School: RATU NAVULA COLLEGE   **Level:** Year 11

Subject : Economics   **Week:** 4

Lesson 60

Strand 3: Macroeconomics

Strand 3.2 : Government in the Economy
Learning Outcome: Discuss national income related concepts

Gross Domestic Product is the total monetary or market value of all the finished goods and services produced within a country's borders.

1. **Nominal GDP** (GDP at current prices):

> **NOMINAL GDP**: REAL GDP x PRICE INDEX
>
>   BASE YEAR INDEX

2. **REAL GDP** (GDP at constant price):

> **REAL GDP**: NOMINAL GDP x BASE YEAR INDEX
>
>   PRICE INDEX

3. **REAL GDP per capita**

> REAL GDP
>
> POPULATION

Activity

(a) The following resource refers to the national income of an economy.
Use the information and with your knowledge answer questions (i) to (iv).

> Suppose **Economy A** produces only one commodity which is sugar and it produced 20 tons of sugar in 2017 (base year). The price is $100 per ton in 2017. Therefore the value of output (GDP) is $2,000. Due to inflation in 2018, the price of sugar increased to $120 per ton and the economy produces 100 tons of sugar.

i.   Define Gross Domestic Product.

ii.   Determine the Nominal GDP for 2017 and Real GDP value for 2018.

iii.   Explain one impact of inflation on the economy.

iv.   Assume that Economy B has a population of one million people (1,000,000) with a GDP of $1 billion. Calculate real GDP per Capita for Economy B.

(b)   Discuss the difference between allocative and distributive roles of government.

Lesson 61

Strand 3: Macroeconomics

Strand 3.2 : Government in the Economy

Learning Outcome: Outline the sources of government revenue

Sources of Government Revenue

Direct: personal and income taxes that are levied and collected directly by the government on incomes.

TAXES:

Indirect: are not imposed on tax payers, but are levied on goods and services. Eg. VAT, Customs duty, STT(service turnover tax) and stamp duty.

Government also earns revenue from non – tax sources.. These includes fees paid for government services, dividends from investments (mostly from government owned entities), grant in aid and money from fines and charges.

Other Sources of Government Revenue

1. License fees: paid in those instances in which the government authority is involved simply to confer a permission or a privilege.

2. Surplus of the Public sector units: the government also earns revenue from the production of commodities like steel, oil, life – saving, drugs etc

3. Fine and Penalties: revenue raised from the public but to force them to follow law and order of the country.

4. Gifts and Grants: voluntary contribution from private individuals or non- government donors to the government fund for specific purposes such as relief fund, defense fund etc.

5. Borrowings: this includes loan from public in the form of deposits, bonds etc and also from the foreign agencies and organization.

Activity:

1. Name the two classification of tax and define them.

2. Discuss three other sources of government revenue.

3. State two examples of indirect tax.

Lesson 62

Strand 3: Macroeconomics

Strand 3.2 : Government in the Economy

Learning Outcome: Outline the sources of government revenue and expenditures.

Government Expenditure

- refers to the purchase of goods and services which include public consumption and public investment and transfer payments consisting of income transfers (pensions, social benefits) and capital transfer.

There are two types of expenses:

a. Capital expenditures:

money spent by a business or organization on acquiring or maintaining fixed assets, such as land, buildings and equipment. E.g. plant and machinery, hardware purchases, vehicle to transport goods and building expansion.

b. Operating expenditures: (operating expense, operational expenditure) is an on going

cost for running a product, business or system.

-this includes payroll, sales commission, employee benefits and pension contributions, transportation and travel, amortisation and depreciation, rent, repairs and taxes. E.g research and development, property taxes and business travel.

Difference between Capital and Operating expenditures (CAPEX and OPEX)

Capital expenditure is an expense a business incurs to create a benefit in the future, whereas operating expenditure is an expenditure monitored on a day to day operation.

Which one is better? CAPEX or OPEX)

In terms of income tax, organisations usually prefer OPEX to CAPEX.

ACTIVITY

1. Define Government expenditure.

2. Name and describe the two types of government expenditures.

3. Differentiate between Capital and Operating Expenditure. State which one is better.

Lesson 63

Strand 3: Macroeconomics

Strand 3.2 : Government in the Economy

Learning Outcome: Outline the sources of government revenue and expenditures.

Refer to the notes on Lesson 60 to 62 and answer the following questions.

