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COMMERCIAL READINGS

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Chapter One

Introduction to Management

Learning Objectives

- Define management and managers.
- Identify the different managerial levels and skills.
- Identify the functions of management.
- Define and understand the meaning of an organization.

To understand the field of management, one must comprehend the nature of organizations and the forces constraining managerial decisions making within them. Most experts agree that management can be understood as the activity that attempts to achieve goals with and through people.

<u>A manager</u> is someone who coordinates and oversees the work of other people so that organizational goals can be accomplished.

- He is the organizational member who tell others what to do and how to do it.
- A successful manager should be able to achieve the organizational goals efficiently and effectively.

Efficiency and Effectiveness:

<u>Efficiency</u> refers to getting the most output from the least amount of input.

Efficiency is often referred to as "*doing things right*" that is not wasting resources but using them in the best possible way.

<u>Effectiveness</u> refers to the achievement of desired goals.

It is described as "*doing the right thing*" *(See Fig. 1).*

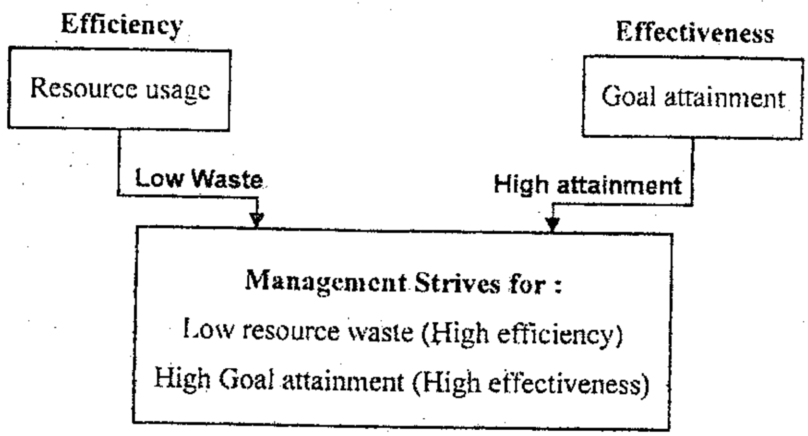

Figure (1) : Efficiency and Effectiveness in management

So we can define management as "**management** is coordinating and overseeing the work activities of others so that their activities are completed efficiently and effectively".

Managerial Levels:

How can we classify managers in organizations ? In traditionally structured organizations (which are said to be shaped like a pyramid because there are more employees at lower organizational levels than at upper organizational levels). Managers are often described as first-line, middle, and top.

- **Top Level Managers:**

Managers responsible for making organization wide decisions, establishing goals, and plans that affect the entire organization. They are at or near the upper levels of the organization structure.

- **Middle Managers:**

Managers between the first level and the top level of the organization who manage the work or first-line managers.

- **First-Line Managers (Lower Level Managers):**

Managers at the lowest level of the organization that manage the work of nonmanagerial employees who are involved with producing the organization's products and services *(See Figure 2)*.

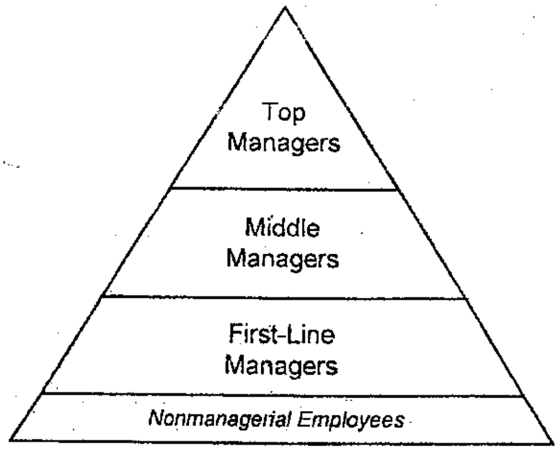

Figure (2) : Managerial Levels

Not all organizations get work done, by using this traditional pyramid form. However, some organizations have their work done through ever-changing teams of employees who move from one project to another, as work demands arise.

Managerial Roles:

Researchers concluded that what managers do can best be described by looking at 10 different but highly interrelated management roles they use at work. The term **management roles** refers to specific categories of managerial behavior. The 10 management roles are grouped around three main groups:

Interpersonal roles	Informational roles	Decisional roles
Managerial roles that involve people and other duties that are ceremonial and symbolic in nature.	Managerial roles that involve collecting, receiving, and disseminating information.	Managerial roles that involve around making choices.

The three **interpersonal roles** include figurehead, leader and liaison. The three **informational roles** are monitor, disseminator, and spokesperson. Finally the four **decisional roles** are entrepreneur, disturbance handler, resource allocator, and negotiator.

- **Managerial Skills:**

Managers need certain skills to perform the duties and activities associated with being a manager. Researchers concluded that managers need three basic skills in order to perform their tasks efficiently and effectively. These skills are:

- **Technical Skills:**

Job-specific knowledge and techniques needed to proficiency perform specific tasks. These skills are most important at the lower management levels.

- **Human Skills:**

The ability to work with other people individually and in a group. These skills are equally at all management levels.

• Conceptual Skills:

The ability to think and to conceptualize about abstract and complex situations. These skills are most important at the top management levels.

The following figure shows the relationship of these skills and the levels of management *(See figure 3).*

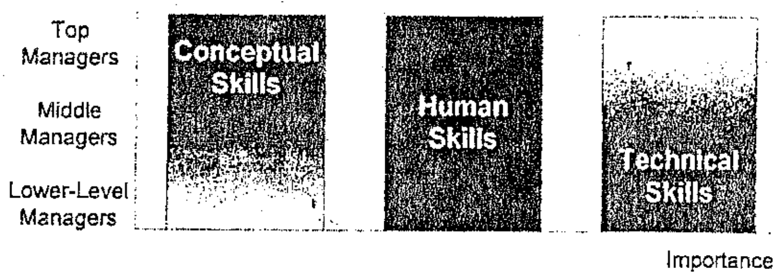

Figure (3) : Skills need at different managerial levels

• What is an Organization?

Managers work in organizations, but what is an organization?

An Organization is a deliberate arrangement of people to accomplish some specific purpose.

There are many examples of different kinds and types of organizations around us; (universities, schools, department stores, clubs, companies .... And many more). Organizations have three common characteristics;

First: each organization has a purpose, this purpose is expressed in terms of goal or set of goals that the organization hopes to accomplish.

Second: each organization is composed of people to perform the work that is necessary for the organization to achieve its goals.

Third: All organizations develop some specific structure so that their members can do their work that structure can be open and flexible or strict adherence structure *(See figure 4)*.

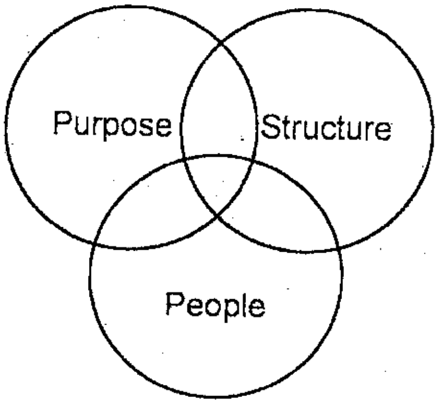

Figure (4): Characteristics of Organizations

The nature of organizations is changing now. Due to the changes in the world around them and specially technological changes have created an environment in which successful organization must adopt new ways of getting work done.

• Functions of Management:

According to the functions approach, managers perform certain activities as they efficiently and effectively coordinate the work of others.

What are these activities or functions?

Planning: The function that involves defining goals, establishing strategies for achieving those goals, and developing plans to integrate and coordinate activities.

Organizing: management function that involves arranging and structuring work to accomplish the organization's goals.

Leading: Management function that involves working with and through people to accomplish organizational goals.

Controlling: Management function that involves monitoring, comparing, and correcting work performance.

- **Why Study Management?**

You may be wondering why you need to study management. We can explain the value of studying management by looking at three main reasons. These reasons are:

1- **The universality of management** : The reality that management is needed in all types and sizes of organizations, at all organizational levels, in all organizational areas, and in organizations in all countries around the globe.

2- **The reality of work**: The reality of most of you, you will either manage or be managed.

3- **Rewards and challenges of being a manager**: There are many challenges. It can be a tough job. In addition, entail duties that are often more clerical. Managers often may have to deal with a variety of personalities and often have to make do with limited resources.

Exercises

1. What is a manager?

2. What is an Organization?

3. What is management?

4. Define efficiency and effectiveness.

5. Discuss briefly the three levels of management.

6. Discuss briefly the managerial skills managers need to perform more efficiently and effectively.

7. Discuss briefly the three role categories of management work.

A) True / False questions (Put (✓) or (✗)) :

1. A manager is a person in an organization who is responsible for the work performance of other people.

   True ☐ False ☐

2. An Organization is a collection of people working together to achieve a common purpose.

   True ☐ False ☐

3. Effectiveness is a measure of how well or how productively resources are used to achieve a goal.

   True ☐ False ☐

4. Organizations are effective when managers choose appropriate goals and then achieve them.

   True ☐ False ☐

5. First-line managers are involved with producing the organization's products and services.

True ☐ False ☐

6. Middle managers spend much time in planning.

True ☐ False ☐

7. Informational roles are roles that involves around making choices.

True ☐ False ☐

8. The interpersonal roles include being monitor, disseminator, and spokesperson.

True ☐ False ☐

9. Conceptual skills is the ability to work with other people individually and in a group.

True ☐ False ☐

10. An organization is a deliberate arrangement of people to accomplish some specific purpose.

True ☐ False ☐

B) Complete:

1. Efficiency refers to getting .... From the ....

2. Effectiveness refers to the ....

3. .... are managers between the first level and the top level of the organization.

4. .... Are , managers responsible for making organization wide decisions, establishing goals and plans.

5. Each organization has a .... That is expressed in terms of goals.

6. Managers may have to deal with a variety of .... and have to make do with ....

7. A successful manager should be able to achieve the organizational goals .... and ....

8. .... managerial roles that involve people and other duties that are ceremonial and symbolic in nature.

9. An organization is a .... of people to accomplish ....

10. Management strives for .... and ....

Chapter Two

Functions to Management

Learning Objectives

- Planning as a management function.
- Purpose of planning.
- The role of goals and plans in planning.
- Organizing as a management function.
- Organizational structure and organizational design.
- Controlling as a management function.

Introduction :

Managers perform certain activities as they efficiently and effectively coordinate the work of others.

What are these activities as functions?

Managerial activities can be described in terms of four functions. Those four functions are as follows: planning, organizing, leading, and controlling. These functions are shown in figure (5). All managers are responsible for those four mentioned functions. But, they vary somehow by their managerial level.

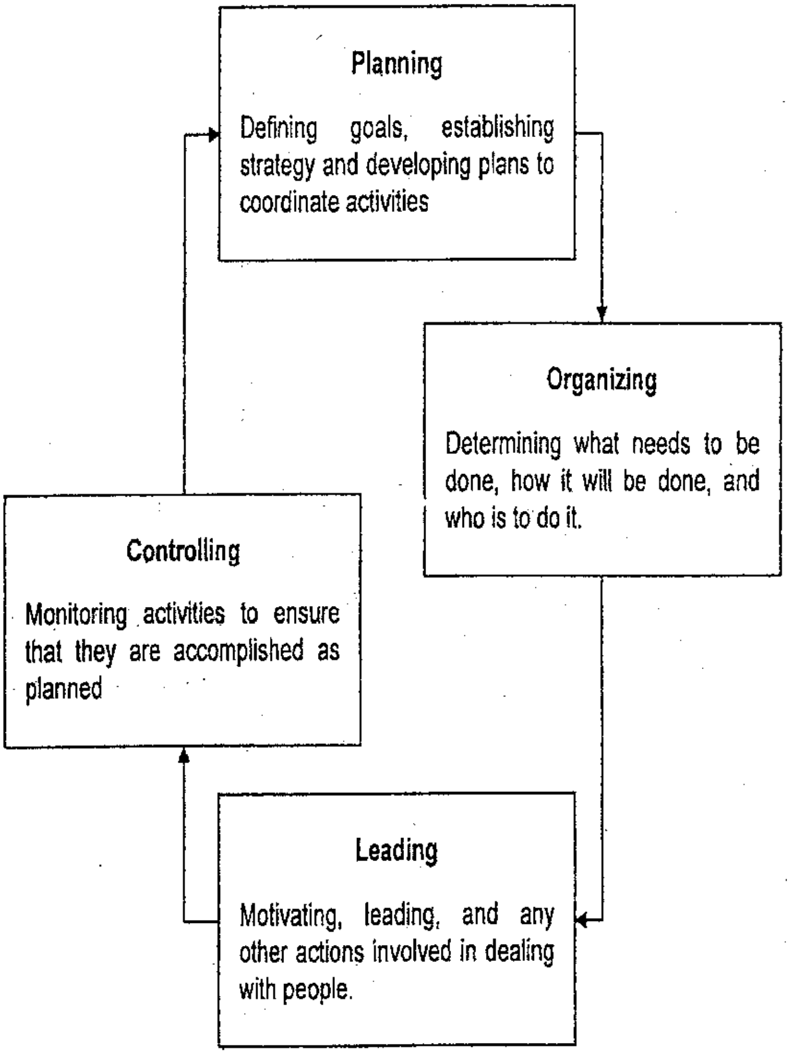

Figure (5) : Four functions of management

I) Planning Functions:

Planning involves defining the organization's goals, establishing an overall strategy for achieving those goals, and developing plans for organizational work activities. It's concerned with both ends (What's be done?) and means (How it's to be done?).

- **Purpose of Planning:**

We can identify at least four reasons why managers need to plan. First, planning provides direction to managers and nonmanagers alike. When employees know what their organization or work unit is trying to accomplish and what they must contribute to reach goals, they can coordinate their activities, cooperate with each other, and do what it takes to accomplish those goals. Without planning, departments and individuals might work at cross-purposes, preventing the organization from moving efficiently toward its goals.

Next, planning reduces uncertainty by forcing managers to look ahead, anticipate change, consider the

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Next, planning reduces uncertainty by forcing managers to look ahead, anticipate change, consider the impact of change, and develop appropriate responses. In addition, planning minimizes waste and redundancy. When work activities are coordinated around established plans, redundancy can be minimized.

Finally, planning establishes the goals or standards used in controlling. If we're unsure of what we're trying to accomplish, how can we determine whether we've actually done so? When managers plan, they develop goals and plans. When they control, they see whether the plans have been carried out and the goals met. Without planning, there would be no way to control.

The role of goals and plans in planning:

Planning involves two important elements: goals and plans. **Goals** are desired outcome for individuals, groups, or entire organizations. **Plans** are documents that outline how goals are going to be met. The plans usually include resources allocations, schedules, and other necessary actions to accomplish the goals.

We can describe goals in terms of whether they're real or stated. **Stated goals** are official statements of what an organization says, and what it wants its stakeholders to believe, it goals are. **Real goals** are those goals that an organization actually pursues, observe what organizational members are doing.

The most popular ways to describe organizational plans are by their breadth **(Strategic versus operational)**, time frame (**Short term versus long term**), specificity (**directional versus specific**), and frequency of use (**single use versus standing**).

Strategic planning are plans that apply to the entire organization, establish the organization's overall goals, and seek to position the organization in terms of its environment. **Operational plans** are plans that specify the details of how the overall goals are to be achieved.

Long-term plans are plans with a time frame beyond 3 years. **Short-term plans** are plans covering 1 year or less.

Specific Plans are plans that are clearly defined and that leave no room for interpretation. **Directional Plans** are plans that are flexible and that set out general guidelines.

Single-use plans are a one-time plans specifically designed to meet the needs of a unique situation. **Standing plans** are ongoing plans that provide guidance for activities performed repeatedly.

- **Characteristics of Well-designed Goals:**

A well-designed goal should be:

- Written in terms of outcomes rather than actions.

- Measurable and quantifiable.

- Clear as to a time frame.

- Challenging yet attainable.

- Written down.

- Communicated to all necessary organizational members.

II) Organizing Function:

Organizing is the process of assigning tasks, jobs, allocating resources, and arranging the coordinated activities of the employees to implement the plans that was set in the planning function.

What is an Organizational Structure?

Organizational Structure is the formal arrangement of jobs within an organization. When managers develop or change the structure, they're engaged in **organizational design**, a process that involves decisions about six key elements: **work specialization, departmentalization, chain of command, span of control, centralization** and **decentralization,** and **formalization.**

Work Specialization is dividing work activities into separate job tasks.

Departmentalization is the basis by which jobs are grouped together.

Chain of Command is the line of authority extending from upper organizational levels to the lowest levels, which clarify who reports to whom.

Authority is the rights inherent in a managerial position to tell people what to do and to expect them to do it.

Responsibility is the obligation to perform any assigned duties.

Unity of Command is the management principle that each person should report to only one manager.

Span of Control is the number of employees a manager can efficiently and effectively manage.

Centralization is the degree to which decision making is concentrated at upper levels of the organization. **Decentralization** is the degree to which lower-level employees provide input or actually make decisions.

Formalization is how standardized an organization's jobs are and the extent to which employee behavior is guided by rules and procedures.

III) Leading Function:

Leading is the management function that involves working with and through people to accomplish organizational goals. When managers motivate subordinates, help resolve work group conflicts, influence individuals or teams as they work, select the most effective communication channel, or deal in any way with employee behavior issues, they are leading.

IV) Controlling Function:

Controlling is the process of monitoring, comparing, and correcting work performance. All managers should be involved in the control function even if their units are performing as planned.

The controlling function is responsible for making sure that the right things are happening in the right time and in the right way. It is also responsible for ensuring that the performance and contributions of the employees are consistent with the organizational plans and objectives. It is also responsible for ensuring that the employees of the organization are complying with the organizational policies and procedures.

- **Steps in the Control Process:**

The control process is a three-step process: measuring actual performance, comparing actual performance against a standard, and taking managerial action to correct deviations or inadequate standards, Figure (6) shows these three steps.

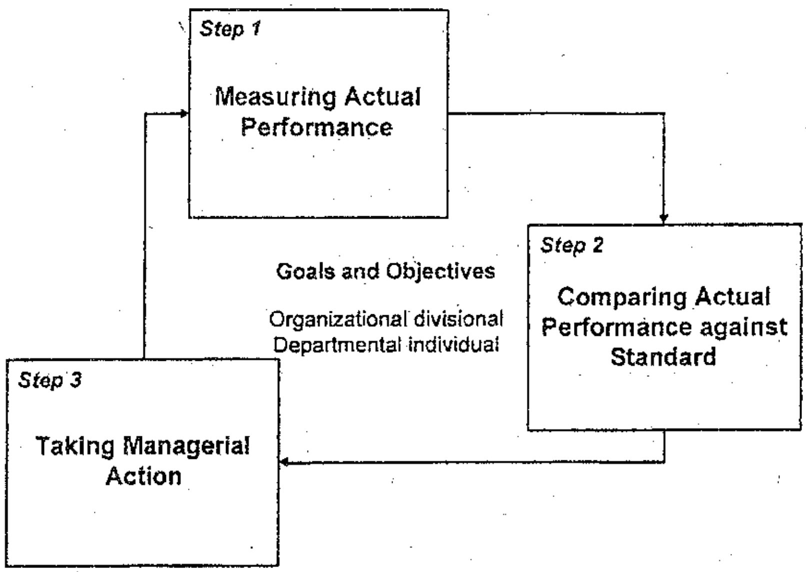

Figure (6) : Steps of control process

Step 1 : Measuring:

To determine what actual performance is, a manager must acquire information about it. The first step in control is measuring. Managers should know how they measure and what they measure.

Step 2 : Comparing:

The comparing step determines the degree of variation between actual performance and the standard or desired performance. This comparing step determines the need to take a corrective action. This could be illustrated in the following equation:

Need for action = desired performance – actual performance

Step 3 : Taking managerial action:

The final step in the control process is taking managerial action. Managers can choose among three possible courses of actions. They can do nothing; they can correct the actual performance; or they can revise the standards.

Exercises

1. Briefly discuss planning as a management function.

2. Why do managers plan ?

3. Briefly discuss the role of goals and plans in planning.

4. Define organizing as a management function.

5. What is organizational structure?

6. Define control as a management function.

7. Briefly discuss the three steps in the control process.

True / False questions (Put (✓) or (✗)) :

1. Planning is concerned with both ends and means.

True ☐ False ☐

2. A well-designed goals should only be written in terms of outcomes.

True ☐ False ☐

3. Plans are desired outcomes for individuals, groups, or entire organization.

True ☐ False ☐

4. Work specialization is dividing work activities into separate job tasks.

True ☐ False ☐

5. Responsibility is the rights inherent in a managerial position to tell people what to do and expect them to do it.

True ☐ False ☐

6. Chain of command is the management principle that each person should reports to only one manager.

True ☐ False ☐

7. Centralization is the degree to which lower-level employees provide inputs or actually make decisions.

True ☐ False ☐

8. Controlling is the process of monitoring performance and taking action to ensure desired results.

True ☐ False ☐

9. Strategic plans are plans that specify the details of how the overall goals are to be achieved.

True ☐ False ☐

10. Organizing is the management function that involves working with and through people to accomplish organizational goals.

True ☐ False ☐

Choose the correct answer:

1. Monitoring activities to ensure that they are accomplished as planned is:
   a. Planning. b. Organizing
   c. Leading d. Controlling

2. Official statements of what an organization says, and what it wants its stakeholders to believe its goals are is:
   a. Real goals b. Strategic plans
   c. Stated plans d. Operational plans

3. Flexible plans that set out general guidelines are:
   a. Directional plans. b. Single-use plans
   c. Specific plans d. Standing plans

4. Which statement about controlling process is false:
   a. Measuring actual performance
   b. Comparing actual performance against standard
   c. Taking managerial action

d. Determining what to be done and how it will be done

Chapter Three

Decision-Making

The Essence of Management

Learning Objectives

- Identify decision and decision-making steps.
- Understand how decision-making is part of all managerial functions.
- Identify the relationship between the type of decision and the related problem.
- Understand decision-making conditions.
- Identify decision-making styles.
- Understand the errors and biases in decision-making.

A decision : is a choice from two or more alternatives.

Managers at all levels and in all areas of organizations make decisions.

Top-Level Managers make decisions about their organization's goals, where to locate manufacturing facilities, what new markets to move into and what products or services to offer

Middle- and lower-level managers make decisions about production schedules, quality problems, pay raises and employee discipline,

All organizational members make decisions that affect their jobs and the organization they work for.

How do they make those decisions ?

Decision making processes:

The decision-making process is a set of eight steps that begins with the existence of a problem and ends with evaluating decision effectiveness.

Steps of Decision Making:

Step 1 : Identifying a problem:

"**A problem** "is a discrepancy between an existing and a desired situation".

- In the real world the majority of problems are not so obvious, and managers have to be very cautious not to confuse problems with the symptoms of the problem.

- Identifying problems is not simple or trivial, managers can be better at it if they understand the three characteristics of problem: (1) being aware of them, (2) being under pressure to act, (3) and having the resources needed to take action.

Step 2 : Identifying decision Criteria :

Managers must determine what's relevant in making a decision, and identify criteria related to the situation these criteria might include price, quality, convenience, time.... Etc.

Step 3 : Allocating weights to the criteria :

When managers identify relevant criteria they must weight the items in order to give them the correct priority in the decision.

Step 4 : Developing alternatives :

This step requires the decision maker to list viable alternatives that could resolve the problem.

This is the step where a decision maker wants to be creative in coming up with possible alternatives.

Step 5 : Analyzing Alternatives :

Once the alternatives have been identified, a decision maker must analyze each one by evaluating it against the criteria established in step 2 and 3, from this comparison, the strength and weaknesses of each alternative become evident.

Step 6 : Selecting an alternative :

Once all the criteria in the decision have been weighted and viable alternatives analyzed, a manager will choose the alternative that have the highest total weight.

Step 7 : Implementing the alternative :

This step is concerned with putting the decision into action.

We do know that if the people who must implement a decision participate in the process, they're more likely to support the outcome, than if you just tell them what to do.

Step 8 : Evaluating Decision Effectiveness :

The last step involves evaluating the outcome or result of the decision to see if the problem has been solved, if not then the manager would need to assess what went wrong, this is done through Feedback process which provides decision makers with information that help them to start a new decision cycle.

Decision Making : is part of all four managerial functions, that's why we say that it is the essence of management (See exhibit 1)

Planning : • What are the long-term objectives? • What is the best strategy to achieve those objectives ? • What should the organization's short-term objectives be ?	**Organizing :** • How much centralization should be ? • How should jobs be designed? • How many employees should have report directly to one manager ?
Leading : • How to motivate employees ? • What is the most effective leadership style ? • When is the right time to stimulate conflict ?	**Controlling** • What activities need to be controlled ? • How should those activities be controlled ? • When is a performance deviation significant ?

Exhibit (1) : Decision –making and managerial functions.

Programmed and Non-Programmed Decisions :

The type of decision depends on the nature of the related problem, some problems are straightforward, familiar, and easily defined, such problems are called **Structured Problems.**

For example, a server in a restaurant spills a drink on a customer's dress. The manager has an annoyed customer and something must be done.

Because drinks are frequently spilled, there's some standardized routine for handling the problem.

For instance: the manager may offer the customer to have her dress cleaned at the restaurant's expense. This is what we call :

A Programmed decision *: "It is a repetitive decision that can be handled by a routine approach."*

Because the problem is structured the manager doesn't have to go through the decision-making process mentioned earlier.

However not all problems managers face are structured and solvable by a programmed decision, Many organizational situations involve **Unstructured Problems** which are problems that are new or unusual whether to build a new facility in country (X) is an example of an unstructured problem.

