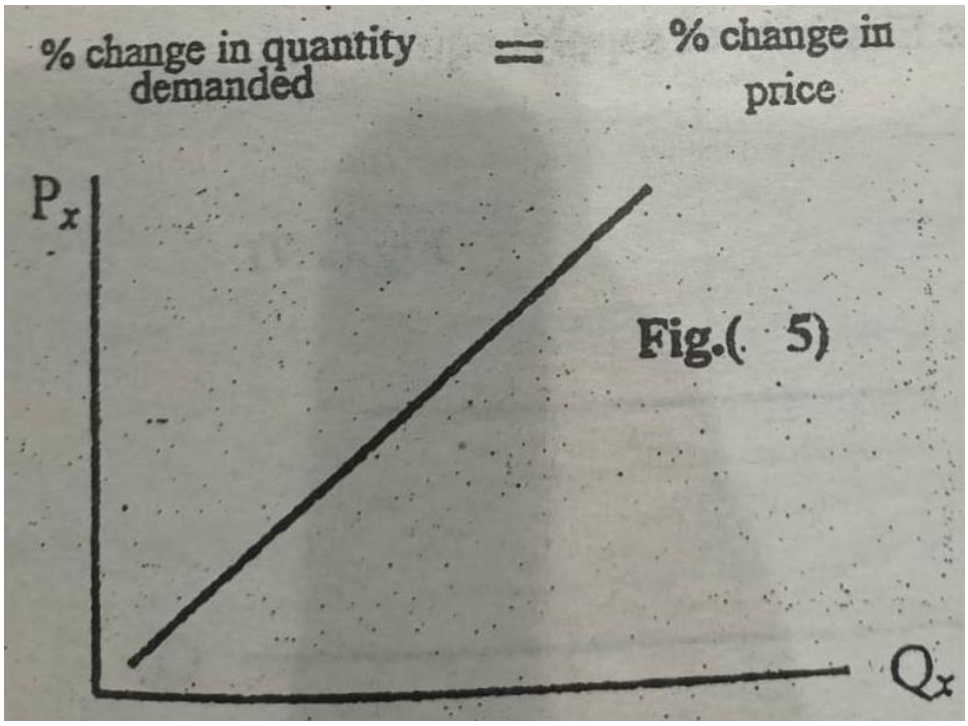


Fig.(5)

(4) Zero Elasticity of Supply : equal zero if :

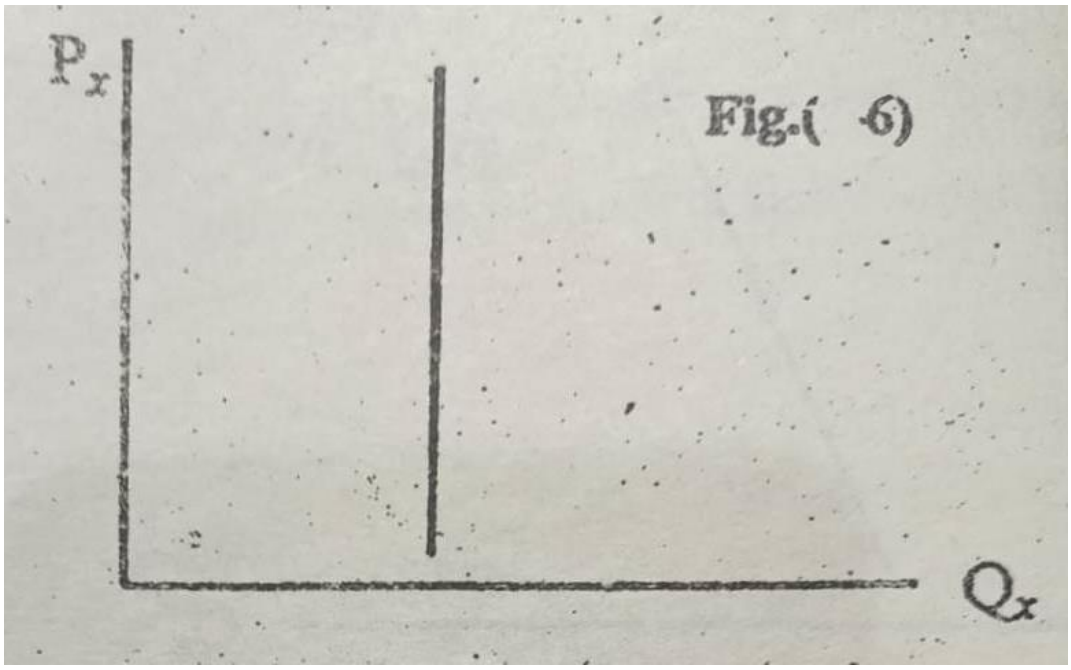


Fig.(6)

5)Infinite Elasticity of Supply equal ∞ if :

5) Infinite Elasticity of supply: equal ∞ if:

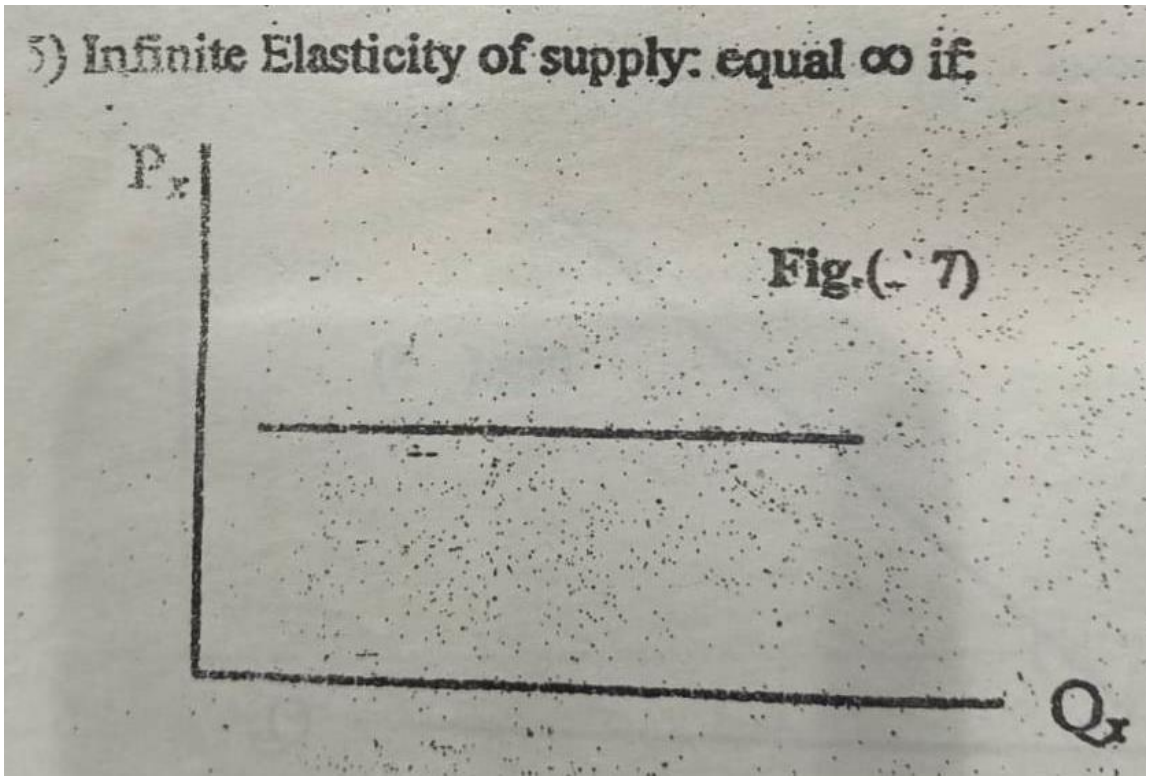


Fig.(- 7)

Chapter Three Terminology

Supply	العرض
Supply Schedule	جدول العرض
Supply Curve	منحنى العرض
Supply Function	دالة العرض
The Supply function slope	ميل دالة العرض
Shifting the supply Curve	انتقال منحنى العرض
Factor Prices	أسعار عوامل الإنتاج
Government Subsidize	الدعم الحكومي
Improvement in Technology	تطور تكنولوجي
Movement along the supply curve	التحرك علي منحنى العرض
Elasticity of Supply	مرونة العرض

Chapter (4)

Market Equilibrium

Price And Quantity

CHAPTER (4)

MARKET EQUILIBRIUM PRICE AND QUANTITY

Equilibrium occurs at the intersection of the market demand and market supply curves. At this intersection, quantity demanded equals quantity supplied, i,e., the quantity that individuals are willing to purchase equals the quantity producers are willing to supply.

A surplus exists at prices higher than the equilibrium price. A shortage of output exists at prices lower than equilibrium price.

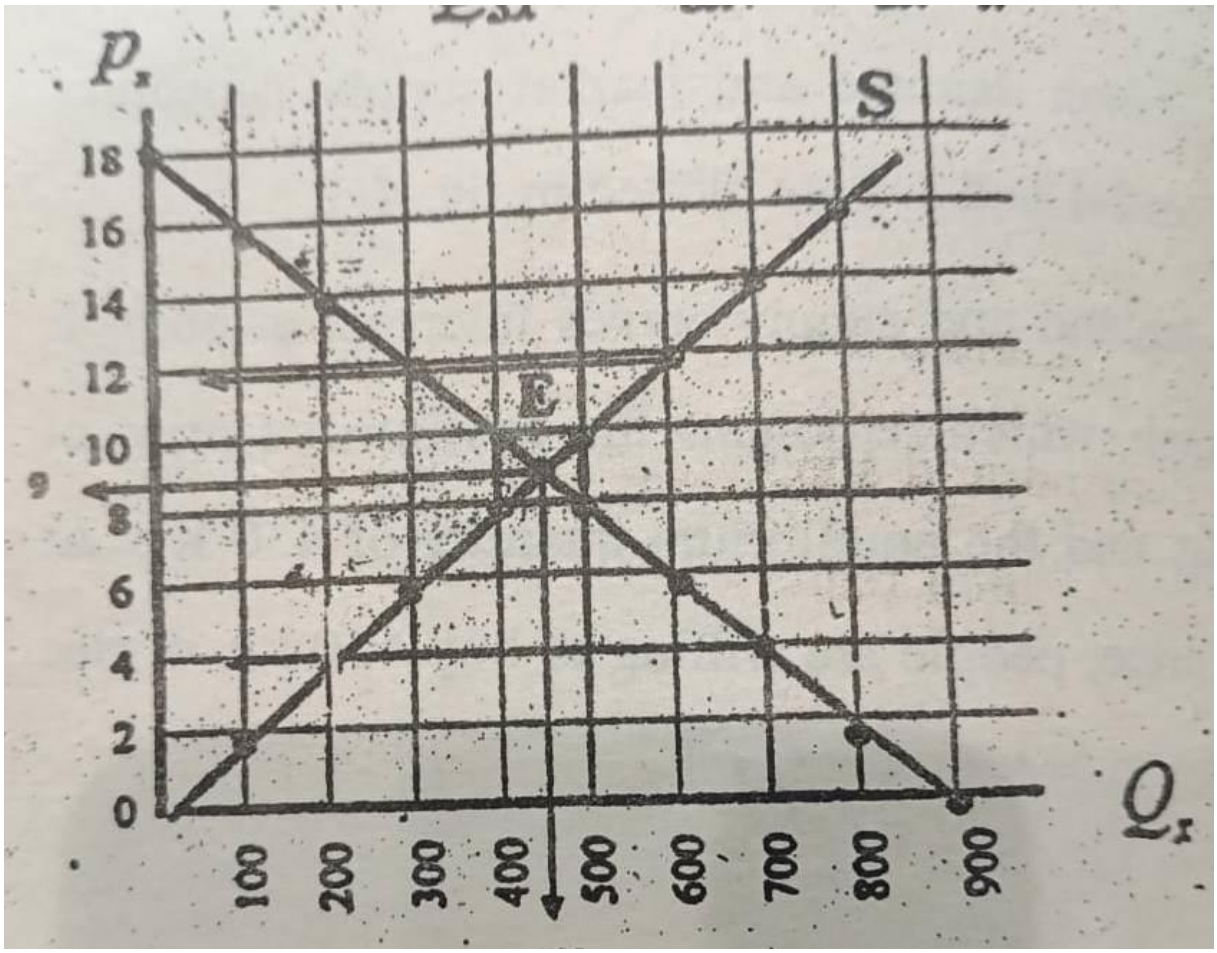
The market demand and market supply schedules from Tables 2-1 and 3-1 are plotted in fig. 4-1.

The demand and supply. curves intersect at point E on the graph, which represents the equilibrium price of LE 9.a Kg. and the equilibrium quantity of 450 Kg. At the LE 9 price, people are willing to buy. 450 kg. of rice and producers are willing to supply 450 Kg of rice There is a 300kg. surplus at LE 12 a kg., since 300Kgs are demanded while 600 Kgs are supplied. A500 Kgs of rice shortage exists at LE4, since guantity demanded is - 700 Kgs while quantity supplied is 200 Kgs.

