

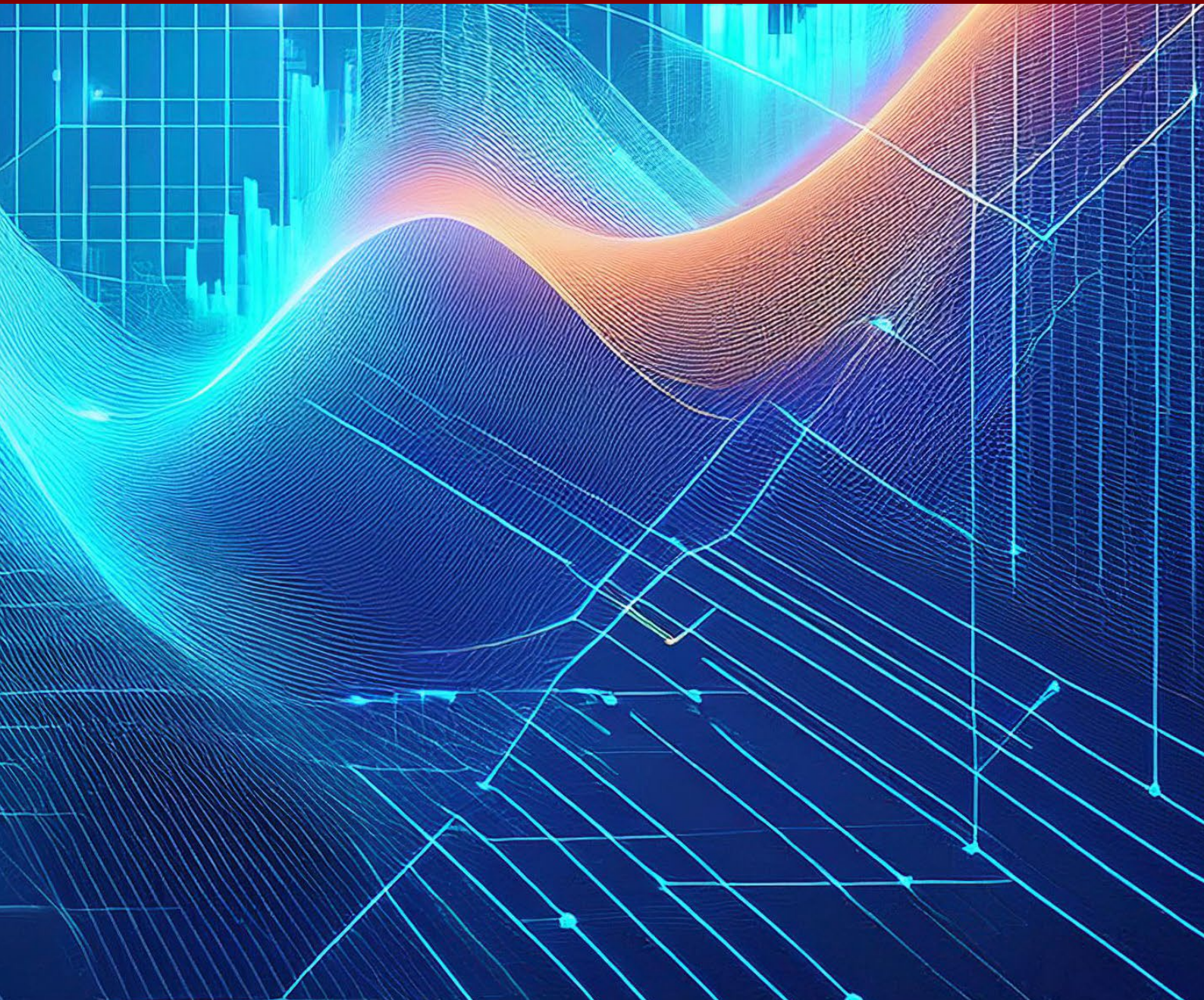
Economics

Year 1

SECTION

8

**ECONOMIC
SYSTEMS AND
MACROECONOMIC
VARIABLES**



GOVERNMENT ECONOMIC POLICY AND TRADE

Macroeconomic Variables (GDP, Inflation, Unemployment, Exchange Rate)