In a situation like that managers must rely on **non-programmed decision** in order to develop the appropriate solution.

So non-programmed decision **is a unique decision that requires a customer-made solutions.**

Decision-Making and Rationality :

We assume that managers' decision making is going to be **rational** so what is meant by rationality ?

Rational decision making is : A decision-making behavior where choices are consistent and value-maximizing within specified constraints.

Assumptions of Rationality :

- The problem is clear and unambiguous.
- A single, well-defined goal is to be achieved.
- All alternatives are known.
- Preferences are clear, constant, and stable.
- No time or cost constraints exist.
- Final choice will maximize payoff.

In reality most decisions that managers face don't meet these assumptions of rationality, so they make decisions under assumption of **bounded rationality**.

Bounded Rationality is a decision-making behavior that's rational, but limited by an individual's ability to process information.

Decision-Making Conditions :

There are three conditions managers may face as they make decisions:

A) **Certainty Condition:** A situation in which a manger can make accurate decisions because all outcomes are known. Certainty is the ideal situation for making decisions, however in reality such a thing seldom exists.

B) **Risk Conditions:** A situation in which the decision maker is able to estimate the likelihood of certain outcomes. The ability to assign probabilities may be the result of post personal experience or secondary information. Under risk, managers have historical data that lets them assign probabilities to different alternatives.

C) **Uncertainty Conditions:** A situation in which a decision maker has neither certainty nor reasonable probability estimates available. Under these conditions, the choice of alternative is influenced by the limited amount of information available to the decision maker and also by his psychological orientation (whether he is optimistic, pessimist).

In reality managers usually face a combination of the three previous situations, that simply means that the environment the organization work within is continuously changing.

Decision-Making Styles:

Managers' decision-making styles differ along two dimensions:

The first is an individual's ***way of thinking***. Some people are more rational and logical in the way they process information. A rational type of people or managers are those who look at information in order and make sure that it's logical and consistent before making a decision.

Others tend to be creative and intuitive, they usually are comfortable to look at the situation as a whole.

The second dimension is an individual's ***tolerance for ambiguity***.

Some people have little tolerance to ambiguity they need to minimize it through the way they structure the information, they usually need a consistent structure to be able to make any decision. On the other hand, some managers can tolerate high levels of ambiguity and are able to process many thoughts at the same time.

When taking into consideration these two dimensions we get four decision-making styles.

- **Direct Style:** They have low tolerance for ambiguity and are rational in their way of thinking, they are logical, make fast decision and focus on the short run, their speed in making decision often result in making decisions with minimal information and assessing few alternatives.

- **Analytical Style:** They have much greater tolerance for ambiguity than the directive style. They usually want more information before making any decision and consider more alternatives. They are careful decision makers with the ability to adopt or cope with unique situations.

- **Conceptual Style:** They tend to be very broad in their outlook at many alternatives. They focus on the long run and are very good at finding creative solutions to problems.

- **Behavioral Style:** They work well with others, and are concerned about the achievements of those around them, moreover they are receptive to suggestions, and often use settings to communicate (as shown in Fig. 1)

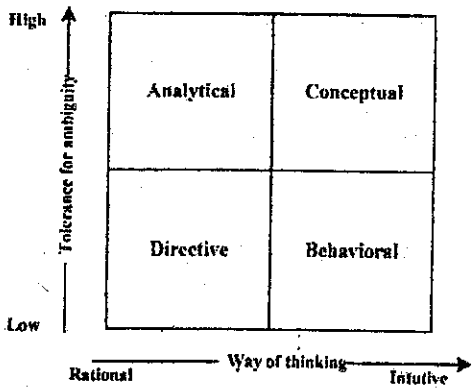

Figure (1) : Decision-Making Styles

Decision-Making Errors and Biases :

When managers make decisions, they sometimes make a common errors or biases such as :

1) **Overconfidence**: This happens when managers tend to think they know more than they do, or when they hold unrealistically positive views of themselves.

2) **Self Serving:** When managers are quick to take credit for their successes and blame failure on outside factors.

3) **Hindsight**: The tendency for decision makers to falsely believe that they would have accurately predicted the outcome of an event when that outcome is actually known.

4) **Selective Perception Bias**: When decision makers selectively organize and interpret events based on their biased perceptions.

5) **Confirmation Bias**: When decision makers seek out information that reaffirms their past choices and discount information that contradicts past judgments.

6) **Framing Bias**: When decision makers select and highlight certain aspects of a situation while excluding others.

Decision-Making for Today's World:

Today's business world revolves around making decisions, often risky ones usually with incomplete or inadequate information, and under intense time pressure, most managers are making one decision after another, the serious issue here is the bad decisions cost millions sometimes even billions.

What do managers need to make effective decisions in today's fast-moving world ?

- **Understand cultural differences:** Managers have to consider values, beliefs, attitudes and behavioral patterns of the people involved in the decision-making process.

- **Know when it's time to quit:** When it's evident that a decision isn't working, managers should not be afraid to pull the plug, most off the time this is not the case, people would not accept that their decision was bad. Today, dynamic environment, this type of thinking simply won't work.

Do you use an effective decision-making process ?

Experts say an effective decision-making process has six characteristics:

1- It focuses on what's important.

2- It's logical and consistent.

3- It acknowledge both subjective and objective thinking, and blends analytical with intuitive thinking.

4- It requires only as much information and analysis as necessary to resolve a particular dilemma.

5- It encourages and guides the gathering of relevant information and informed opinion.

6- It's straight forward, reliable, easy to use and flexible.

Exercises

C) True / False questions (Put (✓) or (✗)) :

1. Only top level managers make decisions ( )
2. Decision-making process is the process of analyzing problems and implement solutions ( )
3. In the real world, the majority of problems are not so obvious ( )
4. Decision making is part of all managerial functions ( )
5. The type of decision depends on the nature of the manager ( )
6. Un-programmed decision is a decision that can be handled by a routine approach ( )
7. Directive style of decision making is when managers have great tolerance for ambiguity ( )
8. Self-serving happens when managers tend to think they know more than they do ( )

9. When the decision makers select and highlight certain aspects of a situation while excluding others this is called framing bias ( )

10. Certainty condition is a situation which the decision maker is able to estimate the likelihood of certain outcomes ( )

D) Define the following terms :

1. Certainty condition...

   ....

   ....

2. Risk condition. ....

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3. Uncertainty condition...

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4. Over confidence. ....

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5. Self-serving. ....

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6. Selective perception bias...

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7. Framing bias...

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8. Confirmation bias..

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9. A decision. ....

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10. Programmed decision...

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11. Structured problems. ....

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12. Rationality. ....

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13. Bounded rationality. ....

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14. Conceptual style. ....

....

....

E) Complete :

1. Manager's decision making styles differ along two dimensions. The first is .... and the second is ....

2. .... and .... and .... are three main decision-making styles.

3. .... and .... and .... are three characteristics of effective decision-making.

4. .... and .... Are two assumptions of rationality.

5. A problem is a discrepancy between .... and ....

6. Uncertainty condition is ....

7. Analytical style ....

8. Hindsight is ....

9. In order for managers to make effective decisions in today's fast-moving world they have to ....

10. .... and .... and .... are three characteristics of effective decision-making process.

Chapter Four

Leadership

Learning Objectives

- Understand the nature of leadership.
- Identify leadership traits.
- Understand latest views of leadership.
- Understand the importance of empowerment in leadership.

What is leadership and who are leaders ?

We know from the previous chapter that management encompasses four main functions planning, organizing, leading and controlling;

Leading is ***one*** of the four management functions it involves working ***with*** and through people to accomplish organizational goals.

Leadership is what ***leaders*** do, it is the process of influencing and motivating a group of people to achieve desired goals.

Are all managers Leaders? The answer is yes, since leading is one of the management functions, so ideally, all managers ***should*** be leaders; when they ***motivate*** subordinates, ***help resolve*** work group conflict, ***influence*** individuals or teams as they work, ***select the*** most effective communication channel or, ***deal*** in any way with employee behavioral issues, they are ***leading***.

The important issue here is, how could managers be good leaders?

The answer simply by developing and enhancing all the skills needed in all areas related to leadership process.

Leadership Theories :

Leadership as a topic have been researched a lot, and most of that research has been aimed at answering the question: ***"How can we define an effective leader?"***

Many leadership theories have emerged ever since, only two of them will be discussed briefly in this chapter.

Traits Theory and Behavioral Theory :

Traits Theory :

Traits are characteristics that might be used to differentiate leaders from non-leaders, people who possess those traits are more likely to behave in predictable way in different situations.

Some of the traits studied included :

- Physical stature.
- Appearance.
- Social class.
- Emotional stability.
- Fluency of speech.
- Sociability and self awareness.

The previous traits are associated with the person not the process, other traits associated with the leadership process are:

- Drive.
- Desire to lead.
- Honesty and integrity.
- Self confidence.
- Intelligence.
- Job-relevant knowledge.
- Extraversion.

Despite the best efforts of researchers, it proved impossible to identify one set of traits that would always differentiate leaders from non-leaders.

Behavioral Theory:

Theories that identified behaviors that differentiated effective leaders from ineffective ones. Behavioral theories rely mainly on the way leaders behaves that would make them effective.

In that sense a leader may be :

1) **Autocratic Style:** a leader who tends to centralize authority, dictates work methods and limits employee participation.

2) **Democratic Style:** A leader who tends to involve employees in decision making, delegate authority and encourage participation in deciding work methods and goals.

3) **Laissez-Faire Style:** A leader gives employees a complete freedom to make decisions and complete the work the way they decide.

4) **Consideration Style:** A leader bing considerate of follower's ideas and feelings.

5) **Employee-Oriented:** A leader emphasizes interpersonal relationships and takes care of employees needs.

Latest Views of Leadership:

Three of the latest approaches to leadership will be discussed in this chapter:

1) Transformational – Transactional Leadership:

Transformational Leaders: are leaders who stimulate and inspire followers to achieve extraordinary outcomes.

They change followers' awareness of issues by helping them to look at old problems in new ways.

Transactional Leaders : are leaders that lead primarily by using social exchanges (or transactions). They motivate followers to work towards established goals by exchanging rewards for their productivity.

2) Charismatic-Visionary Leadership:

Charismatic Leader: is an enthusiastic, self-confident leader whose personality and actions influence people to behave in certain ways.

Visionary Leader: A leader with the ability to create and articulate a realistic, credible and attractive vision of the future that improves upon the current situation.

Once the vision is identified a visionary leader **must have three qualities** that are related to effectiveness in his visionary role.

a) The ability to express the vision to others by making it clear in terms of required goals and actions.

b) The ability to express the vision not just verbally but through behavior which requires behaving in ways that continually convey and reinforce the vision.

c) The ability to extend or apply the vision to different leadership contexts that means that the vision has to be meaningful to the people.

Leadership and Employee Empowerment:

Empowerment is increasing the decision-making discretions of workers, it is also the process of pushing authority down to the lowest managerial levels.

Today more and more companies are empowering employees, in order to make them feel confident, and powerful.

It is important for companies now to delegate authority for the following reasons:

1- The need for quick decisions by the people who are most knowledgeable about the issues- after those at lower organizational levels. If organizations are to successfully compete in a dynamic global economy.

2- Organizational downsizings left many managers with larger spans of control. In order to cope with the increased work demands, they had to empower their people.

3- Empowerment will increase employee loyalty towards their organizations.

4- Empowerment will develop the skills of decision-making at all managerial levels.

5- Empowerment also will create a very healthy and positive work environment, this will be due to the high morale and confidence it creates among employees.

6- It will increase the quality of the work done.

Despite all the positive consequences of empowerment, it is not appropriate for all circumstances, when employees have the knowledge, skills, and experience to do their jobs completely and when they seek anatomy and possess an internal locus control, it can be very beneficial.

Team Leadership:

Because leadership is increasingly taking place within a team, and more organizations are using work teams. The role of team leader has become increasingly important and vital. It is a different role from the traditional one.

Many leaders are not qualified to lead employee teams, for that reason the challenge for many managers today is learning how to become an **effective team leader**.

Managers have to learn different kinds of skills such as:

- Having the patience to share information.
- Being able to trust others and give up authority.
- Understanding when to intervene.
- Mastering the difficult balancing act of knowing when to leave the team alone and when to get involved.

Providing Ethical Leadership:

Organizations want and need leaders who are ethical, ethics are part of leadership in many ways:

- A leader should not try to use his power for self-serving purposes, but to serve others.
- A leader should not abuse his power by giving himself large salaries and bonuses while, at the same time seek to cut costs by laying off employees.
- A leader should try to provide moral leadership, not achieving organization goals by any **means**.

Leadership and Power:

Where do leaders get their power (their capacity to influence work actions) ?

Five sources of leader power have been identified these sources are:

1- **Legitimate Power:** The power a leader has as a result of his or her position in the organization (Formal Position).

2- **Coercive Power:** is the power a leader has because of his ability to punish and control. Followers react to this power out of fear of the negative result that might occur, if they did not comply.

3- **Reward Power:** is the power leader has because of his other ability to give positive benefits or rewards for desired performance. These rewards can be anything employees value, it can be money, appraisals promotions, ...

4- **Expert Power:** A power based on expertise, special skills or knowledge. Managers have become increasingly dependent on staff "experts" to achieve the organization's goals. If an employee has skills, knowledge, or expertise that is critical to the operation of work group, that person's expert power is enhanced.

5- **Referent Power:** Power a leader has due to his or her personal traits, it is usually possessed by leaders with special admirable characteristics. Followers or employees want always to please the person so they obey.

Leadership and Learning Organization:

Organizations in the twenty-first century must be able to **learn** and **respond** to changes quickly, these organizations will be led by managers who can effectively challenge **conventional concept**, manage the organization's knowledge base, and make needed changes. In other words they need to be learning organizations, that is, **ones that** have developed the capacity to **continuously learn**, adopt and change.

Part of manager's responsibility today is to create learning capabilities throughout the organization from lowest level to highest level, and in all areas. In order to do so they have to be a very good leaders on one hand, and do the following on the other.

a) Accumulate knowledge to have a powerful knowledge base.

b) Manage the base effectively and efficiently, so it is not just conventional management but a knowledge management.

Knowledge Management means cultivating a learning **culture** where organizational members and at all levels, systematically gather knowledge, and share it with others, in order to achieve better performance.

Motivating employees to do so, and make them feel the importance of it to their future in the organization is the responsibility of managers, who in that sense need to be learning leaders themselves.

Exercise

A) True / False questions (Put (✓) or (✗)) :

1. Leading is one of the four management functions ( )
2. All managers are leaders ( )
3. Physical stature and appearance are traits associated with the leading process ( )
4. A leader who stimulated and inspires followers to achieve extraordinary outcomes is called transactional leader ( )
5. A leader whose personality and actions influence people to behave in a certain ways is a visionary leader ( )
6. A effective team leader must have patience to share information ( )
7. The power a leader has as result of his position in the organization is legitimate power ( )
8. Referent power is the power a leader has because off his ability to punish and control ( )

9. Theory that identifies behaviors that differentiate effective leaders from ineffective leaders is traits theory ( )

10. A leader who trends to involve employees in decision-making and delegate authority is called autocratic style.

B) Define the following:

1. Leading is ....
   ....
   while leadership is..
   ....

2. Leadership traits are. ....
   and ....
   and ....

3. Transformational leadership is ....
   ....
   while transactional leadership is ....

4. Charismatic leadership is . ...
   ....
   ....

5. Visionary leadership is ....
....
....

6. Legitimate power is ....
....
....

7. Reward power is ....
....
....

8. Expert power is . ...
....
....

9. Referent power is . ...
....
....

10. Coercive power is ....
....
....

C) Answer the following questions :

1. Team leadership requires different kinds of skills, mention two of them.

....

....

....

....

2. In what way ethics are part of leadership (mention two ways)?

....

....

....

....

3. Why is employee empowerment important ?

....

....

....

....

4. Knowledge Management means ....

....

....

5. To create learning organizations managers have to:

   a. ....

   b. ....

Chapter Five

Team Work In Organization

Teamwork

Why Are Teams So Popular?

- Increased competition forced restructuring for efficiency and effectiveness
- Teams:
  Better utilize employee talents
  Are more flexible and responsive to change
  Democratize and motivate

Over the last decade we have seen the use of teams grow exponentially in organizations. There are a number of reasons why this is true. Teams can enhance the use of employee talents and tend to be more flexible and responsive to change. Teams can help to keep employees engaged in their work and increase their participation in decision making, thus increasing their motivation. However, teams are not always effective, and so it is important to take a look at how to deploy teams effectively.

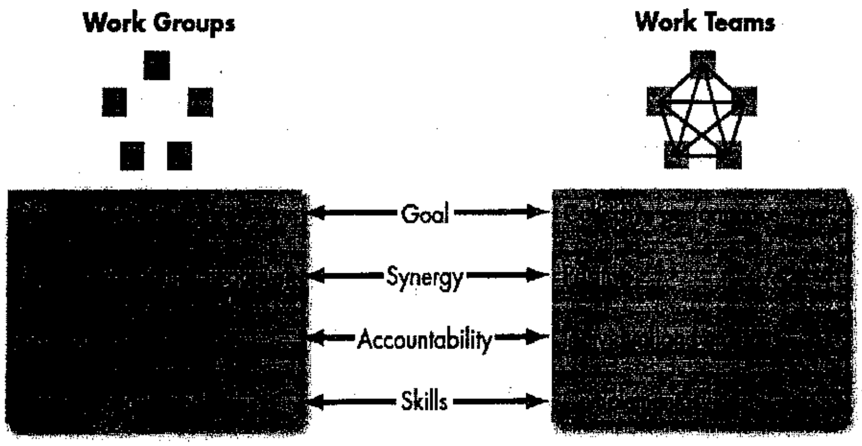
Groups and Teams

- Work group: Interacts primarily to share information and to make decisions to help one another perform within each member's area of responsibility

❖ Work team:Generates positive synergy through coordinated effort; individual efforts result in a level of performance that is greater than the sum of those individual inputs

Groups and teams are not the same thing. A group is primarily there to share information and make decisions, no real joint effort is required. A team works in a more coordinated effort to achieve a goal.

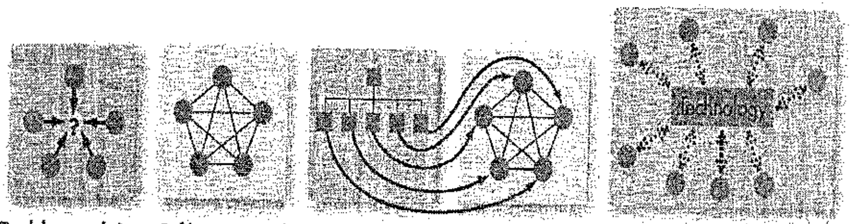
Comparing Work Groups and Work Teams



Work groups and work teams differ on their goals, level of synergy, accountability and skills. Their function is different. Work groups share information while work teams work together for a collective performance. The synergy in groups is neutral whereas work teams have a positive synergy. Accountability can be individual in both but it is more often mutual in teams. The skills in a group can be varied whereas the skills on a team need to be complementary.

Four Types of Teams

There are four main types of teams: problem-solving, self-managed, cross-functional and virtual.



Problem-solving Self-managed Cross-functional Virtual

Problem-Solving Teams

- Members often from the same department
- Share ideas or suggest improvements
- Rarely given authority to unilaterally implement any of their suggested actions

Problem-solving teams are a very popular method used in many organizations. Typically this type of team meets for a few hours each week to solve a particular problem.

Self-Managed Work Teams

- 10-15 employees in highly-related jobs
- Team takes on supervisory responsibilities:
  Work planning and scheduling
  Assigning tasks

Operating decisions/actions
Working with customers

- May select and evaluate members
- Effectiveness is dependent on the situation

Self-managed work teams are comprised of a group of people who perform highly related or interdependent jobs, and take on the responsibilities of their former supervisors.

The effectiveness of this type of group greatly depends on the situation and the goals of the group.

Cross-Functional Teams

- Members from same level, but diverse areas within and between organizations
- Exchange information
- Develop new ideas and solve problems
- Coordinate complex projects
- Development may be time-consuming due to complexity and diversity

Cross-functional teams gather workers from many different work areas to come together to accomplish a task that needs to utilize multiple perspectives.

This type of group is good at developing new ideas and solving problems or coordinating complex projects. Given that their tasks are normally complex and diverse it may take some time for the group to develop into an effective and productive team.

Virtual Teams

- Computer technology ties dispersed team together
- Special challenges
  Less social rapport
  More task-oriented
  Members less satisfied

Virtual teams are increasing in their use. This type of team uses computer technology to bring people together to achieve a common goal. Typically these types of teams get right to work with little socializing, but need to overcome time and space constraints to accomplish the task. In order to be effective, virtual teams need to find ways to establish trust among the members, have close monitoring and results need to be publicized.

Key Components of Effective Teams

- ✓ Context
- ✓ Composition
- ✓ Process

The three key components of effective teams are context, composition, and process variables. Next we will look at each one of these components individually.

Contextual Components

- ❖ Presence of adequate resources
- ❖ Effective leadership and structure
- ❖ Climate of trust in the team
- ❖ Performance evaluation and reward system that reflects team contributions

Understanding the context is important for teams to be effective. The team needs the right resources to do the job well. Members also need effective leadership and structure to facilitate a process that will help the team succeed. It is important that teams fit together so they can successfully utilize the individual skills present in the group. Trust is also an important aspect of teams and essential for group cohesiveness as we have seen previously. Finally, the reward system needs to be equitable and based on team contributions.

Team Composition Components

- ❖ Abilities of members
  Technical expertise
  Problem-solving
  Interpersonal
- ❖ Personality
  Conscientious and open-minded
- ❖ Allocation of roles
- ❖ Diversity of members

Cultural differences

- Size of teams
- Member preferences

A manager must pay close attention to how a team is put together to assure group cohesiveness and effectiveness. Each member should be selected based on the type of skills and abilities needed to accomplish the task at hand. However, abilities are not the only characteristic that managers need to pay attention to; personality is also important so that the team can bond and form trust.

Process Components

- ✓ Common plan and purpose
- ✓ Specific goals
- ✓ Team efficacy
- ✓ Common mental models
- ✓ Low levels of conflict
- ✓ Minimized social loafing

A team's processes can have a big impact on its effectiveness. Teams must have a strong commitment to a common purpose that provides direction, but yet incorporates reflexivity so that plans can be adjusted if necessary. The goals of the team must be set up so they are specific, measurable, realistic yet challenging in order to keep the team members engaged.

Turning Individuals into Team Players

- ❖ Selection: Need employees who have the interpersonal as well as technical skills
- ❖ Training: Workshops on problem-solving, communications, negotiation, conflict-management and coaching skills
- ❖ Rewards: Encourage cooperative efforts rather than individual ones

Not all employees are team players. In the United States for example, our individualistic culture can create challenges for teams. In fact, it is not always possible to turn everyone into a team player. When formulating teams it is important to carefully select the right employees who are more attuned to team work. Managers should also carefully craft a reward system to encourage cooperative efforts rather competitive ones. In addition, while managers need to recognize individual contributions to the team, they also need to discourage social loafing.

Teams Aren't Always the Answer: Three Tests

- ❖ Complexity of Work: Can the work be done better by more than one person?
- ❖ Common Purpose: Does the work create a common purpose or set of goals for the people in the group that is more than the aggregate of individual goals?
- ❖ Interdependence: Are the members of the group interdependent?

We have looked at a number of ways to make teams effective and to encourage good team work. However, teams are not always the answer. There are three questions to ask to assess whether teams fit the situation.

1. Is the work complex and is there a need for different perspectives?
2. Does the work create a common purpose or set of goals for the group that is larger than the aggregate of the goals for individuals?
3. Are members of the group involved in interdependent tasks?

If these three questions all can be answered with a yes, then a team might be the solution!

Implications for Managers

- Common characteristics of effective teams

  Have adequate resources, effective leadership, a climate of trust, and suitable reward system

  Composed of individuals with technical and interpersonal skills

  Work provides freedom, autonomy and opportunity to use skills

  Members are committed to a common purpose

There are a number of common characteristics of effective teams such as a need for trust, smaller in size, a chance to contribute, significant tasks and a team who believes in itself.

Managers do need to modify the environment to help the team succeed and pay careful attention to the make-up of the team members to ensure success.

Keep in Mind...

- ❖ Proper selection of members increases likelihood of effective teams
- ❖ Teams should be constructed based on ability, skill, and applicable member traits given the situation
- ❖ Non-personal conflicts can lead to better team decisions

If a team can properly select its members it will be more effective. This selection should be based on ability, skill and applicable traits based on the situation.

If non-personal conflicts can be fostered it may lead to better team decisions.

Exercise

A) Define the following:

1. Team..
....
....

2. Problem solving team...
....
....

3. Self-managed team...
....
....

4. Cross functional teams. ....
....
....

5. Virtual teams. ....
....
....

6. Team cohesiveness...
....
....

7. Norms. ....
....
....

8. Status systems. ....
....
....

9. Conflict is ....
....
....

10. Roles...
....
....

B) Complete:

1. Team work is important because:

a. ....

b. ....

c. ....

2. Creating effective teams requires:

   a. ....

   b. ....

   c. ....

3. Disadvantage of team work are:

   a. ....

   b. ....

   c. ....

   d. ....

4. Free riding is ....

   ....

   ....

5. .... and ....

   and .... are techniques for resolving conflicts.

6. Team's goals must be..

   ....

   ....

7. Relevant skills are both .... skills

   and ....

