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 In last name alphabetical order

# Economics AP

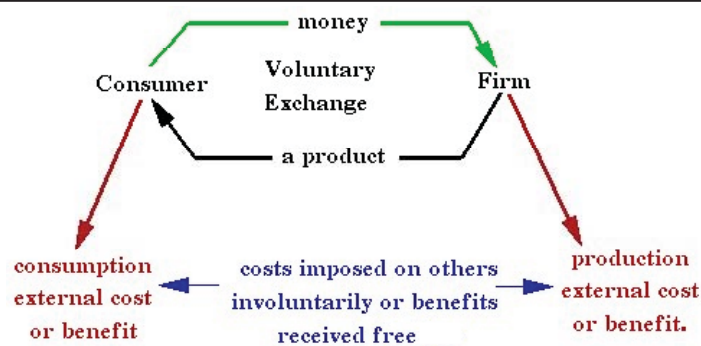
## Public Sector Economics and Unemployment / Inflation

Covers Ch 5 & 7

### Importance of Price Systems

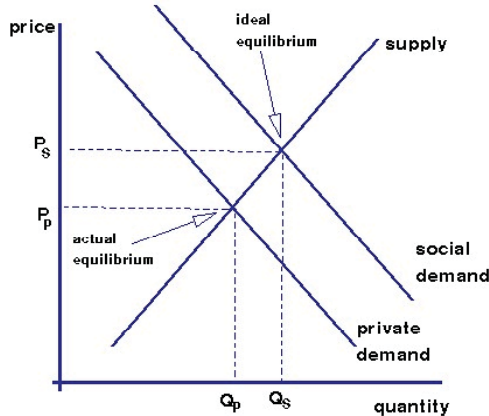
Any Economic system that affects its distribution of goods and services by means of a system of trade. In a price system, the people are sovereign as they can decide what to buy and what not to buy. Sellers and consumers are both protected from various kinds of coercions.

### Externalities



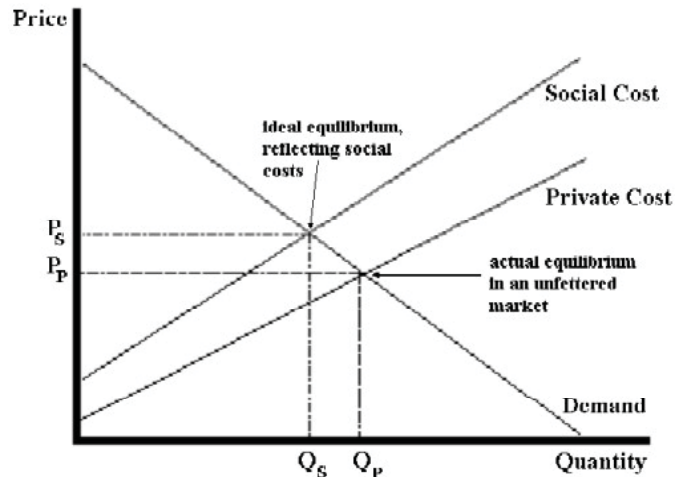
If the consumers only take into account their own private cost, they will end up at the equilibrium point  $P_p$  and  $Q_p$ .  $P_s$  and  $Q_s$  reflect the idea that the marginal social benefit should equal the marginal social cost, that is that production should be increased only as long as the marginal social benefit exceeds the marginal social cost. This would drop the supply curve would to  $Q_s$ , which also raises the price to  $P_s$ .

### Tragedy of the Commons



An economic phenomenon where if a resource is held out for the public to use, it will be overused due to the lack of property rights of the resources and no one will have the incentive to conserve or maintain the resource.

### Positive Externalities



If the consumers only take into account their own private cost, they will end up at the equilibrium point  $P_p$  and  $Q_p$  instead of the more efficient  $P_s$  and  $Q_s$ .  $P_s$  and  $Q_s$  reflect the idea that the marginal social benefit should equal the marginal social cost, and now, the social benefit is greater than the societal cost, so society as a whole would be better off if more goods had been produced. Therefore, the demand curve would shift to  $Q_s$ , and raising the price to  $P_s$ .

