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Management in Practice

M5X02110 – Level 5

Money makes the
World go round....

Key economic
Concepts 2



Task: What is money?

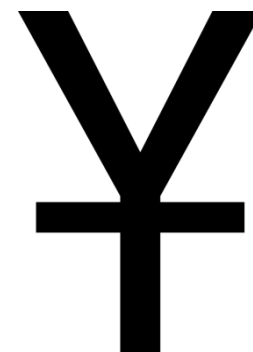
“Money is as money does”

So what does it do?



The Meaning and Functions of Money

- The functions of money
 - medium of exchange
 - measure of value
 - means of storing wealth
 - means of establishing value of future claims and payments
- What should count as money?
 - narrow definitions of money
 - broad definitions of money



Other forms of money?

It depends.....

Anything that allows us to buy goods and services in the society where we live



What do Economists Study?

- Tackling the problem of scarcity
 - meaning of scarcity
 - production and consumption
 - role of the business economist = study of consumer behaviour
 - study of firms
 - factors of production
 - human resources – labour
 - natural resources – land and raw materials
 - manufactured resources – capital

What do Economists Study?

- Demand and supply
 - actual and potential demand and supply
 - the role of firms in satisfying demand
 - business economists' study of the supply process
- Dividing up the subject
 - macroeconomics
 - microeconomics

Q Macroeconomics is a branch of economics which examines

- A. the economic behaviour of aggregates – income, employment, and output – on a national scale.
- B. the functioning of individual industries and the behaviour of individual decision-making units, that is, business firms and households.
- C. ways to understand behaviour and the operation of systems without making judgements.
- D. outcomes of economic behaviour, evaluates them as good or bad, and prescribes preferred courses of action.

Economics and the World of Business

The Macroeconomic Environment

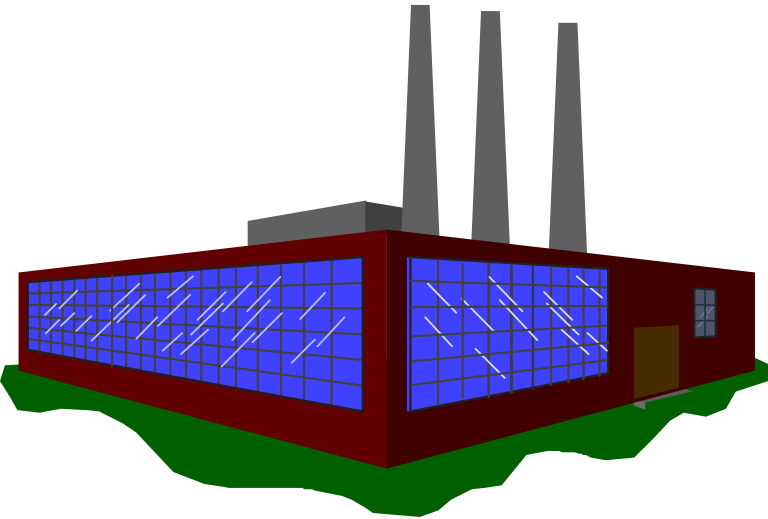
The Macroeconomic Environment

- Aggregate demand and supply
- Macroeconomic issues
 - the objective of economic growth
 - cyclical fluctuations in the economy
 - recessions
 - unemployment
 - inflation
 - balance of trade deficits