INTRODUCTION

In this section you will delve into the concept of economic systems and explore the different approaches developed by Ghana and other countries in the world. You will discover the ways in which these countries manage their scarce resources, make decisions and measure their economic performance. You will learn what macroeconomic variables are and how they shape economic systems, for example gross domestic product (GDP), inflation, unemployment, interest rates, exchange rates, budget deficit or surplus and trade balance. By understanding these concepts and variables, you will gain an insight into how scarce resources are owned and controlled in an economy.

By the end of this section, you should be able to

- Determine the types of ownership and control of resources in the local and global economy.
- Explain the meaning of the fundamental macroeconomic variables.

KEY IDEAS

- An economic system is a set of rules, institutions, and practices that guide how scarce resources are to be used in the production, distribution, and consumption of goods and services within a society.
- The three types of economic systems are capitalist, socialist, and mixed economy.
- Macroeconomics is the study of the entire economy as a whole and it makes use of variables such as gross domestic product (GDP), inflation, unemployment, and exchange rate.

THE ECONOMIC SYSTEM

Meaning of Economic System

Resources are always **scarce** in every society at every point in time, but human **wants** are unlimited. It is therefore necessary to manage the limited resources wisely to satisfy the unlimited nature of human wants. The way and manner in which every society tackles the question of what to produce, how to produce, and how the products are going to be distributed can be referred to us an **economic system**.

Economic Systems refer to the structure through which production, distribution, and consumption of goods and services are organised within a society or a country.

Types of Economic Systems

1. Capitalist/Free Market Economic System

This refers to any economic system where a greater percentage of resources **are owned and controlled by private individuals or businesses** and not the government. In such a system, owners of resources aim to maximise profit. Goods and services are produced (supply) to suit the consumer's taste and preferences (demand). The consumer is therefore the main factor that determines all decisions which are made through the market forces of supply and demand. Price acts as a signal to both producers and consumers (the price mechanism). Higher prices for producers encourage them to increase supply and make more profit. However, higher prices for consumers encourages them to demand less or find less expensive alternatives. Examples of countries that have a capitalist economic system are the USA and Canada.

The capitalist system is characterised by the following:

1. Resources are mainly owned and controlled by private individuals.
2. The main motive of production is to maximise profit.
3. Decision-making is based on consumer demand through the price mechanism.

Advantages	Disadvantages
1. The consumer is king, they are the most important influencer.	1. It widens the income gap between individuals rich and poor.
2. The system promotes creativity and innovation.	2. It considers the private welfare of the few – controllers of private firms.
3. It ensures efficiency in resource allocation.	3. Certain goods and services like parks, education, clean air, healthcare are low priority
4. It encourages individual initiatives.	4. Many firms supply the same goods and services.

Follow this link for a more detailed explanation of the capitalist economic system: [What is Capitalism? Capitalism Explained | Pros and Cons of Capitalism? Who is Adam Smith? - YouTube](#)

2. Socialist/Controlled/ Planned Economic System

This refers to an economic system where a greater percentage of resources are owned and controlled by the government instead of by private individuals. The socialist economic system aims at promoting the social welfare of the people and decision making is done by a committee called the Board of Directors on behalf of the state. Examples of countries that practice controlled economic systems are China and North Korea.

This system is characterised by the following:

1. Resources are mainly owned and controlled by the state.
2. The main motive of production is to promote the social welfare of people in the country.
3. Decision-making is based on general needs through the Board of Directors.

Advantages	Disadvantages
1. There is little difference in the incomes of workers in any job.	1. Corruption is common in those people who are tasked with allocating resources.
2. Efficient in resource allocation.	2. Consumers are not regarded as an important influence.
3. It promotes social welfare.	3. There is no private initiative because profit is not a driver for producers.

