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## Worksheet 6: Effects of numerical changes

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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?

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

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- 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?

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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?

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- 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?

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- 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?

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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?

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

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7 The rate of unemployment in Country A is 8 per cent. The rate of unemployment in Country B is 10 per cent.

- What is the formula for unemployment rate?

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- Does this mean there are more individuals unemployed in Country B? What else do you need to know to decide how many individuals are unemployed in each country?

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- Which country is using its resources (labour) more efficiently?

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- What are the employment rates in each country?

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- Are all working age individuals in these countries part of the labour force? What information do you need to decide?

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8 A country experienced net emigration of 200 000 people per year.

- What can you conclude about the immigration flow to the country?

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- What might have caused the net emigration?

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- What happened to the country's population size?

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- If, for the same period, the country experienced growth in population, what might be the reason?

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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?

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

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

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

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- What factors might have caused the difference in HDIs?

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

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

- What is the BoT position?

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- What could have caused the negative value?

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

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

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

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