## Importance of Price Systems

### How the government corrects negative externalities

Special Taxes	Taxes would control the amount of output (effluent fee) but cannot control the amount of how much negative externality is generated from a unit of output.
Regulation	The government would impose a maximum allowable amount of negative externality produced in total but cannot reduce the rate of output.

### How the government corrects positive externalities

Government Financing and production	If positive externalities get too large, government will take control and finance and produce a desired amount of goods.
Subsidies	A negative tax; a tax that needs to be paid to the consumer or producer of a good or service for the consumption of a specific good or service.
Regulation	The government would impose a certain action to be taken by individuals in society.

### The other economic functions of a government

Providing a legal system	The government imposes legal rules to protect consumers and producers. These legal rules must be followed at all times and usually deals with property rights.
Promoting competition	Competition is a way to increase economic efficiency. Antitrust legislations passed by the governments to control monopolies are also a form of competition.
Providing public goods	A list of goods where rival consumption does not apply and can be consumed by many individuals simultaneously.

### Characteristics of public goods

Public goods are often indivisible	Public goods amounts are often intangible, and cannot be sold or produced in small units.
Public goods can be used by more and more people with no additional cost	People will receive no more opportunity cost once the public good is installed.
Additional users of public goods do not deprive others of any service upon the goods	Characteristic = definition
It is difficult to design collection system for a public good on the basis of how much individuals use it	It is nearly impossible to determine exactly how much a single individual is benefiting from a specific public good.

Ensuring Economywide Stability - The government is always responsible to stabilize economy by moderating ups and downs in overall business activity.

### The most important federal taxes

The federal personal income tax (progressive)	Accounts for 41% of all federal revenues. It is a progressive tax that is divided into several different income levels. There is no strong evidence that the tax system has never done much income distribution.	
The treatment capital gains (progressive)	The difference between buying and selling price of an asset; if there is profit then it is a capital gain and if there isn't, then it is a capital loss. These capital gains are currently being taxed at ordinary income taxes rates.	
The corporate income tax (progressive)	Double Taxation	Corporation profits are always taxed twice. They are taxed once as corporate profit then paid again as personal income.
	Who really pays?	Who should pay corporate income tax becomes a question of tax incidence. Some say consumers should pay the tax, others think stockholders should pay, and others think employees should pay by receiving lesser wages.
Social Security and unemployment taxes (progressive --> regressive)	Both are taxes on payroll. SS tax is imposed on employers and employees earning up to \$62,700 at 6.2%. Unemployment tax is imposed on all employees who earn more than \$1,500 and takes away 0.8% on their first \$7000 of annual wage.	

## Unemployment

See [Unemployment](#)

Increases during	Recessions, depressions
Decreases during	Wars

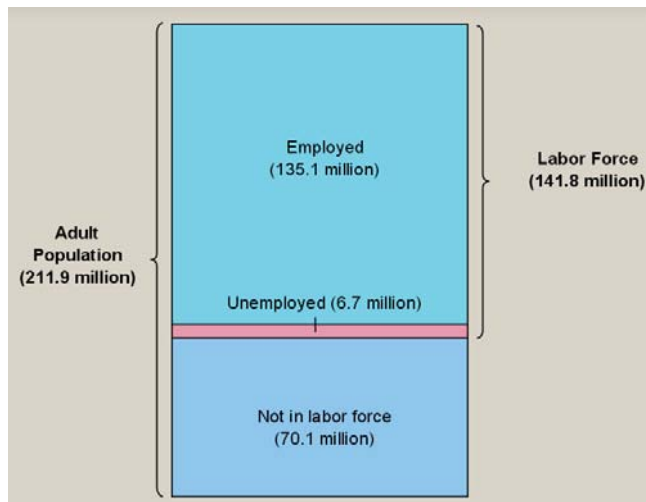
## Categories of Unemployment

See [Job Loser](#), [Reentrant](#), [Job Leaver](#), [New Entrant](#)

## Inaccurate Unemployment

Some people believe that the gov't unemployment rate is inaccurate.

