

STUDY SESSION

4

Economics (1)

This study session begins by introducing fundamental concepts of demand and supply analysis for individual consumers and firms. Also covered are the various market structures (perfect competition, oligopoly, monopoly) in which firms operate. Key macroeconomic concepts and principles then follow, including aggregate output and income measurement, aggregate demand and supply analysis, and analysis of economic growth factors. The study session concludes with coverage of the business cycle and its effect on economic activity.

READING ASSIGNMENTS

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| Reading 14 | Topics in Demand and Supply Analysis
by Richard V. Eastin, PhD, and Gary L. Arbogast, PhD, CFA |
| Reading 15 | The Firm and Market Structures
by Richard Fritz, PhD, and Michele Gambera, PhD, CFA |
| Reading 16 | Aggregate Output, Prices, and Economic Growth
by Paul R. Kutasovic, PhD, CFA, and Richard Fritz, PhD |
| Reading 17 | Understanding Business Cycles
by Michele Gambera, PhD, CFA, Milton Ezrati, and Bolong Cao,
PhD, CFA |

LEARNING OUTCOMES**READING 14. TOPICS IN DEMAND AND SUPPLY ANALYSIS**

The candidate should be able to

- a** calculate and interpret price, income, and cross-price elasticities of demand and describe factors that affect each measure;
- b** compare substitution and income effects;
- c** distinguish between normal goods and inferior goods;
- d** describe the phenomenon of diminishing marginal returns;
- e** determine and interpret breakeven and shutdown points of production;
- f** describe how economies of scale and diseconomies of scale affect costs.

READING 15. THE FIRM AND MARKET STRUCTURES

The candidate should be able to:

- a** describe characteristics of perfect competition, monopolistic competition, oligopoly, and pure monopoly;
- b** explain relationships between price, marginal revenue, marginal cost, economic profit, and the elasticity of demand under each market structure;
- c** describe a firm's supply function under each market structure;
- d** describe and determine the optimal price and output for firms under each market structure;
- e** explain factors affecting long-run equilibrium under each market structure;
- f** describe pricing strategy under each market structure;
- g** describe the use and limitations of concentration measures in identifying market structure;
- h** identify the type of market structure within which a firm operates.

READING 16. AGGREGATE OUTPUT, PRICES, AND ECONOMIC GROWTH

The candidate should be able to:

- a** calculate and explain gross domestic product (GDP) using expenditure and income approaches;
- b** compare the sum-of-value-added and value-of-final-output methods of calculating GDP;
- c** compare nominal and real GDP and calculate and interpret the GDP deflator;
- d** compare GDP, national income, personal income, and personal disposable income;
- e** explain the fundamental relationship among saving, investment, the fiscal balance, and the trade balance;
- f** explain the IS and LM curves and how they combine to generate the aggregate demand curve;
- g** explain the aggregate supply curve in the short run and long run;

- h** explain causes of movements along and shifts in aggregate demand and supply curves;
- i** describe how fluctuations in aggregate demand and aggregate supply cause short-run changes in the economy and the business cycle;
- j** distinguish between the following types of macroeconomic equilibria: long-run full employment, short-run recessionary gap, short-run inflationary gap, and short-run stagflation;
- k** explain how a short-run macroeconomic equilibrium may occur at a level above or below full employment;
- l** analyze the effect of combined changes in aggregate supply and demand on the economy;
- m** describe sources, measurement, and sustainability of economic growth;
- n** describe the production function approach to analyzing the sources of economic growth;
- o** distinguish between input growth and growth of total factor productivity as components of economic growth.

READING 17. UNDERSTANDING BUSINESS CYCLES

The candidate should be able to:

- a** describe the business cycle and its phases;
- b** describe how resource use, housing sector activity, and external trade sector activity vary as an economy moves through the business cycle;
- c** describe theories of the business cycle;
- d** describe types of unemployment and compare measures of unemployment;
- e** explain inflation, hyperinflation, disinflation, and deflation;
- f** explain the construction of indexes used to measure inflation;
- g** compare inflation measures, including their uses and limitations;
- h** distinguish between cost-push and demand-pull inflation;
- i** interpret a set of economic indicators and describe their uses and limitations.