Universidad Politécnica de Cartagena

Introduction to Economics

Unit 8

Public sector intervention in markets and economic policies

Grado en Turismo

Facultad de CC de la Empresa

Cartagena, December 2020

Universidad Politécnica de Cartagena

índice

Bibliografía: Mochón, F. (2009): Economía y turismo. Editorial: McGraw Hill, Madrid.

2. Aggregate Supply and Demand

- Aggregate demand: total amount of goods and services that the different sectors (families, companies, public sector and foreign sector) are willing to buy during a period of time
- Aggregate supply: total amount of goods and services that companies in a country are willing to produce and sell in a given period, given factor prices, productive capacity, costs and market conditions
- Aggregate demand curve: relationship between the general price level and the economy's aggregate expenditure
- Aggregate supply curve: relationship between the price level and the total goods and services amount that companies are willing to offer
- Potential product or full employment income: product that is reached when all productive resources are employed
- Macroeconomic equilibrium: a combination of global quantity and price for which neither buyers nor sellers wish to alter their purchases or sales.
- Macroeconomic equilibrium may exist, but the economy could not be in a situation of full employment

2. Aggregate Supply and Demand

- Demand shock: any event that causes the aggregate demand curve to shift
- Shift in the aggregate demand curve: when public spending, investment, autonomous, consumption, net exports, the quantity of money or taxes are altered
- Supply shock: caused by any factor that alters the unit costs of the companies, for any level of production, causing a shift in the aggregate supply curve.
- These shocks cause changes in the level of production and in the equilibrium price level
- Economic policies can generate shocks that counteract the effect of other internal or external forces on the equilibrium, or bring the economy closer to full employment
- Classical economists: the economy adjusts automatically and state intervention is not necessary
- Keynesian economists: the economy does not tend towards full employment and they recommend state intervention

3. Fiscal Policy

- Fiscal policy: these are the government's decisions on the level of public spending and taxes
- Public revenue - state revenue earned through taxes, fees, penalties, etc.
- Public expenditure: current expenses (personal) and investment expenses
- Transfers or Subsidies: payments from the state for which those who receive them do not give in return any goods or services
- Taxes: public sector impositions on individuals, family units and companies to pay a certain amount of money in relation to certain economic acts
- Expansive fiscal policy: increase in public spending or decrease in taxes, which stimulates aggregate demand, production, employment and pushes prices up
- Contractionary fiscal policy: reduction in public spending or increase in taxes, this contracts aggregate demand causing a decrease in production, employment and downward pressure on prices

3. Fiscal Policy

- Public sector budget: description of spending plans and income required to finance expenditures
- Budget = public revenue- public expenditures
- Public revenue: funds that go to the public sector
- Public expenditure: set of payment obligations contracted by the public sector as a result of its performance as an economic agent
- Public deficit: it occurs when the state spends more than it enters. Generates public debt
- Public debt: stock of state debts; debt securities that the state sells to the public to finance its deficits