8. Unified commitments is ....
....
....

9. Compromising means ....
....
....

10. Small teams consist of .... members while large teams of .... members.

Chapter Six

Communication

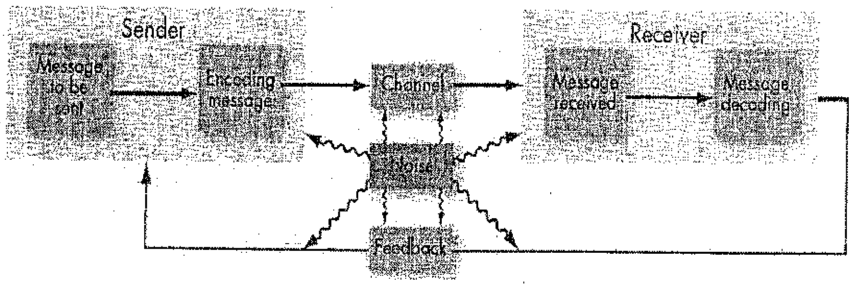
Communication

What is the meaning of communication

- ❖ Is the process by which information is exchanged between a sender and a receiver.

Employees today are continually bombarded with information. While the information can be beneficial, it can also lead to lower productivity. Research shows that to raise productivity, it may make sense to connect to technology less frequently.

The Communication Process



- ❖ This graph illustrates the communication process between the sender and the receiver.
- ❖ The sender encodes his thoughts into some forms that can be transmitted to the receiver through oral or written methods.
- ❖ The message is passed through the determined channel, and then it is handed off to the receiver who receives the message and decodes it.

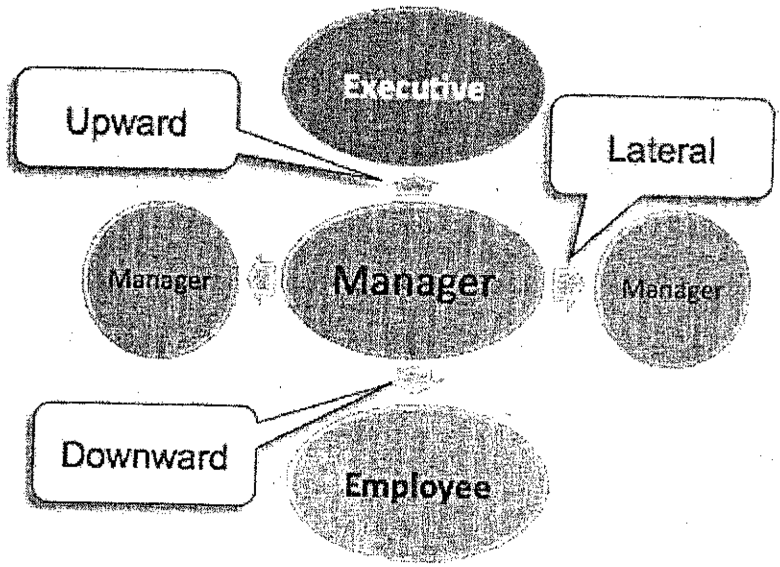
- <u>The process is hindered</u> by noise or errors or communication barriers leads to a lack of correspondence between the sender's thoughts and the receiver's understanding the intended message.Such as :
    - A slip of the finger on the keyboard can lead to improper encoding.
    - A poor email system can lead to ineffective transmission.
    - Encoding and decoding may be prone to more error when the message is ambiguous because the two parts may have different perceptions of the facts at hand.
- <u>Feedback is the check</u> on how successful the sender was in passing the correct message to the receiver.
- Effective communication occurs when the right people receive the right information in a timely manner.
- Violating these three conditions make the communication ineffective.

Formal and informal channels

<u>Formal Channels :</u>

- These channels transmit messages that are related to the professional activities of the members, such as email, memos and planned speeches.
- It is called communication by strict chain of command

- Which means lines of authority and formal reporting relationship.
- Under this system there are three forms of communications can be accomplished in different directions .
- Firstly : It can flow downward from the top management to people in lower levels of the organization.
- Secondly : It can flow up from workers on the ground floor to the CEO.
- Thirdly : or it can flow between or within departments in a lateral movement.
- Communication by strict chain of command:



Informal Communication :

- The chain of command fails to consider informal communication between members .
- So people look for other informal channels to help them to accomplish their jobs more effectively.
- This channel is used to transmit personal or social messages. It is more spontaneous in its nature and a result of individual choices
- But, not all informal communication benefits the organization.
- An informal grapevine might spread inaccurate rumours across the organization.

The Grapevine

- ❖ The grapevine is the informal communication network that exists in any organization.
- ❖ It refers to the circulation of rumours and unofficial information.
- ❖ the grapevine is not controlled by management, However, employees see it as a very believable and reliable form of communication.
- ❖ The grapevine has no formal purpose, but is mainly there, to serve the self-interests of those who use it, to get more information about important, but ambiguous situations.
- ❖ Emerges when

  Situation is important

Ambiguity exists

Situation causes anxiety

❖ Three characteristics

Not controlled by management

Perceived as being more believable and reliable (and often is)

Largely used to serve self-interest of those willing to communicate

Who participates in the grapevine?

- Who is likely to be transmitter of grapevine information?
- Personality characteristics may play a role, for example, extraverts might be more likely to pass information than introverts, also those who lack self-esteem might pass information that gives them a personal advantage
- The nature of information might also influence who choose to pass it on:
- For example: in a hospital, the news that a doctor has obtained a substantial cancer research grant might follow a different path from news involving his affairs with a nurse

Pros and cons of the grapevine

is the grapevine desirable from the organization point of view ?

❖ pros

It can keep employees informed about important organizational matters

Some organizations use it as a regular substitute for formal communication.

It can also provide a test of employee reactions to proposed changes without making formal commitments

❖ Cons

When it becomes a constant pipeline for rumors.

Rumor not true because people cannot verify the information as accurate.

It seems to spread fastest when the information is ambiguous, the content is important , when it seems credible and when the recipient is anxious.

Interpersonal Communication

❖ Three Forms

1. Oral (verbal)
2. Written
3. Nonverbal

<u>Oral Communication</u>

❖ Advantages

Speed

Feedback

Simple to correct

❖ Disadvantages

Potential for distorted message when passed through a number of people

Written communication

- Written communication is a tangible record and easy to go back to verify.
- Often when people put down their thoughts and ideas in written format they are more logical and clear.
- However, written communication is more time consuming, doesn't provide immediate feedback, and might not even be read.
- Advantages:
  - ✓ Provide a tangible and verifiable record
  - ✓ Record can be stored for an indefinite period of time
  - ✓ More likely to be well thought-out, logical, and clear
- Disadvantages:
  - ✓ Time consuming
  - ✓ Lack of feedback
  - ✓ May not be read

Nonverbal Communication

- Refers to the transmission of message by some medium other than speech or writing.
- Nonverbal communication is another channel often used in organizations. This can be a nod, a look or the crossing of arms. It supports other channels of communication and helps to express emotions and feelings. However, it is often ridden with misperception and can greatly influence the receiver's interpretation of the message.

- Body language is the major form of nonverbal communication.
- It includes

Body's motions.(the way you stand, sit, walk)

Physical distance between the sender and the receiver

Facial expression.(eye contact with the receiver, the smile)

It is not just what you say but also what you do

Office décor and arrangement

- Does the manner in which people decorate and arrange their office tell visitor any thing ?
- The answer is yes
- People feel more welcome and comfortable when the office is tidy, decorated with posters and plants and the desk is against the wall.
- A neat office signals that the manager is well organized and has time to talk with them.
- Decoration signals that I am human.
- Desk against wall signals that there is no barriers between parties.

Does clothing communicate

- Does the manner in which people wear tell managers any thing ?
- The answer is yes
- People Clothes send signals about their competence, seriousness.

- ❖ Proper clothing will not make up for a lack of ambition, intelligence and savvy, but the wrong clothing will prevent others from detecting these qualities.

Electronic Communication

It has been shown that in over 70% of all communication in an organization is done electronically. This is highly advantageous and efficient for organizations because of the quick turn around, written record and low cost of distribution.

- ❖ E-mail
- ❖ Instant and text messaging
- ❖ Social networking
- ❖ Blogs
- ❖ Twitter
- ❖ Videoconferencing

E-Mail Limitations

- ❖ Easy to misinterpret
- ❖ Should not be used for negative messages
- ❖ Overused and overwhelms
- ❖ People are emotionally uninhibited
- ❖ Privacy concerns

The growth of email has been so pervasive it's hard to imagine life without it. However, there are many disadvantages. The biggest problem with email is that the message is often misinterpreted. You cannot read body language or see emotional cues when you read an email, so it is hard to decode the message that is sent.

In addition, the volume of email has increased so significantly that it is overloading readers and causing frustration or anxiety. Email can also be misused because it tends to make the sender feel more removed from the situation and it may remove their inhibitions and cause them to write things they normally would not have said

IM & TM

- ❖ Essentially real-time
- ❖ Inexpensive
- ❖ Good for short messages
- ❖ Some find it intrusive and distracting
- ❖ May be inappropriate for formal business messages

We are in a current state where people want real-time communication when sending short messages. This is a growing area of interest in an organization due to the explosion of portable communication devises. Two commonly used methods are instant messaging and text messaging.

Social Networking, Blogs and Twitter

- ❖ Social networking platforms are transforming communication
  Facebook
  Blog: Web site about a single person or company

- Twitter: Hybrid social networking service that allows users to post "micro-blogs" about any topic

Company monitoring

- Social networking sites like Facebook have transformed communication. At least one research advisory firm anticipates that social networking will soon replace email as the primary form of business communication for 20 percent or more of business users.
- Many organizations and organizational leaders are using blogs and Twitter to speak for the organization.

Videoconferencing

- Permits employees to conduct interactive meetings without being physically in the same room
- Conserves travel funds
- Becoming more accessible as costs drop

Videoconferencing connects people in different locations through live audio and video. It is an inexpensive way to hold a meeting in different cities and not miss the important aspects of nonverbal communication.

Managing Information

- Dealing with information overload

One study found that the largest part of an average worker's day is spent on matters that are not important nor urgent

- Limiting information can increase productivity
- Employees today are continually bombarded with information. While the information can be beneficial, it can also lead to lower productivity. Research shows that to raise productivity, it may make sense to connect to technology less frequently.

Barriers to Effective Communication

- Filtering
- Selective perception
- Information overload
- Emotions
- Language
- Silence
- Communication apprehension
- Lying

There are a number of barriers to effective communication that can distort the message being sent. Let's look at a few of those. Filtering is a common barrier where the sender sorts that information shared so that it will be seen as more favorable by the receiver.

Global Implications

- Cross cultural communication barriers

Semantics – words mean different things to different people

Word connotations – words imply different things in different languages

Tone differences – in some cultures tone changes depending on context

Differences in perception – different world views

- ❖ Cultural context

  High context culture

  Low context culture

A Cultural Guide

1. Assume differences until similarity is proved
2. Emphasize description rather than interpretation or evaluation
3. Practice empathy
4. Treat your interpretation as a working hypothesis

Being aware that differences exist can go a long ways toward helping you avoid an awkward situation in another cultural context. Be sure to work on emphasizing description of events and tasks rather than interpretation or evaluation. Practice empathy when you are communicating with others and watch your own interpretations to make sure you are not drawing conclusions prematurely.

Implications for Managers

- ❖ Removing the uncertainty leads to greater satisfaction:

  Communicate via multiple channels

  Reduce distortion and incongruities for clarity

- Use electronic media wisely and carefully
- Cultural communication barriers can be overcome with understanding

In summary, good communication will always reduce uncertainty and beats out ambiguity every time. Communication has a better chance of succeeding if the right channel is used, the receiver is a good listener and feedback is utilized. It is important to remember that even though electronic communication is quicker and easier to use it can also raise the potential for misunderstanding. Finally, keep in mind that in different cultural contexts things have different meanings and there are a lot of barriers to overcome for effective communication. Do your homework and do not rush to conclusions.

Keep in Mind...

- Each communication direction has its own challenge that must be overcome
- Each form of communication has an optimal purpose and specific limitations – use appropriately
- Communication barriers often retard or distort communication

Keep in mind that communication direction has many challenges that need to be overcome for it to be effective. It is important to match the communication method to the specific context for it to work well. Also, there are many barriers in place that distort the meaning of communication so clarification and follow-up are always a good idea.

Exercises

1- What is communication ?

2- Briefly explain the interpersonal communication process.

3- Briefly discuss the different barriers to an effective communication.

4- Briefly discuss how to overcome the barriers of effective communications.

5- Differentiate between formal and informal communications.

Define the following concepts:

1- The sender ....

....

2- Encoding ....

....

3- Decoding ....

....

4- The receiver ....

....

5- Feedback ....

....

6- Verbal communication..

....

7- Nonverbal communication..

....

8- Formal communication ....

....

9- Upward communication ....

....

10- Downward communication..

....

11- Horizontal communication..

....

12- Diagonal communication ....

....

13- Informal communication ....

....

True / False questions (Put (✓) or (✗)) :

1- The receiver is anyone who wishes to convey an idea or message to others.

True ☐ False ☐

2- Encoding is retranslating a sender's message.

True ☐ False ☐

3- Feedback is a medium message travel along.

True ☐ False ☐

4- Filtering is the information one's have to work with exceeds his or her processing capacity.

True ☐ False ☐

5- Constrain emotions is a way managers should use to overcome barriers to an effective communication.

True ☐ False ☐

6- Organizational communication can flow only downward by giving employees orders.

True ☐ False ☐

7- Communication that cuts across work areas and organizational levels is a lateral communication.

True ☐ False ☐

8- Formal communication is organizational communication that is not defined by the organization's structural hierarchy.

True ☐ False ☐

9- Listening is an active search for meaning.

True ☐ False ☐

10- Using simple language in communication will save time and make it more easy to understand.

True ☐ False ☐

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Economics Studies

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Content

Part One: Economic Studies

Chapter 1

Introduction to Economics

Ch.1

Introduction to Economics

Introduction:

The word economy comes from the Greek word for one who manages a household.

At first, this origin might seem peculiar. But, in fact, households and economies have much in common.

A household faces many decisions. It must decide which members of the household do which tasks and what each member gets in return: Who cooks dinner? Who does the laundry? Who gets the extra dessert at dinner? Who gets to choose what TV show to watch? In short, the household must allocate its scarce resources among its various members, taking into account each member's abilities, efforts, and desires.

Like a household, a society faces many decisions. A society must decide what jobs will be done and who will do them. It needs some people to grow food, other people to make clothing, and still others to design computer software. Once society has allocated people (as well as land, buildings, and machines) to various jobs, it must also allocate the output of goods and services that they produce. It must decide who will eat caviar and who will eat potatoes. It must decide who will drive a Porsche and who will take the bus.

The management of society's resources is important because resources are scarce.

Economics: is the study of how people make choices to satisfy their unlimited wants and needs.

For example:

- You must choose how to spend your time.
- Businesses must choose how many workers to hire.
- You must decide what food to eat, what clothes to wear.

Microeconomics: is the study of choices made by individual consumers and businesses

Example: The production of one company, consumer's behavior, producer's equilibrium.

In microeconomics, we analyze how individuals choose among various courses of action by weighing the benefits and costs of alternatives available to them. In microeconomics analysis, we place special emphasis on the role of prices in business and personal decisions.

A major goal is to understand how the prices of particular goods and services are determined and how prices influence decisions.

Macroeconomics: is the study of the economy as a whole

Example: Unemployment, Inflation, Economic growth.

In macroeconomics, we look at the economy from a broader perspective by considering its overall performance and the way various sectors of the economy relate to one another. We gauge the performance of the economy by the total value of annual production, the capacity of the economy to provide jobs, the changes in purchasing power of money, and the growth of employment and output.

Micro Economics	Macro Economics
Studies economic phenomenon from the perspective of individual entities.	Studies economic phenomenon from the perspective of entire economy or a particular sector of economy.
Deals with individual economic entities like consumer, firm, factor of production, etc.	Deals with aggregates like National Income, Foreign trade, Inflation, Unemployment, Balance of Payment, etc.

Inflation is a general yearly increase in the average level of prices for a broad spectrum of goods and services.

Inflation decreases the purchasing power of money.

It can create economic instability in a nation by harming the competitiveness of firms seeking to sell products in foreign markets and by distorting economic choice as people try to unload money today that they think will be worth less tomorrow.

What are different types of inflation?

Inflation is divided into two categories :

(a) **DEMAND - PULL INFLATION**: In this type of inflation prices increase results from an excess of demand over supply for the economy as a whole. Demand inflation occurs when supply cannot expand any more to meet demand; that is, when critical production factors are being fully utilized, also called Demand inflation.

(b) **COST - PUSH INFLATION**: This type of inflation occurs when general price levels rise owing to rising input costs. In general, there are three factors that could contribute to Cost-Push inflation: rising wages, increases in corporate taxes, and imported inflation. [Imported raw or partly-finished goods may become expensive due to rise in international costs or as a result of depreciation of local currency]

Deflation: is the opposite of inflation.

Deflation refers to situation, where there is a decline in general price levels. Thus, deflation occurs when the inflation rate falls below 0% (or it is negative inflation rate). Deflation increases the real value of money and allows one to buy more goods with the same amount of money over time. Deflation can occur owing to reduction in the supply of money or credit. Deflation can also occur due to direct contractions in spending, either in the form of a reduction in government spending, personal spending or investment spending.

Stagflation:

Refers to economic condition where economic growth is very slow or stagnant and prices are rising.

The side effects of stagflation are increase in unemployment-accompanied by a rise in prices, or inflation. Stagflation occurs when the economy isn't growing but prices are going up. At international level, this happened during mid 1970s, when world oil prices rose dramatically, fuelling sharp inflation in developed countries.

Hyperinflation:

is a situation where the price increases too sharp. Hyperinflation often occurs when there is a large increase in the money supply, which is not supported by growth in Gross Domestic Product (GDP). Such a situation results in an imbalance in the supply and demand for the money; it results into sharp increase in prices and depreciation of the domestic currency.

Positive Analysis vs. Normative Analysis:

Positive Analysis: describes facts.

In evaluating economic policies, we must understand the basic functioning of the economy before we can predict the impact of such policies on the economy. Positive analysis of changes in economic policy or conditions seeks to forecast the impact of the changes on observable items like production, sales, prices, and personal incomes. It then tries to determine who gains and who loses because of the changes.

Positive analysis makes statements of the "if . . . then" type that can be supported or rejected by empirical evidence. An example of positive statement is: "if electronics import quotas are imposed, then the price of compact discs will increase." Another positive statement is: "if the government deficit is reduced, then interest rates will fall.

Economists often disagree about actual cause-and-effect relationships. These disagreements must be resolved by examining the facts, using statistical methods to test the relationships.

Normative Analysis: includes value judgments

Positive analysis cannot be used to evaluate an outcome. For example, positive analysis of government welfare programs might look at the impact of such programs on the incentives of recipients to work and on national production without trying to determine whether the programs are good or bad. To evaluate the performance of an economy, we must establish criteria or norms against which we will compare actual outcomes.

We use normative analysis to evaluate the desirability of alternative outcomes according to underlying values judgments about what is good or bad. An example of a normative statement: "tariffs and other restrictions that impede free international trade should be eliminated."

The normative approach used by many economists is based on an underlying value judgment that evaluates well-being in a nation only in terms of well-being of individuals. The normative approach makes recommendations regarding what ought to be.

Economic growth vs. Economic development:

Economic development refers to quantitative and qualitative changes in an existing economy, it involves development of human capital, increasing the literacy ratio, improve important infrastructure, improvement of health and safety and others areas that aims at increasing the general welfare of the citizens.

The most accurate method of measuring economic development is the Human Development Index which takes into account the literacy rates & life expectancy which in-turn has an outright impact on productivity and could lead to Economic Growth. However, economic development can also be measured by taking into account the GDI (gender related index).

Economic growth is a positive change in the output, or production, of a country or an economy. This description involves all aspects of an economy, from profits to taxes and wages, to such things as production rates.

It turns out that the only way of ascertaining economic growth would be to calculate it as a numerical value. Therefore, economic growth can be calculated as a percentage increase in the Gross Domestic Product of a given economy. This is done by finding out the previous year's GDP and finding the ratio between the current and the previous GDP.

However, the above calculation in itself may not reflect the real situation in the given economy. There is need to consider an important factor (Inflation). Inflation has a bearing on product prices as well as level of production, and consequently, it also affects economic growth.

To get more accurate values, one would have to take the value of normative growth and subtract the rate of inflation. The resulting value of economic growth is much more accurate and can be referred to as real economic growth.

Fiscal Policy vs. Monetary Policy

Fiscal Policy:

Fiscal policy refers to the policy of the government with respect to its spending (or expenditure) and mobilization of resources ,expenditure consists of purchases and transfer payments.

Government purchases refer to spending on goods and services such as the construction of roads and dams, salaries to public employees, etc.

Transfer payments refer to payments of money by the government to some groups in the form of financial assistance (e.g. payments made to the elderly or the unemployed).
Government spending has a positive effect on the overall spending in the economy and thus influences the GDP level. Government, therefore, uses its spending as a tool to control the level of economic activity in the country.

Taxation is another important instrument of fiscal policy, which affects the economy in two ways. Changes in the tax structure have a direct impact on people's disposable incomes (i.e. total income 'minus' tax payment), which in turn affects the amount they spend on goods and services and the amount they save.

An increase or decrease in private consumption and savings affects the overall output and investment in the economy in the short as well as the long run.

Taxation also affects the prices of goods and services and factors of production. For example, if a low tax is levied on business profits, businessmen will be encouraged to invest in capital goods, which will spur investment and speed up economic growth

Monetary Policy :

All modern societies use money as the medium of exchange. Since money can be exchanged for goods and services, it can also be regarded as a financial asset – a store of value.

There are various definitions of money stock, but generally speaking, money consists of financial assets with a high degree of liquidity (that is, money or assets that can be quickly converted into money with little or no loss of purchasing power). The monetary system of a country consists of those institutions that create such assets. The system is guided and controlled by the central bank of the country. The Central Bank, commercial banks and other institutions which deals with the financial assets like the Non Banking Financial Intermediaries (NBFIs) together constitute the financial system.

The monetary policy of a country is formulated and implemented by its central bank . It is used to influence the total quantity of money, interest rates and total volume of credit in the economy.

GDP definitions:

Gross Domestic Product (GDP)

The market value of all final goods and services made in a country in a year.

Nominal or Real GDP:

Nominal GDP:

The value of goods and services measured at current prices.

Real GDP:

The value of goods and services measured at fixed prices in order to reflect the change in quantities produced not in values or prices.

Actual GDP and Potential GDP:

Actual GDP is the value of production in a given year, it reflects the prevailing situation.

Potential GDP is the maximum amount that the economy can produce .

Efficiency vs. Equity:

- Efficiency means society gets the most that it can from its scarce resources.
- Equity means the benefits of those resources are distributed fairly among the members of society.

Market failure:

Occurs when the market fails to allocate resources efficiently.

When the market fails government can intervene to promote efficiency and equity.

Market failure may be caused by:

- An *externality*, which is the impact of one person or firm's actions on the well-being.
- *Market power*, which is the ability of a single person or firm to unduly influence market prices.

Deductive vs Inductive Method:

Deductive Method:

This method is called hypothetical because some of the assumptions may not correspond to all facts.

Deduction means the process of drawing generalizations based on some assumptions and observation. The generalization is to be drawn on the very limited observation that could not be powerful to represent the whole. Most deductively drawn conclusions are applicable to specific areas and situations.

For example:

- All human beings are rational.
- Ali is rational.

The deductive method has several advantages as its use is very simple affair and it does not require elaborate experimentation.

Inductive Method:

This is also known as empirical or historical method. This technique is a practical approach to the problems of economic science. It reduces the gap between theory and practice. It proceeds from the particular to the general.

<u>Decision Makers:</u>

- **<u>Consumers:</u>** The people who decide to buy things.
- **<u>Producers:</u>** The people who make the things (produce goods and services) that satisfy consumers' needs and wants.

<u>Economic Choices</u>

- Economic choices based on our **<u>needs</u>** and **<u>wants</u>**.

<u>Needs</u>: Goods and services that is necessary for survival like: food, clothing, shelter

<u>Wants</u>: Goods and services that people consume beyond what is necessary for survival like: IPod, Play station.

- Your choices reflect your desires for certain goods and services:

<u>Goods:</u> Physical objects that can be purchased (tangible).

<u>Services:</u> Work or actions performed (intangible).

Consumer and capital Goods:

Consumer Goods: Satisfy people's need directly like : food, refrigerator, etc.,). It includes durable goods and non durable goods. Durable goods: T.V., refrigerator, car, they have a relatively long life, non durable goods: food, shelter, they have a relatively short life.

Capital Goods: Do not satisfy our need directly. They are used as aids to production to produce other goods.

Examples: (machines, equipments, trucks, roads, bridges ...). Spending on the production of capital is called investment.

Normal good

A good for which, other things held constant, an increase in income leads to an increase in demand.

Inferior good

A good for which, other things held constant, an increase in income leads to a decrease in demand.

Substitutes

Two goods for which an increase in the price of one leads to an increase in the demand for the other.

Complements

Two goods for which an increase in the price of one leads to a decrease in the demand for the other.

The difference between Benefits Costs:

Benefits: Something you gain like: Cash, goods.

Costs: the amount paid to get something.

Factors of Production: Resources that can be used to produce goods and services, there are four categories of Factors of Production:

- Natural Resources (land).
- Human Resources (labor).
- Capital Resources.
- Entrepreneurship.

All of these are needed in the production process because without one of them you can't produce anything.

1-Natural Resources (land).