1. There are a number of people who dropped out of the workforce and decided not to work. See Discouraged Workers.
2. Also there are some workers who work half-time when they're willing to work for full-time.
  - 2a. A counter to this is that those who overwork (50-60 hours a week) offset this imbalance in the market.



## Major Types of Unemployment

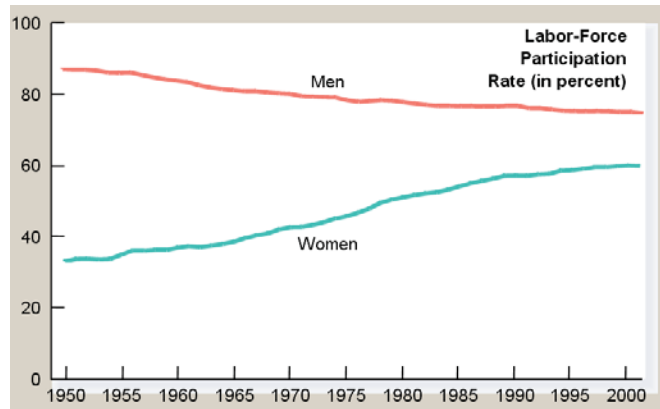
See [Frictional unemployment](#), [Seasonal unemployment](#), [Structural unemployment](#), [Cyclical unemployment](#)

See [Full employment](#)

## Labor Force Participation

See [Labor force participation rate](#)

1. Discouraged workers do not count as part of the Labor force.
2. Women increased from 29% in 1960 to 70% today.



## Inflation

See [Inflation](#), [Deflation](#)

**Purchasing Power (With a set amount of money)**

Inflation	Decrease buying power
Deflation	Increase buying power

## Price Indexes

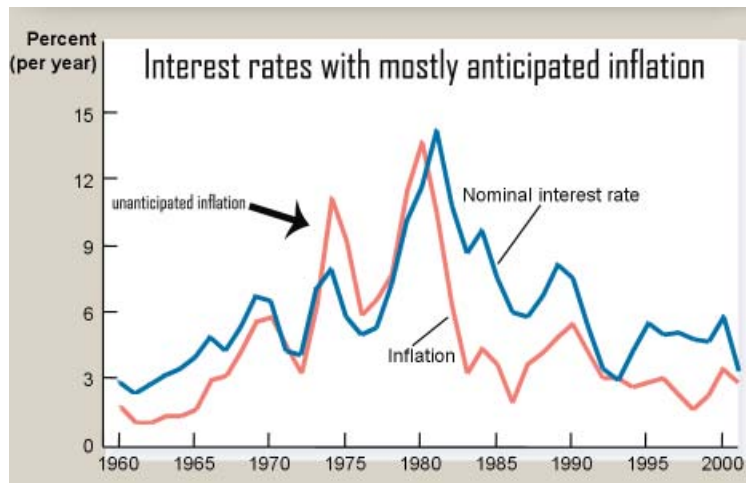
1. Consumer Price Index (CPI) created by the Bureau of Labor Statistics (BLS) identifies the market average price of total goods.
2. Producer price index (PPI) is split into three sectors.
  - a. Food materials
  - b. Production goods
  - c. Finished goods
  - d. But it can also be a general purpose index for non-retail markets.

Anticipated inflation	Inflation that people expect, thus not problematic
Unanticipated inflation	Inflation that was unexpected and unprepared. Creates problems since people are not prepared to cope with the inflation.

## Debtors vs. Creditors

Unanticipated Inflation	Good for debtors. Money paid back is depreciated so creditors lose even with interest. But if it was anticipated, creditors will just increase interest to cope with the inflation.
Deflation	Good for creditors. Money paid back is more valuable than when loaned out.

