

School: RATU NAVULA COLLEGE

Level: Year 11

Subject : Economics

Week: 3

Lesson 55

Strand 3: Macroeconomics

Strand 3.2 : Government in the Economy

Learning Outcome: Explain the formation of Government.

Formation of a Democratic Government

- a democratic government contrasts to form a government where power is either held by one of where power is held by a small number of individuals.
- Direct democracy: is a form of democracy in which people vote on policy initiatives directly.

What is a democratic government system?

- government by the people
- a form of government in which the supreme power is vested in the people and exercised directly by them or their elected agents under a free electoral system.

How is Government formed?

- The Government is usually formed by the party that gains the most seats in the house of Commons at a General election.
- It is headed by the Prime Minister who appoints government ministers.
- Members of the Government sit in Parliament and are accountable to it.

Fiji's System of Government

- The Constitution of Fiji establishes Fiji's system of Government.
- It provides three separate arms of the State – The Legislature (or Parliament), the Executive and Judiciary.

Parliament

- elected by the people of Fiji
- makes laws, represents the community in discussions about issues that affect them, investigates issues of importance and scrutinizes the actions of government.
- has 51 members. Most of which belong to a political party.
- parliament proceedings are chaired by independent speaker who is not a member of parliament.
- members from the political party with the majority seats in Parliament form the government.
- the party/ parties which are not part of the government form the opposition.

Activity:

1. Name the party with majority seats in Parliament.
2. How is the government formed in Fiji?
3. State the 3 arms of the State.

Lesson 56

Strand 3: Macroeconomics

Strand 3.2 : Government in the Economy

Learning Outcome: Describe the major roles of Central Government with local examples.

Central Government

a central government is the government that holds absolute supremacy over a state.

Roles of Central Government

1. Allocative Role

- the government must determine how some resources are allocated.
- collective goods such as roads, education and health are provided to the public
- provides benefits to some distinct group or class of individuals or organisations.
- public groups are non- excludable and non -rival and is provided by the government.
For example, when a concert or government office decides to put on a fireworks display, everybody can watch it, making the good non-rivalrous because everyone who sees it can enjoy exactly the same fireworks display. Besides its being non-rivalrous, it is also non-excludable.

2. Distributive Role

- the government adjusts the distribution of income among individuals by:
 - a. Progressive tax system: taxing the rich more than the poor.
 - b. providing subsidies on certain goods and services to help poorer people.
 - c. welfare benefits.

3. Stabilisation Role

- government stabilizes the economy through Fiscal or Budgetary policy
- the Budgetary policy has two major tools Taxes (T) and Government spending (G)
- Government employs expansionary fiscal policy during a recession and a contractionary fiscal policy during inflation.

4. Regulatory Role

- Government establishes a legal system that guarantees under law the right to one's property and set rules within which business may be conducted.
- there are laws designed to control how companies and partnerships can act.
- laws that protect consumers, environment etc.

Activity

Define the following terms

1. Non rival good
2. Non depletable good
3. Non excludable

Lesson 57Strand 3: MacroeconomicsStrand 3.2 : Government in the EconomyLearning Outcome: Discuss how and why the government intervenes in the economyGovernment Intervention in the Economy

- government intervenes to correct the market
- the market can fail if it does not provide goods and services at fair prices so the government steps in to ensure that businesses do not cooperate in deciding prices.

Factors Determining Market Failure

1. Inefficiency in the market.
2. income and wealth inequality
3. Externalities : - positive (good spillover effects e.g. staff training)
 - negative (bad spillover effects eg. pollution)
4. Lack of collective goods
5. Price fluctuations
6. Lack of economic freedom for firms.

In each of the following cases, the government steps in to correct the market.

- Government aims to reduce market failure with subsidies, taxation, regulation etc
- competition policy aims to reduce unfair competition and monopoly power.
- public ownership is the ownership of businesses by the government.
- Privatisation: is another way of correcting market failures
- Equity: the idea of fairness
- Poverty: alleviate it with benefits including taxation, credits and minimum wages.

Activity

1. Discuss the importance of government intervention in the economy.
2. List three factors that determines market failure.
3. Define market failure.
4. Name the two types of externalities.
5. Differentiate between subsidies and taxation.