- Items provided by nature that can be used to produce goods and to provide services.
- Found in or on the Earth, or in the Earth's atmosphere.
- Unaltered "gifts of nature".
- Examples: farmland, oil fields, coal mines, sunlight, wind, rain, forests.

2- Human Resources (labor).

Physical and mental efforts people use to create goods and services.

3- Capital Resources.

- Any human-made resource that is used to create other goods and services.

Examples: Buildings, tools, machines, factories.

The money used to purchase or improves buildings, machines, tools, or land is also included in capital resources.

4- Entrepreneurship.

- The innovative thinking, management skills, and risk taking involved in starting a new business or introducing a new product.
- **Entrepreneur**: is a person who attempts to start a new business or introduce a new product.

Scarcity and Choice:

Scarcity: occurs when there are limited quantities of resources to meet unlimited wants.

- **Scarcity** is the basic problem of economics.
- **Scarcity** forces people to make decisions about how to use resources effectively.

Since you cannot have everything you want, you must choose which things you want most and can afford.

If you spend money on one thing, you will not be able to spend it on something else, this risk could cause you to lose money.

Trade-Offs & Opportunity Costs:

- **Trade-offs**: All the alternatives that are given up whenever a choice is made over the others.
- Giving up one thing to get more of another.

- **Opportunity Cost:**

  When scarcity exists, we know we must sacrifice something of value to obtain more of any scarce good or service. The limited availability of resources such as land, skilled labor, structures, and equipment with in a nation over a year mean that the more resources are used for one purpose, the less there will be available for other purposes. The opportunity cost of choosing to use resources for one purpose is the sacrifices of the next best alternative for the use of those resources. For example, if your next best alternative to studying for an hour is an hour of swimming, then the opportunity cost of studying is the hour of swimming that you sacrifice when you choose to study.

- **Opportunity Cost** is the value of the next best alternative forgone when making a choice.

  Not money, the elimination of the other option – you are giving up the second choice in order to carry out the first.

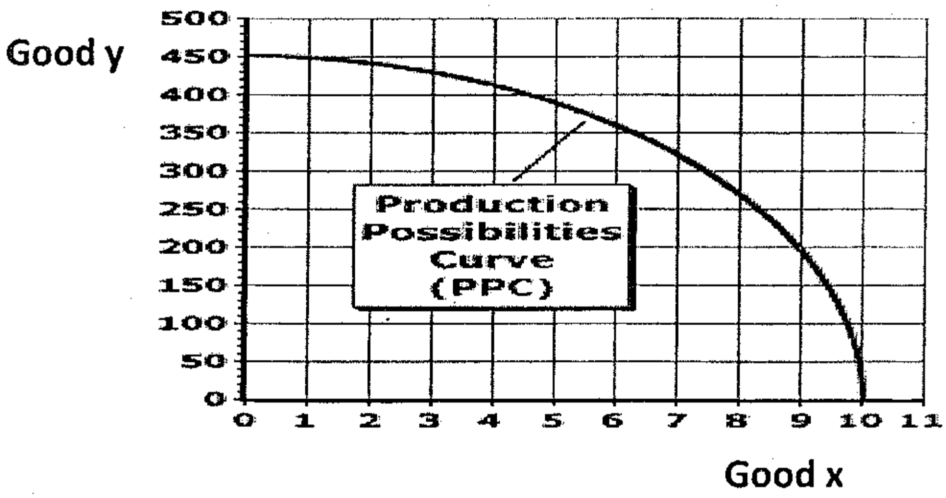
Economic Decision-Making steps:

1. What is the problem?
2. What are the alternatives?
3. What are the criteria important to the decision?
4. Evaluate each alternative.
5. Make a decision.

Production Possibilities frontier

(Example of trade-offs, opportunity costs, and scarcity):

Production possibilities curve: Shows all possible combinations of total output that an economy can produce using its resources.

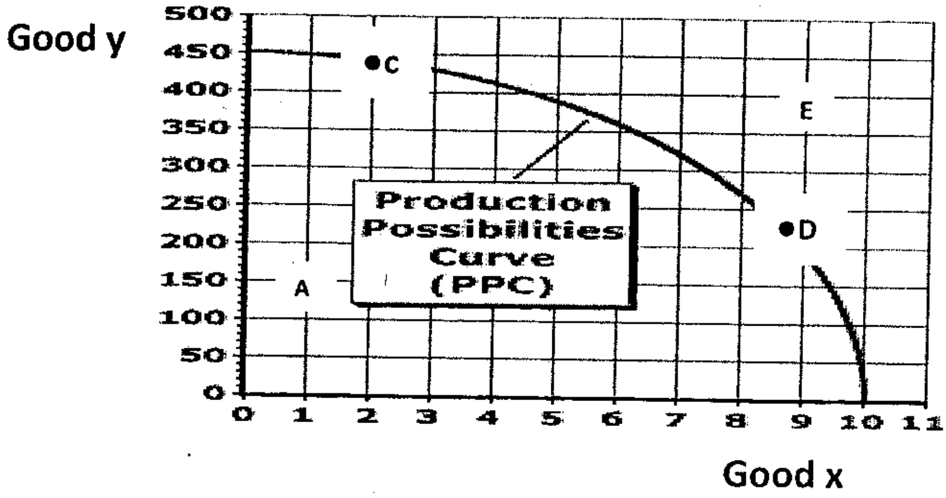


Efficiency: Using the smallest amount of resources to produce the greatest amount of output.

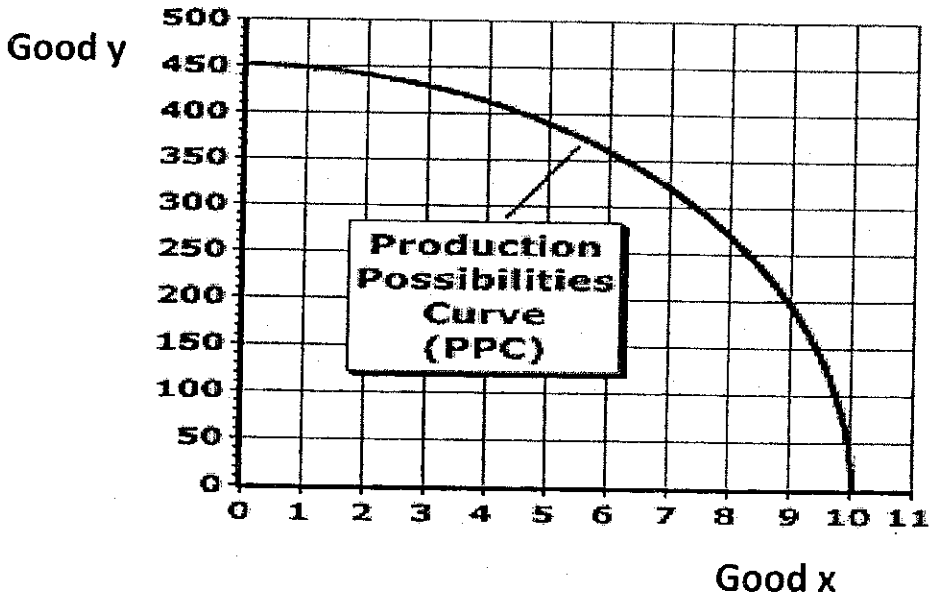
Points "C", "D" represents an **efficient use** of resources.

Point "A" represents an **inefficient use** of resources.

Point "E" **cannot be reached** given the current levels of technology and other resources.



Growth: If more resources become available, or if technology improves, an economy can increase its level of output and grow then the Curve shifts to the right.



Circular Flow of Income

Circular Flow of Income

A study of the circular flow of income will help us understand the overall functioning of the economy.
Products or services are produced with the intention of selling them in the market. These sales generate a flow of income by which payments are made to the factors of production for the various services they render.
The production process and the exchange of products generate income.

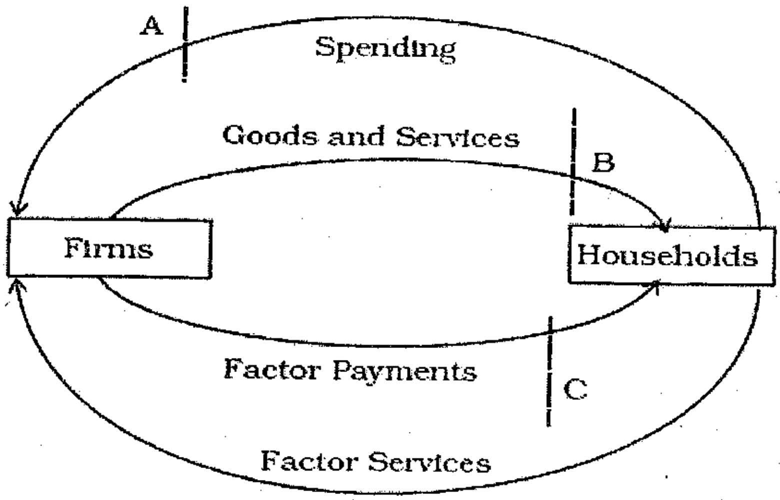
Households provide their services to business firms so that they can produce goods and services. Once the production is complete, goods and services are sent to the markets to be sold to households.

Thus, there exists a circular flow of goods and services between households and business firms. Economists refer to this as "real flow." Another type of flow seen in modern economies is "money flow." Firms pay cash for the services that households provide them, and in turn households purchase goods and services from the firms. Thus, there is a continuous flow of money and income between firms and households and vice versa.

Circular Flow of Income in the Two Sector Model : (simple model)

To analyze the two sector model, assume that there are no savings in the two sector economy, consisting of only households and firms. Households cannot produce all goods and services. They have to buy some commodities or goods from other producing units i.e. business firms. Therefore, there is a flow of consumer goods from firms to households. This flow of goods leads to the flow of income to the business firms. According to the national accounting system, national income is equal to national expenditure. So, in the two sector model of economy, total earnings of households is equal to total expenditure of households.

Circular Flow of Income



To produce goods or service, various factors of production must come together. For production to take place, labor, capital, land, and entrepreneurial skills are necessary. For their services, labor gets wages, capital yields interest, rent is paid to the landowners, and the entrepreneur earns profits.

In a monetized economy, all these transactions involve money. The money received from all these transactions is the income of various factors. The suppliers of various factors of production belong to one household or the other, and thus total money income received by them measures the flow of money and incomes from firms to households.

Let us assume that all the income a household earns is spent on consumer goods and services and no savings are made.
Let us also assume firms produce goods and services exactly in the required amount, and hold no inventories. All the money received by firms from households is distributed as rents, wages, entrepreneur's profits, etc. so that no profits are retained by the firm.

Therefore, in an economy that satisfies the above assumptions, payments made by firms to the factors of production are equal to the current output of the firms.

The total income of all the households is spent on the consumption of goods and services produced by the firms, so the total receipts of the firms are equal to the total income of the households.

Therefore, all the money that firms distribute in various forms like wages, rents, etc. is returned to them. Thus, the process continues infinitely as long as there are no obstacles from any other sector.

The circular flow of money will continue as long as the households spend all their income and firms keep distributing all their revenues.

In reality, it is very difficult for such an economy to exist in the long run. Households would like to save a part of their income; firms would also like to retain a part of their profits.

Both households and firms also have to comply with tax regulations, making it highly difficult for such an economy to exist.

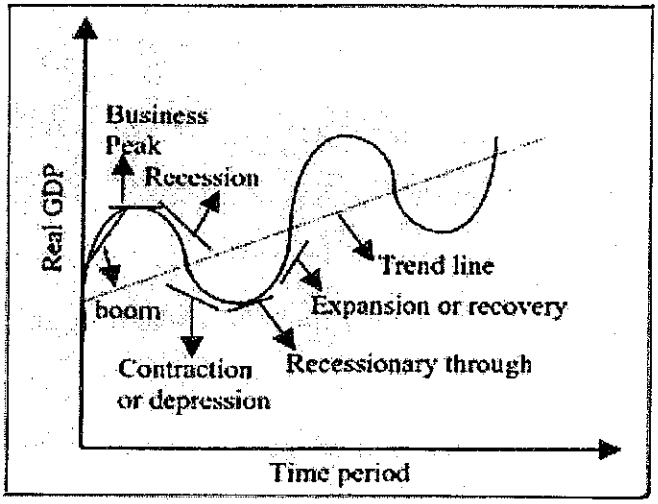
Business Cycle

Business Cycle:

A business cycle may be defined as a swing in total national output, income and employment.

It usually lasts for two to ten years and is characterized by expansion and contraction in many sectors. A business cycle has mainly two phases: recession and expansion. Peaks and troughs are the turning points of the cycles.

The following figure shows the business cycle.



The pattern of cycles is irregular and no two cycles are the same. It is difficult to predict the duration and timing of business cycles.

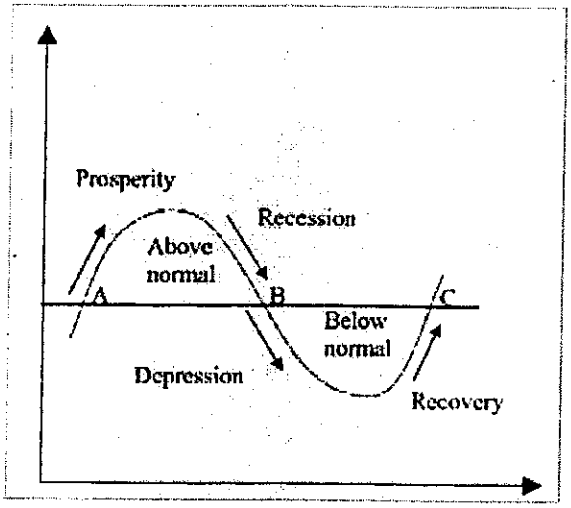
<u>The recessionary period</u> is accompanied by certain characteristics. These are:

- Decline in consumer spending and building up of inventories.
- Increasing inventories results in cut in production and the real GDP falls. Investment in plant and machinery falls sharply.
- Fall in demand for labor followed by layoffs and high unemployment.

With the fall in output, inflation falls. With the decline in demand for crude materials, prices fall. However, wages and prices of services are unlikely to fall though they rise less rapidly during recession.

During recession profits fall sharply. In anticipation of the downturn, stock prices fall. With the fall in demand for credit, interest rates also fall.

According to Joseph Schumpeter, there are four stages in a business cycle: prosperity, recession, depression and recovery:



Prosperity is also known as expansion. During this stage, production increases in all sectors of the economy. As a result of increased production, employment opportunities increase. This in turn, increases the purchasing power of the people. There is a time lag before the producers can produce sufficiently to meet this demand in the economy. This leads to rise in prices.

During expansion many forces come into play, which leads to **the beginning of recession**. The general rise in costs relative to prices is an important factor leading to recession. In the early stages the gap between costs and price is high and this

encourages the entrepreneurs to expand their businesses. In course of time as cost increases relative to price and profit margins come down, expansion activities take a back seat.
The increase in cost in the later phase of expansion is because of the inability of the existing resources to meet the demand for factors of production.

Because of the scarcity of various factors of production, prices rise. Costs may also rise because of the utilization of sub standard equipment, unproductive labor and less efficient management for further expansion of output.
Recession in the economy will lead to liquidation of bank loans, fall in prices, decline in the demand for capital goods and cancellation of new projects. Initially, the demand for consumer goods will remain the same, but slowly it will diminish. The most visible sign of the advent of recession is the weakening stock market as it reveals the sensitive pulse of the industrial and financial segments.

Recession ultimately leads to depression. When the economy moves towards depression, there will be a substantial fall in the production of goods and services and the level of employment.

The effects of depression are felt most in manufacturing, mining and construction sectors.

There will be a substantial reduction in the consumption rate as the income level falls. Moreover, the price level will fall despite the fall in the output of goods and service. When producers realize that demand is falling, they liquidate their inventories. Supply of goods and services increases which in turn leads to fall in prices. Thus depression is characterized by a fall in production, increased unemployment and a fall in the general price level.

During recovery, there is a tendency in the economy to move towards normal price. During recovery the first step is to stop the fall in the price level. During a period of depression, all inventories are exhausted, due to lack of demand; but inventories have to be replenished. Firms start using idle capacity to increase production; and prices will not fall further. There will be more employment opportunities and income will go up which in turn will lead to more demand for goods and service. This, in the long run will lead to an upward movement in the price, thus encouraging investment and growth in the economy.

Chapter 2

The demand and supply

Ch.2

The demand and supply

Introduction:

Supply and demand are the two words that economists use most often. Supply and demand are the forces that make market economies work. They determine the quantity of each good produced and the price at which it is sold. If you want to know how any event or policy will affect the economy, you must think first about how it will affect supply and demand.

This chapter introduces the theory of supply and demand. It considers how buyers and sellers behave and how they interact with one another.

Market definition:

A group of buyers and sellers of a particular good or service.

competitive market

A market in which there are many buyers and many sellers so that each has a negligible (small) impact on the market price.

Demand theory

Quantity demanded:

The amount of a good that buyers are willing and able to purchase.

law of demand:

The quantity demanded of a good falls when the price of the good raises ,other thing held constant.

demand schedule:

Shows the relationship between the price of a good and the quantity demanded.

demand curve:

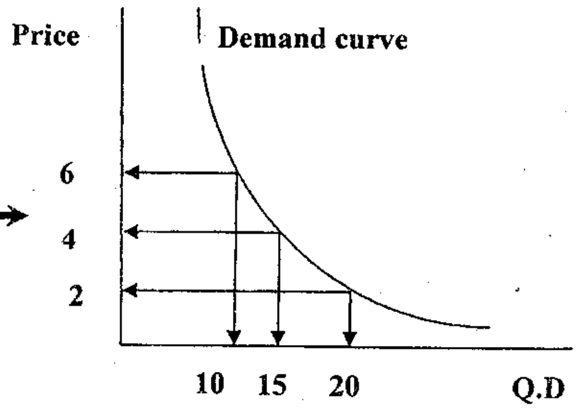
Graphical representation of the relationship between the price of a good and the quantity demanded.

Example:

Draw demand curve using the following table:

Price	Q.D
2	20
4	15
6	10

→



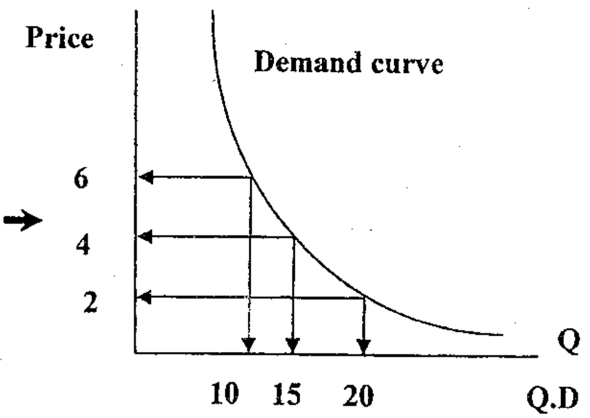
The difference between changes in quantity demanded and change in demand:

Change in quantity demanded:

Movement along demand curve due to change in the price of the good. When price increases q.d will decrease and vice versa.

Price	Q.D
2	20
4	15
6	10

→



Change in demand:

Demand Curve will shift leftward or rightward (It means that quantity demanded will increase or decrease at the same price due to other factors) due to changes in other factors other than price like:

Income:

A lower income means that you have less to spend in total, so you would have to spend less on some goods.

Prices of Related Goods:

Suppose that the price of frozen yogurt falls the law of demand says that you will buy more frozen yogurt. At the same time, you will probably buy less ice cream. Because ice cream and frozen yogurt are both cold, sweet, creamy desserts, they satisfy similar desires. When a fall in the price of one good reduces the demand for another good, the two goods are called substitutes.

Substitutes are often pairs of goods that are used in place of each other, such as hot dogs and hamburgers, sweaters and sweatshirts, and movie tickets and video rentals.

Complements are often pairs of goods that are used together, such as gasoline and automobiles, computers and software.

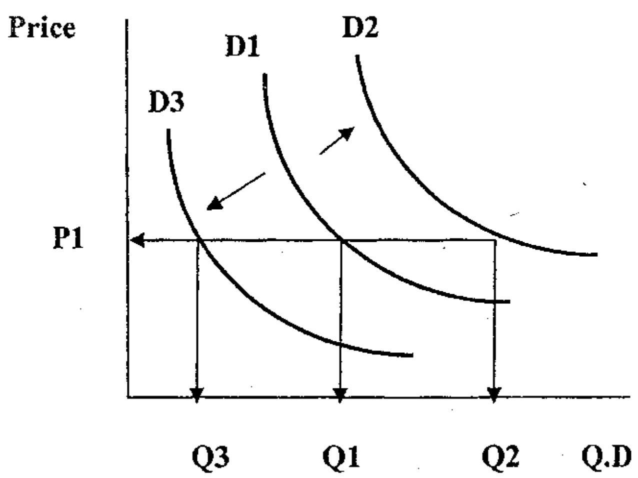
So when prices of gasoline rise demand for automobiles will decrease.

Tastes:

If you like ice cream, you buy more of it. Economists normally do not try to explain people's tastes because tastes are based on historical and psychological forces that are beyond the realm of economics. Economists do, however, examine what happens when tastes change.

Expectations:

Your expectations about the future may affect your demand for a good or service today. For example, if you expect to earn a higher income next month, you may be more willing to spend some of your current savings buying some goods. As another example, if you expect the price of ice cream to fall tomorrow, you may be less willing to buy an ice-cream at today's price.



Supply theory

Quantity supplieded:

The amount of a good that sellers are willing and able to sell.

law of supply:

The claim that, other things held constant, the quantity supplied of a good rises when the price of the good rises.

Supply schedule:

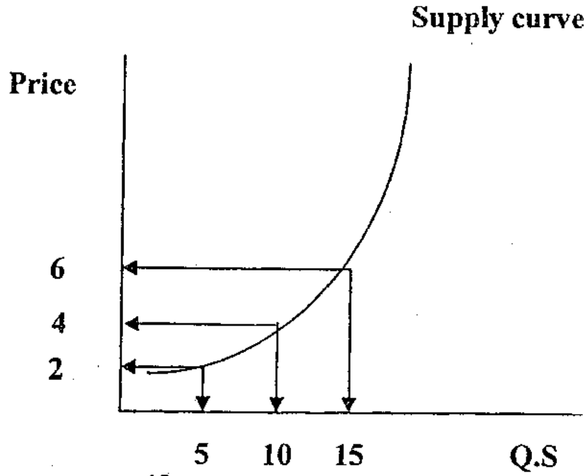
A table that shows the relationship between the price of a good and the quantity supplied.

Supply curve:

Graphical representation of the relationship between the price of a good and the quantity supplied.

Example: Draw supply curve using the following table:

price	Q.S
2	5
4	10
6	15

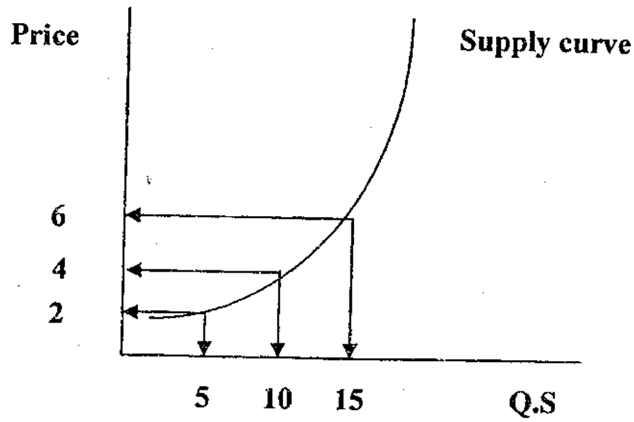


The difference between changes in quantity supplied and change in supply:

Change in quantity supplied:

Movement along demand curve due to change in the price of the good. When price increases q.s will increase and vice versa.

price	Q.S
2	5
4	10
6	15



Change in supply:

Supply Curve will shift leftward or rightward (It means that quantity supplied will increase or decrease at the same price due to other factors) due to changes in other factors other than price like:

Input Prices:

To produce output producer uses inputs, when the price of one or more of inputs rises, producing the good is less profitable, and the firm supplies less quantity.

Supply of a good is negatively related to the price of the inputs used to make the good.

Technology:

The technology for turning the inputs into output is another determinant of supply.

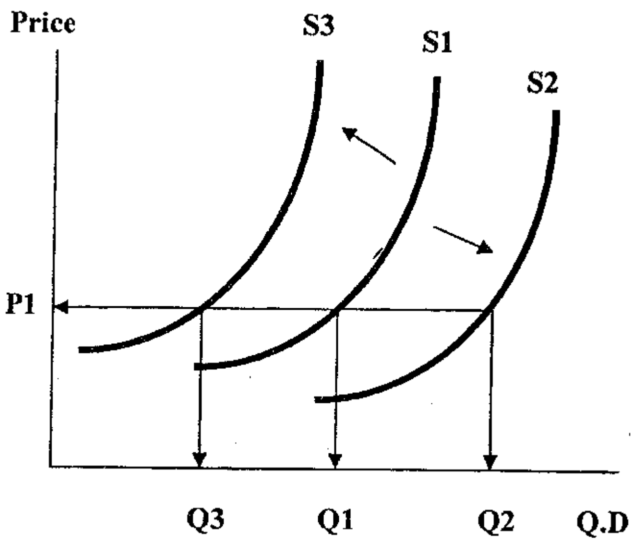
For example, using advanced technology reduced the amount of labor necessary so firms' costs will decrease then the supply of the good will increase.

Expectations:

The amount of a good you supply today may depend on your expectations of the future. For example, if you expect the price of ice cream to rise in the future, you will put some of your current production into storage and supply less to the market today.