The Macroeconomic Environment

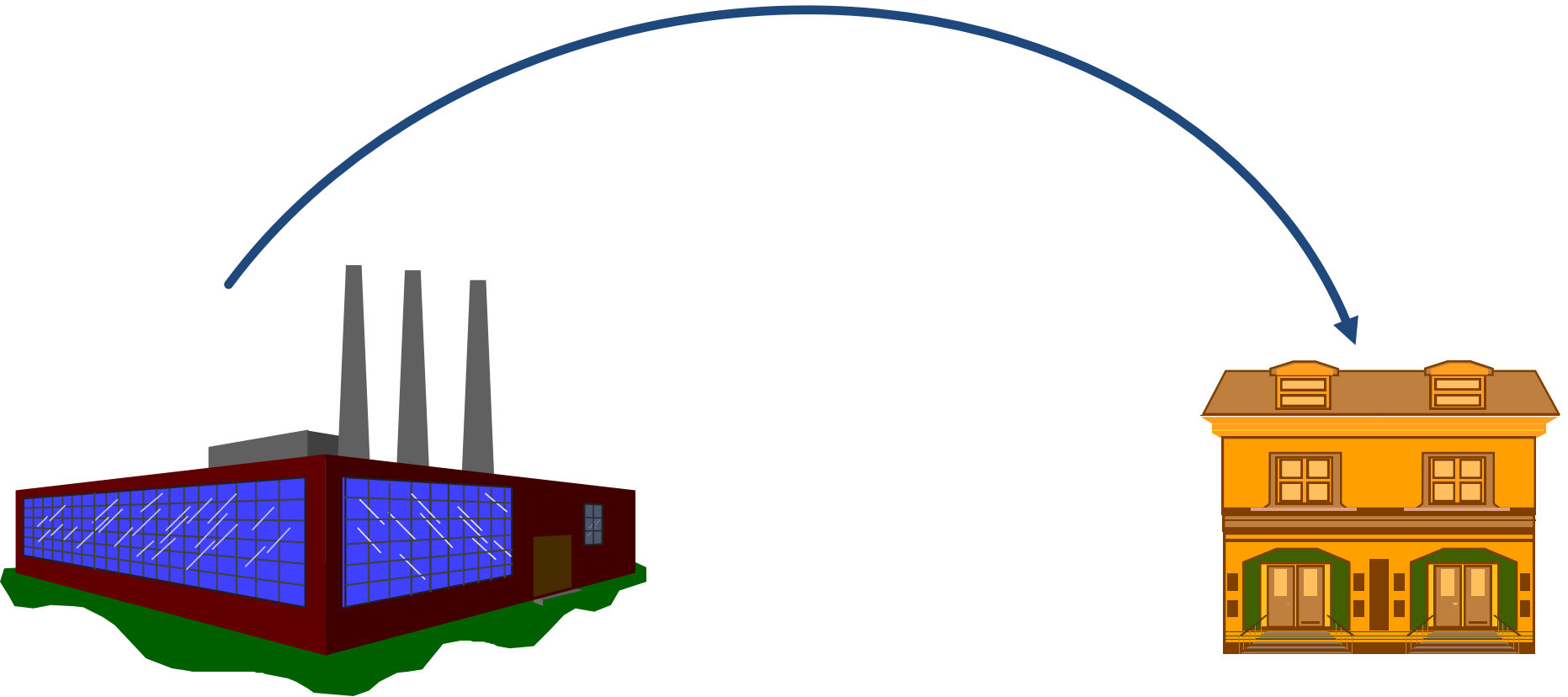
- The circular flow of income
 - firms and households
 - real and monetary flows