Follow this link for a more detailed explanation of the socialist economic system: [Socialism | Animation \(youtube.com\)](#)

3. Mixed Economic System

This refers to any economic system whereby resources are partly owned and controlled by the state and partly owned and controlled by private individuals. Decision-making is done by both the state through the Board of Directors as well as by the private individuals through the price mechanism. Examples of countries that practise mixed economic systems include Ghana, and Nigeria.

Features of mixed economic systems

1. Resources are partly owned and controlled by private individuals and partly by the state.
2. The main motive of production is partly to maximise profit and partly for the improvement in social welfare.

3. Decision-making is based on consumer demand through the price mechanism as well as by the state machinery of the Board of Directors.

Advantages:	Disadvantages:
1. Creative individuals and firms generate capital that can improve economic growth.	1. High taxes to fund social welfare do not encourage investment by firms to promote economic growth.
2. Allows private ownership of firms for profit.	2. Over-regulation by governments can affect national markets for goods and services producing shortages.
3. Companies are free to produce goods based on local or national demand.	3. Risk of market failures due to bad government policies and slow responses of systems that are overburdened by paperwork, form filling, and lengthy waits for decisions.

Follow this link for a more detailed explanation of the mixed economic system: [Mixed Economy Systems I A Level and IB Economics \(youtube.com\)](https://www.youtube.com/watch?v=...)

Activity 8.1

The table below relates to the three economic systems you have read about above.

1. Fill the blank cells in the table with the correct features of the three economic systems. This will help you to compare each system.

Features of economic systems	Capitalist economic system	Socialist economic system	Mixed economic system
Ownership of resources			
Motive of production			
Decision making			
Determination of prices			

2. What economic system is the best for consumers? Explain your answer.
 3. What economic system is the best for governments? Explain your answer.
 4. Would you prefer Ghana to remain as a mixed economic system or would one of the others be better? Explain your answer.

Activity 8.2

1. Use the internet or library resources to research other countries that have capitalist, socialist and mixed economic systems.
2. Display your list of countries as a mind map and include some of the key features of each economic system.

Activity 8.3

1. Your teacher will organise you into small groups of four to six students.
2. Each group will divide themselves into two further groups.
3. Your teacher will allocate you an economic system.
4. One group should argue in favour of that economic system while the other should argue against it. Each group has ten minutes to prepare their argument and nominate a spokesperson.
5. Cover fully the features and advantages of the economic system given.
6. Cover fully the features and disadvantages of the economic system given.
7. Each group has 5 minutes each to present their argument to the class.
8. Each group uses 1 minute to summarise their argument.
9. The class will then vote to decide which economic system they would prefer.

THE FUNDAMENTAL MACROECONOMIC VARIABLES

Macroeconomics is a branch of Economics that studies the behaviour, performance, and structure of an entire economy.

Macroeconomic variables are indicators that reflect the overall state and trends of an economy. They help economists and policymakers understand the performance and behaviour of an economy and make decisions which will improve its performance.

According to current macroeconomic variables the Ghanaian economy is healthy and performing better than some other African countries.

The performance of the Ghanaian economy is measured using macroeconomic variables which help the government, banks, businesses and consumers make decisions and formulate policies that promote economic growth. These macroeconomic variables include gross domestic product (GDP), inflation, unemployment, and exchange rate.

These variables affect everyone, from a student to the president of Ghana. This section will help you understand these macroeconomic variables and how they affect your life as a person living in Ghana.

The Macroeconomic Variables

The following section covers six of the most important macroeconomic variables.

- **Unemployment Rate:** This is the percentage of people who want to work but cannot find a job. For example, if 50 people are seeking a job and out of that 20 people cannot find one, then the unemployment rate is 40% ($20/50 \times 100$).

Follow the link: [Ghana Unemployment Rate 1960-2024 | MacroTrends](#)

Write down the unemployment rate for Ghana in 2021. Look at the graph for unemployment, can you describe what has happened to it since 1960?

- **Gross Domestic Product (GDP):** GDP is the total value of all the goods and services produced in a country in one year. For example, imagine the value of all the maize, mobile phones, school bags, and services like teaching and medical care produced in Ghana in one year. Adding up their value gives you the GDP.