Demand, Supply & Equiliprium

$$\mathbf{Q_{dx} = a_{dx} = b_{dx} P_x}$$

$$\mathbf{Q_{sx} = a_{sx} = b_{sx} P_x}$$


P_x
S
18
16
14
12
E
10
9
8
6
4
2
0
100
200
300
400
500
600
700
800
900
Q_x

Equilibrium Price Function :

We have seen that the demand function are :

$$Q_{dx} = a_{dx} - b_{dx}p_x$$

The supply function are :

$$Q_{sx} = a_{sx} - b_{sx}p_x$$

The equilibrium condition are :

$$Q_{dx} = Q_{sx}$$

$$a_{dx} = d_{dx}p_x = a_{sx} + b_{sx}p_x$$

The equilibrium price are :

$$P_x = \frac{a_{dx} - a_{sx}}{b_{dx} + b_{sx}}$$

Changes in equilibrium conditions

Equilibrium price and /or equilibrium quantity Change when the market demand and / or market sun curves shift.

Figure (2) shows that the equilibrium price and 'equilibrium quantity both rise when there is an increase in market demand, i.e., the market demand curve shifts up and to the right, with no change in location of the market supply curve .

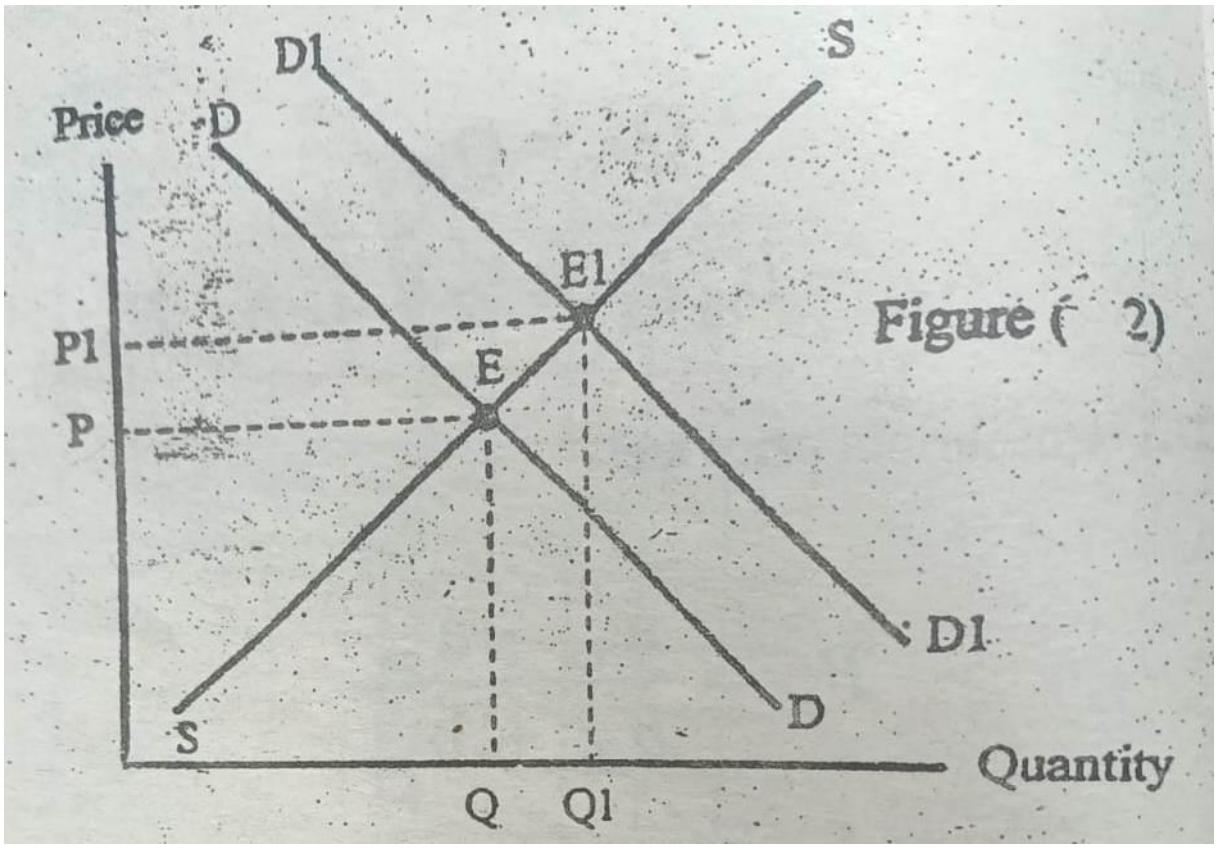
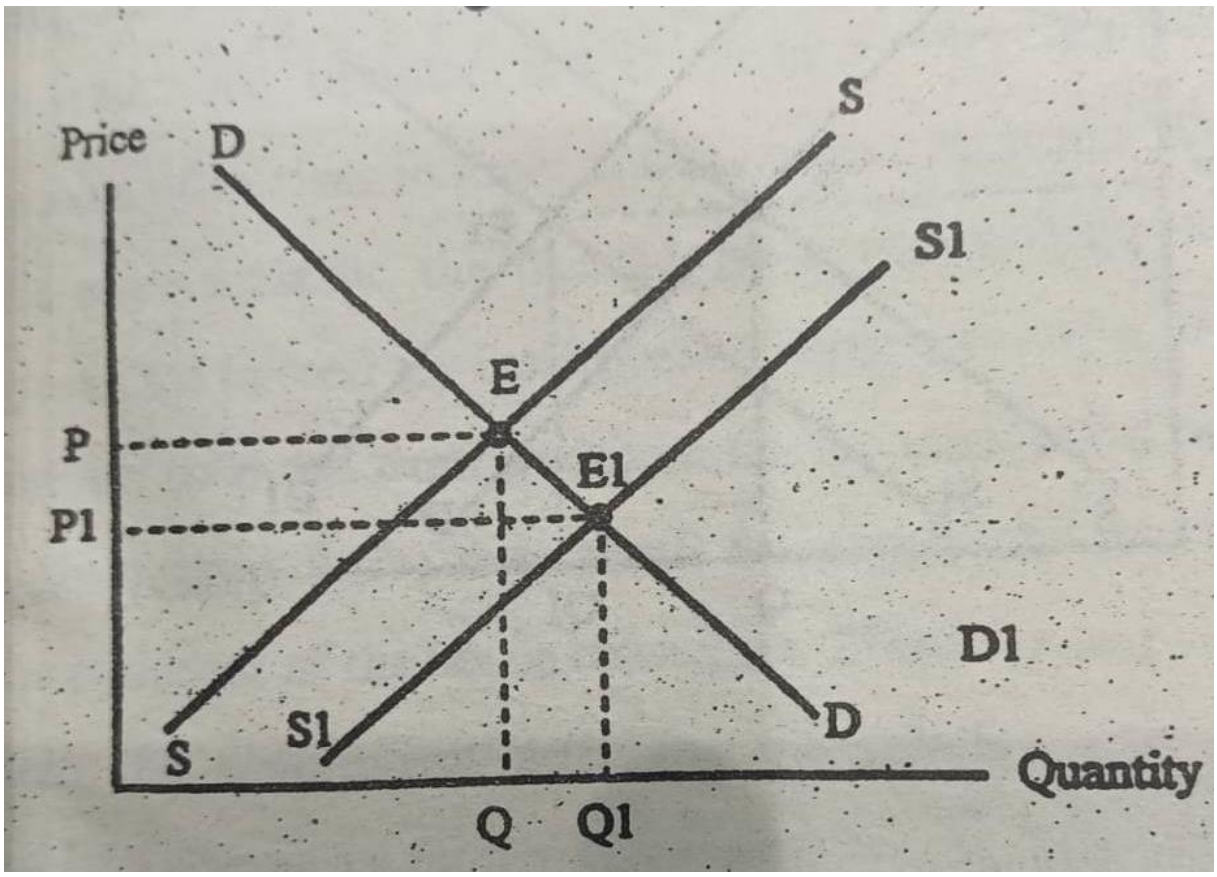


Figure (2)

Equilibrium price falls while equilibrium quantity increases when market supply increases. The market supply curve shifts down and to the right and demand is unchanged. This case is shown in figure (3).

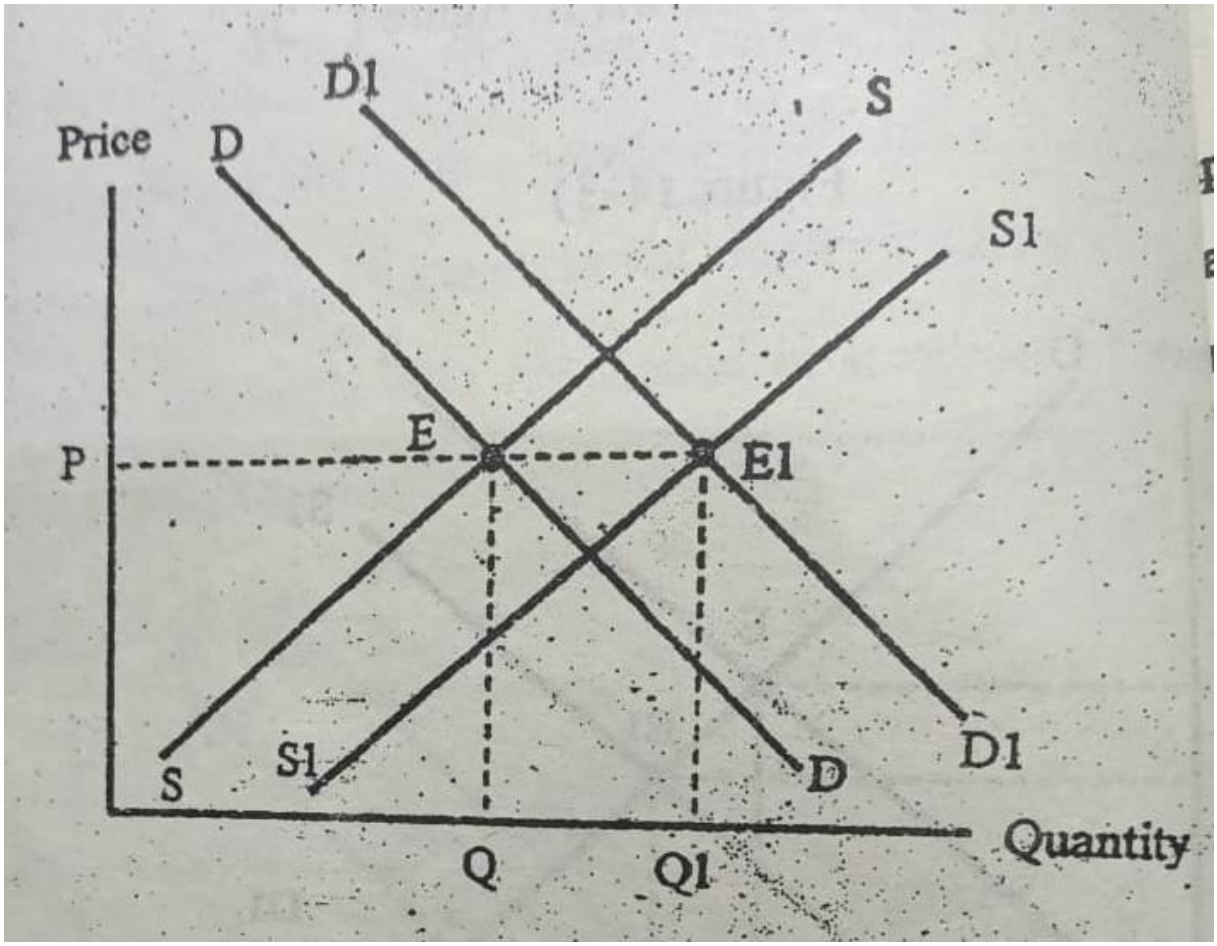
Figure (4-3)



An increase in both market demand and market supply-shifts to the right by both supply and demand

Curves-results in a higher equilibrium quantity, Figure (4) shows this case .

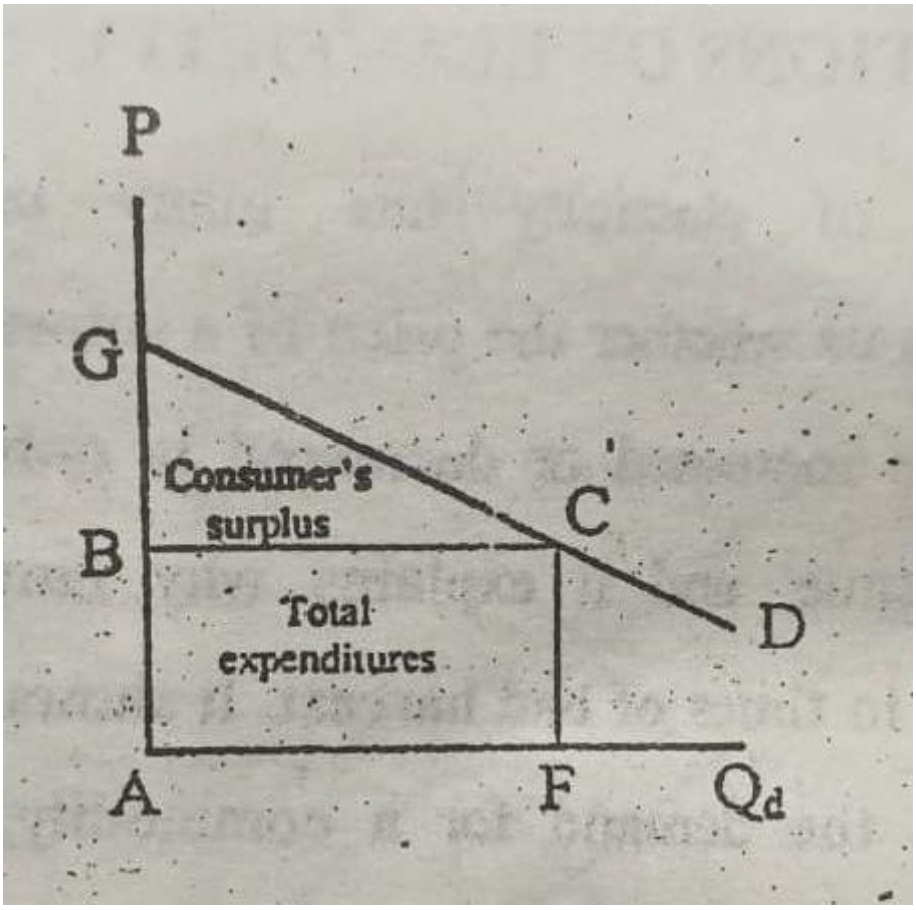
Figure (4)



APPLICATIONS OF ELASTICITY

The concept of elasticity. has many useful applications. It tells us whether the price of a subway or taxi ride should be increased or decreased in order to increase total revenue, and it explains why farmers' income often rises in times of bad harvest. It shows that the more inelastic the demand for a commodity, the greater the burden (or incidence) on consumers of a perunit tax collected from producers. On the other hand, for a given demarid, the more elastic the supply, the greater the incidence of the tax on consumers. Elasticity can also help the government determine the relative cost of various alternative farm-aid programs.