The circular flow of goods and incomes



The circular flow of goods and incomes

Goods and services

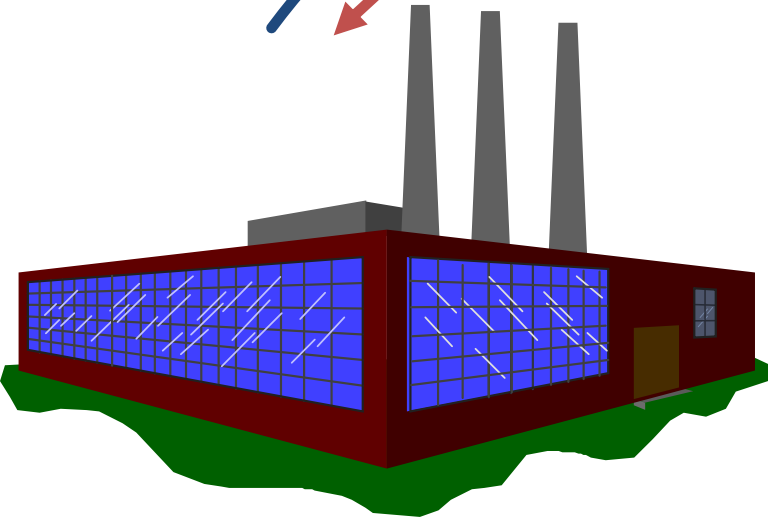


The circular flow of goods and incomes

Goods and services

£

Consumer
expenditure



The Macroeconomic Environment

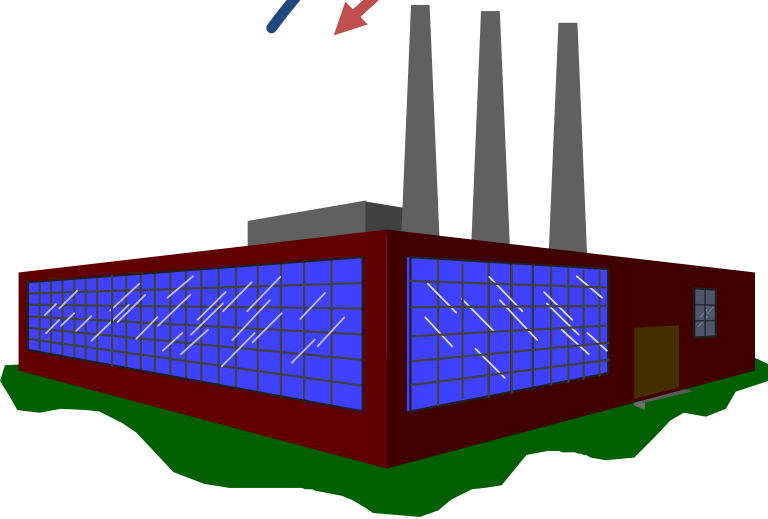
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The circular flow of goods and incomes

