

**Subject Area:** Economics

**Level:** CSEC

**Curriculum Topic:** Economic Policies and Goals  
Section 6 Objective 2

**Key teaching points:**

- Explain the concepts, principles and approaches associated with economic policies and goals.

## **Lesson 1**

The following are terms that every CSEC Economics student must be familiar with. Read each term and spend some time analysing each definition.

### **(a) National Budget**

National budget is the financial plan for a country's government. The budget states how much money the government intends to spend during a year, what it intends to spend it on, and where it expects to get the money to pay for that spending. A budget usually covers a fiscal year. A budget surplus occurs where government plans to generate more money than it can spend. A budget deficit is one where the government intends to spend more money than it can generate and will need to borrow to finance the shortfall.

#### *Activity 1*

1. The Government of Trinidad and Tobago plans a budget with expenditure of \$60m and revenue of \$55 m. Determine the effect of this proposal and the consequences.

### **(b) National Income**

This represents the total net values of all goods and services produced in a country over a specified period over time which is usually one year. There are three methods of measuring national income which include:

1. The output method – all final goods and services produced in a country over a period of time. Only the value added from each firm is added to prevent double counting. For example, National Flour Mills produces flour, which is used by a bakery to make bread. The flour output from National Flour Mills comprises national output. However, the bakery cannot also count that flour. This will be double counting. The bakery only counts the values added to the flour in national income computation.
2. The income method – the returns/incomes earned from all factors of production
3. The expenditure method –  $C + I + G + (X - M)$   
Consumption expenditure plus Investment Expenditure plus government expenditure plus Net Trade (Exports – Imports).

**(c) Disposable income**

This refers to the amount of income an individual has received for work done after income tax and other compulsory payments have been made. It can then be used for saving or personal expenditure.

*Activity 2*

1. Jen receives a monthly salary of \$20 000. Her income tax is \$3 500 and national insurance mandatory contribution is \$500. Calculate her disposable income.

**(d) National debt**

This refers to the total amount of money that a government owes or has borrowed to finance the expenditure of a country.

**(e) Fiscal Policy**

Use of government expenditure and taxation to achieve economic stabilisation.

**(f) Fiscal Debt**

This occurs when government expenditure is greater than revenue earned from taxes.

**(g) Monetary Policy**

This refers to regulation of the price and supply of money by the Central Bank in order to achieve economic stabilisation.

**(h) Economic growth**

Refers to an increase in the production of goods and services in a country in relation to the population size.

**(i) Economic development**

Refers to an improvement in the economic well-being and quality of life of citizens of a country. It reflects on how the national income of a country is used to benefit the people.

*Activity 3*

1. The people of MegaIsland are very happy. Each home has four computers with excellent internet access. Their GDP increased from \$20b to \$40b over the past year while population size remained the same.

Has MegaIsland experienced economic growth or economic development?

**(j) Developing economy/Developed economy**

Developing economies are not as advanced as developed economies. In developing economies

1. the GDP per capita is lower
2. there is a higher rate of unemployment
3. populations are larger and grow faster
4. there is a dependence on primary sector production and exportation

#### *Activity 4*

1. Compare and contrast the following two countries based on the information provided from this link  
<https://www.mylifeelsewhere.com/compare/singapore/trinidad-and-tobago>
2. Which country appears to have a developing economy/developed economy?

#### **(k) Balance of payments**

A statement of all transactions between one country and the rest of the world.

#### **(l) Gross Domestic Product (GDP)**

The total value of goods and services produced in a country in one year. GDP per capita is the GDP/population size.

#### **(m) Gross National Product (GNP)**

GDP + net property income from abroad (income from abroad earned by citizens – income locally earned by foreigners)

#### **(n) Employment**

Performing an activity for which remuneration is received.

#### **(o) Unemployment**

Persons who do not have a job but who are available and actively seeking one. This does not include full-time students or retired persons.

#### **(p) Inflation**

This occurs when there is too much money circulating in an economy and not enough goods causing the price of these goods to rise for a sustained period of time.

1. Cost-push inflation – The cost of factors of production continuously increase causing prices of goods and services to increase.
2. Demand-pull inflation – Aggregate demand (total demand for goods and services in economy) is greater than aggregate supply (total supply of goods and services in economy), causing prices to increase.
3. Monetary inflation – caused by increasing money supply
4. Hyperinflation – extremely high rates of inflation
5. Deflation – a sustained fall in prices of goods and services

#### **(q) Savings**

Disposable income not spent or placed in an institution or scheme to receive a return.

#### **(r) Investment**

Using money to purchase an asset for an intended return in the future.

#### **(s) Closed and Open economies**

A closed economy does not involve any trade with the rest of the world ( $Y = C + I + G$ ).  
An open economy trades with the rest of the world ( $Y = C + I + G + (X - M)$ ).

### Activity 5

For each statement below, indicate whether it is *True* or *False*.

1. There is a higher rate of employment in a developing economy as compared to a developed one.  
True ☐ False ☐
2. Placing money in an account in a commercial bank to receive interest is called an investment.  
True ☐ False ☐
3. Hyperinflation occurs when the price level continues to rise over time.  
True ☐ False ☐
4. The total value of goods and services produced in one year plus net property income from abroad is the Gross Domestic Product of a country.  
True ☐ False ☐
5. Monetary policy refers to the use of government expenditure and taxation to stabilise the economy.  
True ☐ False ☐
6. The country Antiquato has a closed economy as it does not engage in international trade.  
True ☐ False ☐
7. A budget surplus occurs where government plans to generate more money than it can spend.  
True ☐ False ☐
8. The output method for calculating national income involves computing consumer expenditure, government expenditure, investment expenditure and net trade.  
True ☐ False ☐
9. One of the disadvantages of the output method is double counting.  
True ☐ False ☐
10. The regulation of the price and supply of money by the Central Bank in order to achieve economic stabilisation is known as Monetary Policy.  
True ☐ False ☐

## **Answer Key**

*Activity 1* – Budget deficit \$5m. Borrowing needed to finance shortfall.

*Activity 2* - \$16 000

*Activity 3* – Both. Economic growth as GDP increased by \$20b. Economic development – Technological advancement, happy people.

*Activity 4* – Developing – Trinidad and Tobago  
Developed – Singapore

### *Activity 5*

1. F
2. F
3. T
4. F
5. F
6. T
7. T
8. F
9. T
10. T