Fig



Chapter Four Terminology

Equilibrium	التوازن
Equilibrium price funcation	دالة السعر التوازني
Intersection	تقاطع
Equilibrium price	السعر التوازني
Equilibrium quantiy	الكمية التوازنية
Diminishing marginal utility	تناقص المنفعة الحدية
Marginal Utility	المنفعة الحديثة
Total utility	المنفعة الكلية
Satisfaction	اشباع
Consumer surplus	فائض المستهلك

Chapter (5)

Consumer Behavior

Chapter (5)

Consumer Behaviour

(6.1)

An individual demand a particular commodity because of the satisfaction or utility he receive from consuming it. Up to a point, the more unit of a commodity the individual consumes, the greater the total utility he receives.. Although, the total utility increases, the utility of each additional unit of the commodity or the marginal utility usually decreases. At some level of consumption, the total utility received by the individual from consuming the commodity will reach a maximum and, hence, the utility of each additional unit or the marginal utility will be zero. Additional consumption of the commodity causes tota ! utility to fall and marginal utility to become negative.

Example :

Units	Total Utility	Margina Utility
1	10	10
2	18	8
3	25	7
4	30	5
5	33	3
6	33	0

7	30	-3

Consuming the first six units will cause total utility to increases and the marginal utility (or the utility of the last unit consumed) to decrease. The consumption of the sixth unit will causes the total utility to reach a maximum (33) and, therefore, the marginal utility will be equal to Zero. If the individual. consumes the seventh unit, his total will start to fall and his marginal utility will be negative.

The objective of the consumer is to maximize the total satisfaction he derives from spending his income. If this happens, the consumer is said to be in equilibrium. The consumer is said to be in equilibrium when the utility or satisfaction of the last dollar spent on the various commodities is the sarne.

Suppose that an individual consumes only two commodities. x and y. Suppose also the price of x ia P_x=$2, price of y is P_y=$1, and the individual's income is $12. Finally, suppose that the marginal utilities of x (MU_x) and y (MU_y) are as follows:

Units (Q)	MU_x	MU_y
1	16	11
2	14	10
3	12	9
4	10	8
5	8	7
6	6	6
7	4	5

This individual spends his income ($12) on X and and tries to receive maximum satisfaction or utility,

For each additional (marginal) unit of x he. consume, he spends $2. If he consumes only one unit of x he will receive additional (marginal) utility of 16 or 8 per dollar.

If he also consumes one unit of y, he will receive additional utility of 11 or 11 per dollar. But one unit of x plus ope unit of y cost him only $3. This means that he still has $9 to spend on, X and y. Because the marginal utility. per dollar of y is greater than the marginal utility per dollar he spends on x, it is expected that he will consume more units of y than x. When the marginal utility per dollar

spent is equal for both commodities, the consumer is said to be in equilibrium. In other words, this is the point where he maximizes his utility or satisfaction. This is the first condition for consumer equilibrium:

$$(1)\ \frac{\text{Marginal Utility of x}}{\text{Price of x}}\ \frac{\text{Marginal utility of y}}{\text{price of y}}$$

$$Or\ \frac{MU_y}{P_x} = \frac{MU_y}{P_y}$$

This can be called the objective function of the consumer.

But the consumer cannot realize his objective unless he has enough income. In other words, come represents a constraint on the consumer's objective function, therefore, the second condition for consumer equilibrium is:

(2) total money spent on x = total money spent on y=money income

Or. $Q_xP_x\ Q_y\ P_y$= Y

Q = number of units.

P=price.

Y= income,

In the above example, condition (1) and (2) are satisfied when the individual consumes 3 units of x and 6units of y,

Condition (1):

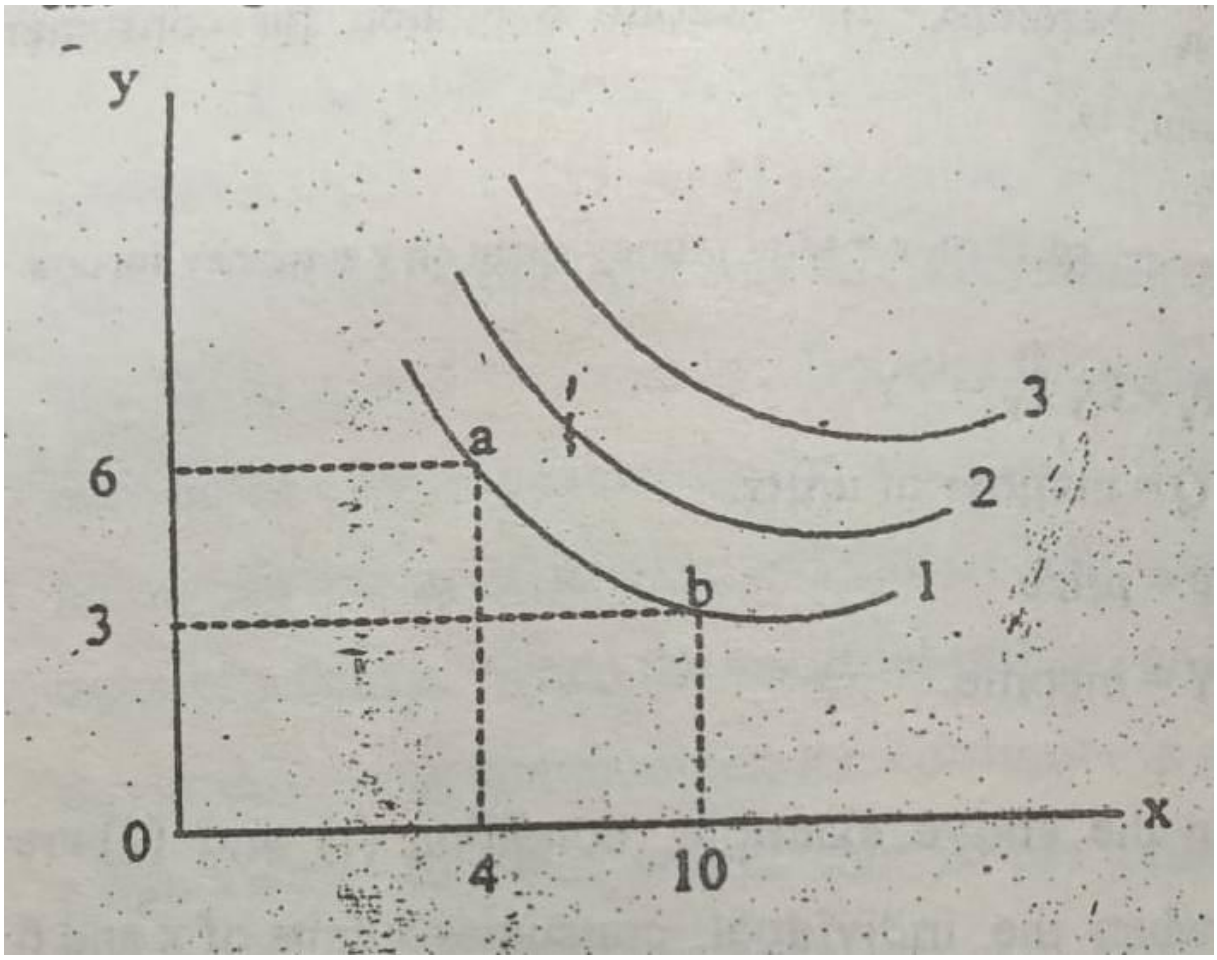
$$\frac{MU_y}{P_x} = \frac{MU_y}{P_y}\ or\ \frac{12}{2} = \frac{6}{1}$$

Condition (2):

$Q_xP_x + Q_yP_y = Y$

OR 3x2 +6x1 = 12

The consumer equilibrium can also be represented by a curve. This curve is called the "indifference curve". An indifference curve shows the various combinations of commodity X and commodity.y which yield equal utility or satisfaction to the consumer. A higher indifference curve shows a greater amount of satisfaction.



Indifference Curves

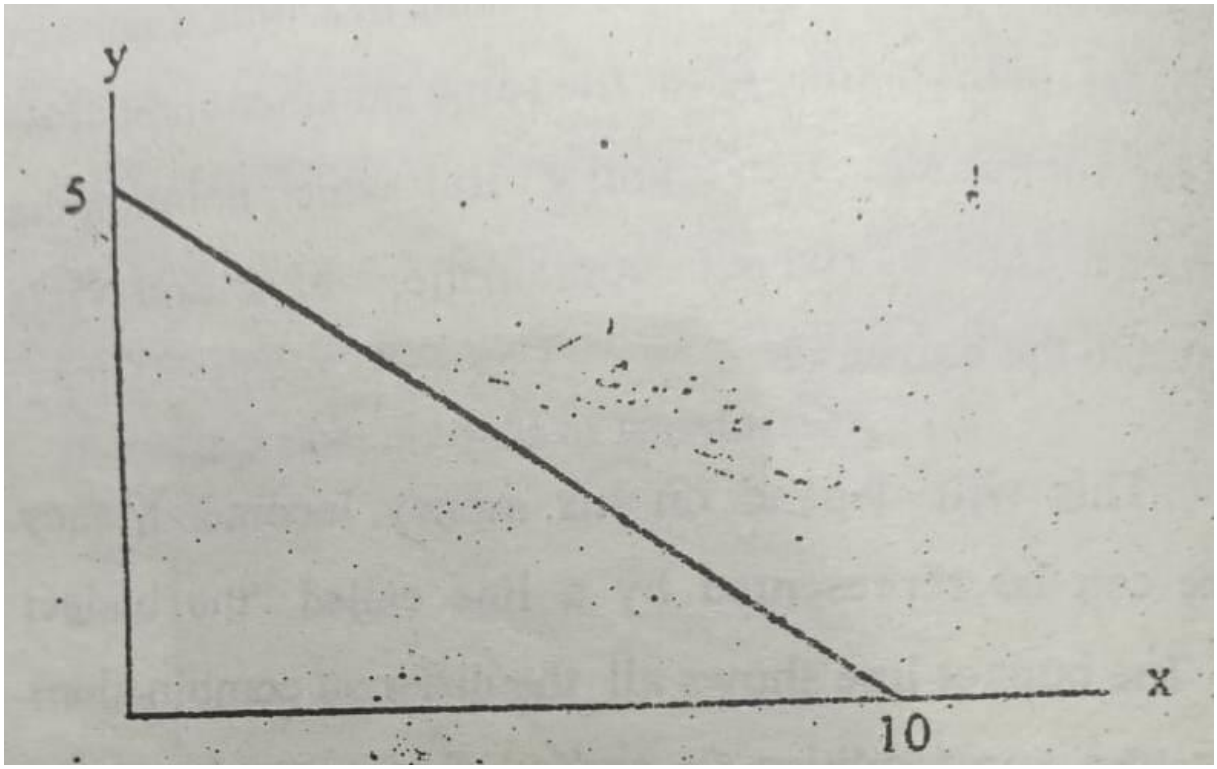
Indifference curve (3) yields greater satisfaction than indifference curve (2) and (1). All points on the same indifference curve yield the

same satisfaction. Thus, the consumer is indifferent between plus 3 units of (y) and point(y)(4) units of x plus 6 units of because both points give different combinations but two different combination of x and y and y) is available to the consumer.

This will depend on his money income. Money ome can be represented by a line called "the budget lines The budget line shows all the different combinations of any two commodities (x and y) that a consumer can purchase given his money income and the prices of the two commodities.

