

# Workshop 1 23-09-2009

## Business Environment, Economics and Organisations

Note : Please print out and bring to the lecture !

1. Economists study many issues, but all of them stem from the central economic problem of *scarcity*. Scarcity arises because there are constraints for both consumers (e.g. limited time, information and income) and sellers (e.g. limited resources to produce goods and services, perhaps because of a shortage of skilled labour). Some people suggest that the problem of scarcity will eventually disappear with the development of new technology and resulting higher levels of production.

Is this *True/False*?

Explain: .....

.....

.....

2. In order to tackle the problem of scarcity, societies produce goods and services for people to consume. This production involves using various resources or *factors of production*. It is normal to group factors of production into three broad categories. These are:

1. ....
2. ....
3. ....

3. Which of the following would *not* be classified as a factor of production?

- (a) Jim Bodget, a bricklayer for a local construction firm.....*Yes / No*
- (b) The buildings that Jim helps construct. ....*Yes / No*
- (c) The cement mixer Jim uses. ....*Yes / No*
- (d) The cement Jim puts in the mixer. ....*Yes / No*
- (e) The building site Jim works on. ....*Yes / No*
- (f) The wage Jim gets paid at the end of the week. ....*Yes / No*

4. Because of scarcity we have to make choices about which goods and services we desire most. Choices involve sacrifices or *costs*. If as a society we consume more of one good or service then, unless there are idle resources, we will be able to consume less of other goods and services.

The cost of one good measured in terms of what we must sacrifice is called the:

..... ?

5. One method of allocating resources is to use the market place. Markets usually work well. However, sometimes there is a problem of asymmetric information between buyer and seller. What is meant by 'asymmetric information'?

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6. Firms are economic organisations that allocate inputs to produce outputs. However, firms are made up of a collection of activities such as accounting, sales and transport that could be purchased separately by a firm's owner (just look in yellow pages to see the number of firms that specialise in these activities). Firms internalise these activities because there are contractual costs in using the market to exchange goods and services. Such costs can include: the cost of finding the right partner to carry out the activity, determining the price for the contract, monitoring the contract and so on.

In economics we call these costs:

- A. Real costs.
- B. Opportunity costs.
- C. Transaction costs.
- D. Potential costs.
- E. Social costs.

7. The following data are taken from *Economic Trends* (National Statistics, various years)

UK manufacturing and service industry output: 2002 = 100

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005
Output of manufacturing	100.7	101.3	102.1	104.6	103.2	100.0	100.1	101.9	101.1
Output of services	83.0	87.0	90.3	94.3	97.4	100.0	102.7	106.4	109.2

(a) Which of the following statements are true?

- (i) The table shows cross-section data. .... *True / False*
- (ii) The data in the table are known as ‘index numbers’. .... *True / False*
- (iii) The year 2002 is known as a ‘base year’..... *True / False*
- (iv) The growth rate in services output over the period 1997 to 2005 was 26.2 per cent.  
..... *True / False*
- (v) Output in the services sector grew over the period 1997 to 2005, while output in the manufacturing sector fluctuated, sometimes declining.  
..... *True / False*

(b) What was the percentage growth rate in manufacturing output from 2000 to 2001?

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(c) What was the percentage growth rate in services output from 2000 to 2001?

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8. Economists divide issues into two sorts, macroeconomics and microeconomics. Which of the following are macroeconomic issues and which are microeconomic ones?