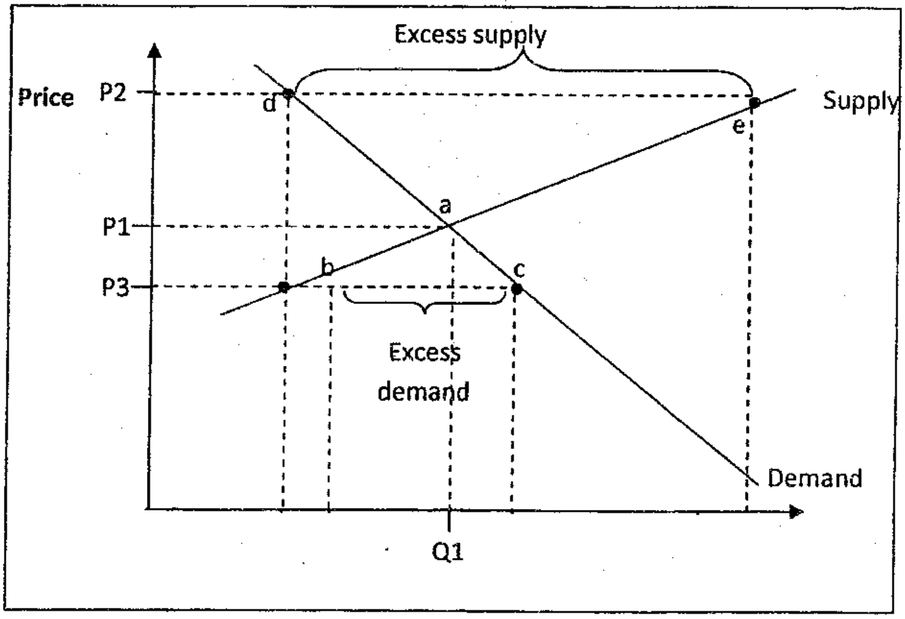
Number of sellers:

The greater the number of sellers the greater the quantity supplied, and vice versa.


Price
S3
S1
S2
P1
Q3
Q1
Q2
Q.D

Market equilibrium

The equilibrium is found at the intersection between supply and demand curves. At the equilibrium price, the quantity supplied equals the quantity demanded. Here the equilibrium price is p1:



If the price is below equilibrium price then Q.d › Q.s, there will be excess demand (shortage) then the price will increase.

If the price is above equilibrium price then Q.s › Q.d, there will be excess supply (surplus) then the price will decrease.

Question:

The demand and supply schedule for cake plates are:

price	4	8	12	16	20
quantity supplied	10	20	30	40	50
quantity demanded	50	40	30	20	10

1- **What are the equilibrium price and quantity?**

2- **Illustrate demand curve and supply curve graphically?**

3- **If the price was 8 Egyptian pound describe the situation in the market and explain what would happen to the price?**

4- **If the price was 16 Egyptian pound describe the situation in the market and explain what would happen to the price?**

Chapter 3

Elasticity demand and supply

Ch.3

Elasticity demand and supply

Price Elasticity of Demand:

Measures how much quantity demanded changes when its price changes.

Price Elasticity of Demand:

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

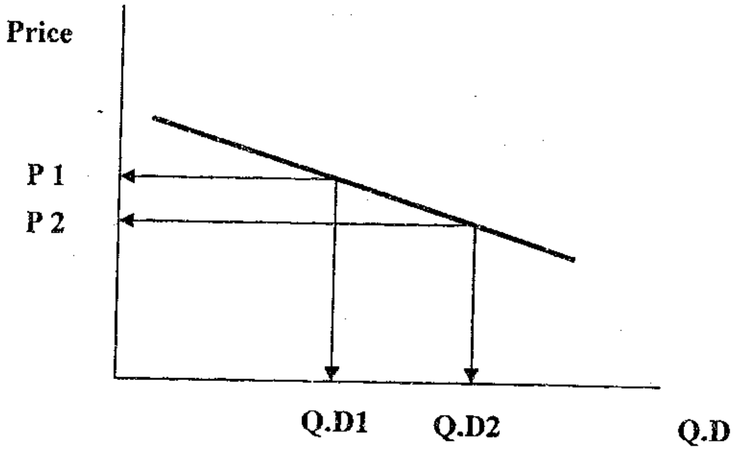
$$= \frac{\%\,\Delta \text{ in quantity demanded}}{\%\,\Delta \text{ in price}}$$

$$= \frac{(\Delta Q / Q)}{(\Delta P / P)}$$

Types of Price Elasticity of Demand:

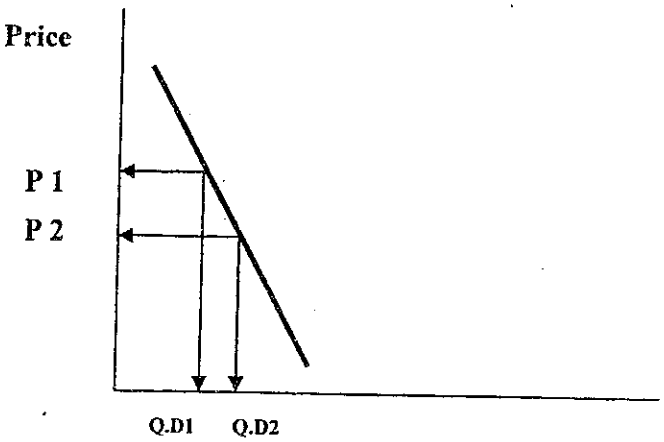
1- Elastic Demand: >1

Occurs when percentage change in quantity demanded exceeds percentage change in price.



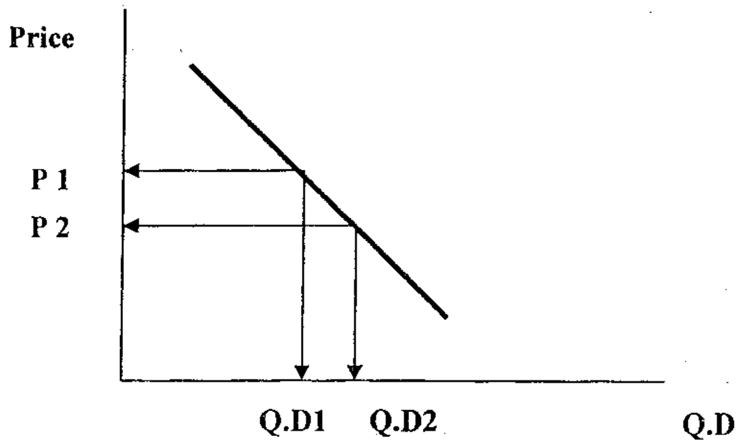
2- Inelastic Demand: < 1

Occurs when percentage change in quantity demanded is less than percentage change in price.



3- Unit elastic demand: 1

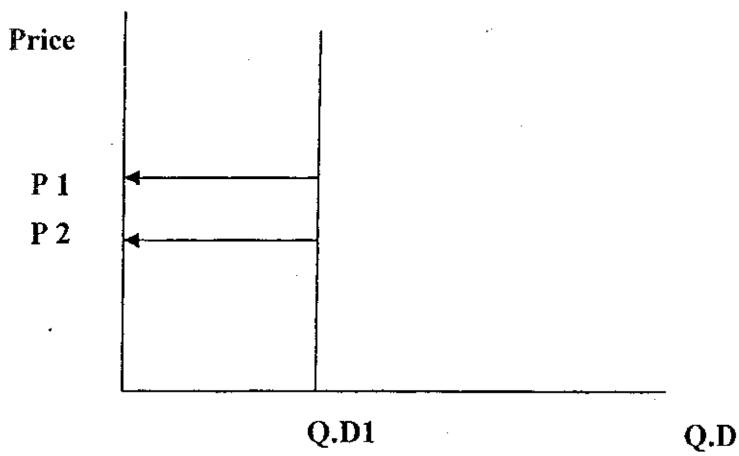
Occurs when percentage change in quantity demanded equals percentage change in price.



4- Perfectly Inelastic: 0

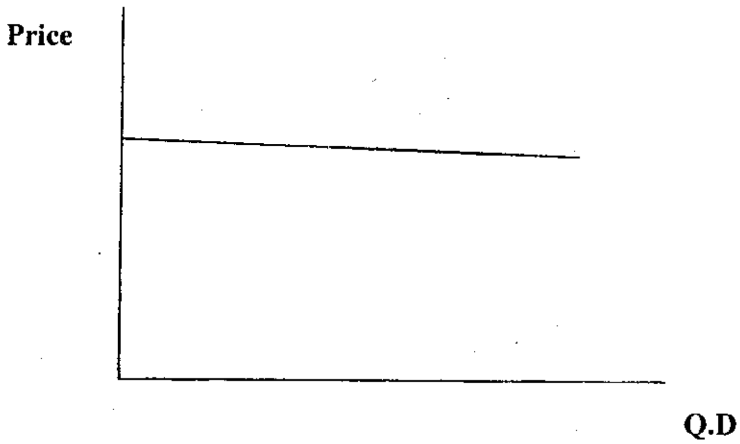
It means that quantity demanded unresponsive to changes

in price.



5- Perfectly Elastic: $\propto$

It means that a small change in price will lead to a large change in quantity demanded.



<u>Factors Affecting Demand Elasticity</u>:

1. The availability of substitutes
2. income available Time
3. Time (short run- long run).

Question:

Calculate price elasticity of demand from the following table and comment (using graphs):

price (pounds)	Quantity demanded (Units)
20	12
30	8
35	4

Solution:

Price Elasticity of Demand:

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

$$= \frac{\%\,\Delta \text{ in quantity demanded}}{\%\,\Delta \text{ in price}}$$

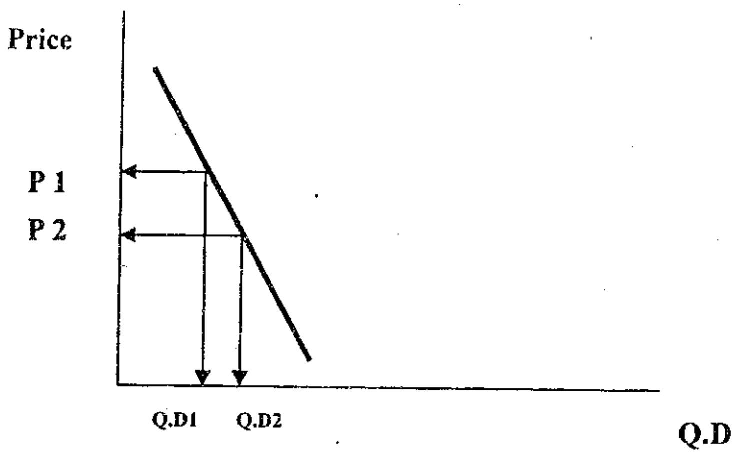
$$= \frac{(\Delta Q / Q)}{(\Delta P / P)}$$

$$PED1 = \frac{(8-12)/12}{(30-20)/20}$$

$$= -\ 0.33333 / 0.5 \ = 0.6$$

Inelastic Demand: < 1

Occurs when percentage change in quantity demanded is less than percentage change in price.

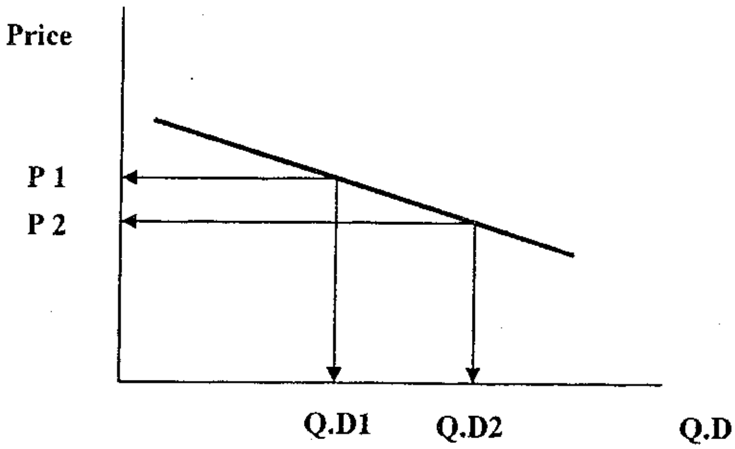


$$PED2 = \frac{(4-8)/8}{(35-30)/30}$$

$$= -0.5/0.166 \quad = 3$$

Elastic Demand: >1

Occurs when percentage change in quantity demanded exceeds percentage change in price.



Price Elasticity of Supply:

Elasticity of supply is the percentage change in quantity supplied as a result of a percentage change in the price of the good.

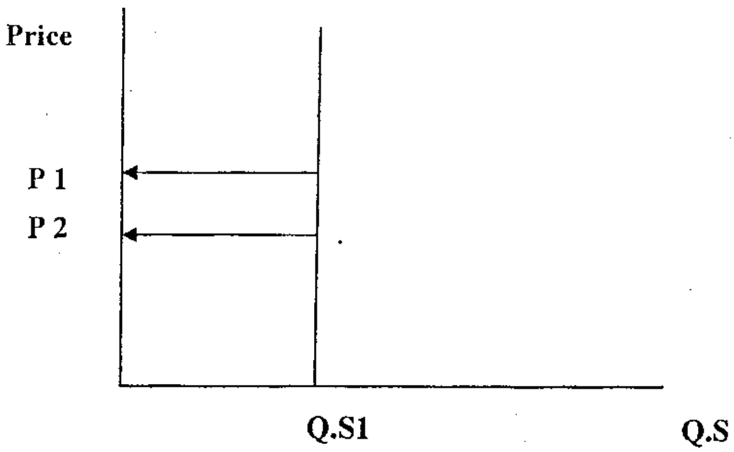
$$\text{Elasticity of supply} = \frac{\%\ \text{change in quantity supplied}}{\%\ \text{change in price}}$$

$$= \frac{\%\ \Delta Q\,s}{\%\ \Delta\ P}$$

Degree of Supply Elasticity:

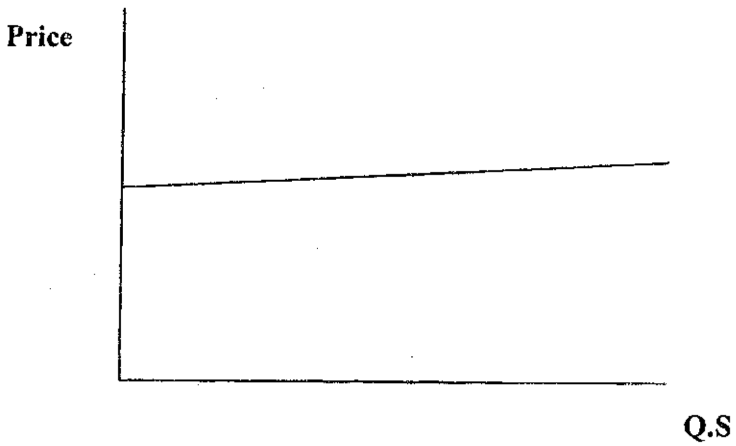
1- **Perfectly Inelastic Supply**: 0

It means that quantity supplied unresponsive to changes in price.



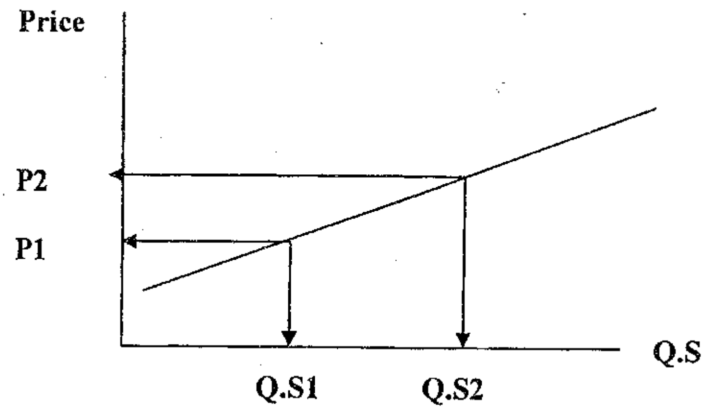
2- **Perfectly elastic Supply:** α

It means that a small change in price will lead to a large change in quantity supplied.



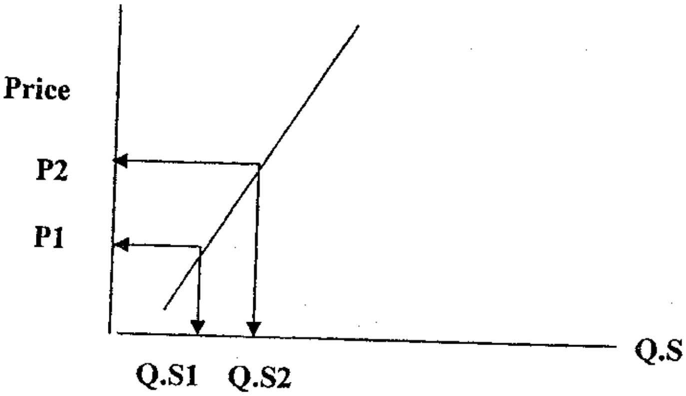
3- **Elastic Supply:** > 1

Occurs when percentage change in quantity supplied exceeds percentage change in price.



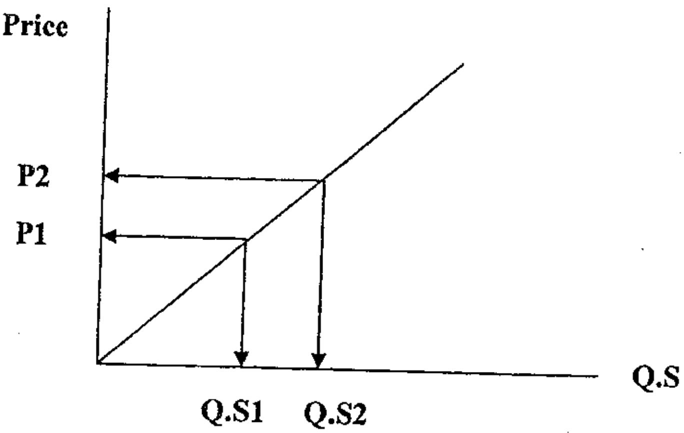
4- **Inelastic Supply:** < 1

Occurs when percentage change in price exceeds percentage change in quantity supplied.



5- **Unit elastic supply:** = 1

Supply curve passing through origin that occurs when percentage change in quantity supplied equals percentage change in price.



Factors that Determine Elasticity of Supply:

1- Spare Capacity.
2- The level of inventories.
3- Ease of Factor Substitution:
4- Time Period:

Chapter 4

Controls on prices

Ch.4

Controls on prices

Introduction:

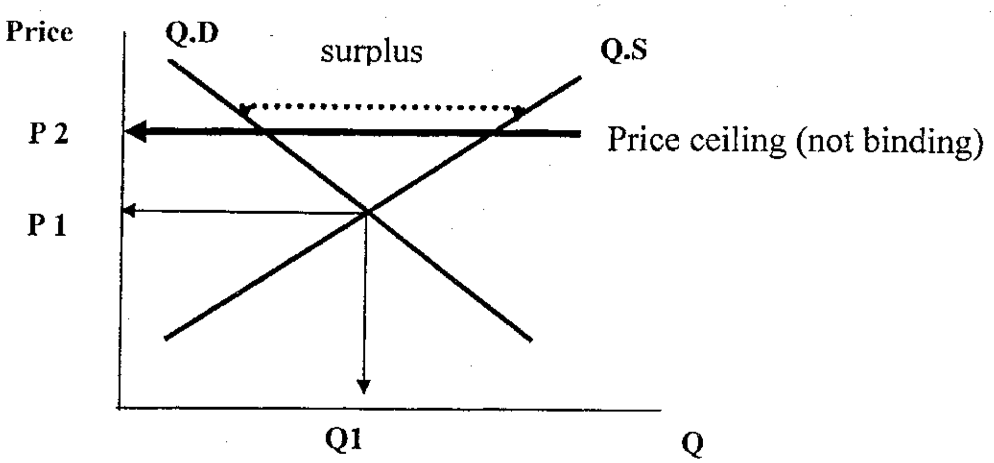
Buyers of any good always want a lower price while sellers want a higher price, the interests of the two groups conflict. If the consumers are successful in their lobbying, the government imposes a legal maximum on the price at which goods can be sold. Because the price is not allowed to rise above this level, the legislated maximum is called a **price ceiling**. By contrast, if the producers are successful, the government imposes a legal minimum on the price. Because the price cannot fall below this level, the legislated minimum is called a price floor. Let us consider the effects of these policies.

Effects of price ceiling on the market:

When the government imposes a price ceiling on the market for a good, **two outcomes are possible**:

1. **If the equilibrium price is below the ceiling,** the price ceiling is not binding. Market forces naturally move the economy to the equilibrium, and the price ceiling has no effect.

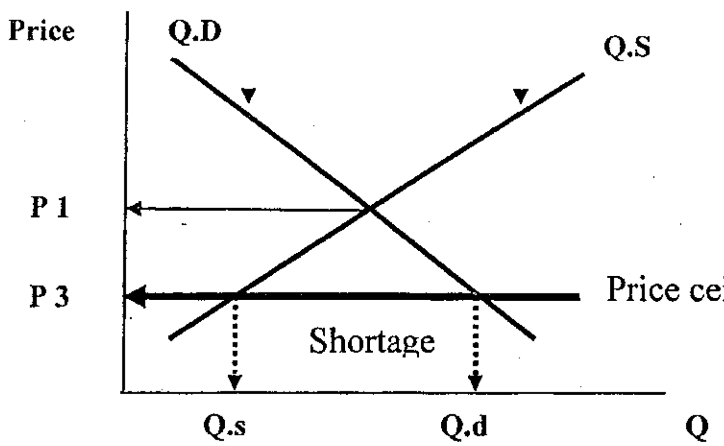
If the government imposes a price ceiling of p2, because the price ceiling is above the equilibrium price p1, the price ceiling has no effect, and the market can reach the equilibrium of supply and demand.



2. **If the ceiling is below the equilibrium price**, the ceiling is a binding constraint on the market. The forces of supply and demand tend to move the price toward the equilibrium price, but when the market price hits the ceiling, it can rise no further. Thus, the market price equals the price ceiling. At this price, the quantity demanded of a good exceeds the quantity supplied; there is a shortage, so some people who want to buy at the going price are unable to. Buyers who are willing to arrive early and wait in line can buy, while those unwilling to wait do not. Alternatively, sellers could ration the good according to their own personal biases, selling it only to friends, relatives, or members of their own racial or ethnic group.

Notice that even though the price ceiling was motivated by a desire to help buyers, not all buyers benefit from the policy. Some buyers do get to pay a lower price, although they may have to wait in line to do so, but other buyers cannot get any at all.

If the government imposes a price ceiling of p3, because the price ceiling is below the equilibrium price of p1, the market price equals p3. At this price, the quantity demanded of a good exceeds the quantity supplied; there is a shortage. This will benefit the consumer.

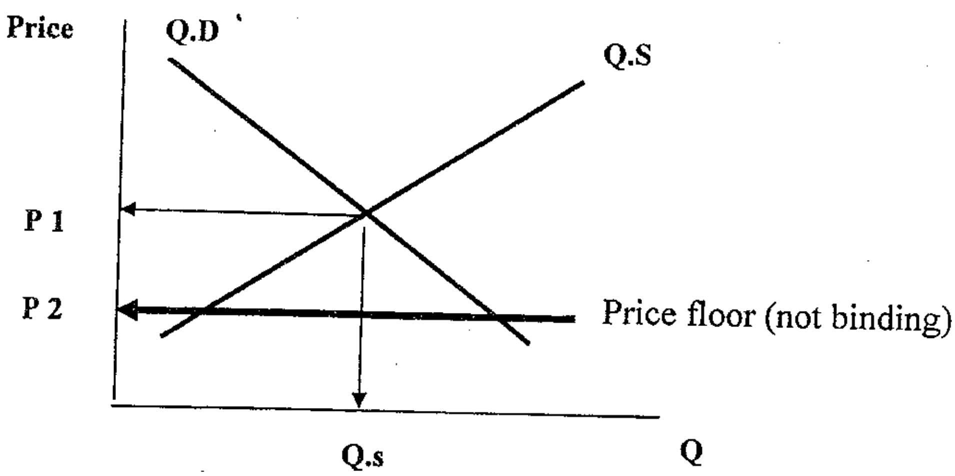


Effects of price floors on the market:

Price floors, like price ceilings, are an attempt by the government to maintain prices at other than equilibrium levels. Where as a price ceiling places a legal maximum on prices, a price floor places a legal minimum.

When the government imposes a price floor on the market for a good, **two outcomes are possible**:

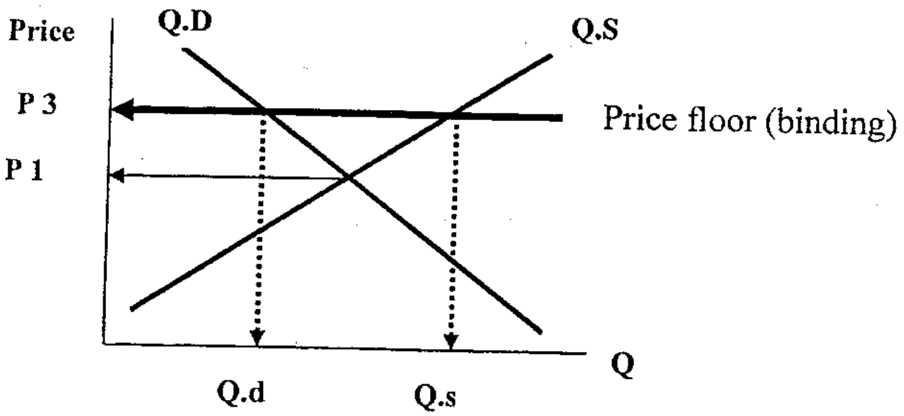
1- **If the price floor is below equilibrium price**, the price floor is not binding. Market forces naturally move the economy to the equilibrium, and the price ceiling has no effect. The price floor is not binding, market forces naturally move the economy to the equilibrium, and the price floor has no effect.