Example:

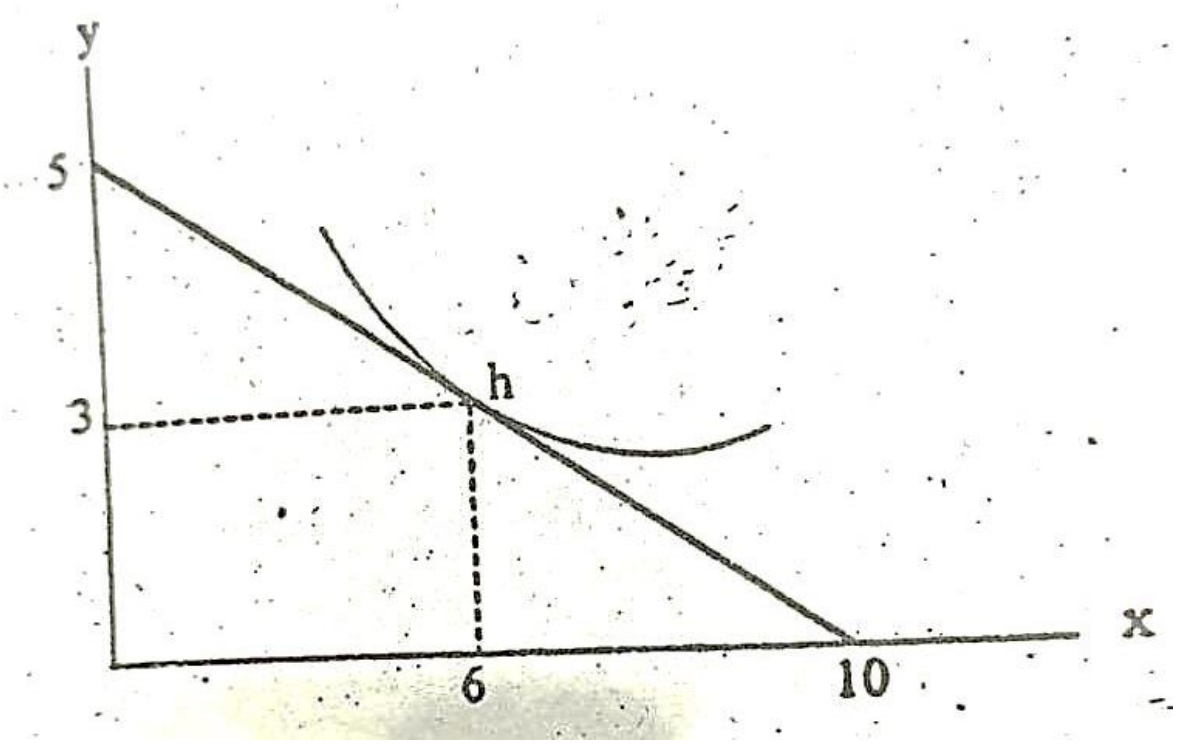
Suppose that the price of commodity x is $2 and the price of commodity y is $4. Suppose also that the money income of a consumer is $20. The budget line can be shown as follows:



The budget line

If the consumer spends all his income on commodity x, he will consume 10 units of x and zero units. of y. If he spends all his income on y, he will consume 5 units or y and zero units of x. Any point on the budget line will show how much of the two commodities is consumed given to income prices of X and y .

By combining the indifference curve and the budget line we can determine the combination of the two commodities (x and y) that gives maximum satisfaction (utility), given money income and prices of the two commodities.



Consumer equilibrium

Point (h) gives the consumer equilibrium by using the indifference curve method. Point (h) shows that the consumer will

maximize his utility (satisfaction) if he consumes 6 units of x and 3 units of y, given his income ($2O) and the prices of x ($2) and y ($4).

1-Marginal Utility	The extra asmisfation derived from consuming one more (additional) unit of a commodity. It also represents the change in total utility associated with a unit change in the consumption of a commodity .
2- Consumer equilibrium (by using marginal utility)	A condition or a situation where the utility or satisfaction of the last (marginal) dollar (unit of income) spent on the various commodities is the same. This happens when the marginal utility per dollar is the same for all commodities consumed . the total expenditure on commodities consumed should not exceed money income .
3-Indifference Curve	An indifference curve is a curve that shows the various combian- tions of any two commodities (x and y) which yield qual utility or satisfaction to the consumer .
4-The Budget line	A line which shows different combinations of any two commoditied (x and y) that a consumer can purchase given his income and the prices of the two commodities .
5- Consumer equilibrium (using indifference curves)	A Consumer is in quilibrium when his budget line intersect with one of the indifference curves. The point of intersection represents the maximum utility (satisfaction) he receives from consuming a combination of any two commodities , given his money income and the prices of the two commodities .

Review Questions

(Define the terminologies you use in your answer) .

1- At equilibrium, the utility (satisfaction) a consumer gets from consuming the last unit of each commodity is the same. This is:

(1) True.

(2) Wrong

(3) True or wrong depending on his money income.

(4) True or wrong depending on commodity prices.

a-(1) only.

b- (2) only.

c- (3) and (4)

d: (4) only.

2- The indifference curve alone can be used to determine the consumer equilibrium.

(a) True if the consumer consumes only the two commodities.

(b) Wrong because the consumer's income is ignored

(c) Wrong because different points on the same indifference curve give different utilities.

A market demand schedule specifies the quantities demanded by all individuals in the market. It is the sum of the quantities demanded (Q.) by these individuals at alternative prices) (P), i.e., Qd =f(P) .

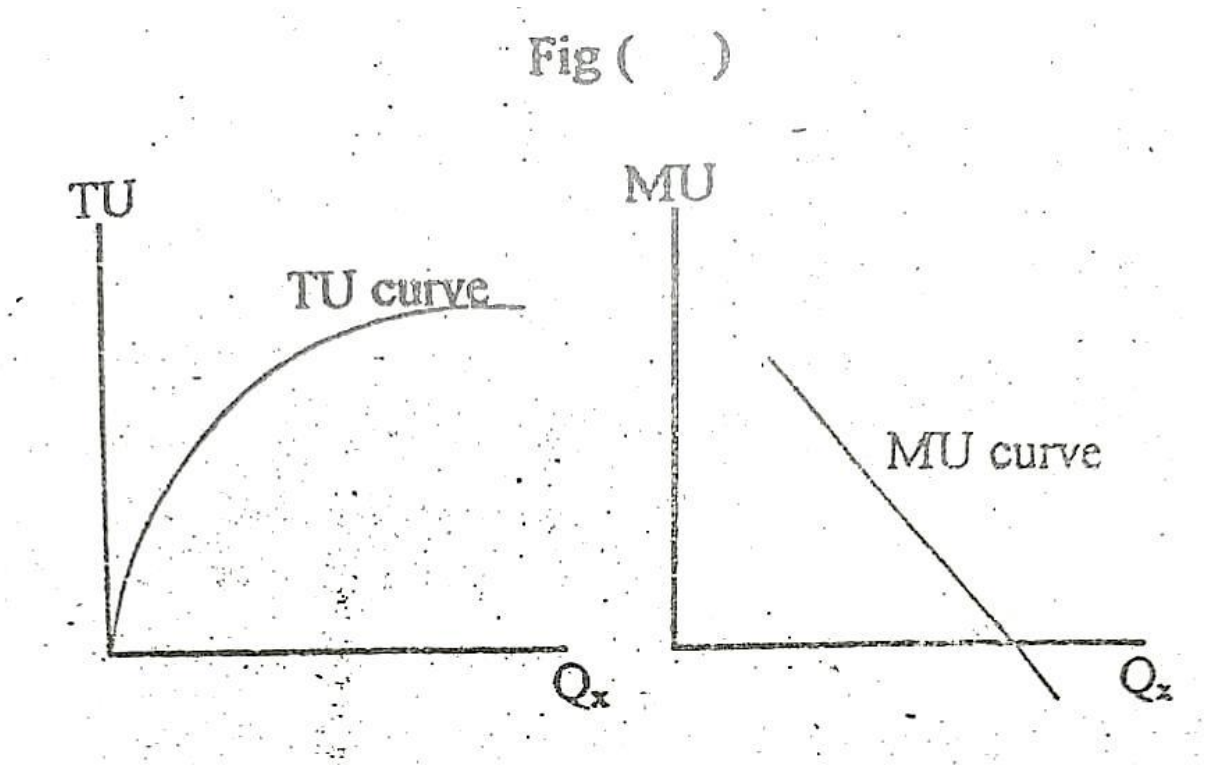
Table (I) gives an individual's demand and the market demand for a commodity Column 2 shows one individual's demand for rice - the one kg. of rice that one individual is willing and able to buy per year at alternative prices (column 1); From columns 1 and 2 we find that the individual buys 800 kg. of rica each year when the prices is LE. 2 and 700Kg when the price is L.E 4 and so on. Thus, while each in to purchase certain quantity of price, the individuals collectively, 50000 kg of rice every year when 70000 kg when the price is L.F. 4 the quantity of rice Demanded by 100 individuals is presented in column 3, Column 3 Shows the typical relationship between quantity demanded and prices i.e more units of a commodity demanded at lower prices .

Table (1)

Individual and market demand

Priced (P) (L.E per Kg)	Quantiry Demanded (Q) By One individual (Ky Per year)	Quantity Demanded (Q) In the Market (100 Indviduals) (Kg Per Year)
0	900	90000
2	800	80000
4	700	70000
6	600	60000

8	500	50000
10	400	40000
12	300	30000
14	200	20000
16	100	10000
18	0	0



Consumer's Surplus

Consumer's surplus refers to the difference between what the consumer would be willing to pay to purchase a given number of units of a commodity and what he of she actually pays for them. It arises because the consumer pay's for all units of the Commodity the price

he or she is just willing to pay for the last unit purchased, even though the MU on earlier units is greater. Consumer surplus can be measured by the area under the Consumer's demand curve and above the commodity price.

In Fig ( ) the consumer purchases AF units of the commodity at price AB and spend, AB times AF (the area of the rectangle ABCF) on this commodity, However, this consumer would have been willing to pay a higher price for all but the last unit of this commodity purchased (as indicated by the height of her demand

curve) because these previous units give her a greater MU than the last unit purchased. The difference between what she would be willing to pay for AF units of the commodity (the area of AGCF) and what she actually pays for them (the area of ABCF) is an estimate of this consumer's surplus (the area of triangle BGC). of units of utility called units. The first two columns of Table give an individual's hypothetical total utility (TU) •schedule from consuming various quantities of cominodity X (say orange) per unit of time, note that as the individual consumes more units of X, TU, increases.

Columns 1 and 3 of the table give this individual's marginal utility (MU) schedule for commodity X. Each value of column 3 is obtained by subtracting two successive values of column 2. For example, if the individual's consumption of X goes from zero units to 1, TU, goes from zero utils to 10 utils, and the MU of the unit of X is 10 utils. Similarly, if the consumption of X rises from 1 unit to 2 units, TU, rises from 10 to 18, and the MU of the second unit of X is 8.

Table ( )

(1) Q_x	(2) TU_x	(3) MU_x
0	0	-
1	10	10
2	18	8
3	24	6
4	24	0
5	20	-4

A consumer maximizes the total utility or satisfaction obtained from spending his or her income (and is said to be in equilibrium) when the marginal utility of the last dollar spent on each commodity is the same. This equilibrium condition : for utility maximization can be restated as follows:

$\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$ = common MU of the last unit of money spent on each commodity.

Fig (4-5) shows the TM curve & MU curve.

//////////

Substitution and Income effects :

In section 2 we saw that the market demand curve for a commodity is derived by adding the individual demand curve for the commodity. We also saw that can individuals' demand curve for a commodity is downward-sloping because of the substitution and income effects. The substitution effect refers to the fact that as the price of a commodity falls, corisumers use it to replace similar commodities in consumption. The income effect refers to the fact that as the price of a commodities (because his or her purchasing power has increased).

For example, when the price of coffee falls, consumers substitute coffee for tea in consumption, in ddition whicn the price falls, a consumer can buy more offee and other commodities) with a given money icome thus, the consumer's (and market) demand curve coffee is down-sloping because of this substation income effect. The greater are the number of substitution available for the commodity, the more.. lastic is its demand. curve.;? A complementary planation of the law of downward-sloping demand sets on the law of diminishing marginal utility.

The law of diminishing marginal utility

An individual demands a particular commodity joecause of the satisfaction, or utility he or she receives - from consuming it. The more units of a commodity the individual consumes per unit of time, the greater is the total utility he receives. Although total utility increases, the extra, or marginal, utility received from consuming each

additional unit of the commodity decreases. This is referred to as the law of diminishing marginal utility.

For purposes of illustration, we assume in table (4-2) that satisfaction can actually be measured in terms .

Ease of substitution :

The proportion of income spent the product

If the price of a boxi of matches for example/from 2p to Bo, it would buyers because such an amount is an minute proportion of their income. However, if the price of a car were to rise from LE 5000 to LE 75000 it would have an enormous effect uppn sales, even though it would be the same .percentage increase. We can state this principle as.

The greater the proportion of income which the price of the product represents the greater its elasticity of demand will tend to be.

If we apply this principle to individual consumers it will be clear that those with high incomes may be less sensitive to changes in the price of products than those with low incomes

Chapter (6)

National Output

Chapter (6)

National Output

The economic problem is defined as the problem of scarcity. For individual persons or entire nation the problem of scarcity exists. As an individual, scarcity of time is felt when you find that 24 hours in a day are not enough to enable you to undertake all the activities you enjoy. Also, when the money you have is not enough to buy everything you would like to have, you face the problem of scarcity. These examples imply that, for an individual the problem of scarcity exists when his resources (time and money) are not sufficient to satisfy all his needs or wants.

Economic resources are the various types of labour, capital, land and entrepreneurship used to produce goods and services. Sine the resources of every society are: limited or scarce, the ability of every society to produce goods and services is also limited. This means that the nation as a whole also faces the Problem of Scarcity when the nation's resources are not sufficient to satisfy wants or needs of its people.