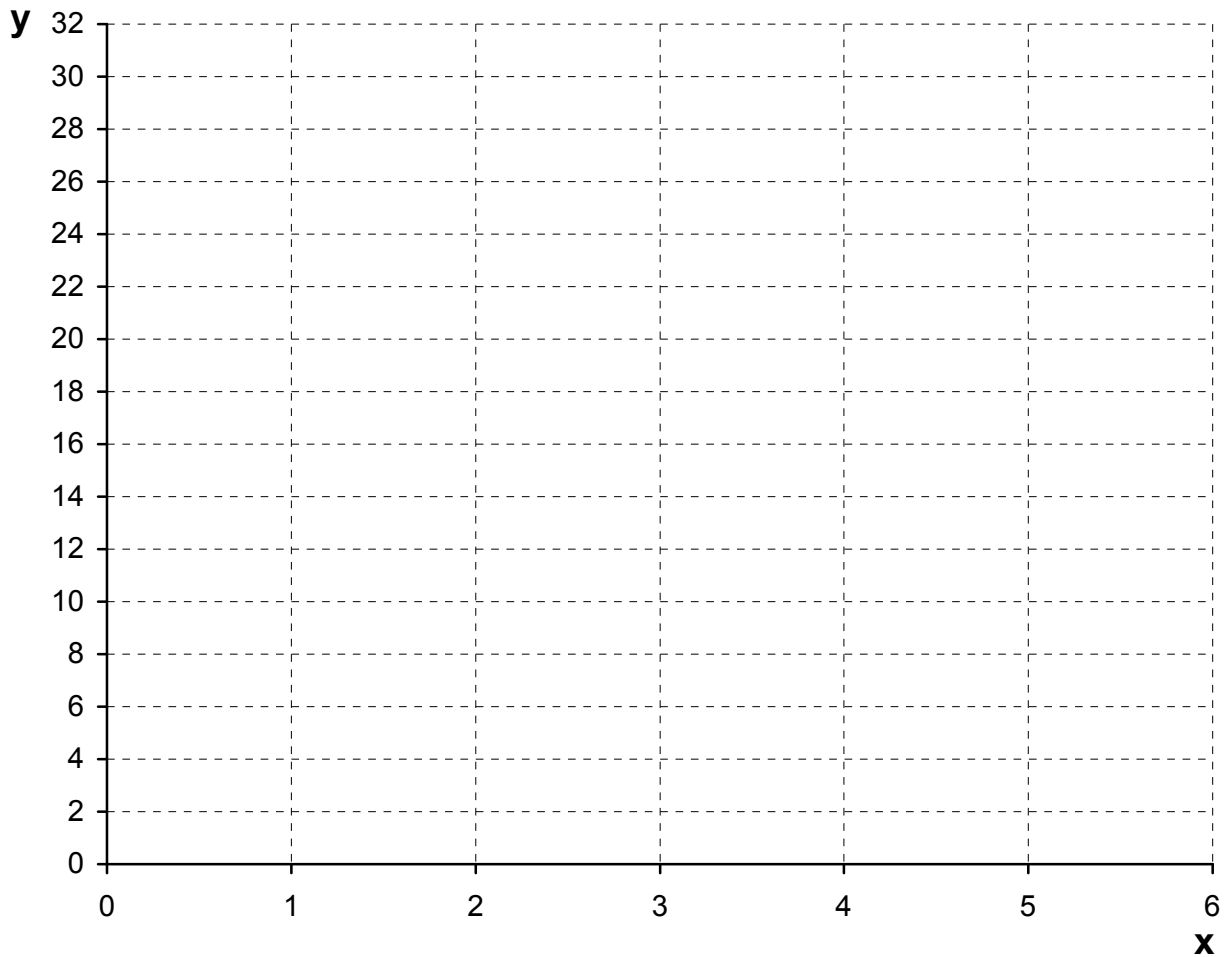
- (a) The level of government spending. .... *micro / macro*
- (b) A grant given by the government to the UK film industry..... *micro / macro*
- (c) The level of investment in the UK by overseas firms. .... *micro / macro*
- (d) The price of cotton cloth..... *micro / macro*
- (e) The rate of inflation. .... *micro / macro*

9. Complete the table for the following linear function

$$y = 2 + 4x$$

x	0	1	2	3	4	5	6
y							

(a) Show this relationship on the graph below



(b) If the equation changes to  $y = 6 + 4x$  what happens to the line in the above diagram? Draw this on the above graph .

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(c) If the equation changes to  $y = 2 + 2x$  what happens to the line in the above diagram? Draw this on the above graph.

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