Goods and services

£

Consumer
expenditure

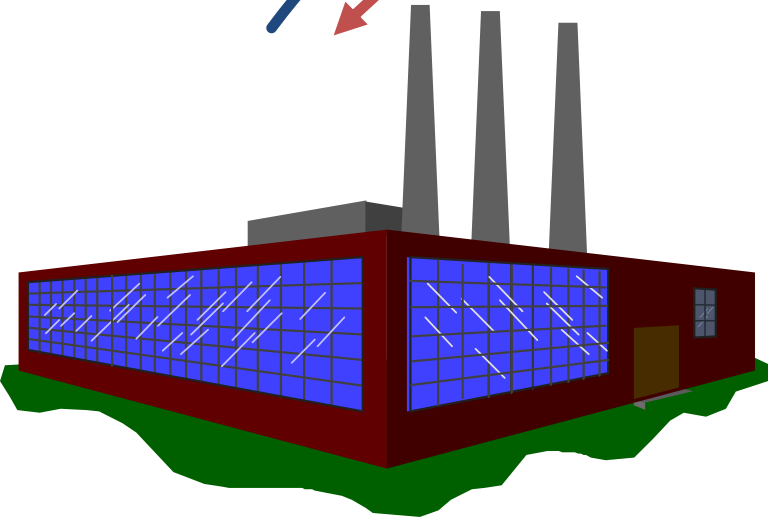


The circular flow of goods and incomes

Goods and services

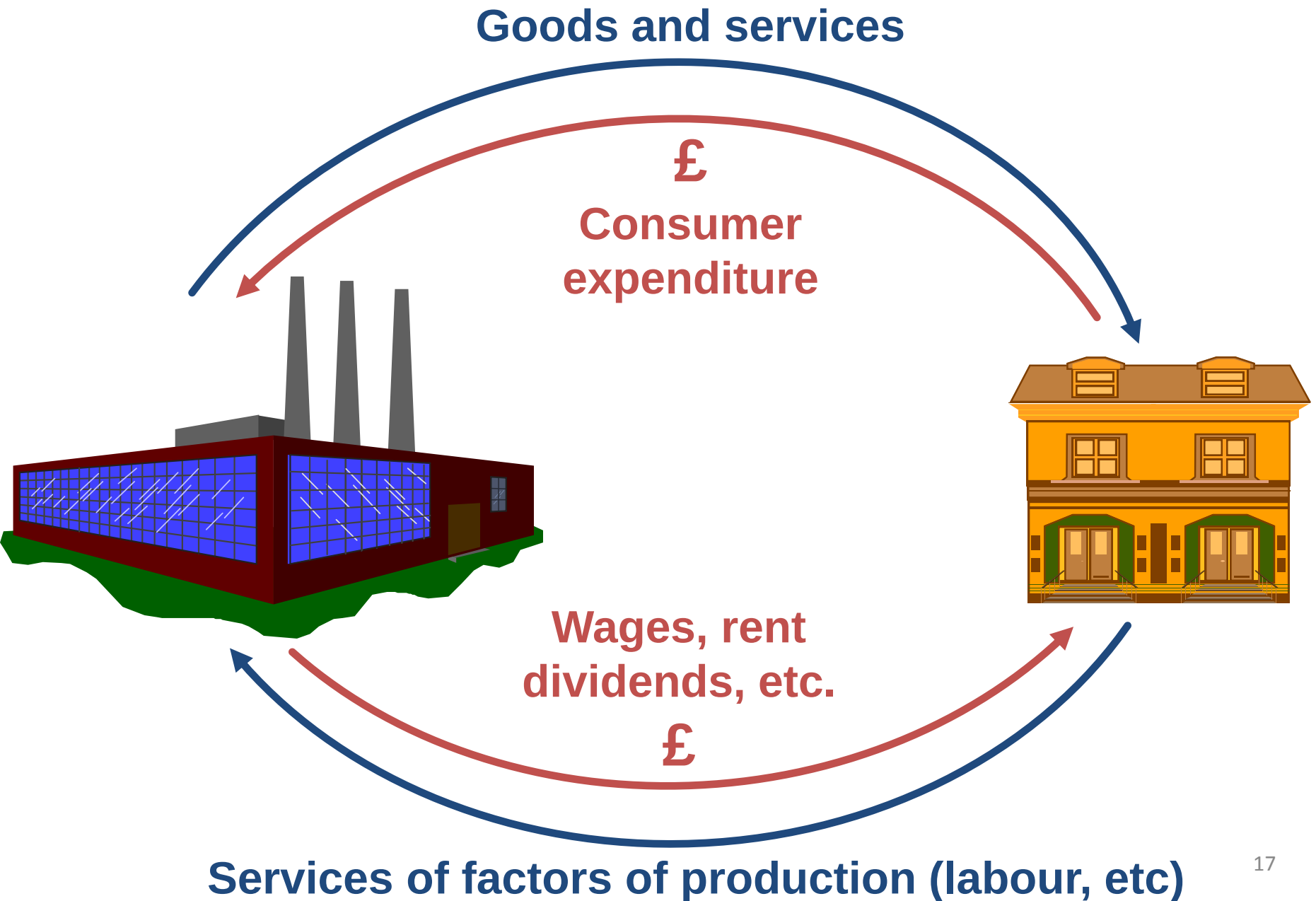
£

Consumer
expenditure