The government imposes a price floor of p2, because this is below the equilibrium price of p1, the price floor has no effect. The market price adjusts to balance supply and demand and reach equilibrium again.

2- **If the equilibrium price is below price floor**, the price floor is binding.

The forces of supply and demand tend to move the price toward the equilibrium price, but when the market price hits the floor, it can fall no further. The market price equals the price floor. At this floor quantity supplied exceeds the quantity demanded; some people who want to sell the good at the going price are unable to. Thus, a binding price floor causes a surplus.



The government imposes a price floor of p3, which is above the equilibrium price of p1. Therefore, the market price equals p3, quantity supplied exceeds the quantity demanded, so there is a surplus. This will benefit the producer.

Evaluating price controls :

Economists usually oppose price ceilings and price floors, to economists, prices are not the outcome of some haphazard process, prices are the result of the millions of business and consumer decisions that lie behind the supply and demand curves.

Prices have the crucial job of balancing supply and demand and, thereby, coordinating economic activity. When policymakers set prices by legal decree, they obscure the signals that normally guide the allocation of society's resources.

Indeed, policymakers are led to control prices because they view the market's outcome as unfair, price controls are often aimed at helping the poor, for instance, rent-control laws try to make housing affordable for everyone, and minimum-wage laws try to help people escape poverty.

Yet price controls often hurt those they are trying to help, rent control may keep rents low, but it also discourages landlords from maintaining their buildings and makes housing hard to find. Minimum-wage laws may raise the incomes of some workers, but they also cause other workers to be unemployed.

Helping those in need can be accomplished in ways other than controlling prices, for instance, the government can make housing more affordable by paying a fraction of the rent for poor families. Unlike rent control, such rent subsidies do not reduce the quantity of housing supplied and, therefore, do not lead to housing shortages.

Similarly, wage subsidies raise the living standards of the working poor without discouraging firms from hiring them.
An example of a wage subsidy is the earned income tax credit, a government program that supplements the incomes of low-wage workers.

Although these alternative policies are often better than price controls, they are not perfect. Rent and wage subsidies cost the government money and, therefore, require higher taxes.

Chapter 5

Effects of tax on market equilibrium.

Ch.5

Effects of tax on market equilibrium

Introduction:

All governments use taxes to raise revenue for public projects, such as roads, schools, and national defense.
Taxes are such an important policy instrument, and they affect our lives in many ways, so this chapter explains how taxes affect the economy and tax incidence.

Tax incidence: is the study of who bears the burden of taxation.

Taxes on buyers:

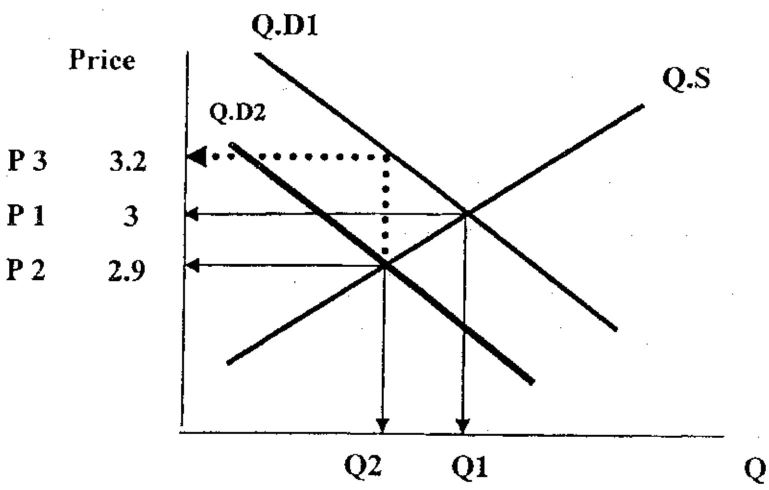
We first consider a tax levied on buyers of a good.
Suppose, for instance, that our local government passes a law requiring buyers of cigarettes to send $0.30 to the government for each pack they buy. How does this law affect the buyers and sellers of cigarettes?

The initial impact of the tax is on the demand for cigarettes; the supply curve is not affected because, for any given price of cigarettes, sellers have the same incentive to provide cigarettes to the market.

By contrast, buyers now have to pay a tax to the government (as well as the price to the sellers) whenever they buy cigarettes.

Thus, the tax shifts the demand curve for cigarettes leftward. The direction of the shift is easy to determine.

When a tax of $0.30 is levied on buyers, the demand curve shifts down by from D1 to D2. The equilibrium quantity falls from Q1 to Q2. The price that sellers receive falls from P1 to P2, even though the tax is levied on buyers, buyers and sellers share the burden of the tax.



Who pays the tax?

Although buyers send the entire tax to the government, buyers and sellers share the burden, because the market price falls from \$3.00 to \$2.90 ,when the tax is introduced sellers receive \$0.10 less for each pack of cigarettes than they did without the tax. Thus, the tax makes sellers worse off.

Buyers pay sellers a lower price (\$2.90), but the effective price including the tax rises from \$3.00 before the tax to \$3.20 with the tax (\$2.90 +\$0.30 = \$3.20). Thus, the tax also makes buyers worse off.

Note:

- A tax on buyers shifts the demand curve downward by the size of the tax (\$0.30).
- P 3 $\longrightarrow$ Price that buyers pay.
- P 2 $\longrightarrow$ Price that sellers receive.
- To induce buyers to demand any given quantity, the market price must now be \$0.30 lower to make up
- for the effect of the tax. Thus, the tax shifts the demand curve downward from D1 to D2 by exactly the size of the tax (\$0.30).

To sum up, the analysis yields two general lessons:

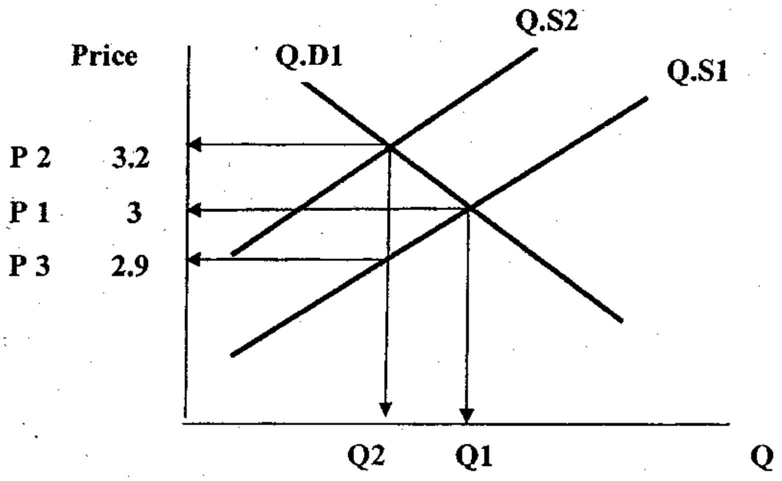
- Taxes discourage market activity, when a good is taxed, the quantity of the good sold is smaller in the new equilibrium.

- Buyers and sellers share the burden of taxes, in the new equilibrium, buyers pay more for the good, and sellers receive less.

Taxes on sellers:

Now consider a tax levied on sellers of a good, suppose the local government passes a law requiring sellers of ice-cream to send $0.50 to the government for each one they sell. What are the effects of this law?

In this case, the initial impact of the tax is on the supply of ice cream, because the tax is not levied on buyers, the quantity of ice cream demanded at any given price is the same, so the demand curve does not change, by contrast, the tax on sellers raises the cost of selling ice cream, and leads sellers to supply a smaller quantity at every price, the supply curve shifts to the left (or upward).



When a tax of $0.30 is levied on sellers, the supply curve shifts up by $0.50 from S1 to S2. The equilibrium quantity falls from Q1 to Q2, the price that buyers pay rises from P1 to P2.

Even though the tax is levied on sellers, buyers and sellers share the burden of the tax.

Note:

- A tax on buyers shifts the supply curve upward by the size of the tax ($0.30) the tax burden is P2-P3.
- Buyers bear P1-P2.
- Producers bear P1-P3.
- P 2 $\longrightarrow$ Price that buyers pay.
- P 3 $\longrightarrow$ Price that sellers receive.

conclusion:

Taxes on buyers and taxes on sellers are equivalent, in both cases, the tax places a wedge between the price that buyers pay and the price that sellers receive, the wedge between the buyers' price and the sellers' price is the same, regardless of whether the tax is levied on buyers or sellers. In either case, the wedge shifts the relative position of the supply and demand curves.

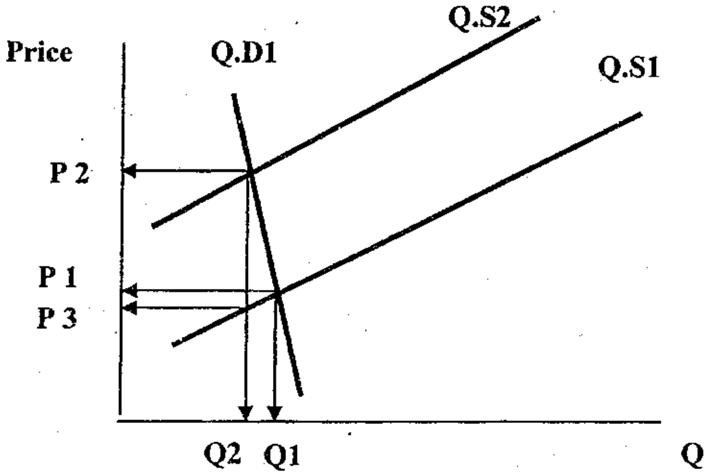
In the new equilibrium, buyers and sellers share the burden of the tax. The only difference between taxes on buyers and taxes on sellers is who sends the money to the government ,Once the market reaches its new equilibrium, buyers and sellers share the burden, regardless of how the tax is levied.

Elasticity and tax incidence:

When a good is taxed, buyers and sellers of the good share the burden of the tax, but how exactly is the tax burden divided? Only rarely will it be shared equally.

1- Elastic Supply, Inelastic Demand:

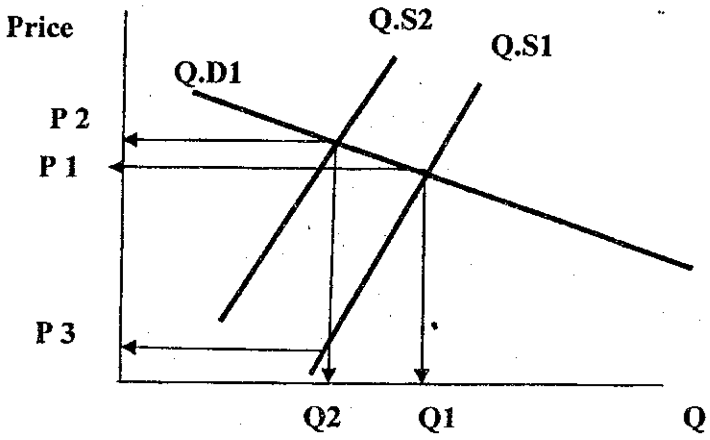
The supply curve is elastic, and the demand curve is inelastic.
In this case, the price received by sellers falls only slightly, while the price paid by buyers rises substantially. Thus, buyers bear most of the burden of the tax.



- The tax burden is P2-P3.
- Buyers bear P1-P2.
- Producers bear P1-P3.

2- Inelastic Supply, Elastic Demand:

The supply curve is inelastic, and the demand curve is elastic.
In this case, the price received by sellers falls substantially, while the price paid by buyers rises only slightly. Thus, sellers bear most of the burden of the tax.



- The tax burden is P2-P3.
- Buyers bear P1-P2.
- Producers bear P1-P3.

Question:

A recent study found that the demand and supply schedules for Frisbees are as follows:

Price	Quantity supplied	Quantity demanded
11	1	15
10	2	12
9	4	9
8	6	6
7	8	3
6	10	1
5	12	0.5

1. **What are the equilibrium price and quantity of Frisbees?**

2. **Assume the government imposes a price floor $2 above the equilibrium price.**
   What is the new market price?
   How many Frisbees are sold?

3. **Assume that consumers demanded a reduction in the price of Frisbees, so government repealed price floor and imposed a price ceiling $1 below the former price floor. What is the new market price?**
   How many Frisbees are sold?

Chapter 6

International Trade

Ch.6

International Trade

Introduction:

International trade theory tries to answer many questions like: how does international trade affect economic well-being? Who gains and who loses from free trade among countries, and how do the gains compare to the losses?

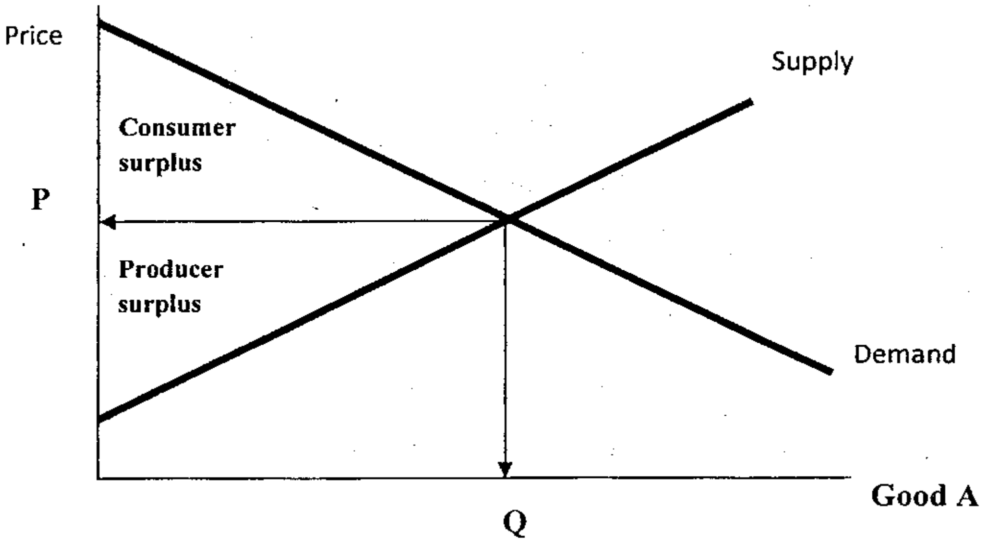
By applying the principle of comparative advantage, all countries can benefit from trading with one another because trade allows each country to specialize in doing what it does best. But it did not explain how the international market place achieves these gains from trade or how the gains are distributed among various economic actors.

We now return to the study of international trade and take up these questions.

Equilibrium without trade:

The following figure shows, the domestic price adjusts to balance the quantity supplied by domestic sellers and the quantity demanded by domestic buyers.

The figure shows the consumer and producer surplus in the equilibrium without trade. The sum of consumer and producer surplus measures the total benefits that buyers and sellers receive from the market.



When an economy cannot trade in world markets, the price adjusts to balance domestic supply and demand. This figure shows consumer and producer surplus in equilibrium without international trade. Equilibrium quantity is Q and equilibrium price is P.

World price and comparative advantage:

World price is the price of a good that prevails in the world market for that good.

If free trade were allowed, would this country end up buying or selling good A in world markets?

If the world price of good A is higher than the domestic price, then this country would become an exporter of good A once trade is permitted, producers would be eager to receive the higher prices available abroad and would start selling to buyers in other countries.

Conversely, if the world price of good A is lower than the domestic price, then this country would become an importer of good A. Because foreign sellers offer a better price, consumers would quickly start buying good A from other countries.

In essence, comparing the world price and the domestic price before trade indicates whether the country has a comparative advantage in producing good A. The domestic price reflects the opportunity cost of good A: It tells us how much the country must give up to get one unit of good A.

If the domestic price is low, the cost of producing good A in is low, suggesting that the country has a comparative advantage in producing good A relative to the rest of the world.

If the domestic price is high, then the cost of producing good A is high, suggesting that foreign countries have a comparative advantage in producing good A.

Winners and losers from trade:

The small-economy assumption has a specific implication for analyzing the good A market: If the country is a small economy, then the change in the country's trade policy will not affect the world price of good A. The country will be price taker in the world economy. That is, they take the world price of good A as given. They can sell good A at this price and be exporters or buy good A at this price and be importers.

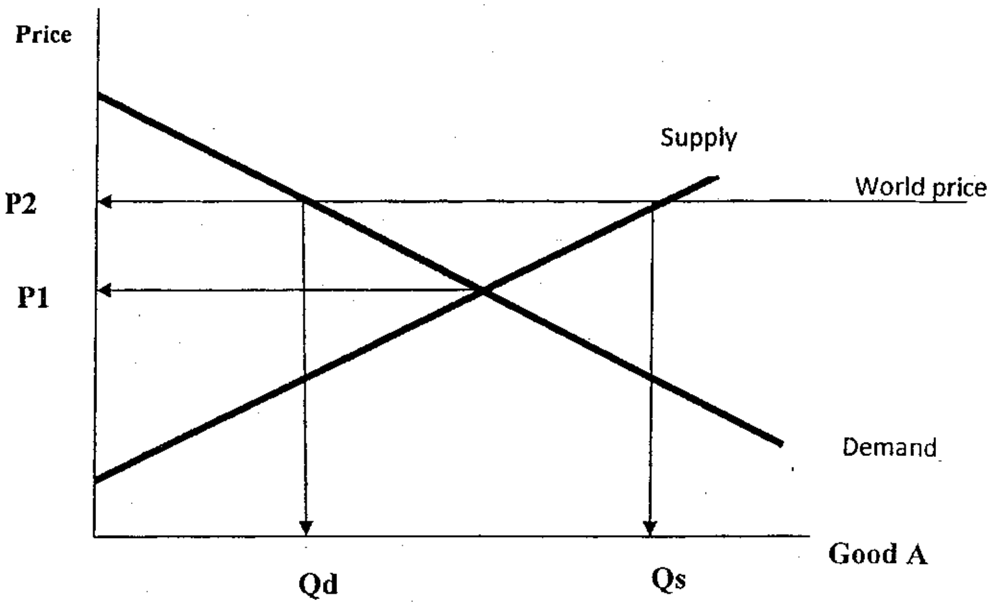
The small-economy assumption is not necessary to analyze the gains and losses from international trade. But economists know from experience that this assumption greatly simplifies the analysis.
They also know that the basic lessons do not change in the more complicated case of a large economy.

If the world price is higher than domestic price:

The following figure shows that the domestic equilibrium price before trade is below the world price. Once free trade is allowed, the domestic price rises to equal the world price. No seller of good A would accept less than the world price, and no buyer would pay more than the world price.

With the domestic price now equal to the world price, the domestic quantity supplied differs from the domestic quantity demanded. The supply curve shows the quantity of good A supplied by sellers. The demand curve shows the quantity of good A demanded by buyers. Because the domestic quantity supplied is greater than the domestic quantity demanded, the country sells good A to other countries. Thus, the country becomes a good A exporter.

Although domestic quantity supplied and domestic quantity demanded differ, the market good A is still in equilibrium because there is now another participant in the market.



P1: Price before trade.

P2: Price after trade.

Once trade is allowed, the domestic price rises to equal the world price. The supply curve shows the quantity of good A produced domestically, and the demand curve shows the quantity consumed domestically. Exports equal the difference between the domestic quantity supplied and the domestic quantity demanded at the world price (Qd - Qs).

Calculating the gains and losses from opening up trade:

Clearly, not everyone benefits. Trade forces the domestic price to rise to the world price. Domestic producers of good A are better off because they can now sell good A at a higher price, but domestic consumers of good A are worse off because they have to buy good A at a higher price.

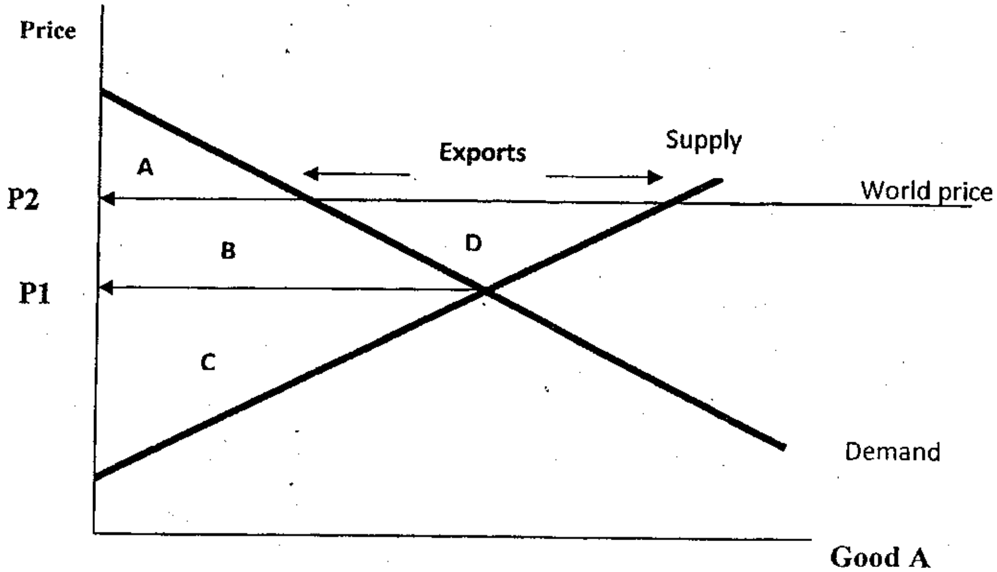
To clarify gains and losses obviously we must calculate consumer and producer surplus.

To measure these gains and losses, we look at the changes in consumer and producer surplus, which are shown in the following figure. Before trade is allowed, the price of good A adjusts to balance domestic supply and domestic demand.

How free trade affects welfare in an exporting country:

P1: Price before trade.

P2: Price after trade.



surplus	Before trade	After trade	Chance
Consumer surplus	A + B	A	B
Producer surplus	C	B+ C+D	B + D
Total surplus	A + B + C	A + B + C + D	D

Before trade:

Consumer surplus is the area between the demand curve and the domestic price, A + B .

Producer surplus is the area between the supply curve and the domestic price, C.

Total surplus before trade, the sum of consumer and producer surplus, A + B + C .

After trade:

The domestic price rises to the world price.

Consumer surplus is area A.
(the area between the demand curve and the world price).

Producer surplus is area B+ C+D.
(the area between the supply curve and the worldprice).

Total surplus with trade is area A + B + C + D.

These welfare calculations show who wins and who loses from trade in an exporting country. Sellers benefit because producer surplus increases by the area B + D.
Buyers are worse off because consumer surplus decreases by the area B.
Because the gains of sellers exceed the losses of buyers by the area D, total surplus increases indicating that trade raises the economic well-being of the country as a whole.

This analysis of an exporting country yields two conclusions:

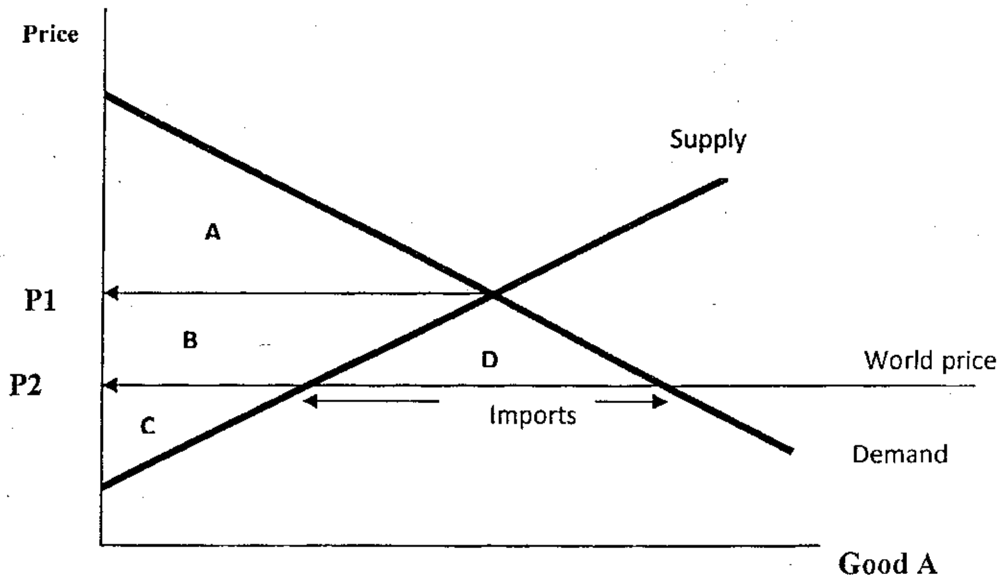
- When a country allows trade and becomes an exporter of a good, domestic producers of the good are better off, and domestic consumers of the good are worse off.

- Trade raises the economic well-being of a nation in the sense that the gains of the winners exceed the losses of the losers.

How free trade affects welfare in an importing country:

P1: Price before trade.

P2: Price after trade.



surplus	Before trade	After trade	Chance
Consumer surplus	A	A + B + D	**B + D**
Producer surplus	B + C	C	**B**
Total surplus	A + B + C	A + B + C + D	**D**

Before trade:

Consumer surplus is the area between the demand curve and the domestic price, A .

Producer surplus is the area between the supply curve and the domestic price, B + C.
Total surplus before trade, the sum of consumer and producer surplus, A + B + C.

After trade:

The domestic price rises to the world price.

Consumer surplus is area A + B + D
(the area between the demand curve and the world price).

Producer surplus is area C .
(the area between the supply curve and the world price).

