MASTERING

ECONOMICS

MACMILLAN MASTER SERIES

Basic Management
Biology
Chemistry
Commerce
Computer Programming
Computers
Data Processing
Economics
Electronics
English Language
French
German
Italian
Marketing
Mathematics
Modern World History
Office Practice
Physics
Principles of Accounts
Sociology
Spanish
Statistics
Study Skills

MASTERING ECONOMICS

J. HARVEY

M

© J. Harvey 1981

All rights reserved. No part of this publication may be reproduced or transmitted, in any form or by any means without permission.

First published in this edition 1982 by
THE MACMILLAN PRESS LTD
London and Basingstoke
Associated companies throughout the world

Typeset by
Reproduction Drawings Ltd, Sutton, Surrey

This book is also available under the title
Basic Economics, published by
Macmillan Education.

ISBN 978-0-333-30477-8 ISBN 978-1-349-16703-6 (eBook)
DOI 10.1007/978-1-349-16703-6

The paperback edition of this book is sold subject to the condition that it shall not, by way of trade or otherwise, be lent, resold, hired out, or otherwise circulated without the publisher's prior consent in any form of binding or cover other than that in which it is published and without a similar condition including this condition being imposed on the subsequent purchaser.

CONTENTS

Tables	9
Preface	11
Acknowledgements	13

I. INTRODUCTION

1 Solving the problem of scarcity	
1.1 The economic problem	17
1.2 Economic systems	18
1.3 The market economy	20
1.4 The command economy	22
1.5 Britain's mixed economy	24
1.6 The nature of economics	25
2 The population as consumers and producers	
2.1 Growth of population	27
2.2 The implications of changes in the size of the population	30
2.3 Age distribution	35
2.4 Sex distribution	37
2.5 The industrial distribution of the working population	38
2.6 The geographical distribution of the population	40

II. PRIVATE-SECTOR PRODUCTION

3 The operation of the free market	
3.1 Markets	45
3.2 Forces determining price	49
3.3 The determination of price: market clearing	56
3.4 Changes in the conditions of demand and supply	57
3.5 Functions of price in the free market	59
3.6 Further applications	63
4 Demand	
4.1 The marginal-utility theory	65
4.2 Price-elasticity of demand	69
4.3 Income-elasticity of demand	72

CONTENTS

5 Supply: (i) the structure of industry	
5.1 The role of the firm	73
5.2 What to produce	79
5.3 Raising the necessary capital	81
5.4 The division of labour	84
5.5 The advantages of large-scale production	87
5.6 The size of firms	90
5.7 The location of production	93
5.8 The distribution of goods to the consumer	97
6 Supply: (ii) costs and profitability	
6.1 Combining resources	105
6.2 The costs of production	109
6.3 How much to produce: output of the firm under perfect competition	114
6.4 The industry's supply curve	119
6.5 Elasticity of supply	121
6.6 Monopoly	125

III. FACTORS AND THEIR REWARDS

7 The determination of factor rewards	7.1 Introduction	137
	7.2 The theoretical determination of factor rewards	137
8 Labour and wages	8.1 The nature of the labour force	143
	8.2 The determination of the rate of pay	144
	8.3 Trade unions and collective bargaining	148
9 Capital, land and entrepreneurship	9.1 Capital	159
	9.2 Interest	162
	9.3 Land and rent	163
	9.4 Entrepreneurship	170
	9.5 Profit	171

IV. PUBLIC-SECTOR PRODUCTION

10 The allocation of resources through the public sector	10.1 The case for public-sector production	177
	10.2 Demand and needs	178
	10.3 Pricing policy in the public sector	179
	10.4 Cost-benefit analysis	180
	10.5 Wage-claims in the public sector	183

CONTENTS

11 Organisations in the public sector for supplying goods and services	11.1 The government department	185
	11.2 Local authorities	186
	11.3 The nationalised industries	194
	11.4 Other quasi-governmental bodies	201