Services of factors of production (labour, etc)

The circular flow of goods and incomes



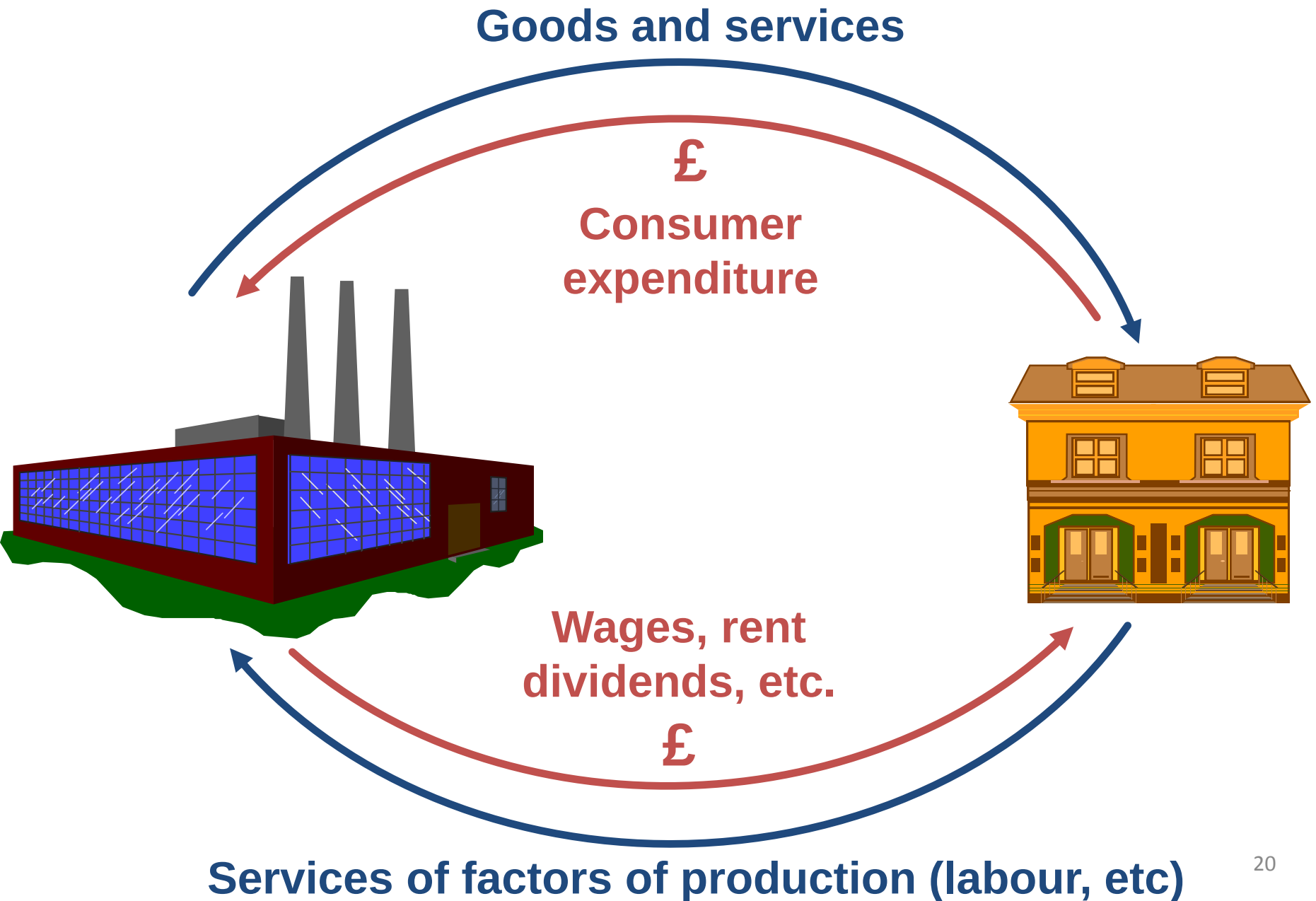
Q Which one of the following does NOT represent a flow of income earned by factors of production?