Economic is the study of the ways individuals *nations cope with the problem of scarcity. In other words economics is concerned with the use of scarce resources to satisfy wants or needs. But all wants or needs couldn't be satisfied if resources were scarce. Therefore, individuals and nations should try to use their scarce resources as efficient as possible. The efficient use of scarce resources

implies that individuals or nations will be able to obtain maximum amount of satisfaction from the available supply of resources. Economics, then, is concerned with the attempt to convert a limited supply of resources into a bundle of goods and services that gives more satisfaction than any other bundle that can be obtained with these resources. In other words, in order to overcome the problem of scarcity, economics is concerned with the following questions:

(a) What to produce?

(b) How to produce?

(C) For whom you produce?

(d) How to ration the use of goods and services .

(e) How to keep growth?

The first four questions provide an tom. The answer to the fifth question shows How This system is improved and how It is Improved Over Time .

A. Check-up:

1- For an individual, the problem of …… exists when his resources are ……. to …… all his ……

2- Because …… are scarce, individuals and nations should try to use their scarce of sources as …… as possible.

3- The efficient use of scarce resources implies that individuals and nation will be able to obtain amount of …… from the available …… of resources.

Answers:

1. Scarcity - not sufficient - satisfy - needs (wants).

2- Resources - efficient .

3- Maximum - satisfaction - supply.

4- Economic activity is the attempt to …… resources into a …… of …… that gives more satisfaction.

5- Economic problem exists when resources are /are not sufficient to satisfy all needs.

6- The more resources the economy has and more efficiently those resources are used the larger/smaller will be the …… of goods and services.

7-Efficiency does/does not imply that all needs (wants) are satisfied.

Answers:

4- Convent- bundle - goods and services.

5- axe not.

6- Larger e output.

7- Does not.

B- Terminology Practice :

1-Scarce : Scarcity :	Rare Inadeqate Supply – Lake of – Deficiency – rareness
2- Suffcient :	Enough to meet a need .
3- Satisfy (v) Satisfaction (n)	To fulfill the or needs of . The act of satisfying or stase of being satisfied .
4- Resources	Economic resources are the supply of labour, capital and land . They are used to produce goods and services that satisfy our needs . They are scarce . if we use our scarce resources efficiently , we will obtain maximum satisfaction .
5- Supply (y) Supply (n)	To make available or provide . The act of providing something – is provided .
6- Bundle	Quantities of different goods and services bound together .
7- Output	The act of producing goods and services – the amount of goods and services produced .

Economic activity is the attempt to convey limited supply of resources into goods and services the give maximum satisfaction. In other words, the amount goods and services (output) produced in a year will determine the level of satisfaction or economic welfare. I is impossible to measure directly the level of satisfaction or economic welfare attained by the consumers of an economy. - As a result the amount of output produced is used as an indicator of economic welfare. But how to

measure total output?

Total output of an economy can be calculated in several ways. It can be measured by counting the number of things produced or by measuring the weight of those things." The number of items produced is not a good measure of total output. For example, suppose that only two. goods were produced : Cars and bicycles, suppose also that the production for the past two years was as follows:

This year	Last year
Cars 500 Bicycles 1000	50 2000

In which year was output greater?. If we used number of items, we would say that output was greater last year .

But most people consider a car to represent more output than a bicycle and hence, they would say thatoutput was greater this year.

Also using weight to measure output is not correct have more than one good produced. For example, if would consider a loaf of bread to be more valuable than a brick. Because a brick is heavier than a loaf of bread, on economy that produced very few loaves of bread but many bricks would appear to have more output than an -econoiny that 'produced many loaves of bread but few bricks.

These two examples indicate that the output measure should count each item produced in proportion to attached to it by consumers. Consumers can and will buy goods and services (output) dependin what they must pay for them. what consumes must pay for a unit of any commodity is called commodity. But, how can prices be used to construct a measure of total output produced in a year? If prices of different commodities reflect their relative importance to consumers, then a unit of any commodity cari be measured by its price. The total output of any commodity would then be the number of units times the price per unit. The total output of all commodities would be the sum of the total outputs of the individual commodities.

For the cars and bicycles in the previous example, total output can be measured as follows:

This year

	Quantity	Price	
Cars	500	$ 1000	$ 500000
Bicycles	1000	$ 50	$ 10000
Total Output (Market value)			$ 550000

This year

	Quantity	Price	
Cars	50	$ 1000	$ 50000
Bicycles	2000	$ 50	$ 10000
Total Output (Market value)			$ 150000

Counting each commodity in proportion to its value to consumers, total output was greater this year. By unit of a commodity by its price (Instead of items or weight) a measure of output is obtained. e serves as a guide to the level of economic

A-Check-up:

1. The amount of goods and services produced in a year will determine the level of …… or economic

count of goods and services produced in a year

2- Total output of an economycan by …… by counting the number of things produced or by …….. the weight of those things .

3. What consumers must pay for a unit of any commodity is called …… of that commodity.

4- The total output of any commodity is the number of

units-multiplied by the …… per unit .

5- By weighing each unit of a commodity by its price, we can get a ……. of output

Answers:

1- Satisfaction - welfare.

2- Measured - measuring.

3- The price .

4- Units - price.

5- Measure.

There are two major problems in constructing a measure of total output: Intermediate good and depressant To understand these two major roblems , consider the output of just three commodities: automobiles, automobile- producing machinery and steel. Suppose that ne of these three commodities was as follows

Market value of steel	$ 10 million
Market value of machinery	$ 0 million
Market value of automobiles	$ 30 million

Suppose that the market value of steel used in the production of automobiles is $8 million. This means that $2 million of steel production must be stored for use in future. In this respect, commodities produced are classified into two groups:

- Commodities used to produce other commodities during the same period. These commodities are called intermediate goods.

- All other commodities are called final goods.

cause during the

Steel is an intermediate good because during the period in which it was used up in the production of other goods. Automobiles are final goods because they are not used up in the product production of other goods in the period in which they are produced.

It is possible that part of the production of commodity to be counted as an intermediate good and par of a final good. In our

example, the part of steel used up in the production of automobiles would be would be counted as an matermediate good. The part of steel stored for use in future would be counted as a final good. Of the total production O steel, $8 million would be counted as an intermediate

good and $2 million as a final good.

If we add together the market value of the steel used in the automobiles and the market value of the automobiles, we will be including the value of the steel twice. This is known as double-counting because we are including the value of steel twice.

The definition of total output should be modified to be the market value of all final goods produced during a given time period in example, total output would becalculated as follows:

Final output of steel	$ 2 million
Final output of machinery.	$0 million
Final output of automobiles .	$30 million
Total output.	$ 32 million

During the year, the automobile industry acquired $8 million worth of steel produced this year and converted . $30 million worth of automobiles. In this process The value of output added by each industry can be calculated as follows:

Automobiles	$ 22 million
Machinery	$0 million
Steel	$10 million

Total output $32 million

This is called the value added or total output added by the three industries. This method will yield the same result as summing the market value of all final goods produced. Therefore, total output can be measured by

either the market value of all final goods produced, added by all industries.

In order to produce automobiles, it is necessary use machinery and steel. Steel is defined as an intermediary good. Machinery is defined as a capital good. Machine are goods produced in earlier years and used to produce output this year. In our example, the value of machinery produced this year was $0 million even though machinery is available for use from earlier years output of machines.

In the process of production automobiles machinery (capital goods) becomes older and incurs a certain amount of wear and tear. Both these factors lead to a decline in the value of machinery (capital goods). The change in the value of capital goods due to wear and tear is called depreciation.

The value of total output for an economy in a year without a deduction for depreciation is called Gross National Product (GNP). The value of that output with a reduction for depreciation is called Net National Product (NNP). Then, NNP + depreciation = GNP.

A-Check-up:

1- The market value of a commodity is the number of units produced …… the price per unit.

2- The commodities used to produce other commodities during the same period are called …… All other commodities are called ……..

3- if we add together the market value of an ……. Good and the market value of a ……. good and we will be including the value of the good twice. This is known as ……

Answer:

1- Multiplied by (times).

2- Intermediate goods - final goods.

3- Intermediate – final – intermediate - double counting.

4- Total output can be defined as the market value of all …… produced during a give …….

5- The value of output added by an industry is called …….

6- Total output can be measured by either the market value of all …….. goods produced or …….. by all industries in the economy.

ised

7- Goods produced in earlier year and are used to produce output this year are called ……..

Answers:

1- final goods-time period.

2- Value added.

3- Final - value added.

4- Capital goods.

8- The change in the value of capital goods due to wear a tear is called

9- The value of total output for an economy is a yea without a deduction for depreciation is called ……( ) . The vale of that output with a deduction for depreciation is called …….

Answers:

8- Depreciation

9- Gross National Product (GNP). Net National Product (NP).

B- Terminology Practice:

1- Intermediate goods	Goods used up in the production of other during the same period in Which they themselves are produced.
2- Final Goods :	Goods not used up in the production of other goods in the period in which they are produced .
3- Total Output :	The Market value of all final goods Produced during a given time period .
4- Value added :	Total output added by all industries (sectors) in the

	economy – the difference between the total output of an industry and its total purchases of intermediate goods from other industries .
5- Capital Goods :	Goods produced in earlier years and used up int current production such as machinery .
6- Machinery :	A machine system or set of machines .
7- Depreciation :	The reduction in value of a capital good due to use. The change in the value of capital good due to wear and tear .
8- Gross National Product :	GNP or total value of output in a year without a deduction for depreciation .
9- Net National Product :	NNP or total value of output in a year with a deduction for depreciation .

Review Questions

1- It is said that the United States is "an economy of scarcity". This statement:

a) Is ridiculous, because the United States is the richest country the world has ever known .

b) Is ridiculous, because the resources that are scarce in the United States can always be imported from the abroad.

c) Is true, because our resources are not sufficient to allow us to realize all our goals.

d) Is true, but only temporarily--in the decade of the 1990's we will probably have adequate resources to . achieve our goals.

Answer:

Scarcity exists when there are no sufficient resources to produce all the goods and services consumers want. Even though the United States might be rich in comparison to other countries, it is not true that it has sufficient resources to produce everything that the American people want. Obviously, we would like to have

better hospitals, more parks, cleaner air, and so on. Nor is it true that we can get all we want by importing resources from other countries or by accumulating more res use in the future. We probably, can never eliminate scarcity. The correct response is (C).

2- Last year, a small island economy produced only the following commodities:

$150.000 worth of fish.

$ 35.000 worth of bait.

$ 20.000 worth of nets.

During the year, $10.000 worth of nets became damaged and had to be discarded. For this economy, which of the following is true?

(a) GNP and NNP were $205.000 and $215.000. respectively.

(b) GNP and NNP were $170.000 and $160.000 respectively.

(C) GNP and NNP were $205.000 and $195.000 respectively.

in its production process. The value of added during some stage of production is the difference , between the value of they leave that stage of production and the cost of the goods as they entered that stage.

The four stages of the production of a gallon of gasoline are (1) oil drilling, (2) reefing (3) shipping , and (4) retail sale . in the first stage ,

////////////////////// second stage, the refiner purchases the oil from the driller, refines it into gasoline, and sells it to the shipper. The refiner pays the driller $0.50 per gallon and charges the shipper then sells the gasoline to retailers for $0.80 the value added in the third stage of production is $0.15 finally, the retailer sells the gasoline to consumers for $1.00. the value added at the fourth stage is $0.20, and the total value added in the production is $ 1.00, the same as the value of sales at the retail level. Adding the total values of sales at each stage of production. ($0.50+$0.80+$1.00-$2.95) would significantly , overestimate the value of the gallon of gasoline.

In calculating GDP, we can either sum up the value added at each stage of production or we can take the value of final sales. We do not use the value of total sales in an economy to measure how much output has been produced.

Exclusion of used goods and paper transactions :

GDP is concerned only with new, or current production. Old output is not counted in, current GDP because it was already counted back at the time it was produced. It would be double counting to count sales

of used goods in current GDP. If someone sells used Car to you, the transaction is not counted in GDP, because no

new production has taken place Similarly, a house is , a house is counted in GDP only at the time it is built, not each time it is resold.

In short:

GDP ignores all transactions in which money or goods change hands but in which no new goods and services are produced..

Sales of stocks and bonds are not counted in GDP These sales are exchanges of paper assets and do not correspond to current production. But what if I sell the stock or bond for more than originally paid for it? Profits from the stock or bond market have nothing to do with current production, so they are not counted in GDP. However, if I pay a fee to a broker for selling a stock of mine to someone else, this fee is counted in GDE because the broker is performing a service for me the service is part of current production. Be carefui to istinguish between exchanges of stocks and bonds for me. The Be careful to and bonds for

oney (or for other stocks and bonds), which do not volve current production, and fees for performing sun changes, which do.

collusion of Output Produced Abroad By mestically Owned Factors Of Production .

GDP is the value of output produced by factors of duction located within a country. It is sometimes ful to have a measure of the output produced by tors of production owned by a country's citizens

ardless of where the output is produced. This measure alled gross national product, or GNP. For most

- Government consumption and investment (G) .
- net exports (EX-IM)-net spending by the rest of the world, or exports (EX) minus (IM).

The expenditure approach calculates GDP by adding together these four components of spending . in equation form:

GDP=C+I+G+(EX - IM)

Consumption (C) A large part of GDP consists of personal consumption expenditures (C) :

There are there main categories of consumer expenditures durable goods, nondurable goods Nondurable goods, and services. Durable goods, such as automobiles. Furniture, and household appliances, last a relatively long time Nondurable goods such as food, clothing, gasoline , and cigarettes, are used up fairly quickly. Payments for services - those things that we buy that do not involve the production of physical items- include expenditures doctors, lawyer, and educational institutions.