Total surplus with trade is area A + B + C + D.

These welfare calculations show who wins and who loses from trade in an exporting country. Buyers benefit because consumer surplus increases by the area B + D. Sellers are worse off because producer surplus falls by the area B.

The gains of buyers exceed the losses of sellers, and total surplus increases by the area D.

This analysis of an importing country yields two conclusions parallel to those for an exporting country:

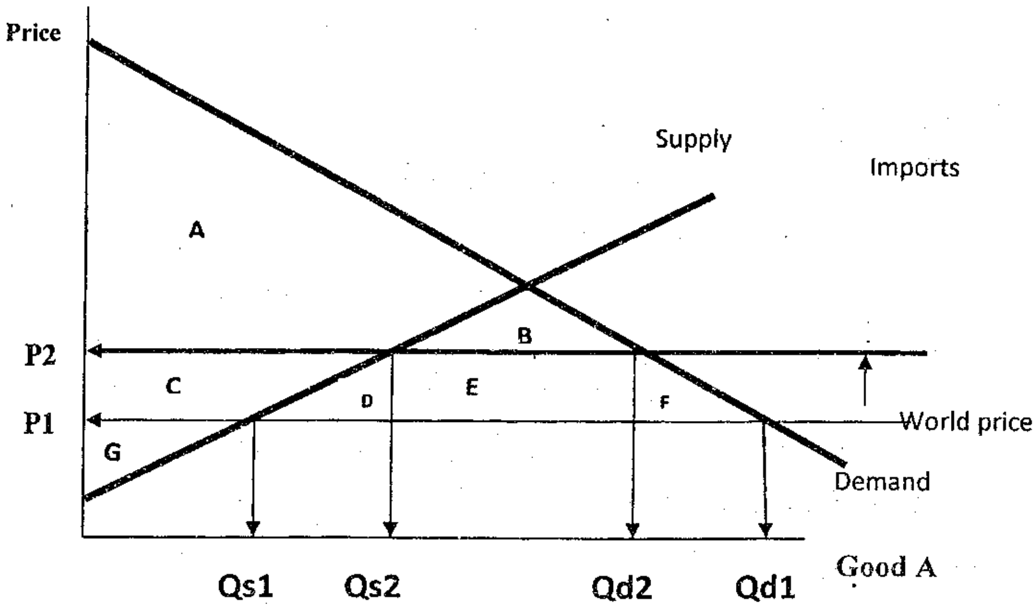
- When a country allows trade and becomes an importer of a good, domestic consumers of the good are better off, and domestic producers of the good are worse off.
- Trade raises the economic well-being of a nation in the sense that the gains of the winners exceed the losses of the losers.

The effects of tariff:

A tariff: is a tax on imported goods, the economists quickly realize that a tariff on a good will have no effect if the country becomes an exporter. The tariff matters only if the country becomes an importer. Concentrating their attention on this case, the economists compare welfare with and without the tariff.

P1: Price before tariff.

P2: Price after tariff.



surplus	Before trade	After trade	Chance
Consumer surplus	A + B + C + D+E+F	A + B	-C-D-E-F
Producer surplus	G	C+G	C
Government revenue	----	E	E
Total surplus	A + B + C + D + E + F + G	A + B + C + G +E	-D -F

The previous figure shows the market; under free trade the domestic price equals the world price. A tariff raises the price of imported good above the world price by the amount of the tariff.

Domestic suppliers, who compete with suppliers of imported goods can now sell their good for the world price plus the amount of the tariff. Thus, the price of the good rises by the amount of the tariff and is, therefore, closer to the price that would prevail without trade.

The change in price affects the behavior of domestic buyers and sellers. Because the tariff raises the price, it reduces the domestic quantity demanded from QD1 to QD2 and raises the domestic quantity supplied from QS1 to QS2. Thus, the tariff reduces the quantity of imports and moves the domestic market closer to its equilibrium without trade.

Now consider the gains and losses from the tariff. Because the tariff raises the domestic price, **domestic sellers are better off, and domestic buyers are worse off, in addition, the government raises revenue.**

To measure these gains and losses, we look at the changes in consumer surplus, producer surplus, and government revenue.

Before the tariff:

The domestic price equals the world price.

Consumer surplus is the area between the demand curve and the world price, A+ B + C + D + E + F.

Producer surplus is the area between the supply curve and the world price, G.

Government revenue equals zero.

Total surplus: the sum of consumer surplus, producer surplus, and government revenue, is area A + B + C + D + E+ F + G.

After the tariff:

Once the government imposes a tariff, the domestic price exceeds the world price by the amount of the tariff.

Consumer surplus is now area A + B.

Producersurplus is area C + G.

Government revenue, which is the quantity of after-tariff imports times the size of the tariff, is the area E.

Total surplus with the tariff is area A+ B + C + E + G.

To determine the total welfare effects of the tariff, we add the change in consumer surplus (which is negative), the change in producer surplus (positive), and the change in government revenue (positive). We find that total surplus in the market decreases by the area D + F. This fall in total surplus is called the deadweight loss of the tariff.

It is not surprising that a tariff causes a deadweight loss, because a tariff is a type of tax. Like any tax on the sale of a good, it distorts incentives and pushes the allocation of scarce resources away from the optimum. In this case**, we can identify two effects**:

First, the tariff raises the price that domestic producers can charge above the world price and, as a result, encourages them to increase production from Qs1 to Qs2.

Second, the tariff raises the price that domestic buyers have to pay and, therefore, encourages them to reduce consumption from Qd1 to Qd2.

Chapter 7

Nation's income

Ch.7

Nation's income

Introduction:

It is hard to pick up a newspaper without seeing some newly reported statistic about the economy. The statistic might measure the total income of everyone in the economy (GDP), the rate at which average prices are rising (inflation), and the percentage of the labor force that is out of work (unemployment), total spending at stores, all these statistics are macroeconomic. Rather than telling us about a particular household or firm, they tell us something about the entire economy.

This chapter considers gross domestic product, or simply GDP, which measures the total income of a nation. GDP is the most closely watched economic statistic because it is thought to be the best single measure of a society's economic well-being.

Gross Domestic Product:

GDP is the total market value of a country's output. It is the market value of all final goods and services produced within a given period of time by factors of production located within a country.

Final goods and services: Goods and services produced for final use. (Not intermediate goods).

Intermediate goods: Goods that are produced by one firm for use in further processing by another firm.

In calculating GDP, we can 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.

Example:

The rule is to calculate all the real additional market value produced currently in the same year avoid double counting the production of clothes is moving through stages for example :

- ✓ Cotton (200)
- ✓ Textile (240)
- ✓ Clothes (300)

GDP = 740 $ (incorrect).

Here there is duplication in calculation of the value of production, Cotton has been calculated three time and textile has been calculated twice , the right way to avoid duplication is to calculate only value added as follows (intermediate goods) .

Stage of production	**Value of sales**	**Value added**
cotton	200	200
Textile	240	40
clothes	300	60
Total value added		300

Value added : is the difference between the value of goods as they leave a stage of production and the cost of the goods as they entered that stage.(Output – Input).

Methods of calculating GDP

1- The Expenditure Approach:

According to this approach GDP includes:

a. Personal consumption expenditures (C): household spending on consumer goods.

b. Gross private domestic investment (I): spending by firms and households on new capital, that is: plant, equipment, inventory, and new residential structures.

c. Government consumption and gross investment (G).

d. Net exports (EX - IM): net spending by the rest of the world, or exports (EX) minus imports (IM).

GDP = consumption + investment + government spending + (imports – exports)

2- Production approach (good flow):

The total money value of the flow of final product produced by the nation, we include only final goods and services such as computers, jeans, apples, this when economy just produces consumption goods there is no investment, no government, no foreign trade. So we calculate the sum of annul flow of all products & services.

Not all production is included in GDP:

1. If a transaction occurs in the underground economy that government statisticians can't measure (criminal activity is a major source of this), it won't be counted.

2. Things that people produce for themselves are typically not counted either (GDP reflects the value of an oil change if you took it to the garage, but not if you did it yourself).

3. Goods that are used as inputs to make other goods are also not counted.

3- Income approach (earning):

The total of factors earnings (wages, interest, rents, profits).

All the cost of doing business, these costs include the wages paid labor , the rents paid to land , the profits paid to capital , at the sometimes these costs are also earning that household receive from firms and by measuring the annual flow of these earnings we will again arrive at the GDP.

GDP = wages + rent + interest + profit

Question:

Use the table below to answer the following questions:

Item	**Value** (billions of dollars)	**Item**	**Value** (billions of dollars)
Wages	5000	**Investment**	1600
Consumption expenditure	7000	**Imports**	1000
Indirect taxes	1200	**Exports**	1300
Subsidies	600	**Transfers to individuals**	1000
Interest, rent, and profit	2200	**Personal taxes**	3000
Depreciation	1300		

1- Calculate the GDP of this country?

2-Which approach did you use in calculating GDP? Why?

3- How much did the government spend on goods and services?

4-Disposable income is how much money people have left after paying their personal taxes. What is the disposable income in this economy?

GDP and social welfare:

- Society is better off when crime decreases, however, a decrease in crime is not reflected in GDP.
- An increase in leisure is an increase in social welfare, but not counted in GDP.
- Non market and household activities are not counted in GDP even though they amount to real production.
- GDP accounting rules do not adjust for production that pollutes the environment.
- GDP has nothing to say about the distribution of output. Redistributive income policies have no direct impact on GDP.
- GDP is neutral to the kinds of goods an economy produces.

So there is not direct relation between GDP and social welfare.

Nominal versus Real GDP

- **Nominal GDP** is GDP measured in current prices, or the current prices we pay for things. Nominal GDP includes all the components of GDP valued at their current prices.

- **Real GDP** is the value of GDP measure in terms of fixed purchasing power.
- Real GDP is measured in the prices of the base year
- The base year is a reference year against which other years are measured.

Price Indexes and GDP Deflator

Nominal variables are variables that are measured in terms of current market values. Using market values to measure economic activity is an advantage that allows different types of goods and services to be summed up. But a problem arises if you want to compare the values of an economic variable at two different points in time. If GDP changes over time, you can't tell whether changes are reflected by the change in quantity or prices of goods and services.

Economic variable is measured by prices in a base year, called real variable. Real economic variables measure quantity of economic activity. Real GDP measures the physical volume of an economy's final production using base year. Nominal GDP is the dollar value of an economy's final output measured at current market prices. Real GDP and nominal GDP are equal in the base year.

A price index is a measure of the average level of prices for some specified set of goods and services, relative to the prices in a specified year.

GDP deflator is a price index that measures the overall level of prices of goods and services included in GDP. It is often given in the formula:

Real GDP = nominal GDP/GDP deflator

The GDP deflator is the amount that nominal GDP is divided by to obtain real GDP; we can rewrite the equation as:

GDP deflator = (nominal GDP/ real GDP).

In the first year, nominal and real GDP are equal. That means that the GDP deflator equals to 1. Let's say that in year 2, nominal GDP is $35,000 and real DGP is $30,000. That means that the GDP deflator for year 2 is $35,000/30,000 = 1.1667.

The overall level of prices, measured by the GDP deflator, is 1.667% higher in year 2 than in year 1.

Question:

Consider an economy which produces 2 types of veggies: carrots and beans. In the base year, the production and price data were as follows:

Veggies	**Quantity**	**Price**
Carrots	250 bags	$2.00 per bag
Beans	325 bags	$3.00 per bag

In **the current year** the production and price are as follows:

Veggies	**Quantity**	**Price**
Carrots	350 bags	$3.00 per bag
Beans	700 bags	$2.00 per bag

Calculate:

1. Real GDP in the current year and base year.
2. Nominal GDP in current year.
3. What is the GDP deflator in the current year?

Solution

Note:

- Real GDP is the measure of physical volume of an economy's final production using prices of base year.
- Nominal GDP is the dollar value of an economy's final output measured at current market prices.
- The GDP deflator measures the overall level of prices of goods and services included in GDP and its equation is Real GDP = nominal GDP/GDP deflator

1. **Real GDP in base year** =(250 ×2) + (325 × 3) = 1475
   real GDP in current year = (350 ×2) + (700 × 3) =2800
   (We used prices of the base year)

2. **Nominal GDP in current year** =
   (350 ×3) + (700 × 2) = 2450

3. **GDP deflator in current year** = (2450/2800) = 0.875.

The Underground Economy and GDP

(The hidden economy)

Hidden economy has become a noticeable fact in all countries, developed and developing -more increasing in the later- this type of economy has been given various names depending on the type of activities one is looking at.

Components of hidden economy:

It has two main sides:

"The first side" concerns with income gained from illegal activities such as drug dealing, illicit trade in weapons, black market and money laundering.

"**The second side**" concerns with lawful activities which acquired the name of "the informal sector", covering various activities and classes such as street vendors, and non-registered small establishments which don't adhere to official procedures partially or totally.

Causes of the informal activities:

- High rates of unemployment.
- High taxes.
- Budget deficit.
- Balance of payments deficit.
- Intensity of regulations.

These parameters influence directly or indirectly the course of activities towards the unofficial track.

Measuring informal activities:

The fact that "the informal sector" is covering many activities makes it very difficult to measure and assess its real size. However, estimates can be made through indirect or direct approaches.

"**The first includes**":

- The discrepancy between national expenditure and income statistics.
- The discrepancy between the official and actual labor force.
- Electricity consumption.

- Monetary approach and the model approach (MIMIC).

These methods estimate global figures for the size of the hidden economy from which the lawful income and transactions can be concluded.

"**The second" depends upon** statistical surveys through:

- Household surveys.
- Establishment surveys.
- Street vendors' survey.

Although results of direct methods depend on the persons addressed and thus they lack objectivity, these methods stand as the best way to study the informal activities.

The estimates for the size of the informal activities may thus vary from one study to another as a result of using different definitions, however they all conclude that the size of the "informal sector" is increasing, some studies estimated by nearly that the number of informal small economic units has increased from 2.4 million units in 1988 to 3.8 million units in 1998, the number of informal workers-excluding agricultural workers-has increased from 2.9 million workers in 1985 to 4.8 million workers in 1999 and some estimates suggest that the size of "the informal sector" (in percent of official GDP) is ranging between

30 to 40%. So, it is clear that "the informal sector" is sizable, and how important it is to study its characteristics and the difficulties it encounters, **some of these difficulties may be**:

- Lack of formal finance (credit restrictions).
- Strained opportunities for securing adequate place of work.
- Limited marketing capabilities and lack of trained workers.

Advantages of "the informal sector":

It has several advantages such as:

- Requiring low starting capital.
- Geographical spreading.
- Absorption of excess labor force.
- Provision of low-priced products and reasonable income.

Disadvantages of "the informal sector":

It has also several disadvantages such as:

- Injustice in taxation and fair competition.
- Lack of accurate data about the economic activities and various economic indicators.
- The production of non-conformable standard specification

How policy makers deal with "the informal sector:

Policy makers have several alternatives to deal with "the informal sector" such as: ignoring its existence, increasing deterrence, or trying to merge its activities into the formal economy. But because of the importance of "the informal sector" for solving many economic problems, the economists tried to study how to formalize its activities aiming at enhancing its positive effects and reducing its negative ones, and they concluded that formalization is expected to generate an annual increase in GDP nearly 1.3%, formalization will also solve many problems such as: unemployment, inefficient allocation of resources, injustice in taxation, and enhancing economic growth.

However, the success of formalization and achieving its expected benefits depend upon a coherent set of economic reforms (fiscal policy, monetary policy, institutional reforms) for "the informal sector"- in particular- aiming at supporting this sector and helping it to improve its productivity, accompanied with reforms on the macro level-in general-to provide the trust that the informal workers will gain from formalization immediately and in the future.

But we must know that without these reforms, the formalization will be harmful for the society and it will lose all its expected benefits.

So, formalization must starts from a comprehensive plan aiming at supporting “the informal sector" as it is capable of solving many economic problems and achieving higher economic growth, besides an increase in the tax collection which will be a precious result in the long run, without being the major objective of formalization.

Chapter 8

Types of market

Ch.8

Types of market

Introduction:

A market is a set of buyers and sellers, commonly referred to as agents, who through their interaction, both real and potential, determine the price of a good, or a set of goods. The concept of a market structure is therefore understood as those characteristics of a market that influence the behavior and results of the firms working in that market.

The main aspects that determine market structures are:

the number of agents in the market, both sellers and buyers; their relative negotiation strength, in terms of ability to set prices; the degree of concentration among them; the degree of differentiation and uniqueness of products; and the ease, or not, of entering and exiting the market. The interaction and differences between these aspects allow for the existence of several market structures, from which we can highlight the following:

Perfect competition: the efficient market where goods are produced using the most efficient techniques and the least amount of factors. Sellers and buyers can't influence in the determination of the price of goods .This market is considered to be unrealistic but it is nevertheless of special interest for hypothetical and theoretical reasons.

Imperfect competition, which includes all situations that differ from perfect competition. Sellers and buyers can influence in the determination of the price of goods, leading to efficiency losses. Imperfect competition includes market structures such as:

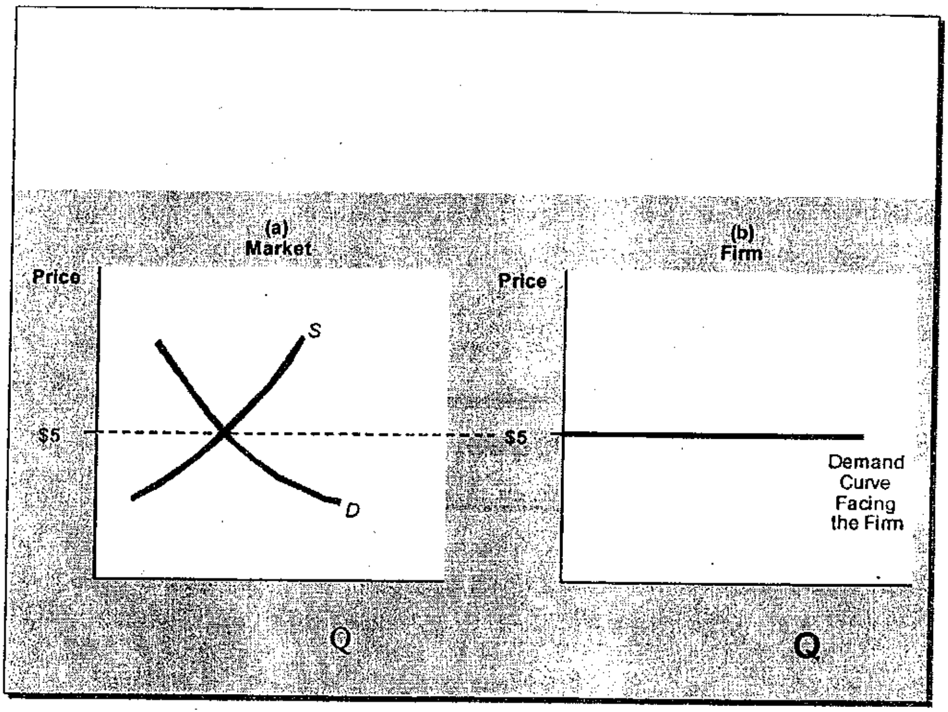
Monopoly: it represents the opposite of perfect competition. This market is composed of a sole seller who will therefore have full power to set prices.

Oligopoly: in this case, products are offered by a series of firms. However, the number of sellers is not large enough to guarantee perfect competition prices. These markets are usually studied by analyzing duopolies, since these are easier to model and the main conclusions can be extrapolated to oligopolies.

Monopolistic competition: this market is formed by a high number of firms which produce a similar good that can be seen as unique due to differentiation, that will allow prices to be held up higher than marginal costs.

In other words, each producer will be considered as a monopoly thanks to differentiation, but the whole market considered as competitive because the degree of differentiation is not enough to undermine the possibility of substitution effects.

Perfect Competition



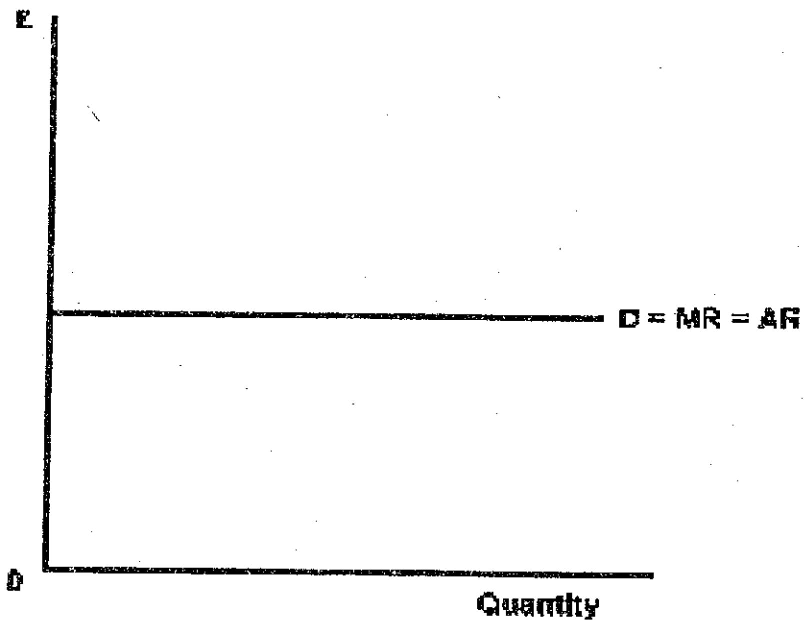
In figure (a), the market supply and demand curves intersect to determine a market price of $5 per unit. The typical firm in figure (b) can sell all it wants at that price. The demand curve facing the competitive firm is a horizontal line at the market price.

figure (b) of the figure above shows the demand curve facing the perfectly competitive firm.

Characteristics:

1. Large number of firms.
2. Products are homogenous (identical) – consumer has no reason to express a preference for any firm.
3. Freedom of entry and exit into and out of the industry.
4. Firms are price takers – have no control over the price they charge for their product.
5. Each producer supplies a very small proportion of total industry output.
6. Consumers and producers have perfect knowledge about the market.

The Demand Curve/Perfect Competition



The firm can sell as much as it wants at this price, however if it charged above this price, demand would fall to zero.

Profit Maximizing Output Level:

The firm should continue to increase output as long as marginal revenue is greater than marginal cost.

Notice how the firm keeps producing more as long as MR>MC, when producing more will raise profit, then producer's equilibrium occurs when MR = MC.

M C = the additional cost from producing additional unit.
= change in total cost / change in production.

M R = the additional revenue from selling additional unit.
= change in Total revenue / change in production.

Total revenue = quantity sold × price.

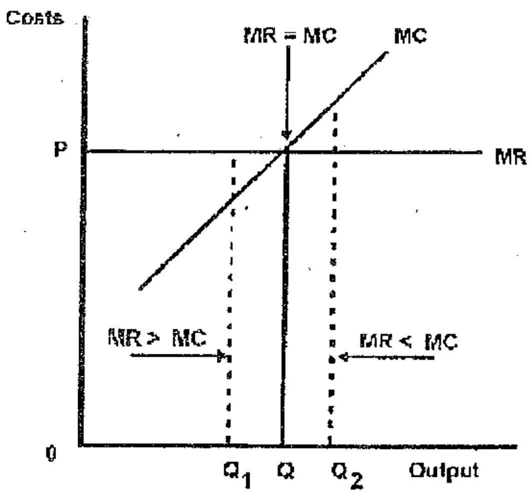
Total cost = Fixed cost + Variable cost.

Producer's equilibrium:

Producer's equilibrium occurs when MR=MC.

This is where profits are maximized or losses minimized.
For the perfectly competitive firm the only decision to be made is how much to produce to maximize profits.
Firms cannot influence price because their output is a very small part of market output.

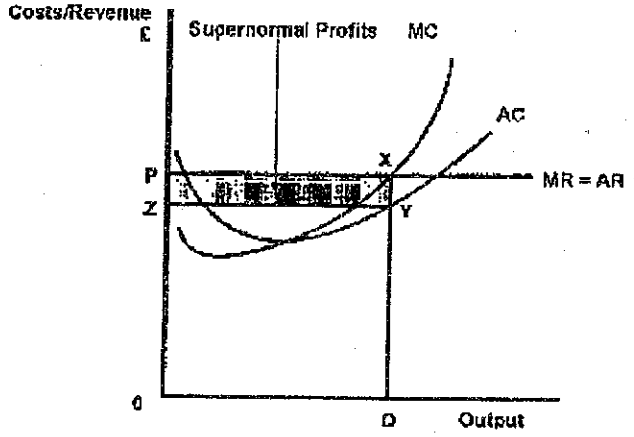
Equilibrium of the Firm – Perfect Competition



Short run:

In the short run, firms earning supernormal profits, this will attract other firms into the market looking for higher than normal rewards.

Perfect Competition – Short Run



Total revenue = o Q X P

Total cost = O Q Y Z

Profit = X Y Z P

Note : if AC is higher than price the firm faces an economic loss (or sub-normal profits).