- A. Wages earned by workers in a factory.
- B. Rent received by landowners.
- ☒ C. A machine sold by a firm.
- D. Profits earned by businesspeople.
- E. Salaries earned by lecturers.

The Macroeconomic Environment

- The circular flow of income
 - firms and households
 - real and monetary flows
 - goods and factor markets
 - macroeconomics: aggregate flows

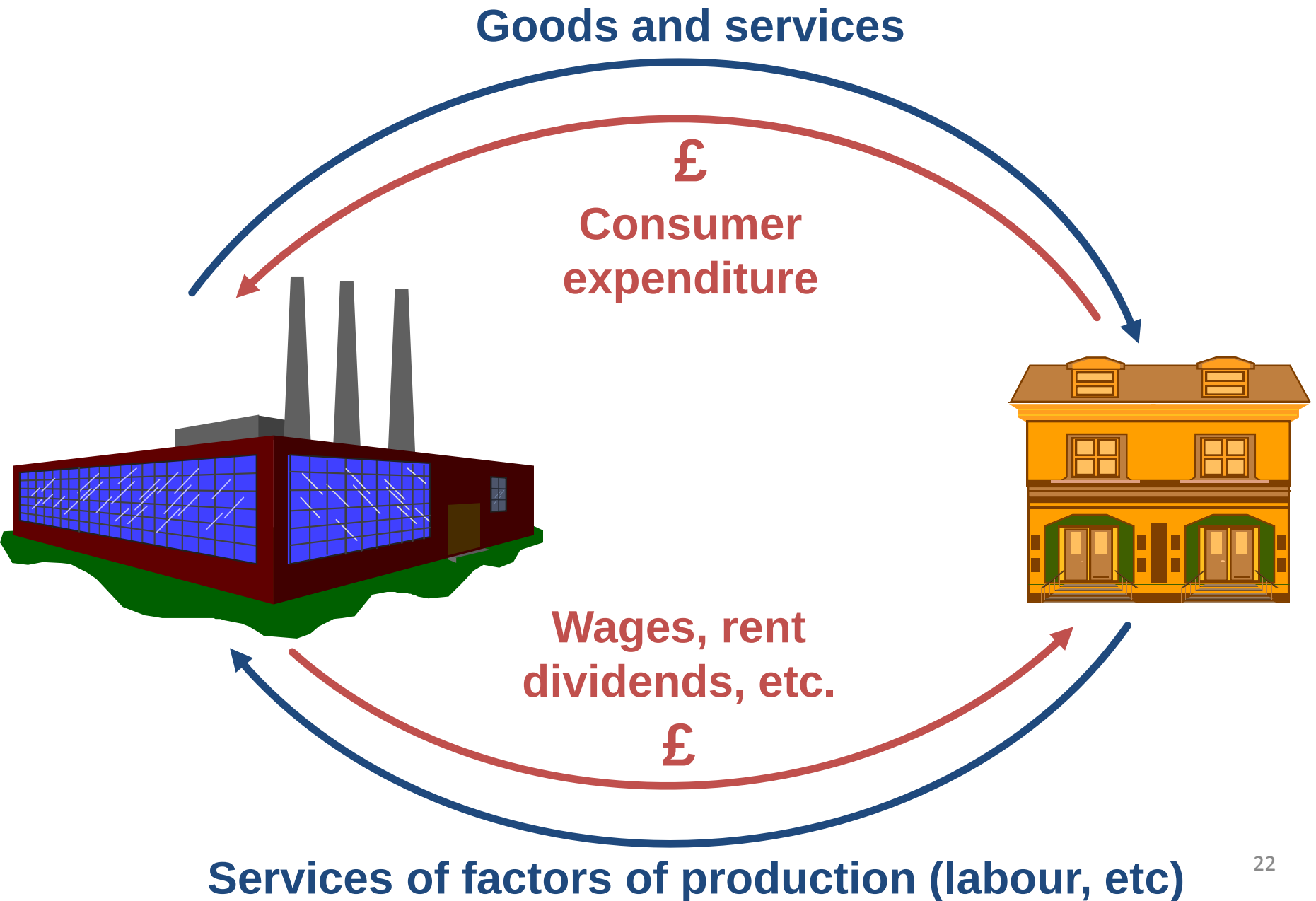
The circular flow of goods and incomes



The Macroeconomic Environment

- The circular flow of income
 - firms and households
 - real and monetary flows
 - goods and factor markets
 - macroeconomics: aggregate flows
 - microeconomics: individual markets

The circular flow of goods and incomes



Microeconomic Choices

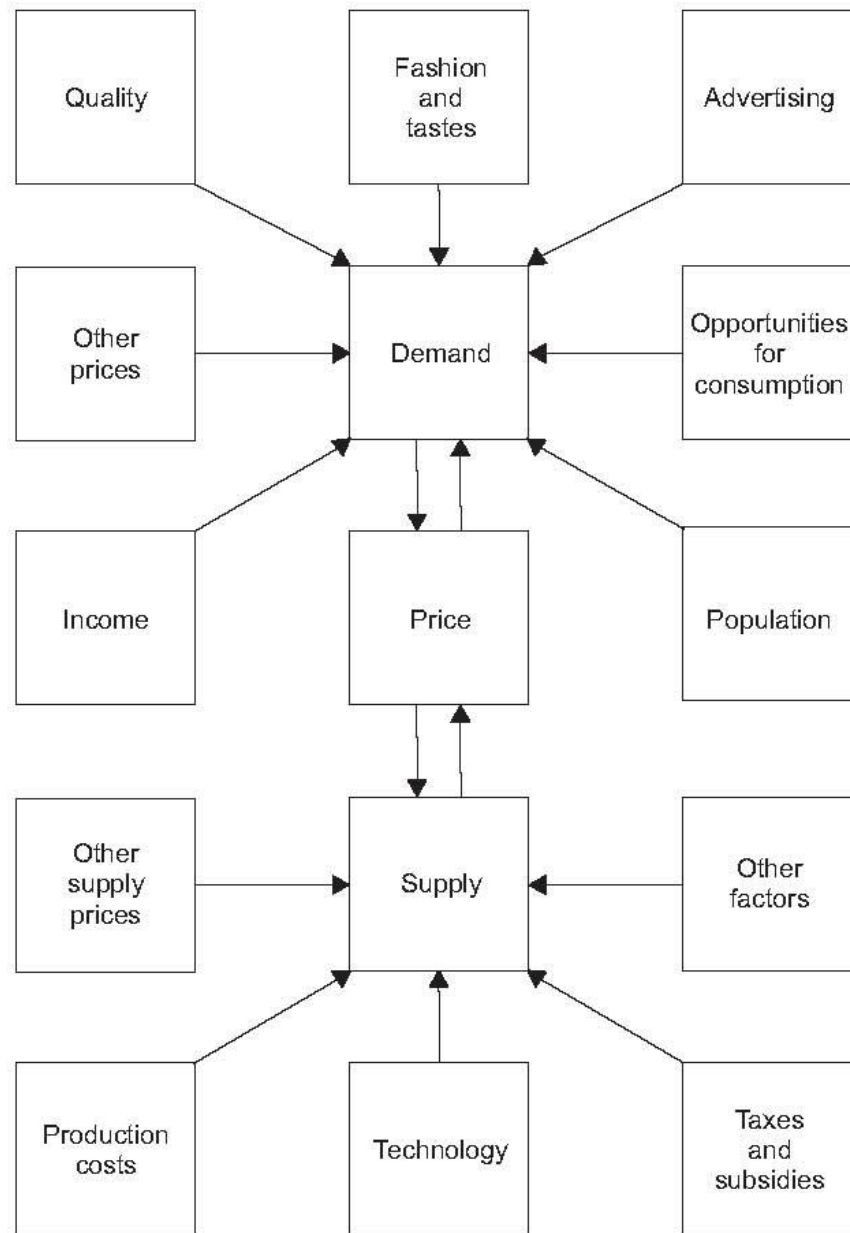
- Microeconomics and choice
 - *What* to produce?
 - *How* to produce?
 - *For whom* to produce?
- Who answers these questions?
 - the command economy
 - the free market economy
 - the mixed economy