Investment (1) Investment, as we use it in economic refers to the purchase of new capital-housing, plants equipment, and inventory. The economic use of the term is in contrast to its everyday use, where investment often refers to purchases of common stocks, bonds, or mutual funds ("He invested in some 8 percent corporate bonds) .

Total investment in capital by the private sector is called "gross private investment (I). Expenditures by firms for machines, tools, plants, and so forth make up onresidential investment. Because these are goods that firms buy for their own final use, they are part of "final

sales," and counted in GDI Expenditures for new houses and apartment buildings, constitute residential investment. The third component amount of gross private investment the change in business inventories, is the firms inventories change during a period. business can be looked at as goods that firms produce now but intend to sell later.

Change in Business inventories :

It is sometimes confusing to student that inventories are connted as capital and that changes in inventory are counted as investment. But conceptually it makes some sense. The inventory a firm owns has a value, and it serves a purpose, or provides a service, to the firm. That it has value is obvious. Think of the inventory of a new car dealer or of a clothing store, or stocks of newly produced but unsold computers a waiting shipment . All these have value .

But what service does inventory provide? Fims keep stocks of inventory for a number of reasons . One is to meet unforeseen demand firms are never sure how much they will sell from period to period , sales go up and down. The maintain the good will of their customers , firms need to be able to respond to unforeseen increases .

In sales , The only way to do that is with inventory .

Some firms use inventory to provide direct services to customers – the main function of a retail store .

A Grocery store provide a service – convenience . The store itself dosen't produce any food at all. It simply assembles a wide variety of items and puts them on

display so consumers with varying fastes can come and shop in one place for what they want .

The same is true for a clothing or hardware store. To provide their services, such stores need light fixtures, counters, cash registers, building, and lots of inventory.

Remember : GDP is not the market value of total sales during a period - it is the market value of total production. The relationship between total production and total sales in this : Total production (GDP) equals final sales of domestic goods plus the change in business inventories:

GDP = Final sales +Change in business inventories .

Gross Investment versus Net investment During the process of production, capital (Especially machine equipment) produced in pervious periods gradually , wears out. GDP does not give us a true picture of the re production of an economy. GDP Includes new produced capital goods but does not take account of capital goods “consumed ” in the production process.

Capital assets decline in value over time. The amount an asset's value falls each period is called its depreciation. A personal computer purchased by a business today may be expected to have a useful life of four years before becoming worn out or obsolete. Over that period, the computer steadily depreciates,

What is the relationship between gross private investment (1) and depreciation.

Gross investment is the total value of all newly produced capital goods (plant, equipment, housing, an inventory) produced in a given period. It takes no account of the fact that some capital wears out and must be replaced. Net investment is equal to gross investment

minus depreciation. Net investment is a measure of how much the stock of capital changes during a period.

If net investment is positive, the capital stock has increased: if net investment is negative, the capital stock has decreased. Put another way. The capital stock at the end of a period is equal to the capital stock that existed at the beginning of the period plus net investment:

$\text{Capital}_{\text{.cad of period}} = \text{Capital}_{\text{ beginning of period}} + \text{Net investment}$

Government consumption and investment (G)

Government and investment (G) Include expenditures by government for final goods (bombs. pencils, school buildings) and services (military salaries, police salaries...etc.). Some of these

expenditures are counted as government consumption and some are counted as government gross investment Government ransfer payment (social security benefits, veterans'. isability stipends,.,.etc.) are not included in G because nese transfers are not purchase of anything currently roduced .

The payments are not made in exchange for any pods or services. Because interest payments on the Government debt are also counted as transfers, they are

also excluded from GDP on the ground that they are not

goods or services

. **Net Exports (EX - TM)**

The value of net exports (EX - IM) is the difference between exports (sales goods a and services to foreigner) and imports (purchases of goods and services from aboard) This figure can be positive or negative.

The reason for including net exports in the definition of GDP is simple. Consumption, investment, and government spending (C. I. and G) include expenditures on goods produced both domestically and by foreigners, therefore, C+I+ G overstates: domestic production because it contains expenditures on foreign-produced goods that is, imports (IM), which have to be subtracted out of GDP to obtain the correct figure.

tes domestic

ational produce is

At the same time, C+I+G understates dome production because some of what a national produce is sold aboard and therefore not included in C, I or G exports (EX) have to be added in.

THE INCOME APPROACH:

The income approach to GDP breaks down GDP into four components: National income, depreciation, indirect taxes mines subsidies, and net factor payments to rest of the world:

GDP= National income + Depreciation + (indirect taxes

Subsidies + Net factor payments abroad.

National income:

- National income is the total income earned by actors of production owned by a country citizens It's he sum of four items:

1) Compensation of employees.(wages and salaries)

2) Corporate profits.

3) Net interest

4) Rental income

TERMINOLOGY

Macroeconomics Principles	مبادئ الاقتصاد الكلي
Employment	التوظف
Interest rate	سعر الفائدة
Money supply	العرض النقدي
Inflation	التضخم
Unemployment	البطالة
Business Cycle	دورات الأعمال
Aggregate oufput	الناتج الكلي
Recession	انحسار النشاط
Depression	كساد
Fiseal policy	السياسة المالية
Taxes	الضرائب
Government Expenditure	الانفاق الحكومي
Monetary Policy	السياسة النقدية
Circular flow income	دائرة التدفق النقدي للدخل
Foreign sector	القطاع الخارجي
Households	القطاع العائلي
Decision – Makers	صانعي القرار
Resource Market	أسواق العناصر
Simultaineously	آنيا
Monetary economy	الاقتصاد النقدي
Intrabusiness	المعاملات بين القطاع العائلي
Intrabysuness	المعاملات بين قطاع الأعمال

Gross domestic product	الناتج المحلي الإجمالي
Intermediate goods	السلع الوسيطة
Final goods	السلع النهائية
Double counting	اندواج الحساب
Consumption	الاستهلاك
Investment	الاستثمار
Export	الصادرات
Import	الواردات
Inventories	المخزونات
Depreciation	الإهلاك
National Income	الدخل القومي

Chapter ( )

Aggregate Demand and

Equilibrium GNP

Aggregate demand consists of consumption expenditure , investment expenditure , and government expenditure. In this respect aggregate demand is equal to gross national expenditure, gross national product (GNP), and gross national income .

Gross national = Consumption + Investment + government

Expenditure expenditure expenditure

Or E = C + I + G

Consumption expenditure (C) depend the level of national income (Y) : if the national income increases, consumption expenditure will increase. Investment and government do not depend on the rate of interest and government expenditure (G) depends on a number of things we do not know .

Because consumption expenditure depends on the level of income, it is said that consumption expenditure is a function of national income, or :

C = F (Y)

C = Consumption

Y = national income .

F = a function of (or depends on) .

This is called the " consumption function " or the relationship between consumption and income . this consumption funcation can be written as follows :

C = F (Y) = + MPC (Y)

= the level of consumption expenditure when the level of income is equal to zero .

MPC = The matginal propensity to consume national income or the ratio of change in consumption expenditure over change in national , If consumption s a function of (depends on) personal disposable income , the marginal propensity to consume personal disposable income will be defined as the ratio of change will be defined as the ratio of change in consumption expenditure over change in personal disposable income .

Therefore :

Change in personal disposable income .

Marginal propensity to

Consume national $= \frac{Change\ in\ consumption}{Change\ in\ National\ income}$

Income

Marginal propensity to

1. **Consume national** $= \frac{Change\ in\ consumption}{Change\ in\ National\ income}$

Income

The Consumption function can be graphed as follows :

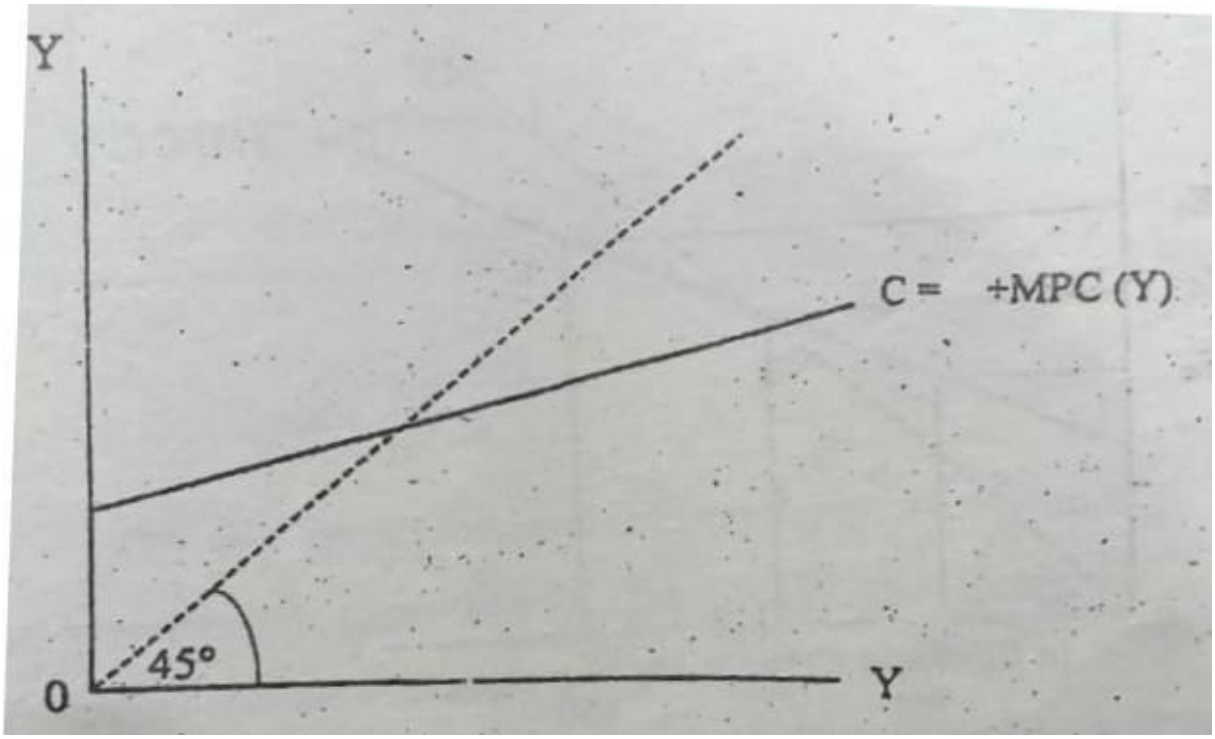


Figure ( )

Investment (1) and government expenditure (G) do not depend (are not function of) the level of national .

E = gross national expenditure .

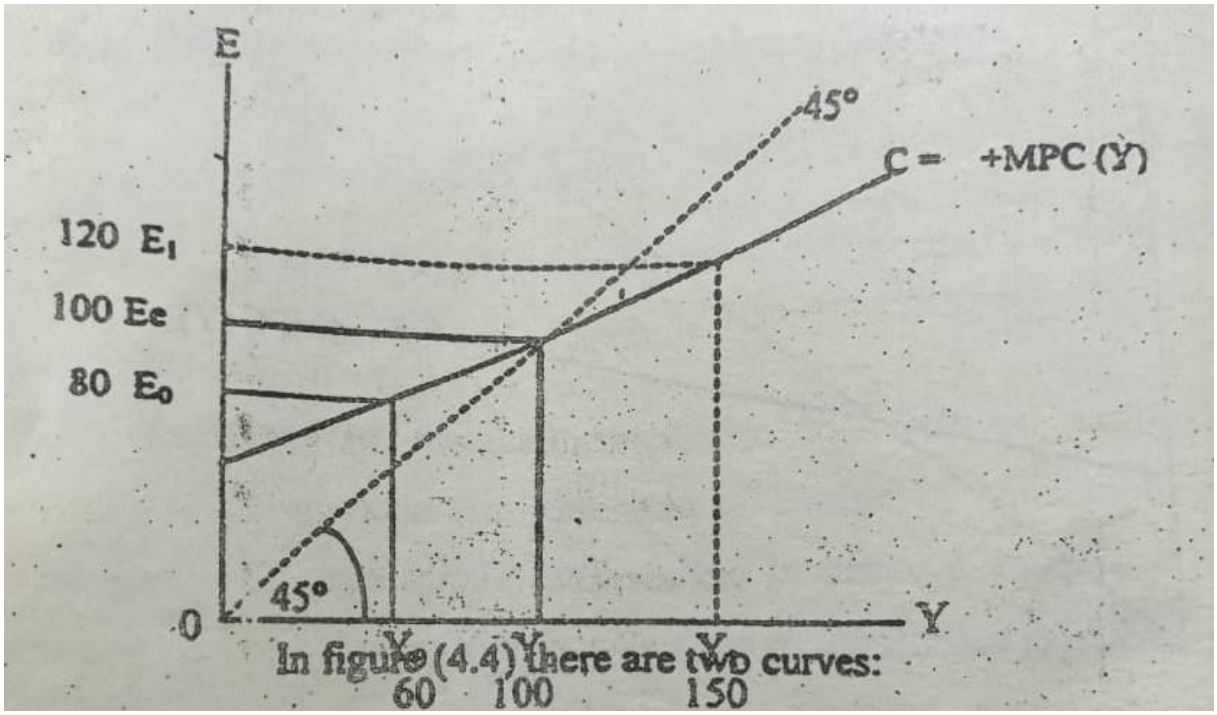
C = Consumption expenditure .