## Inflation Cont.

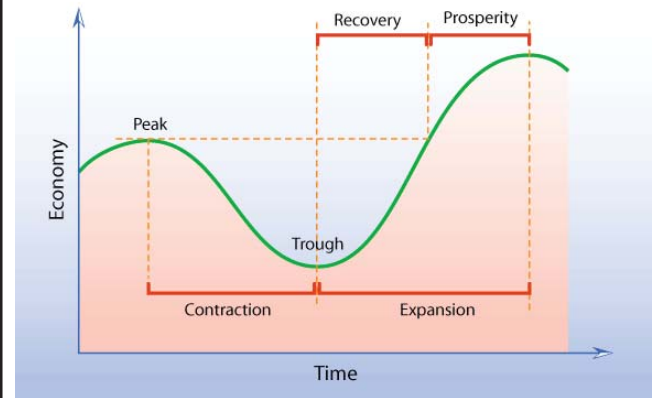


## Inflation and Unemployment

See [Business fluctuations](#)

Business works in a fluctuation.

1. Expansion (Recovery Prosperity)
2. Contraction
3. Recession (After fallen below growth trend)
4. Depression (Severe Recession)



## Vocabulary

### Chapter 5

Market failure	Occurs when the market fails to allocate resources effectively, preventing the price system from being economically efficient and free. Market failure may be caused by an externality or market power, and is a justification for government regulation of the economy.
Externality	Impact of one person/firm's action on the well-being of a bystander.
Effluent fee	"Pollution tax" where polluters essentially buy the right to pollute a certain amount into air/water.
Property rights	Rights of an owner to use and exchange his/her property.
Antitrust legislation	Laws that restrict formation of monopolies and regulate certain anticompetitive business practices.
Monopoly	A seller who greatly controls price of a good (and sometimes is the only seller). A monopoly has a significant amount of market power (ability of a single person/firm to unduly influence market prices).
Private goods	Goods that can be consumed by only one person at a time
Principle of rival consumption	Individuals are rivals in consuming private goods. One person's consumption reduces amount available for others to consume.
Public goods	Goods that can be consumed by many people simultaneously and belong to everyone (non-exclusive and not rival). Example: national defense, basic research, fighting poverty.
Free goods/common goods	Rival but non-exclusive goods. One person's consumption reduces another's use of the good. Example: water, fish.

<b>Vocabulary</b>	
<b>Chapter 5</b>	
Exclusion principle	No one can be excluded from the benefit of a public good, even if that person hasn't paid for it.
Tragedy of the Commons	Whenever something is commonly owned, it has to be overused or destroyed.
Free-rider problem	When a person receives the benefit of a good but avoids paying for it, assuming others will pay for their portion.
Merit good	Good deemed socially desirable through the political process. Example: Museums, plays, concerts
Demerit good	Good deemed socially undesirable through the political process. Example: Heroin, gambling, cocaine.
Transfer payments	Money payments from a government to an individual with no good/service expected in return. Example: welfare, Social Security.
Transfers in kind	Same as transfer payments, except payment in form of actual goods and services instead of money. Example: food stamps
Marginal tax rate	Percentage of additional dollars that must be paid in taxes. Marginal tax rate = $\frac{\text{change in taxes due}}{\text{change in taxable income}}$
Tax bracket	Specified level of taxable income to which a specific and unique marginal tax rate is applied.
Average tax rate	Proportion of total income paid in taxes. Average tax rate = $\frac{\text{total taxes due}}{\text{total taxable income}}$
Proportional taxation	A.k.a. the "flat rate tax." Everyone pays the same proportion of their income for taxes.
Progressive taxation	The marginal tax rate exceeds the average tax rate as income rises. Rich = pay more.
Regressive taxation	The marginal tax rate is less than the average tax rate as income rises. Poor = pay more.
Capital gain	Positive difference between the purchase price and sale price of an asset; net gain/profit.
Capital loss	Negative difference between the purchase price and the sale price of an asset; net loss.
Retained earnings	Earnings that a corporation saves (instead of distributing to stockholders) for investment in other productive activities
Tax incidence	Distribution of tax burdens among various groups in society.
<b>Chapter 7</b>	
<b>The Macroeconomy: Unemployment and Inflation</b>	
Unemployment	Total number of adults 16 and older who are both willing and able to work and actively seeking a job.
Labor force	Number of employed plus the number of unemployed. 16 and older restriction applies.
Stock	Quantity of something measured at a given point in time. Example: inventory of goods
Flow	Quantity measured per unit of time that occurs over time. Example: income per week, number individuals fired every month.
Job loser	Person whose employment was involuntarily terminated or who was laid off.
Reentrant	Person who used to work full time, left, and now is back looking for a job.
Job leaver	Person who quits their job voluntarily.
New entrant	Person who has never had a full-time job for 2+weeks but is now in the labor force.
Discouraged workers	People who stopped looking for jobs because they are convinced they won't find one; not counted in unemployment rates.

