



Worksheet 6: Effects of numerical changes

Answer the questions that follow each statement(s).

1 A firm increases the price of its products by 10 per cent, which results in a 23 per cent increase in its revenue.

- What is the likely effect on the firm's profit, other things being equal?

- What is the PED for the firm's product?

- What conclusion can you draw on:

- The range of substitutes to the firm's product? _____
- The proportion of income the product takes? _____

2 A country's economic growth slows down from 3 per cent to 2.2 per cent per year.

- What is the effect on:

- The country's GDP/national output? _____
- The unemployment rate? _____

- Is the country now in recession? _____

- What is one demand-side and one supply-side factor that could have caused this economic growth?

3 The current annual rate of inflation is 3 per cent.

- What is the effect on:

- The price level: _____
- The value of money: _____
- The cost of living: _____
- The price competitiveness of the country's exports? _____

- Is this a one-time increase in prices? _____

- If the rate of inflation in the previous year was 5 per cent, does this mean the price level fell in the current year?



4 A country experiences deflation of -2 per cent.

- What is the effect on:

The price level: _____

The value of money: _____

The cost of living: _____

The price competitiveness of the country's exports? _____

- Is this a one-time decrease in prices? _____

5 A trade union negotiates a 7 per cent increase in workers' wages. In the same year the rate of inflation is 4 per cent.

- Does it mean ALL workers in the economy receive a wage increase?

- What type of inflation is likely to occur?

- Did the 4 per cent inflation rate weaken or strengthen the trade union's request for a wage rise?

- What happened to the real incomes of the workers from the trade union? And what happened to the real incomes of non-unionised workers who did not receive a pay rise?

6 An individual earns 2 per cent interest on a deposit at a time when inflation is 5 per cent.

- What is the real interest on this deposit?

- Does the deposit form part of the individual's income or wealth? What about the interest on the deposit – is it income or wealth?



9 Country A is a developing country and its dependency ratio is higher than the dependency ratio of Country B, which is a developed economy.

- Does this mean Country A has a larger population size than Country B?

- What can you conclude about the population structure in each country?

- Other things being equal, what is likely to happen to the labour market in each country in the long run?

- What is the effect of the higher dependency ratio in Country A on its resources?

10 The HDI of Norway is 0.96 and the HDI of Cuba is 0.76.

- What can you conclude about the standards of living in each country?

- What factors might have caused the difference in HDIs?

- If, for the same period, Cuba had longer average years of schooling, what could explain the higher HDI in Norway?

- If, for the same period, Cuba had longer average years of schooling, does this necessarily mean the quality of education there is better than in Norway?



11 The Balance of Trade of a country = $-\$36$ million.

- What is the BoT position?

- What could have caused the negative value?

- Does this necessarily mean the country imported a larger quantity/amount of goods/services than it exported?

- Does the BoT value necessarily mean the country's Current Account is also in deficit? Why (not)?

- Does the BoT value necessarily mean the country's Balance of Payments is also in deficit? Why (not)?