Not all firms make supernormal profits in the short run. Their profits depend on the position of their short run cost curves. Some firms may be experiencing sub-normal profits because their average total costs exceed the current market price. Other firms may be making normal profits where total revenue equals total cost (i.e. they are at the break-even output). In the next diagram below, the firm shown has high short run costs such that the ruling market price is below the average total cost curve. At the profit maximizing level of output, the firm is making an economic loss (or sub-normal profits)

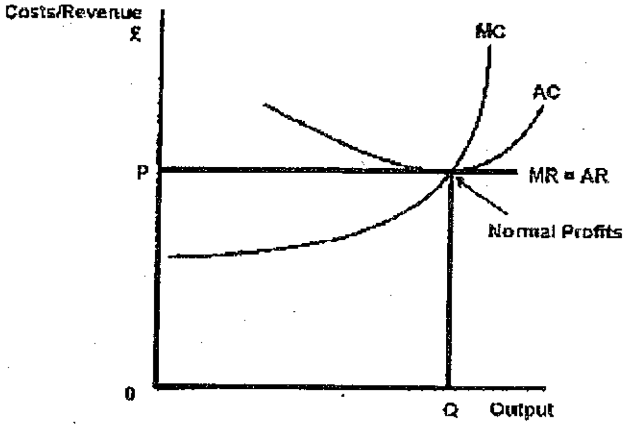
Long run:

In the long run, as new firms enter the industry, established firms will expand their output to get more of the supernormal profits. Eventually, all firms earn normal profits as the supernormal profits are competed away.

Long run equilibrium of the firm:

We saw how super normal profits attracted new firms into the industry.
After a time, the existence of subnormal profits would cause firms to leave the industry. Supply would fall and prices rise. Hence long run equilibrium is one of normal profits only.

Perfect Competition – Long Run



Example:

Determine producer's equilibrium and calculate average cost per unit from the following table assuming that market price is 6 $ per unit (use graphs)?

Quantity	0	1	2	3	4	5	6	7	8
Total cost	10	15	17	18	18.5	21	25	31	39

Solution

Quantity	price	Total revenue	Marginal revenue	Total cost	Marginal cost	Profit (LOSS)	Average cost
0	6	0	6	10	0	(10)	0
1	6	6	6	15	5	(9)	15
2	6	12	6	17	2	(5)	8.5
3	6	18	6	18	1	0	6
4	6	24	6	18.5	1.5	5.5	4.63
5	6	30	6	21	2.5	9	4.2
6	6	36	6	25	4	11	4.17
7	6	42	6	31	6	11	4.43
8	6	48	6	39	8	9	4.88

Note:

M C = the additional cost from producing additional unit.
= change in total cost / change in production.

M R = the additional revenue from selling additional unit.
= change in Total revenue / change in production.

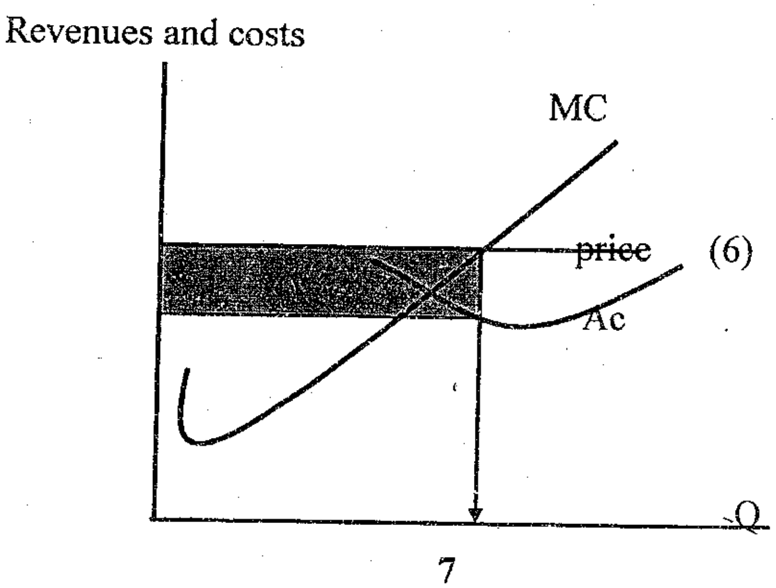
Total revenue = quantity sold × price.

Average cost = Total cost /production.

Profit (Loss) = Total revenue- Total cost.

Producer's equilibrium occurs when MR=MC at unit 7 .

Firm earns supernormal profits (11).


Revenues and costs
MC
price
(6)
Ac
Q
7

Example:

Determine producer's equilibrium and calculate average cost per unit from the following table assuming that market price is 15 $ per unit (use graphs)?

Quantity	0	1	2	3	4	5	6	7	8
Total cost	20	40	48	52	63	78	94	117	147

Solution

Quantity	price	Total revenue	Marginal revenue	Total cost	Marginal cost	Profit (LOSS)	Average cost
0	15	0	15	20	0	0	0
1	15	15	15	40	20	(25)	40
2	15	30	15	48	8	(18)	24
3	15	45	15	52	4	(7)	17.3
4	15	60	15	63	11	(3)	15.75
5	15	75	15	78	15	(3)	15.6
6	15	90	15	94	16	(4)	15.6
7	15	105	15	117	24	(12)	16.7
8	15	120	15	147	30	(27)	18.37

Note:

M C = the additional cost from producing additional unit.
= change in total cost / change in production.

M R = the additional revenue from selling additional unit.
= change in Total revenue / change in production.

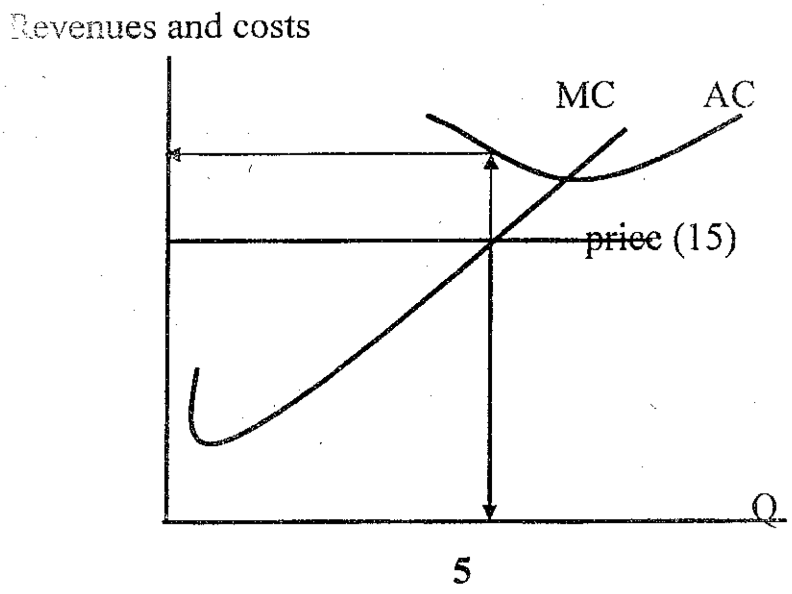
Total revenue = quantity sold × price.

Average cost = Total cost /production.

Profit (Loss) = Total revenue- Total cost.

Producer's equilibrium occurs when MR=MC at unit 5 .

Firm's loss = (3).



Monopoly

Pure monopoly – means that only One producer exists in the industry.

Monopoly exists, therefore, Where one firm dominates the market.

Monopoly power – refers to cases where firms influence a market in some way through their behavior – determined by the degree of concentration in the industry:

- Influencing prices.
- Influencing output.
- Erecting barriers to entry.
- Pricing strategies to prevent competition.

May not pursue profit maximization – encourages unwanted entrants to the market. Sometimes seen as a case of market failure.

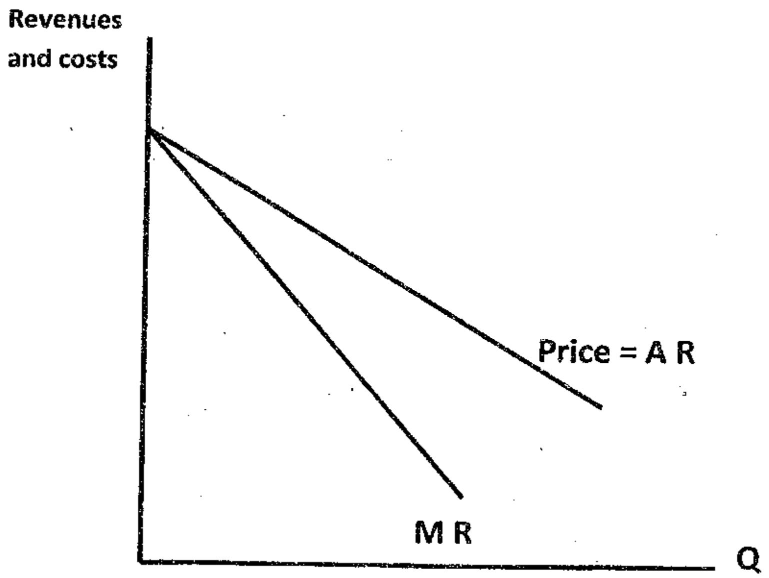
The fundamental difference between a competitive firm and a monopolistic firm is the monopoly's influence over the price of its product or output. This arises because a competitive firm is too small in relation to its market in which it operates to have any control over the price of its output.

However, a monopoly does not face this dilemma because it is the only producer in its market so it adjusts the price of its output by simply changing the quantity it supplies. This illustrates the characteristic of a monopolistic firm as a price maker.

Since monopolies are the only producer in its market and are price makers they face a downward sloping market demand curve and thus must sell at a lower price in order to sell more output.

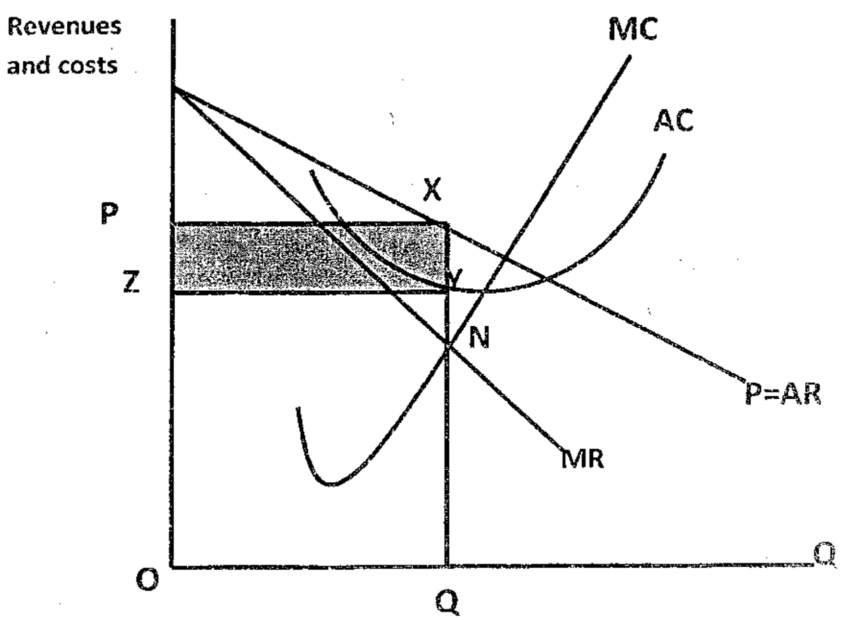
Like a competitive firm, a monopoly operates at maximum profit where its marginal revenue equals its marginal cost. However, its marginal revenue curve is no longer equal to its demand curve because the downward sloping quality of its demand curve causes the monopoly to lower its prices in order to increase the quantity, resulting in less revenue per extra unit of output.

Therefore, in order to find the price a monopoly charges you must determine the profit-maximizing quantity where its marginal revenue equals its marginal cost and then go up to its demand curve at that quantity.


Revenues
and costs
Price = A R
M R
Q

Profit Maximizing Output Level (Short Run):

In the short run, firms earn supernormal profits, this will attract other firms into the market looking for super normal profits:

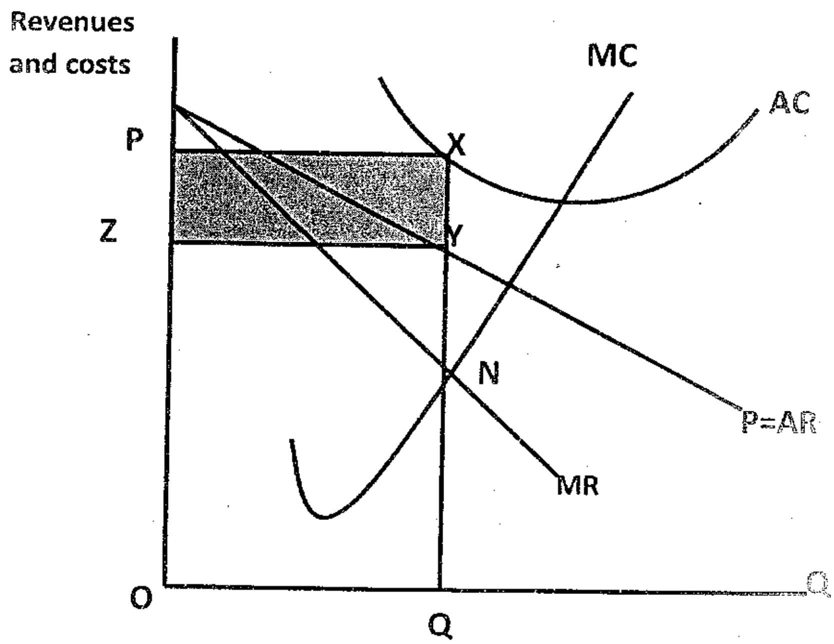


Total revenue = O Q X P

Total cost = O Q Y Z

Profit = X Y Z P

Some firms may be experiencing sub-normal profits because their average total costs exceed the current market price:



Total revenue = O Q Y Z

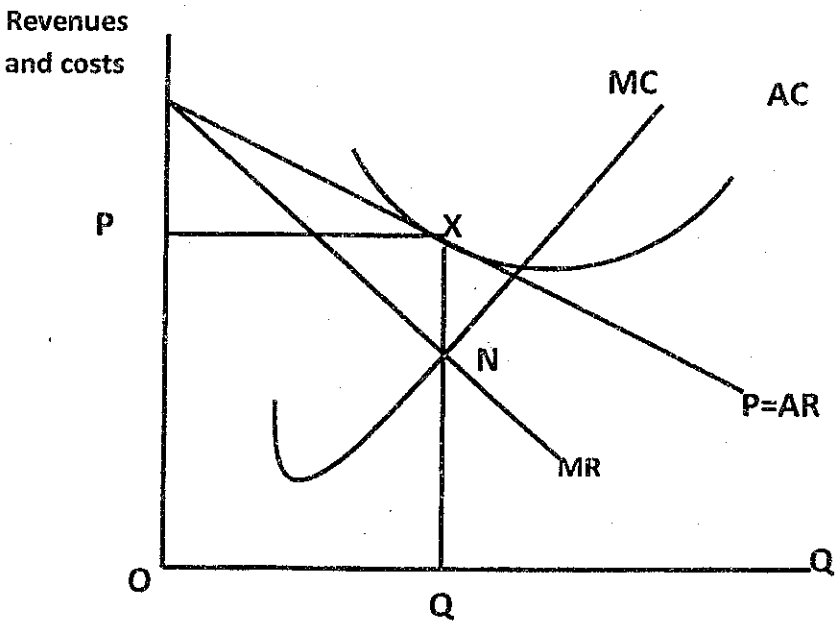
Total cost = O Q X P

Loss = X Y Z P

Long run equilibrium of the firm:

We saw how super normal profits attracted new firms into the industry.

After a time, the existence of subnormal profits would cause firms to leave the industry. Supply would fall and prices rise. Hence long run equilibrium is one of normal profits only



Example:

Determine producer's equilibrium and calculate average cost per unit from the following table assuming that market price is 15 $ per unit(use graphs)?

Quantity	0	1	2	3	4	5	6	7	8
Price	-	80	70	60	50	40	30	20	10
Total cost	200	260	288	312	332	356	383	413	448

Solution

Quantity	price	Total revenue	Marginal revenue	Total cost	Marginal cost	Profit (LOSS)	Average cost
0	-	0	-	200	-	(200)	-
1	80	80	80	260	60	(180)	260
2	70	140	60	288	28	(148)	144
3	60	180	40	312	24	(132)	104
4	50	200	20	332	20	(132)	83
5	40	200	0	356	24	(156)	71.2
6	30	180	-20	383	27	(203)	63.8
7	20	140	-40	413	30	(273)	59
8	10	80	-60	448	35	(368)	56

M C = the additional cost from producing additional unit.
= change in total cost / change in production.

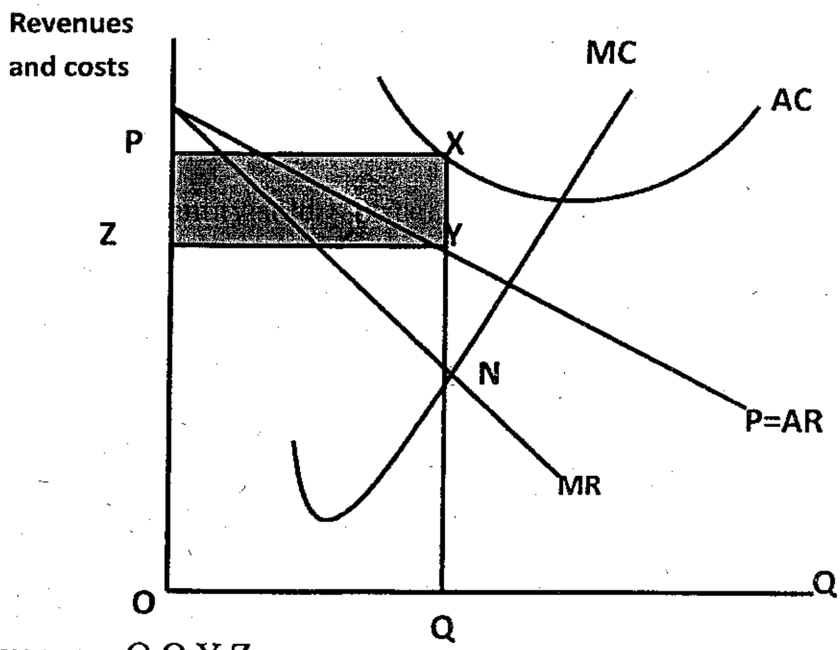
M R = the additional revenue from selling additional unit.
= change in Total revenue / change in production.

Total revenue = quantity sold × price.

Average cost = Total cost /production.

Profit (Loss) = Total revenue- Total cost.

Producer's equilibrium occurs when MR=MC at unit 4 .
Firm's loss = (132).



Total revenue = O Q Y Z

Total cost = O Q X P

Loss = X Y Z P

Monopolistic Competition

Where the conditions of perfect competition do not hold, 'imperfect competition' will exist.

Varying degrees of imperfection give rise to varying market structures

Monopolistic competition is one of these .

Characteristics:

1. Large number of firms in the industry.
2. May have some element of control over price due to the fact that they are able to differentiate their product in some way from their rivals – products are therefore close, but not perfect, substitutes.
3. Entry and exit from the industry is relatively easy – few barriers to entry and exit
4. Consumer and producer knowledge imperfect.

Examples

Restaurants.
Plumbers/electricians/local builders.
Private schools.
Plant hire firms.
Insurance brokers.
Health clubs.

Oligopoly

Competition between the few:

May be a large number of firms in the industry but the industry is dominated
by a small number of very large producers.

Concentration Ratio – the proportion of total market sales (share) held by the top 3,4,5, etc firms:

A 4 firm concentration ratio of 75% means the top 4 firms account for 75% of all
the sales in the industry.

Characteristics:

1. Price may be relatively stable across the industry . Potential for collusion.
2. Behavior of firms affected by what they believe their rivals might do – interdependence of firms.
3. Goods could be homogenous or highly differentiated.
4. Branding and brand loyalty may be a potent source of competitive advantage.
5. Non-price competition may be prevalent.
6. Game theory can be used to explain some behavior.
7. High barriers to entry.

Duopoly

Collusion may be a possible feature ,price leadership by the larger of the two firms may exist – the smaller firm follows the price lead of the larger one.

- Highly interdependent.
- High barriers to entry.

At long run equilibrium we would see equal market share and normal profit made.

Questions

Question 1:

The demand and supply schedule for cake plates are:

price	4	8	12	16	20
quantity supplied	10	20	30	40	50
quantity demanded	50	40	30	20	10

5- What are the equilibrium price and quantity?

6- Illustrate demand curve and supply curve graphically?

7- If the price was 8 Egyptian pound describe the situation in the market and explain what would happen to the price?

8- If the price was 16 Egyptian pound describe the situation in the market and explain what would happen to the price?

Question 2:

The demand and supply schedules for chake plates are:

Price	20	16	12	8	4
Quantity demanded	0	20	40	60	80
Quantity supplied	80	60	40	20	0

1) What are the equilibrium price and equilibrium quantity.
2) Illustrate the demand curve and supply curve graphically.
3) If the price was 8 Egyptian pound describe the situation in the market, and explain what would happen to the price.
4) If the price was 20 Egyptian pound describe the situation in the market, and explain what would happen to the price.

Question 3:

Calculate price elasticity of demand from the following table and comment (using graphs):

price (pounds)	Quantity demanded (Units)
20	12
30	8
35	4

Question 4 :

Calculate price elasticity of demand from the following table and comment (using graphs):

price (pounds)	Quantity demanded (Units)
20	200
16	300
12	350

Question 5:

A recent study found that the demand and supply schedules for Frisbees are as follows:

Price	Quantity supplied	Quantity demanded
11	1	15
10	2	12
9	4	9
8	6	6
7	8	3
6	10	1
5	12	0.5

4. What are the equilibrium price and quantity of Frisbees?

5. Assume the government imposes a price floor $2 above the equilibrium price.
   What is the new market price?
   How many Frisbees are sold?

6. Assume that consumers demanded a reduction in the price of Frisbees, so government repealed price floor and imposed a price ceiling $1 below the former price floor. What is the new market price?
   How many Frisbees are sold?

Question 6 :

Suppose the government requires smokers to pay two pounds tax on each pack of cigarettes purchased.

1. **Draw a supply-and-demand diagram of the market for cigarettes without the tax. Show the price paid by consumers, the price received by producers, and the quantity of cigarettes sold. What is the difference between the price paid by consumers and the price received by producers?**

2. **Draw a supply-and-demand diagram for the cigarettes market with the tax.**

3. **Show the price paid by consumers, the price received by producers, and the quantity of cigarettes sold.**

4. **What is the difference between the price paid by consumers and the price received by producers?**

5. **Has the quantity of cigarettes sold increased or decreased?**

Question 7:

Use the table below to answer the following questions:

Item	Value (billions of dollars)	Item	Value (billions of dollars)
Wages	5000	Investment	1600
Consumption expenditure	7000	Imports	1000
Indirect taxes	1200	Exports	1300
Subsidies	600	Transfers to individuals	1000
Interest, rent, and profit	2200	Personal taxes	3000
Depreciation	1300		

1-Calculate the GDP of this country

2-Which approach did you use in calculating GDP? Why?

3- How much did the government spend on goods and services?

4-Disposable income is how much money people have left after paying their personal taxes. What is the disposable income in this economy?

Question 8 :

Consider an economy which produces 2 types of veggies: carrots and beans. In the base year, the production and price data were as follows:

Veggies	Quantity	Price
Carrots	250 bags	$2.00 per bag
Beans	325 bags	$3.00 per bag

In the current year the production and price are as follows:

Veggies	Quantity	Price
Carrots	350 bags	$3.00 per bag
Beans	700 bags	$2.00 per bag

Calculate:

1.Real GDP in the current year and base year.

2.Nominal GDP in current year.

3.What is the GDP deflator in the current year?

Question 9 :

Determine producer's equilibrium and calculate average cost per unit from the following table assuming that market price is 6 $ per unit (use graphs)?

Quantity	0	1	2	3	4	5	6	7	8
Total cost	10	15	17	18	18.5	21	25	31	39

Question 10 :

Determine producer's equilibrium and calculate average cost per unit from the following table assuming that market price is 15 $ per unit (use graphs)?

Quantity	0	1	2	3	4	5	6	7	8
Total cost	20	40	48	52	63	78	94	117	147

Question 11:

Determine producer's equilibrium and calculate average cost per unit from the following table assuming that market price is 15 $ per unit(use graphs)?

Quantity	0	1	2	3	4	5	6	7	8
Price	-	80	70	60	50	40	30	20	10
Total cost	200	260	288	312	332	356	383	413	448

Question 12:

Define the following terms:

- **Economics.**
- **Macroeconomics.**
- **Microeconomics.**
- **Positive Analysis.**
- **Normative Analysis.**
- **Inflation.**
- **Deflation.**
- **Stagflation.**

- **Economic development.**
- **Economic growth.**
- **Fiscal Policy.**
- **Monetary Policy.**

- **Gross Domestic Product (GDP).**
- **Nominal GDP.**
- **Real GDP.**
- **Actual GDP.**
- **Potential GDP.**
- **Market failure.**
- **Consumer Goods.**
- **Capital Goods.**
- **Normal good.**
- **Inferior good.**
- **Substitutes.**
- **Complements**
- **Opportunity Cost.**
- **GDP deflator.**
- **A price index.**
- **The hidden economy.**
- **Producer's equilibrium in**

Question 13:

Explain by graph :

- **Production Possibilities frontier.**
- **Circular Flow of Income.**
- **Business Cycle.**
- **The difference between changes in quantity demanded and change in demand.**
- **The difference between changes in quantity supplied and change in supply.**
- **Market equilibrium.**
- **Price Elasticity of Demand and types of PED.**
- **Effects of price ceiling on the market.**
- **Effects of price floors on the market.**
- **Effect of Taxes on buyers.**
- **Effect Taxes on sellers.**
- **Elasticity and tax incidence.**
- **Equilibrium without trade.**
- **Winners and losers from trade.**
- **How free trade affects welfare in an exporting country.**
- **How free trade affects welfare in an importing country.**
- **The effects of tariff.**
- **Methods of calculating GDP.**
- **Producer's equilibrium in Perfect competition.**
- **Producer's equilibrium in Perfect competition.**
- **Monopoly.**