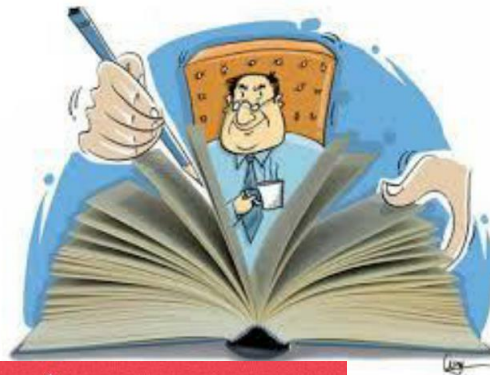




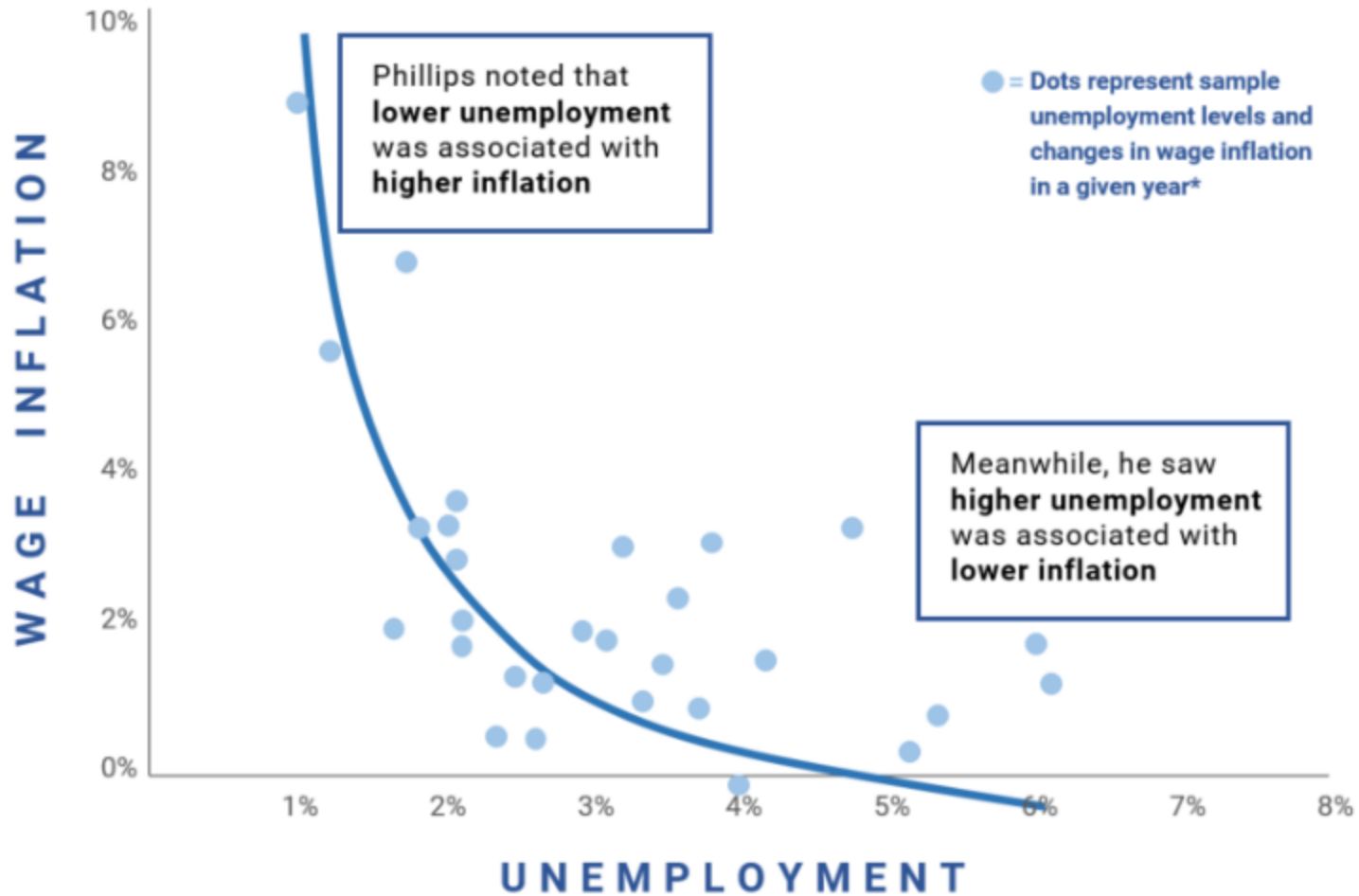
# Ten Principles of Economics



**Dr. Omnia Elmahdy**

# UNDERSTANDING THE PHILLIPS CURVE

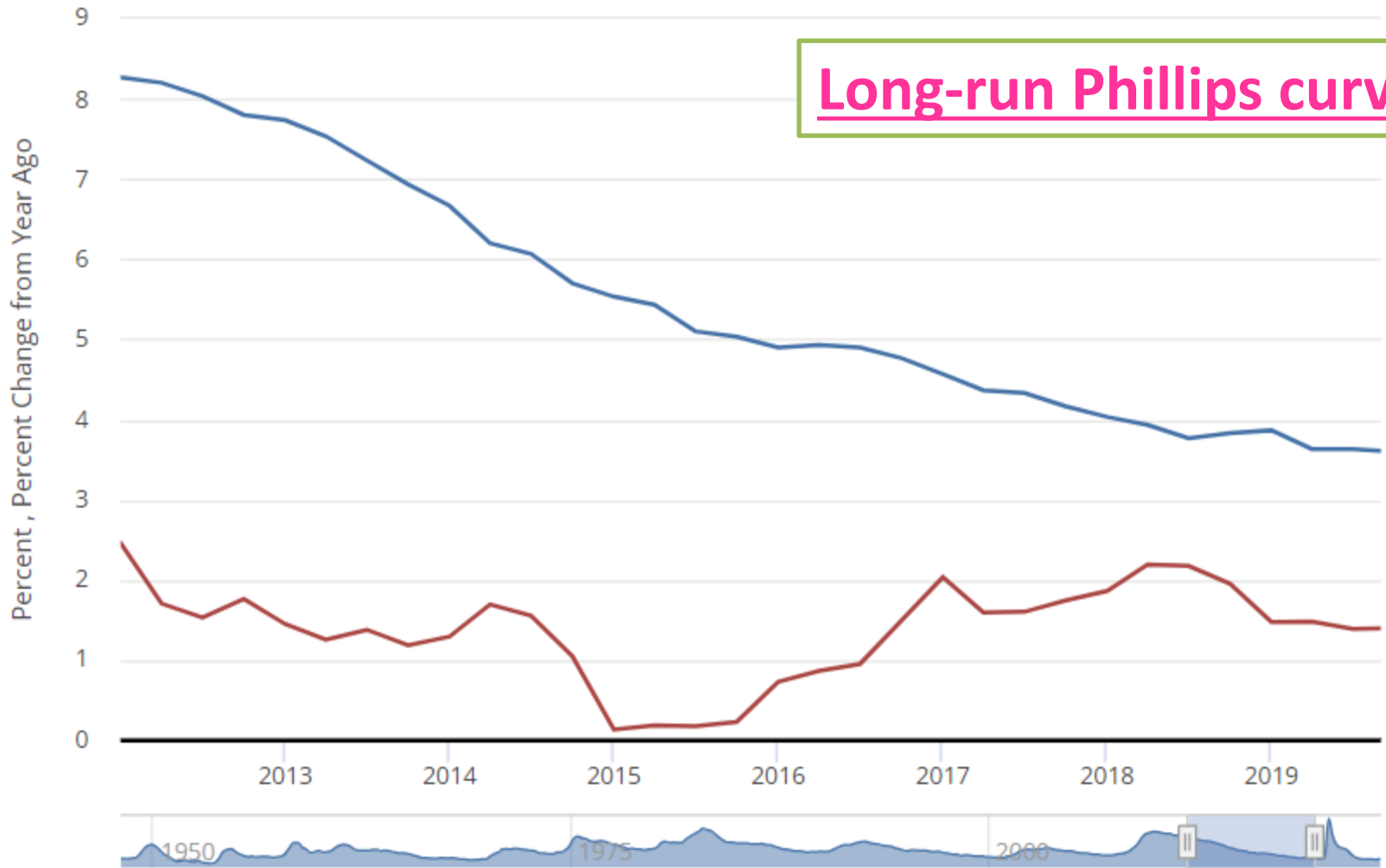
In the 1950s, A.W. Phillips plotted decades' worth of data on wage inflation and unemployment. He noticed an inverse relationship between these two indicators.