Follow the link: [Ghana GDP 1960-2024 | MacroTrends](#)

Describe what has happened to GDP in Ghana since 1960 using the line graph.

Compare the GDP of Ghana with other countries in West Africa by following the link: [List of African countries by GDP \(nominal\) - Wikipedia](#)

(National income is the total value of all goods and services produced by a country's economy over a specific period, typically one year. It includes the earnings from

production, such as wages, salaries, rent, interest, and profits. It includes income from abroad unlike GDP which is that produced only within its borders.)

- **Inflation Rate:** The inflation rate is how much the prices of goods and services go up over time. For example, if a bag of rice (5kg) costs Gh¢70 last month and Gh¢90 this month, that means prices are increasing, which describes the process of inflation. A high inflation rate means that people have to spend more money to buy the same things that they previously bought at relatively cheaper prices.

Follow the link: [Ghana Inflation Rate 1960-2024 | MacroTrends](#)

Describe what has happened to the inflation rate in Ghana since 1960 using the line graph. Have you noticed any price increases in the things you buy? Keep a record of the prices you pay for goods you use often over the year, and you will be able to calculate the inflation rate. Do not forget, prices sometimes vary and even go down.

- **Government Budget:** The government budget is a plan that shows how much money the government expects to earn (from taxes and other sources), and how it plans to spend it. For example, if the government plans to spend more money on school infrastructure and hospitals but has less income, it might lead the government borrowing money.

Follow the link: [2022-Budget-Statement 0.pdf \(mofep.gov.gh\)](#) to find how the Ghanaian government plans to earn and spend money.

- **Exchange Rate:** The exchange rate is the price of a country's currency compared with another country's currency. It represents how much of one currency can be exchanged for a unit of another currency. For example, if 1 US dollar equals 15 Ghanaian cedis, that is the exchange rate. If the exchange rate changes from 1 US dollar to 16 cedis, it means the cedi has become weaker compared to the dollar. The exchange rate can change on a daily basis.

Follow the link: [Exchange Rate – Bank of Ghana \(bog.gov.gh\)](#)

What currencies are used to create the three line graphs? Write down the exchange rate for the Ghanaian Cedi for the three currencies in August 2024. Does the graph show an increase or decrease in value of the Cedi against the three currencies?

- **Trade Balance:** This is the difference between what a country sells to other countries (exports) and what it buys from them (imports). For example, if Ghana sells a lot of cocoa to other countries (exports) and buys fewer cars (imports), it has a positive trade balance. A negative trade balance happens when a country buys more from other countries than it sells to them.

Follow the link: [Ghana Trade Balance 1960-2024 | MacroTrends](#). Describe what has happened to the balance of trade in Ghana since 1960 using the line graph.

If you meet any problems with accessing the information on the online links please seek help from your teachers and friends.

Activity 8.4

You have been asked to prepare a report of no more than 500 words which describes the health of the Ghanaian economy based on data for the macroeconomic variables you have studied in this section. Structure your report in the following way:

1. **Introduction:** Purpose of the report, importance of macroeconomic variables.
2. **Discussion:** The current picture presented by each of the macroeconomic variables.
3. **Analysis:** Outline the strengths (positive aspects of the economy), weaknesses (areas needing improvement, opportunities (areas with potential for growth) and threats (risks to economic stability).
4. **Conclusion:** Summary of findings and an overall assessment of Ghanaian economic health.

Activity 8.5

1. Find out the current level of the macroeconomic variables for Ghana.
2. Create a fact sheet or poster summarising your findings. You can include definitions of each term and indicate whether the variables show good prospects for the Ghanaian economy.
3. Discuss your findings with a friend.

Activity 8.6

1. Follow this link Lesson 9.2: [Calculating the Real Exchange Rate \(youtube.com\)](#) which explains how currencies are valued against each other.

Find the current exchange rates from the Internet for US Dollars (\$), GB Pounds (£), and Euros (€).

Convert 300 Cedis into US Dollars (\$), GB Pounds (£), and Euros (€).