Activity

Use the information below and your knowledge to answer the questions that follow

Government Expenditure and Finance for Budyland

Item	2006	2007
	($m)	($m)
Administrations	521	584
Foreign Relations	509	570
Education	976	1 098
Social Services	2 117	2 520
Health	1 224	1 322
Transport	1 170	1 288
Communication	942	1 094
Total Expenditure	$7 459	$8 476
Income Taxes	2 724	4 283
Sales Taxes	1 521	2 478
Profit/Interest	447	398
Internal Borrowing	1 000	973
External Borrowing	267	344
Total Revenue	$5 959	$8 476

(i) Identify two sources of revenue for Government.

ii) Name two Public Enterprise that earns profit for government.

iii) Differentiate between Operating Expenditure and Capital Expenditure with examples.

iv) State an example of Distributive and Allocative role of government.

v) Do you thing it is important for a country to prepare a budget? Discuss

Lesson 64

Strand 3: Macroeconomics

Strand 3.2 : Government in the Economy

Learning Outcome: Outline the sources of government revenue and expenditures.

Study the information below for Fiji and answer the following questions.

FIJI
BUDGET ESTIMATES
2020-2021

	$(000)	$(000)
ESTIMATED REVENUE:		
Direct Taxes	497,967.5	
Indirect Taxes	967,739.6	
Others	200,534.2	
Total Operating Receipts	1,666,241.4	
Total Investing Receipts	7,328.7	
TOTAL ESTIMATED REVENUE		1,673,570.0
ESTIMATED EXPENDITURE:		
Operating	2,421,471.7	
Capital	1,208,315.5	
Value Added Tax	44,816.9	
TOTAL ESTIMATED EXPENDITURE		3,674,604.1
Estimated Net Deficit		2,001,034.1
Debt Repayments		749,495.2
Gross Deficit		2,750,529.3
Net Deficit As A Percent of GDP		20.2%
Nominal GDP		9,905,252.0

1. Identify 2 major sources of revenue for the government. Discuss one of them.

2. What is the value of the estimated revenue?

3. Name the two types of expenditure from the budget.

4. Is this budget a surplus or deficit budget? Discuss whether it is good for a country or not?

WORKSHEET LESSON 60-64

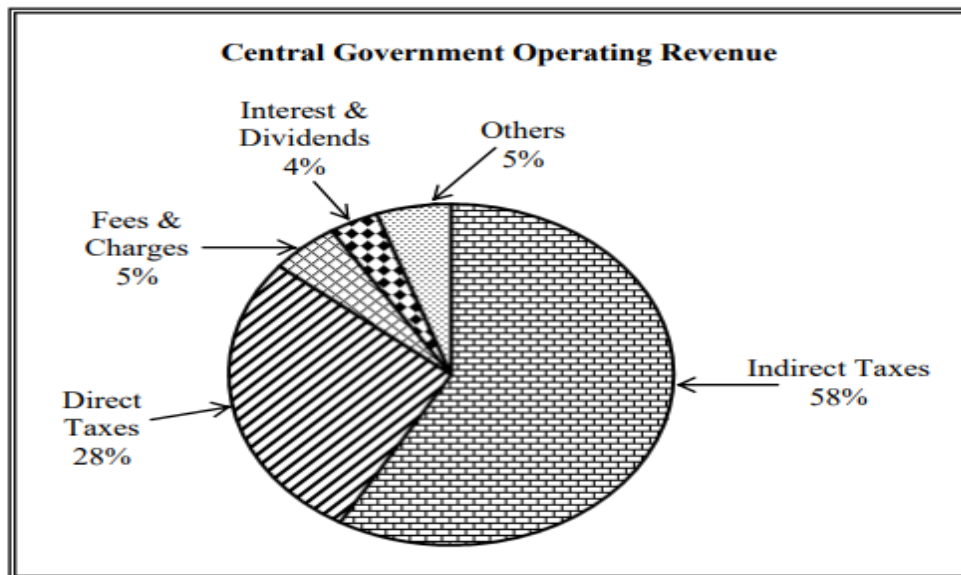**Use your knowledge of lesson 60 to 64 to answer the following questions.**

a. The following table shows the Gross Domestic Product (GDP) data for Robinson Crusoe economy. Use the data to answer questions (i) and (ii).

Year	Price Index	GDP at Current Price ($m)	GDP at Constant Price ($m)
2014	100	700	700
2015	276	1._____	1100
2016	300	3465	2._____

Base Year Index = 100

(i)   Complete the table given in the **Answer Booklet** by calculating the GDP at Current Price for year 2015 and GDP at Constant Price for year 2016.   **(2 marks)**

(ii)   Assume this economy has a population of 400 000. Calculate the **Real GDP per Capita** for the year **2015**.   **(1 mark)**

. b. Use the graph to answer the following questions.

Central Government Operating Revenue

Interest & Dividends 4%

Others 5%

Fees & Charges 5%

Indirect Taxes 58%

Direct Taxes 28%

(i)   What does the graph above show?

(ii)   Which form of revenue recorded the **highest** in the graph above?