Unemployment Rate

Personal Consumption Expenditures: Chain-type Price Index



Long-run Phillips curve

- At recent years, starting in 2012. While the unemployment rate has declined to levels not seen in 50 years, inflation has remained low for most of the period. This suggests that the Phillips curve has “flattened,” or that the relationship might not be as strong as it once was.
- Long-run Phillips curve (“LRPC”) a curve illustrating that there is no relationship between the unemployment rate and inflation in the long-run; the LRPC is vertical at the natural rate of unemployment.

# Example 1

- Three managers of the magic potion company are discussing a possible increase in production.

Harry	Ron	Hermione
We would examine whether our company's productivity – gallons of potion per worker – will raise or fall	We should examine whether our average cost – cost per worker – would rise or fall	We should examine whether the extra revenue from selling the additional potion would be greater or smaller than the extra costs

Three managers of the Magic Potion Company are discussing a possible increase in production. Each suggests a way to make this decision:

- a. Harry: We should examine whether our company's productivity - gallons of potion per worker- will rise or fall.
- b. Ron: We should examine whether our average cost - cost per worker - would rise or fall.
- c. Hermione: We should examine whether the extra revenue from selling the additional potion would be greater or smaller than the extra costs.

Productivity  
OK

Average Cost  
OK

Costs & Revenues  
**THINKING AT THE  
MARGIN**  
(Principle #3)

# Example 2

- Your roommate is a better **cook** than you are, but you can **clean** more quickly than your roommate.
- If your **roommate did all the cooking and you did all the cleaning**, would your chores take you more or less time than if you **divided each task evenly**?

## Example 2

Your roommate is a better cook than you are, but you can clean more quickly than your roommate can. If your roommate did all of the cooking and you did all of the cleaning, would your chores take you more or less time than if you divided each task evenly?

Give a similar example of how specialization and trade can make two countries both better off.

**SPECIALIZATION**  
(Principle #5)



## Example 2

Your roommate is a better cook than you are, but you can clean more quickly than your roommate can. If your roommate did all of the cooking and you did all of the cleaning, would your chores take you more or less time than if you divided each task evenly?

Give a similar example of how specialization and trade can make two countries both better off.

### SPECIALIZATION (Principle #5)

#### Example

- French workers can make perfumes efficiently.
- Spanish workers takes
  - less time to make clothes.
- Spain and France can exchange perfumes for clothes.

## Example 3

You win \$100 in a lottery.

You have a choice between spending the money now or putting it away for a year in a bank account that pays 5 percent interest.

What is the opportunity cost of spending the \$100 now?

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OPPORTUNITY  
COST  
Principle (#2)

If you spend \$100 now instead of saving it for a year and earning 5 percent interest, you are giving up the opportunity to spend \$105 a year from now.