2. Follow this link [10 African Nations in Crisis: Inflation Shock You Won't Believe! \(youtube.com\)](#) and watch the video. Make notes on the inflation rate in each of the ten countries and the effects this is having on the people and economic systems.

Using the information from your notes write a report to describe the main reasons behind inflation in African countries and the effects this is causing.

REVIEW QUESTIONS

1. What is an economic system?
2. Describe the features of capitalist, socialist and mixed economies.
3. Explain the advantages and disadvantages of capitalist, socialist and mixed economies.
4. Define macroeconomics.
5. In one paragraph explain the importance of macroeconomic variables to Ghana.
6. Explain each of the following terms and state their current levels in the Ghanaian economy:
 - a. Unemployment Rate
 - b. Gross Domestic Product (GDP)
 - c. Inflation Rate
 - d. Government Budget
 - e. Exchange Rate
 - f. Trade Balance
7. Explain the difference between gross domestic product (GDP) and national income.

ANSWERS TO REVIEW QUESTIONS

1. An economic system refers to the structure through which production, distribution, and consumption of goods and services are organised within a society or a country.
2. Capitalist economies feature private ownership of resources and businesses, with minimal government intervention. Socialist economies have significant government control over resources and production, aiming for equal distribution of wealth. Mixed economies combine elements of both, with private ownership coexisting with government regulation and intervention.
3. Capitalist economies encourage innovation and efficiency but can lead to income inequality. Socialist economies promote economic equality but may reduce individual incentives. Mixed economies balance individual freedom with social welfare but can suffer from inefficiencies due to government intervention.
4. Macroeconomics is the branch of Economics that studies the behaviour and performance of an entire economy, focusing on large-scale economic factors such as GDP, inflation, and unemployment.
5. Macroeconomic variables are important for Ghana as they provide insights into the overall health of the economy. They help policymakers make informed decisions to promote economic stability and growth, address unemployment, control inflation, and manage the balance of payments.
6.
 - a. The unemployment rate in Ghana measures the percentage of the labour force that is jobless and actively seeking employment.
 - b. The Gross Domestic Product (GDP) represents the total value of all goods and services produced in the country.
 - c. The inflation rate indicates the rate at which the general level of prices for goods and services is rising.
 - d. The government budget reflects the balance between government revenues and expenditures.
 - e. The exchange rate shows the value of the Ghanaian cedi against other currencies.
 - f. The trade balance measures the difference between the value of exports and imports.

Currently, Ghana's unemployment rate is around 13.4%, GDP growth is projected at 4.2%, the inflation rate is approximately 9.8%, the government budget deficit is about 7.1% of GDP, the exchange rate is around 11.5 cedis per US dollar, and the trade balance shows a deficit.
7. GDP measures the total value of all final goods and services produced within a country's borders in a specific period over one year whereas National Income includes the total income earned by a country's residents and businesses, including any income earned abroad.

EXTENDED READING

Follow the links to learn more:

- What is an Economic System? ([youtube.com](https://www.youtube.com))
- Macroeconomic Variables ([economicpoint.com](https://www.economicpoint.com))

GLOSSARY

- **Price Mechanism:** The price mechanism is driven by the forces of supply and demand. When consumer demand for a product increases, the price typically rises. Conversely, if demand decreases, the price usually falls.
- **Disparities:** Significant differences between two or more variables.
- **Welfare:** It refers to the well-being or quality of life of individuals.
- **Institution:** An organisation or a set of rules and norms that shape the behaviour of individuals and groups in the economy.
- **Variables:** These are quantities or values that can change or vary with time.
- **Economy:** It is the system that involves the production, distribution, and consumption of goods and services within a country or region.
- **Economic Growth:** Is when a country's economy produces more goods and services over time.
- **Taxes:** Compulsory levies that individuals and businesses must pay to the government.
- **Currency:** This is the type of money used in a country, like Dollars, Euros, or Yen.
- **Export:** A good or service sold by one country to another.
- **Import:** Is a good or service bought by one country from another country.

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