Lesson 58

Strand 3: Macroeconomics

Strand 3.2 : Government in the Economy

Learning Outcome: Discuss national income related concepts

1. **Real Flows:** refer to the flow of the **actual** goods or services, while money **flows** refer to the payments for the services (wages, for example) or consumption payments.
2. **Income Flows:** refer to the flow of the **actual** goods or services, while money **flows** refer to the payments for the services (wages, for example) or consumption payments.
3. **Leakages:** withdrawals from the circular flow.
4. **Injections:** additions into the circular flow.

$$\text{GDP} = C + I + G + NX / C + I + G + (X - M)$$

$$\text{GDP} = \text{Consumption} + \text{Investment} + \text{Government} + \text{Net Exports}$$

$$\text{Net Exports} = \text{Exports} - \text{Imports}$$

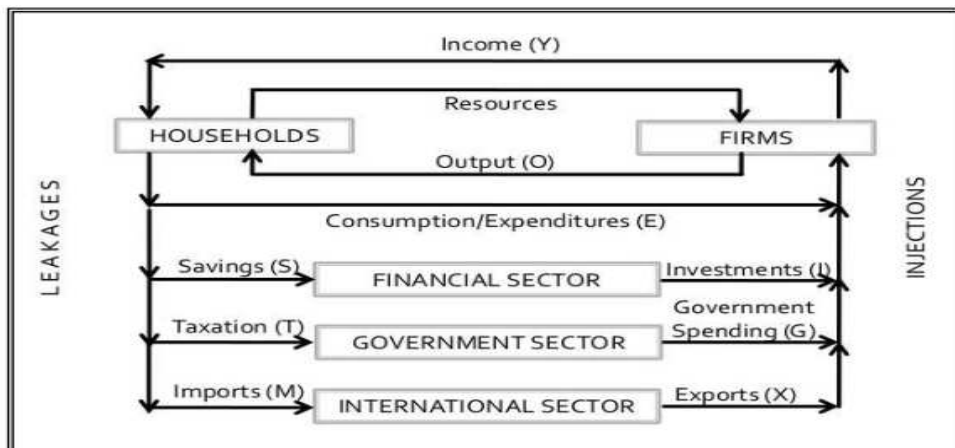
Leakages

Five sector Model

$$S + T + M$$

Injections

$$I + G + X$$



Source: <https://en.wikipedia.org>

- a) Identify three leakages and three injections from the circular flow.
- b) Name the four factors of production
- c) Discuss one reason producers would be relying on the financial institutions.
- d) Distinguish between **Real Flow** and **Income flow**.

Lesson 59Strand 3: MacroeconomicsStrand 3.2 : Government in the EconomyLearning Outcome: Discuss national income related concepts

1. Nominal GDP (GDP at current prices):

2. REAL GDP (GDP at constant price):

3. REAL GDP per capita

Example:

YEAR	PRICE INDEX	NOMINAL GDP	REAL GDP
1	100	800	a.
2	260	b.	500

Solution.

a. Real GDP = $\frac{\text{Nominal GDP}}{\text{Price index}}$

$$= \frac{800}{100} \times 100$$

$$= 800$$

b. Nominal GDP = $\frac{\text{Real GDP}}{\text{Base year Index}} \times \text{price Index}$

$$= \frac{500}{100} \times 260$$

$$= 1300$$

Activities

- I. The table below shows the respective Gross Domestic Product (GDP) for the Bebe Economy. Complete the table by calculating the values for (a) and (b).

YEAR	PRICE INDEX	NOMINAL GDP (\$M)	REAL GDP (\$M)
2008	100	(a)	1388
2009	325	4925	(b)
2010	340	7050	2200

Week 3Worksheet

A.

1. One of the reasons for Market Failure is
 - A. perfect Competition.
 - B. perfect Information.
 - C. production of private goods.
 - D. production of public goods.
2. In a Free Market, goods with negative externalities will:
 - A. be under produced in the market place.
 - B. be over produced in the market equilibrium.
 - C. have the marginal valuation of the externality reflected in the price
 - D. be produced to the point at which marginal social benefit equals marginal social cost.
3. A key characteristic of a public good is that:
 - A. exclusion in use is impossible.
 - B. there is no way to finance it.
 - C. less is preferred to more.
 - D. property rights can be easily and costly enforced.

B.

Match the roles of government listed in **Column A** against its meaning in **Column B**.

	Column A		Column B
1.	Allocative Role	A.	Ensuring full employment, control of inflation and equitable balance of payments
2.	Distributive Role	B.	Providing resources to support public goods such as infrastructure
3.	Stabilisation Role	C.	Provision of defense systems like army and police
4.	Regulatory Role	D.	Redistribute income from the haves to the have-nots

C. Government plays a crucial role in mixed economic system like Fiji.

With reference to the above statement, discuss:

1. Process involved in the formation of a democratic government .
2. Three major roles of government.
3. Three ways in which government intervenes in the economy.