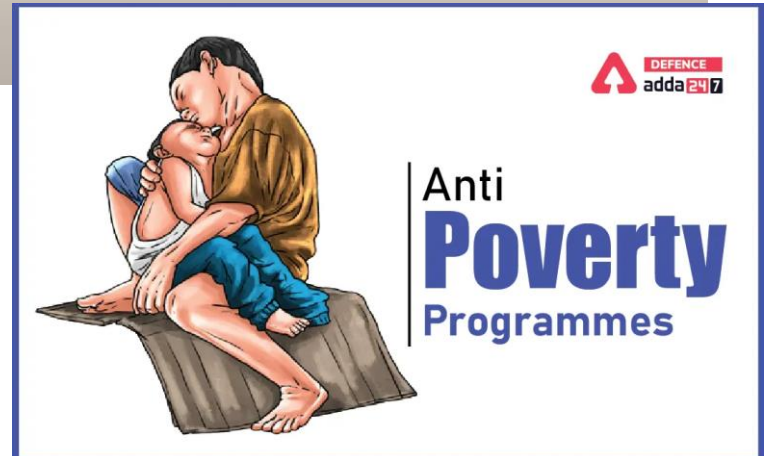
# Example 4

قد أدى مشروع قانون حديث لإصلاح برامج مكافحة الفقر الحكومية إلى تقييد العديد من المستفيدين من الرعاية الاجتماعية لمدة عامين فقط

A recent U.S. bill reforming the government's antipoverty programs limited many welfare recipients to only two years of benefits.

How does this change affect the incentives for working?

How might this change represent a trade-off between equity and efficiency?



## Example 4

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INCENTIVE  
Principle (#4)

A greater incentive to find  
jobs



## Example 4

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### INCENTIVE Principle (#4)

A greater incentive to find jobs

### EQUITY & EFFICIENCY Principle (#7)

- The distribution of income will become less equal.
- Welfare recipients have a greater incentive to find jobs.
- Increases efficiency but reduces equity.

# Example 5

Explain whether each of the following government activities is motivated by a concern about equality or a concern about efficiency. In the case of efficiency, discuss the type of market failure involved.

- a. regulating internet prices
- b. imposing higher personal income tax rates on people with higher incomes



## Monopolistic Market

[mə-nä-pə-'li-stik]

An industry in which many firms offer products or services that are similar (but not perfect) substitutes.

 Investopedia



regulating internet prices



## Example 5

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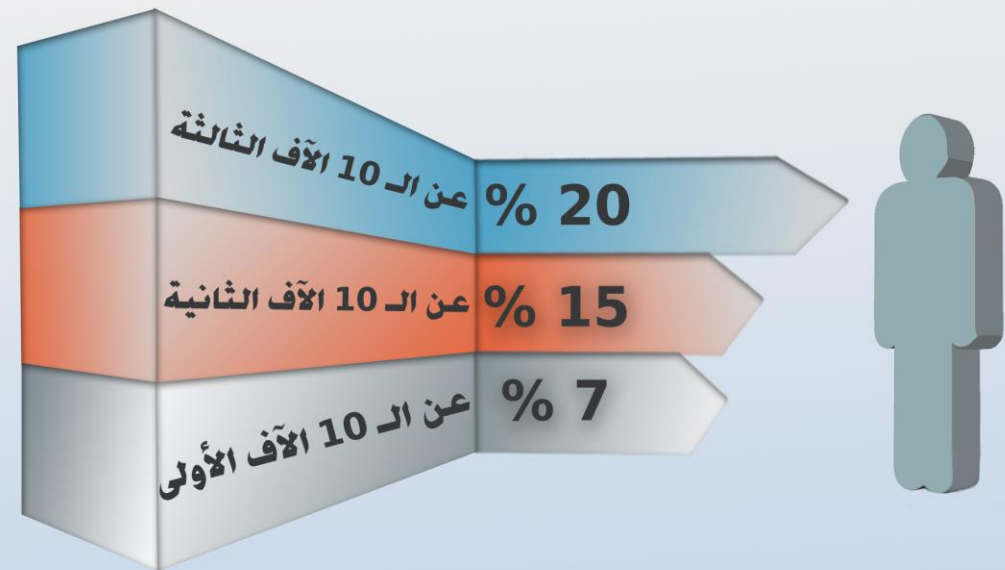
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EQUITY & EFFICIENCY  
Principle (#7)

Efficiency  
Market Power  
(Monopoly)

imposing higher personal income tax rates on people with higher incomes

### الضريبة المقتطعة على الافراد حسب الشريحة



المصدر: قانون ضريبة الدخل 2014

جميع الحقوق محفوظة لموقع "عمان نت"

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### EQUITY & EFFICIENCY Principle (#7)

Efficiency  
Market Power  
(Monopoly)

Equity