I = Investment expenditure .

G = Government expenditure .

This gross national expenditure and national income are equal. But what happen if they are not equal ? In order to understand what would

happen if gross national Expenditure and national income were not equal, combine figures ( ) , ( ), d.d ( ) , as follows :



In figure (4.4) there are two curves:

(a) The gross national expenditure € curve which represents total consumption investment , andincome , They are called " autonomous " expenditure or expenditure that is fixed independently of the level of national income (Y) and both investment and government expenditure can be graphed as follows :

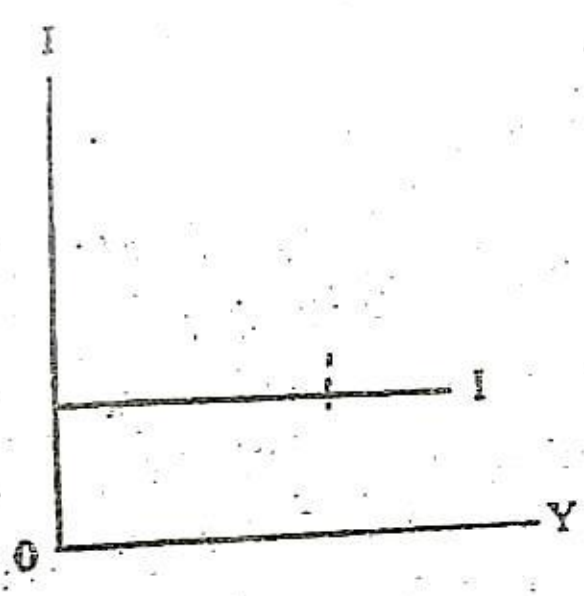


Figure ( )

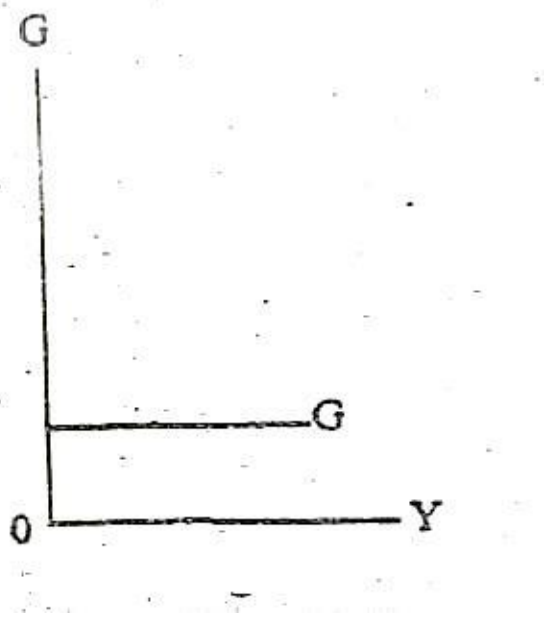


Figure ( )

In This graph the levels of investment expenditure and government expenditure do not change whe in the level of national income chages .

If we add all three items of expenditure we will get gross national expenditure , or :

$E = C + I + G$

Government expenditure which would be made at a of national income . In this respect :

$E = C + I + G$

b) A 45° line : at every point on the 45° line , the level of gross national expenditure is equal to the level of national income .

if the initial level of national income were $Y_0 = 60$, gross national expenditure would be $E_0 = 80$. This means that gross national

expenditure is greater than national income in other words the amount people would want to spend on consumption , investment, and government eexpenditure is greater than the amount of income paid to them. Therefore , national income must increase . Similarly if gross national expenditure is greater than national income , national income must decrease .

When the gross national expenditure curve intersects with the 45° line , both gross national expenditure and national income will be equal . this point of intersection determines the equilibrium level of national income. At this point the amount people would want to spend on consumption (C) , investment (1), and government expenditure (G) is equal to the amount of national income paid to them, Therefore , the equilibrium level of national income is realized when :

Gross national expenditure = Gross national income

$$E = Y$$

It is called " equilibrium " level because at this level because at this level there will be no natural (or essential) tendency to change .

The equilibrium level of national income is ehant is meant by aggregate demand or the amount people are able and willing to spend on consumption , investment , and government expenditure . Therefore , when the aggregate demand (E = C + I + G) is equal to national income (Y), we call the latter the equilibrium level of income.

Chapter 6

Internal and external balance

Chapter 6

Internal and external balance

We developed a model for national income in an open economy. Within this model the balance-of-payments is integrated into the national economý. , There før we discussed what is meant by balance of payment equilibrium- or external balance. We also discussed how a country can cure a deficit in the balance of payments by changing the exchange rate or by following certain fiscal policies.:

Although the question of keeping external balance in equilibrium is very important for many countries, there are other important aims of economic policy which should be taken into account in addition to the balance of payments equilibrium. As we mentioned in chapter (5) full employment and price stability (internal balance) are important aims of economic policy of a country, for example a country might achieve balance of payments equilibrium_but it also might have unemployment or inflation. In other words, a country might realize external balance but not internal balance. Also there might be a conflict between internal and external balance. This in tur implies that both internal and external balance should be considered jointly. This is the main concern of this chapter which provides a definition of internal and external balance and

considers the main economic means (instruments which help realize internal balance and balance of payments equilibrium.

Definition of internal and external balance:

Intemal balance:

Internal balance is simply the realization of full employment and price stability. This can be achieved by realize equilibrium in both the goods and money markets. The equilibrium in the goods markets is achieved when aggregate demand (total expenditure) equals national income. In other words, the goods market will be in equilibrium when the condition for income equilibrium is satisfied as follows:

$$I + X = S + M \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Where I and S are investment and saving, and X and M are exports and imposts. Here we assume no government (there is no tax nor government expenditure) for simplicity. If we consider oniy intemal balance equation (4.1) will be reduced to:

$$I = S = \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2)$$

Therefore, the equilibrium in the goods markets is achieved when investment equals saving. When investment equals saving the equilibrium level of income will be determined. In chapter (1) we saw that saving is a function of income. In other word the level of saving depends on the level of income. We also saw tha

investment is an exogenous variable which is assumed to affect the level of income. Here we will assume that the level of investment depends on internal rate. In other words the investment demand is a decreasing function of the interest rate; at high interest rates we will get low levels of investment and at low interest rates we will get high levels of investment. Since saving depends on the level of income and investment depends on the interest rate we expect to have different levels of income and different interest rates at which saving and investment are equal. In other words, there are many combinations of national income and interest rate which keep the equality between saving and investment and hence, the equilibrium in the goods market. There many combinations of income and interest rate which equate saving and investment can be represented by a curve. This cure is called the "IS Curve" or the investment saving curve. The "IS" curve is presented in figure (1)

Figure (1) consists of three parts:

Part (1) represents the investment - demand curve. it says that when he interest rate (r) decreases the investment demand

increases.

Part (2): represents the investment saving balance (i.e I =S). any point on the 45oimplies that saving is equal to investment.

Part (3) is the saving function. It shows that savings is an increasing function of income (Y). When income (Y) increases saving (S) also increases depending on the marginal propensity to save (see chapter 1) sf wel wavn917 jestene 18

Part (4): provides the IS curve.it represents the combinations of income (Y) and interest rate (r) which represent an equality between saving and investment. in other words, any point on the IS curve means that saving is equal to investment at the income level and interest rate at this point For example , at point 'a' on the IS curve investment = saving = 20 at income level 80 and an interest rate 10%.

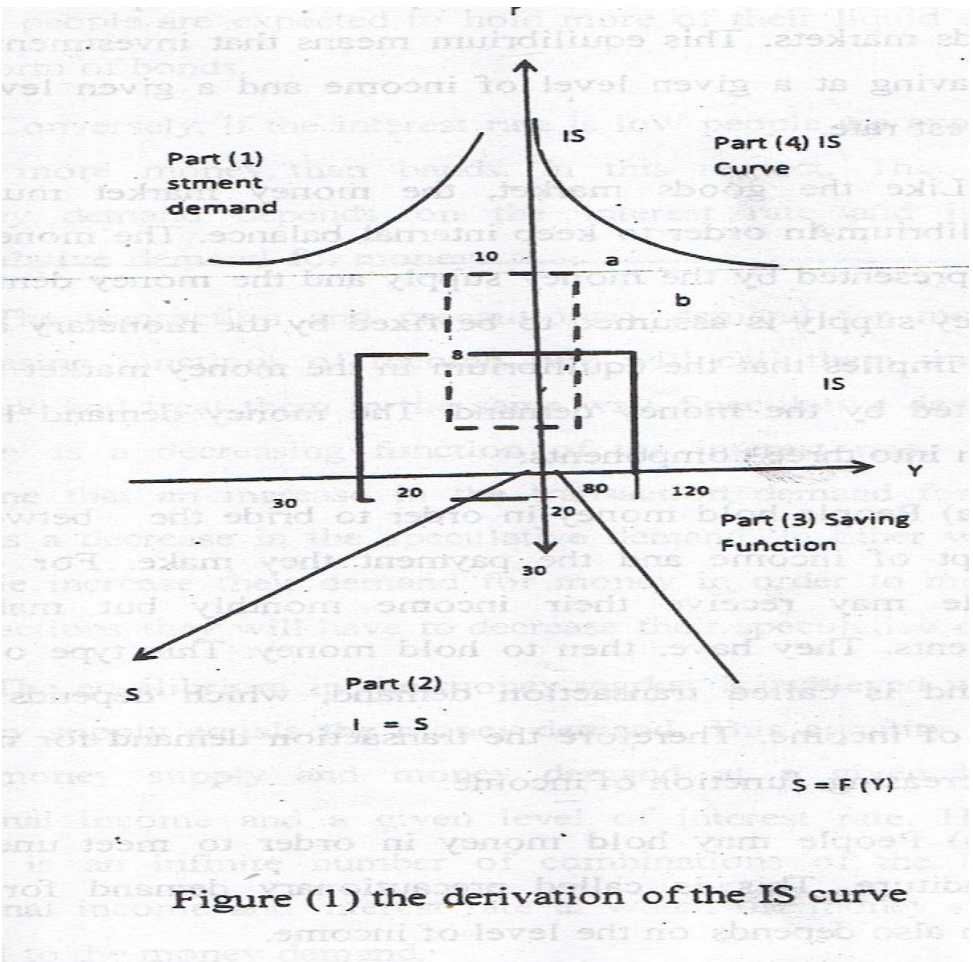


Figure (1) the derivation of the IS curve

This IS curve, therefore, represents the equilibrium in the goods markets. This equilibrium means that investment is equal to saving at a given level of income and a given level of the interest rate.

Like the goods market, the money market must be in equilibrium in order to keep internal balance. The money market is represented by the money supply and the money demand. The money supply is assumed to be fixed by the monetary authority. This implies that the equilibrium in the money market is mainly affected by the money demand. The money demand is broken down into three components:

a) People hold money in order to bride the between their receipt of income and the payment they make. For example, people may receive their income monthly but make daily payments. They have, then to hold money. This type of money demand is called transaction demand, which depends on the level of income. Therefore the transaction demand for money is an increasing function of income.

b) People may hold money in order to meet unexpected expenditure. This is called precautionary demand for money which also depends on the level of income.

(C) People may hold their liquid assets in the form of bonds or money. If the return on bonds is high (i.e. the interest rate is

represented by a curve. This curve is called LM curve , or the money demand – money supply curve. This curve is given in. figure (4.2).