Vocabulary	
Chapter 7	
Labor force participation rate	Percentage of noninstitutionalized working-age individuals who are employed or seeking employment
Frictional unemployment	Applies to people who quit a job to find another, or a recent graduate seeking a first job.
Seasonal unemployment	Due to seasonal pattern of work in specific industries. Applies to people who only work certain times of the year and who KNOW they will lose their job at a certain point. Example: Christmas tree salesmen
Structural unemployment	Due to displacement by improved technology or diminished demand (fundamental changes in economy's structure). Example: Auto workers being laid off and replaced by more efficient robots
Cyclical unemployment	Due to downturn in the business cycle (recession/depression). Example: Auto workers being laid off because of poor car sales
Full employment	A.k.a. "natural unemployment rate" and currently about 5%; arbitrary level of unemployment that corresponds to "normal" friction in the labor market. Implies an equilibrium in the ever-shifting labor market.
Wait unemployment	Caused by wage rigidities resulting from minimum wage, unions, and other factors.
Inflation	Increase of average of all prices of goods/services. Each dollar is worth less overall.
Deflation	Decrease of average of all prices of good/services. Each dollar is worth more overall. Can also apply to individual goods and not necessarily the entire market.
Purchasing power	Value of money for buying goods and services.
Price index	Cost of today's market of goods expressed as a percentage of the cost of the same market basket during a base year. $\text{Price index} = \frac{\text{cost today of market basket}}{\text{cost of market basket in base year}} \times 100$
Base year	Year chosen as the point of reference for comparison of prices in other years.
Consumer Price Index (CPI):	Statistical measure of weighted average of prices of a specified set of goods and services purchased by wage earners in urban areas.
Producer Price Index (PPI):	Statistical measure of a weighted average of prices of commodities that firms purchase from other firms (company to company).
GDP deflator	Price index measuring changes in prices of all new goods/services produced in the economy.
Hyperinflation	Extremely rapid rise of the average of all prices in an economy.
Anticipated inflation	Inflation we believe will occur; when it does, we are in a situation of fully anticipated inflation.
Unanticipated inflation	Unexpected/surprise inflation rate, either higher or lower than anticipated rate.
Nominal rate of interest	Market rate of interest expressed in today's dollars.
Real rate of interest	Nominal rate of interest minus anticipated rate of inflation.
Cost-of-living adjustments (COLAs):	Clauses in contracts that automatically increase wage rates to account for increases in the price of living.
Repricing (menu) cost of inflation	Cost associated with recalculating prices and printing new price lists when there is inflation. The higher the inflation rate, the higher repricing cost of inflation.
Business fluctuations	Ups and downs in overall business activity due to changes in national income, employment, and price level.
Expansion	"Spending orgy" where overall business activity is rising at a more rapid rate than previously. Consumption, profit, production, factory orders, and overtime increase. Unemployment and vendor performance decrease.
Peak	Where demand is greater than supply. Prices rise, inflation increases, and people save more.
Contraction	Where pace of national economic activity slows down. Consumption, profit, number of orders, and overtime decreases. Unemployment increases.
Recession	Occurs if the contractionary phase lasts for a long time; period where rate of growth of business activity is consistently less than its long-term trend or negative.
Depression	An extremely severe recession. Unfortunately not "great" in any sense.