V. FINANCE AND BANKING

12 Finance	12.1 Money	205
	12.2 The provision of liquid capital	206
	12.3 Money markets	208
	12.4 The capital market	212
	12.5 The stock exchange	215
13 Banking	13.1 The British banking system	219
	13.2 Joint-stock banks	220
	13.3 The Bank of England	225

VI. THE LEVEL OF ECONOMIC ACTIVITY

14 The full employment of resources	14.1 The nature of the problem	231
	14.2 Factors determining a country's material standard of living	235
	14.3 Growth	237
15 Measuring the level of activity: national-income calculations	15.1 The principle of national-income calculations	241
	15.2 National-income calculations in practice	242
	15.3 Uses of national-income calculations	249
16 The determination of the level of activity	16.1 The link between spending and production	253
	16.2 Reasons for changes in aggregate demand	255
	16.3 Consumption spending	257
	16.4 Investment spending	262
	16.5 The effect on the level of income of changes in investment	264
	16.6 Leaks and injections in general	266

VII. INTERNATIONAL TRADE

17 International trade	17.1 Why international trade?	271
	17.2 The pattern of the UK's overseas trade	274
	17.3 Free trade and protection	278
	17.4 The balance of payments	283
	17.5 Balance-of-payments problems	290
	17.6 The European Economic Community	293

CONTENTS

VIII. MANAGING THE ECONOMY

18 Full employment	18.1 The nature of government economic policy	303
	18.2 Full employment	304
	18.3 Cyclical unemployment and government policy	307
19 Balanced regional development	19.1 The nature of the problem	311
	19.2 Government policy	312
20 Currency stability	20.1 The effects of inflation	317
	20.2 Measuring changes in the general level of prices	318
	20.3 Causes of inflation	320
	20.4 Controlling inflation	324
21 Government finance	21.1 Government expenditure	327
	21.2 The modern approach to taxation	328
	21.3 The structure of taxation	333
	21.4 The public-sector borrowing requirement	339

TABLES

2.1	Population, Great Britain and Northern Ireland, 1801-1978	29
2.2	Crude birth rate and crude death rate, England and Wales, 1851-1977	29
2.3	Proportion of females to males, 15-49 age group, Great Britain, 1911-78	37
2.4	Industrial distribution of the working population, Great Britain 1901 and 1978	39
3.1	Market demand schedule	51
3.2	An increase in demand	52
3.3	Market supply schedule	54
3.4	An increase in supply	55
5.1	Size of manufacturing establishments in the UK, 1973	91
6.1	Variations in output of potatoes resulting from a change in labour employed	107
6.2	Costs of Rollermowers Ltd	113
10.1	Percentage distribution of the Gross Domestic Product and the labour force by sector, 1961-79	178
15.1	Calculations of the UK's national income	246
17.1	The UK's imports and exports by value, 1977	275
17.2	Percentage distribution of the UK's foreign trade between the Commonwealth and the rest of the world, 1938 and 1978	277
17.3	Percentage distribution of the UK's trade between the EEC and the rest of the world, 1964 and 1978	278
17.4	The UK's balance of payments, 1975	287
19.1	Percentage rate of unemployment by region, 14 Feb. 1980	311

PREFACE

Mastering Economics is written for those who are embarking on a study of economics. While its main aim is to cover basic examinations in schools and colleges, it will also meet the requirements of most professional syllabuses and will provide preliminary reading for university students.

For the general reader seeking guidance in understanding economic problems and policies, the book sets out the essential background and introduces in simple form the techniques used by economists.

Particular attention has been paid to current views regarding the defects of the 'laissez-faire' system in solving the economic problem, the role the government can play in a 'mixed' economy, and the increase in the importance of the public sector over the past thirty-five years — subjects which are inclined to be glossed over in elementary texts.

I would like to thank Andrew Leake, senior economics master at Latymer Upper School, and David Whitehead, lecturer in education at the University of London, who read the original typescript and made many helpful suggestions.

A handwritten signature in black ink, appearing to read 'J. Harvey', with a long horizontal line extending from the end of the signature.

ACKNOWLEDGEMENTS

The author and publishers wish to thank the Controller of Her Majesty's Stationery Office for permission to reproduce extracts from official publications.