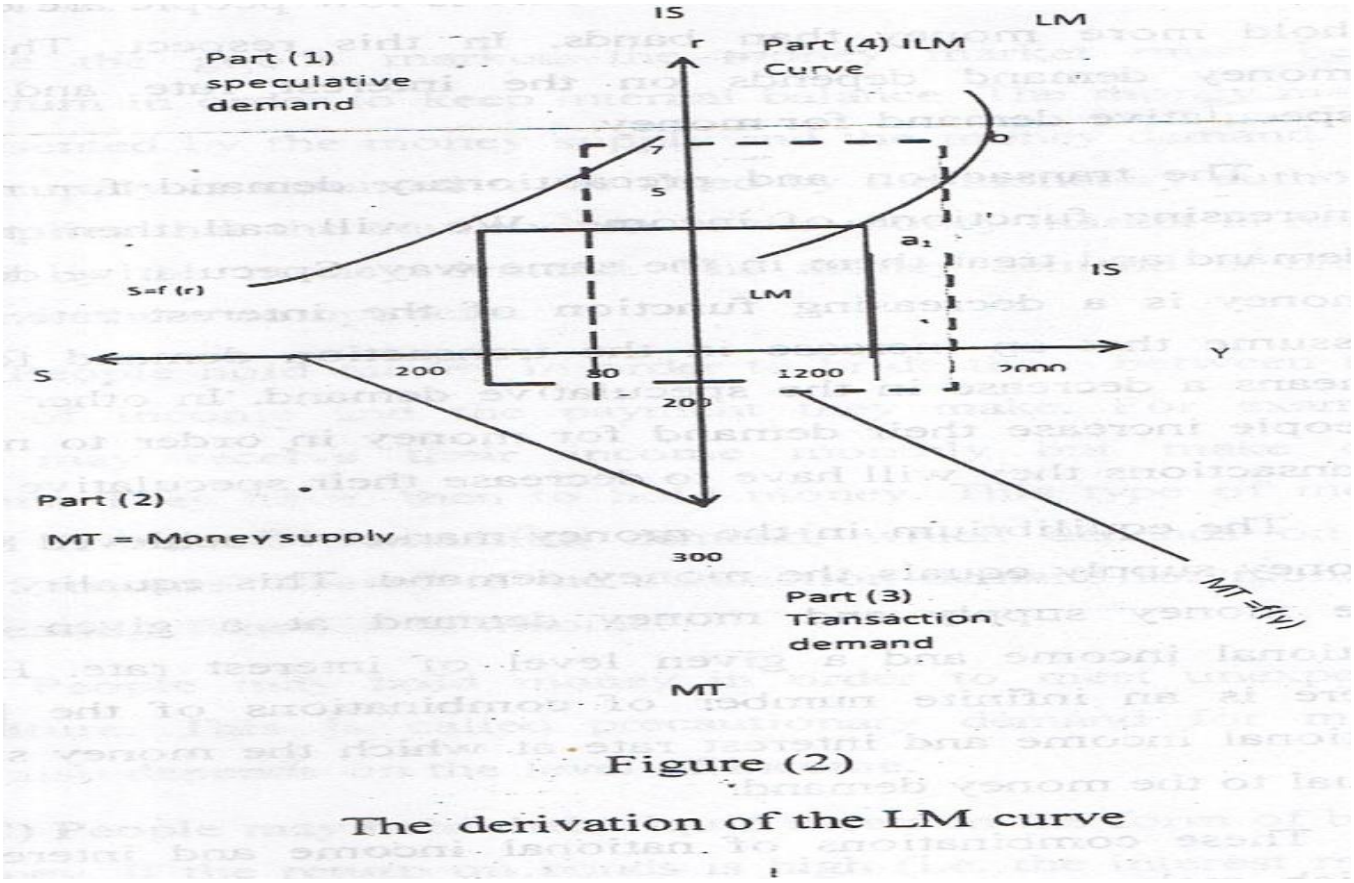


Figure (2)

The derivation of the LM curve

:Figure (2) consists of four parts-

Part (1): Given the speculative demand for money curve which shows that an increase in the interest rate will lead to a .decrease in the speculative demand for money

Part(2) Shows how the money supply is divided into , speculative demand and transaction demand for money. In this respect, if a greater amount of money supply is allocated to speculative demand, this will mean that a smaller amount of

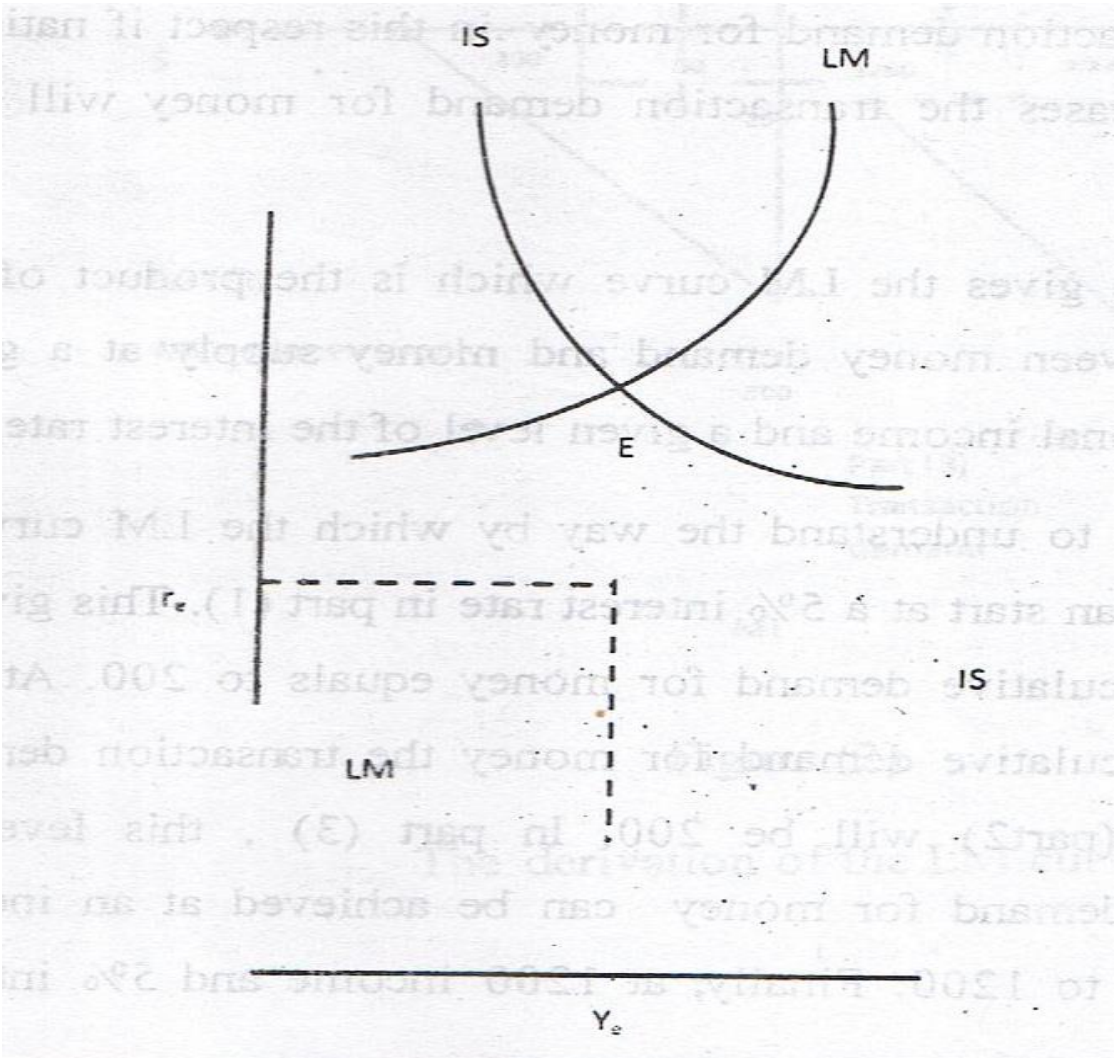
.money supply will be allocated to transaction demand

Part (3) represents the relationship between national income and the transaction demand for money in this respect if national income increases the transaction demand for money .will also increase

Part (4) gives the LM curve which is the product of the equality between money demand and money supply at a given level of national income and a given level of the interest .rate

In order to understand the way by which the LM curve is derived we can start at a 5% interest rate in part (1). This gives a level of speculative demand for money equals to 200. At this level of speculative demand for money the transaction demand for money (part2) will be 200. In part (3), this level of ransaction demand for money can be achieved at an income stel equals to 1200. Finally, at 1200 income and 5% interest

rate we have point "a" in part (4) .By repeating this process and starting at a 7% interest rate we will get point "b" in part (4) By connecting points "a" and "b" we can get the LM curve .(as presented in part (4) of figure (2



svisluoed e ani di 93397995 By putting the IS and LM curves together we can get the equilibriu m in both the goods and money markets. This is done in ligure (3). Point "E" in figure (3) gives the equilibrium level of national income at Ye and the equilibrium level of the interest rate at re. any point other than point "E" will represent

disequilibrium in the goods market or the money market

- The main objective of economic policy is to keep the goods .

and money markets in equilibrium. But what means can be used if the economy is not operating on point "E" in figure (3)? For example if the goods markets are not in equilibrium and the country has unemployment. What policy can be used in order to overcome this problem? Because the country has unemployment, it is expected that its economy will operate to the left of the Is curve. This means that saving exceeds investment. The right policy in this case is to increase

investment or

Because economic policy is controlled by the government, it is expected that the government will increase government expenditure or reduce tax if the economy is operating to the left of the IS curve. In this respect, government expenditure will have effects similar to the effects of investment, and tax will have effects similar to the effects of saving (see chapter) if the economy is operating to the right of the IS curve this will mean overfull employment or potential inflation. This implies that investment is greater than saving and the correct policy is to reduce government expenditure or Increase tax.

Chapter 7

International monetary system

International monetary system

In this chapter we shall discuss many subjects around the International monetary system (its definition, components, factors, Risks, financial in stability, financial crises ... etc. as the following:

*global payment system:

Global payment system is a term that broadly refers to the set of mechanisms by which consumers, businesses m governments & financial institutions make payments

*types of global payment system:

There are many or several types of global payment systems are the non-electronic payment systems & electronic payment systems. We can understand this by the following table which discuss the transactions & payments flows in major National payment system as the following:-

Table no 1:

Transactions & payments flows in major National payment System

Country /payment system	Transaction /Smillions	Value /trallions

EMU/target	66.6	420.7
Euro-1	41.0	74.5
Japan/Zen gin	5.1	88.4
BOJ-NET	16.7	569.6
UK/Chaps	29.2	61.9
USA/Fed wire	123.3	436.7

:A. non electronic payment systems

This system is available in the most of developing & developed countries. In most nations, people continue to use coins & currency for the bulk of exchange. for example , USA residents use coins & currency for more than three – fourths of the total number of exchanges transactions they make , in this system , the transaction is final at the moment that the exchange occurs . In contrast, check & debit card transactions are final only after banks transfer funds from the account of the purchaser to the seller.

:B. electronic payment systems -

This system is available in some of developing & developed countries. About 85%' of the dollar value of USA electronic payment takes place via large-value wire transfer systems. .Not only USA but also EMU, UK, Japan...etc

:payment - system Risks*

The payment - systems face both private & public risks that are inherent in financial transactions risk increases as the size & scope of the payment system increases. For instances, when any retail outer accepts currency or coins from a customers, there is a remote possibility that the customers payment be counterfeit

:There are many kinds of risks as the following

:1/Liquidity risks

Liquidity risks is the risk of loss that may occur if a' payment is .not received when due

:2/credit risks

credit risks is the risk of loss that could take place if one party to an exchange were to fail to abide by terms under which both parties originally had agreed to make the exchange

:3/systemic risks

Systemic risks is the risk of loss that some payment intermediaries may not be able to meet the terms of payment agreements because of failures by other institutions to settle transactions that otherwise are not

:4/Herat risks

systemic risks across

.Herat risk liquidity, credit, & international borders

financial instability: *

Financial instability when nation's financial sector is no longer able to allocate funds to the most productive projects

financial crisis *:

Financial crisis is a situation that arises when financial instability becomes so severe that the nation's financial system is unable to function. a financial crisis typically involves a banking crisis , a country crisis & a foreign debt crisis.

International monetary institutions:

International monetary institutions contain many basic institutions such as International monetary fund, the group of World Bank. We shall discuss these two institutions as the following:

First: International monetary fund

The International monetary fund (IMF):

Is a multinational organization that promotes International monetary cooperation, exchange arrangements k & economic growth? It provides temporary financial assistance to lations experiencing balance - of - payments difficulties 2000

The next figure (figure no 1) is a charts show the growth of MF membership since the founding of the organization in July 1944. Currently, the MF has 182 member nations

The number of member nations in the International monetary fund (IMF) is now about six times larger than it was when the organization was founded as the following figure

charts.

*** International monetary fund quota subscriptions:**

The quota subscriptions of each members nation in the MF m which is denominated in special drawing rights, depends on the nation's real national income. A country's quota subscription determines its share of voting power within the IMF & howmuch it is eligible to borrow under standard "IMF credit

.arrangement

:the quota subscriptions of MF*

The quota subscriptions of MF is the funds deposited by MF member nations that together from the pool of funds that MF managers can use for loans to member nations , experiencing financial difficulties nd

:the conditionality of MF*

The conditionality of MF is the set of limitations on the . range of allowable actions of government of a country that is a recipient of IMF loans.

:bash *the Facilities of MF

There are many financing facilities have been given by the International monetary fund (IMF). These financing facilities are the following:

:A. Regular MF facilities

:(De cose 1/Stand by arrangements (SBA

Seizes 01 bsbrand SOFT Stand by arrangements intend to assist in situations

requiring temporary or cyclical adjustments arrangements are typically for 12-18 months & are phased in on a quarterly basis, with releases of founds contingent on meeting performance criteria & periodic program reviews.

2/external fund facility (EFF):

External fund facility is designed to provide assistance for adjustment to problem arising from structural macroeconomic probleliùs for periods up to 3 years.

B. IMF concessional assistance:

1/poverty reduction & growth facility (PRGF):

OSTS It provides financial assistance to countries experiencing difficulties in repaying large bilateral & multilateral external

debts.

2/heavily indebted poor countries (HIPC) initiative:

Heavily indebted poor countries (HIPC) initiative is provides financial assistance to countries experiencing difficulties in repaying large bilateral & multilateral external debts.

C. MF other financing facilities: such as the following:

1/compensatory financing facility (CFF) :

It is intended to assist members experiencing arising from temporary export declines or increased expenses in importing foodstuffs

2/supplemental reserve facility (SRF) :

It is designed to assist members experiencing sudden & disruptive adjustment problems arising from a loss of market confidence

3/contingent credit lines (CCL):

It is designed to assist members affected by contagion effects of financial crises originating elsewhere.

Second: the World Bank group (WB):

WB is the other key super national institution that provides support to nations experiencing financial problems. World Bank a sister institution to the International monetary fund(IMF), that is more narrowly specialized in making loans to about 100 developing nations in an effort to development & Growth . This institution, which also was created during the 1944 Breton woods conference

:World Bank institutions*

There are many institutions of WB (the World Bank group)as the following :-

l/international development association Nat i on

2/ international Bank for reconstruction & development

3/ international finance corporation

4/multinational investment guarantee agency