

GRADO EN TURISMO

Introduction to Economics

Questions and exercises Units 1 and 2

Answers

Unit 1

1.- Set the main differences between microeconomics and macroeconomics

Microeconomics studies the behaviour of individual agents, that is, the consumer and the firm. The result of consumer decisions is demand and the result of business decisions is supply. It also studies the functioning of markets where, given supply and demand, prices are determined. Microeconomics also studies the public sector when the state intervenes in the markets and when it affects the decisions of consumers and companies (setting taxes on the consumption of some goods, offering public goods, regulating some markets, etc., which are called microeconomic policies.

Macroeconomics studies the economy as a whole, that is, the result of the aggregate decisions of all consumers, all companies and the public sector. Thus, it studies national production (GDP), consumption, investment, public spending, and public sector revenues. Also, the aggregate result of all goods markets that is reflected in the general level of prices, the performance of the labour market that is reflected in the unemployment rate, and the economic policies applied by governments and central banks.

2.- What is the opportunity cost. Explain the concept of opportunity cost using the Production Possibilities Frontier

The opportunity cost is what you have to give up to get something. An economy has limited resources and must decide how it allocates those resources to produce goods. The frontier represents the maximum that can be produced given the resources available. Increasing the production of one good implies reducing the production of another (moving from one point to another on the production possibilities frontier). The opportunity cost of increasing the production of one good is the quantity of the other good that must be given up.

What is the opportunity cost of a hairdresser who is watching a workout for his favourite team?

The income that he fails to obtain for not rendering his hairdressing services

3.- Mark the correct statement, among the following four, regarding the circular flow of income:

a) Companies offer goods and services to the market and pay in the market for goods and services, based on what the market demands of them

b) Households demand goods and services from companies and receive money based on what they have demanded

c) Companies demand working hours from domestic economies and pay rents to families that we call wages **Correct**

d) In the factor market, companies offer work and families demand wages.

4.- Explain the relationship between the slope of the demand curve and the decreasing utility as the consumption of a good increases.

The demand curve for a good slopes downward. This means that price and quantity demanded are inversely related: when price increases, quantity demanded decreases and when price decreases, quantity demanded increases.

The satisfaction or utility of consuming a good decreases as the number of units that we consume of the good increases. This is what we call Decreasing Marginal Utility. Then the consumer is willing to consume more units of the good if the price he has to pay for them is also lower, because they provide him with less utility.

Unit 2

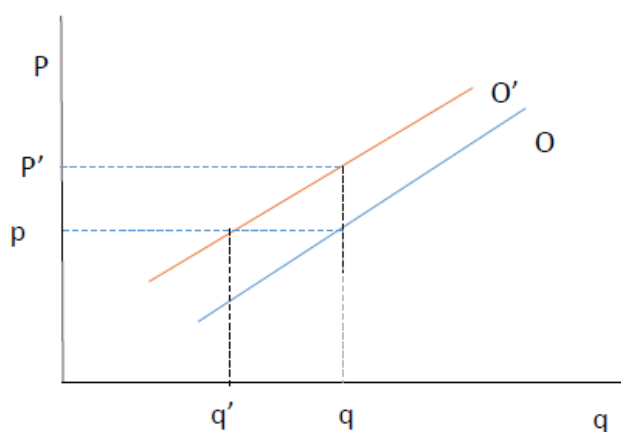
5.- What is the difference between the expressions: demand, quantity demanded, demand function, demand curve, and law of demand?

Demand is the willingness to buy, that is, what the consumer is willing to buy at every possible price. Quantity demanded: what you buy at a specific price. Demand function: the mathematical relationship between the quantity demanded and the variables on which it depends (price, income, prices of other goods, tastes). Demand curve: the graphical representation of demand. Law of demand: inverse relationship between price and quantity demanded.

6.- On what variables does the supply of a good depend? How does the supply curve shift in the face of an increase in workers' wages? Represent it graphically.

The supply of a good depends on the price of that good, the price of the factors of production, the technology (knowledge about how to combine the factors of production), and the number of companies in the market for that good.

The wage is the price of the labour factor. The company obtains income from the sale of its product and with this income it pays the factors of production, that is, it pays the costs of production. When wages increase, production costs increase, then the company will have to reduce production if it sells at the same price, or it will be able to continue producing the same thing if it can sell at a higher price. It is graphically represented by a shift in the supply curve:



Shifting the supply curve to the left and up

7.- Explain how it will affect the demand curve for accommodation in a beach hotel:

a) holding a music festival on that beach

A music festival would be a complementary service to hotel accommodation. The demand for rooms will increase for any given price, therefore the demand curve shifts to the right.

b) the tourist promotion of that beach by the city council

Promotion and advertising influence consumer tastes and provide information. In this case that will cause the demand to increase, that is, shift to the right.

c) pollution of the sea by an oil spill

Demand will decrease whatever the price of the rooms. Shift to the left.

d) the opening of a campsite

We can consider a campsite as a substitute for the hotel. Some tourists who previously stayed in the hotel, now prefer camping, thus shifting to the left the demand for hotel rooms.

8.- The demand table for the services offered by an amusement park is as follows:

Point	Ticket price	Quantity demanded (number of tickets per week)	Total revenues
a	100	200	20000
b	80	350	28000
c	50	600	30000
d	25	1000	25000
e	10	1400	14000

- 1) Plot the demand curve.
- 2) Calculate the price-elasticity of demand between points a and b, between points c and d, and between points d and e, using the average between the initial and final values as a reference value.
- 3) Calculate the total revenues of the amusement park corresponding to each point.
- 4) At what price is the maximum total revenues obtained? Justify using the elasticity values calculated in section 2) whether or not the company is interested in lowering that price.

Elasticity is the ratio of the percentage of change in the quantity demanded and the percentage of change in price, between the points indicated. As we are asked to calculate the percentage using the average between the initial and final points as a reference value, to

calculate the percentage of variation, the difference between the final and initial points is calculated and divided by the average value between the initial and final points.

$$E_{a-b} = - \frac{(350-200)/275}{(80-100)/90} = 2,45 \qquad E_{c-d} = - \frac{(1000-600)/800}{(25-50)/37,5} = 0,75$$

$$E_{d-e} = - \frac{(1400-1000)/1200}{(10-25)/17,5} = 0,38$$

Total income is maximum at point c. The company is interested in being at that point, that is, selling at the price of 50. If it decided to lower the price, it would go to points (such as do and e) where demand has elasticity less than 1, then a lower price would lead to less income (because the quantity demanded increases by a lesser percentage than the price falls). If it decided to raise the price, from point c, it would go to points where the elasticity is greater than 1, (points a, b) then higher price implies that income decreases (because the quantity demanded decreases by a greater percentage than the price).