What is a market?



A place where buyers and sellers come into contact with one another



Definitions

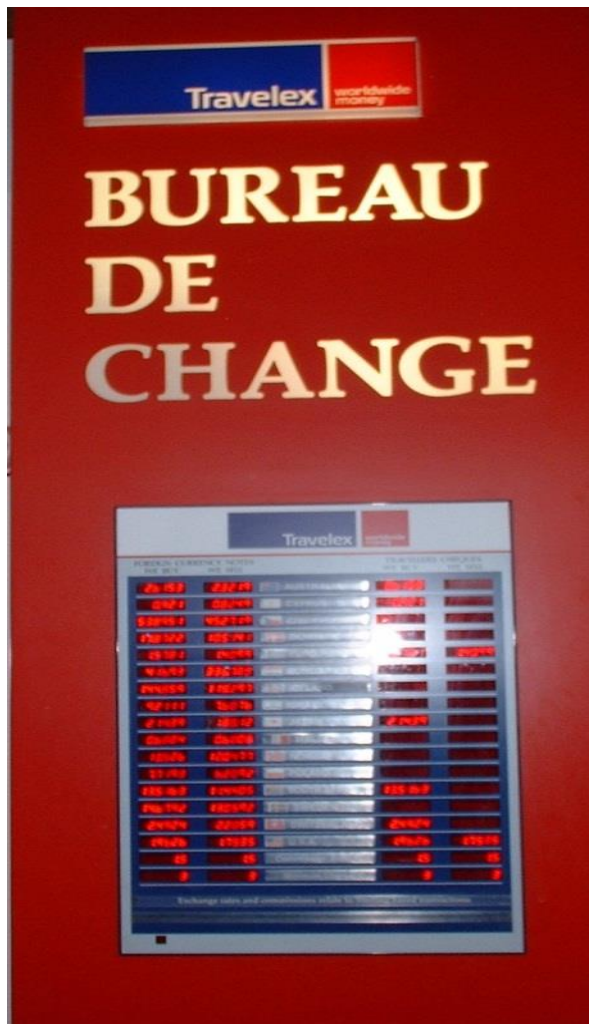
- Effective demand (demand backed by cash)
- Ceteris paribus (all other things being equal)
- Perfect market assumption
 - many buyers and sellers
 - perfect knowledge of prices throughout the market
 - rational consumers and producers basing decisions on prices
 - no government intervention – e.g. price control

Markets

Patpong night market, Bangkok, Thailand



- A market is a place where buyers and sellers come into contact
- Do all markets have a physical presence?
 - Answer: No – eBay, small ads, etc.



- What is this picture?
 - Exchange rates
- What does it illustrate?
 - Near perfect markets
- Why?
 - Many buyers and sellers
 - Prices fluctuate freely according to demand and supply