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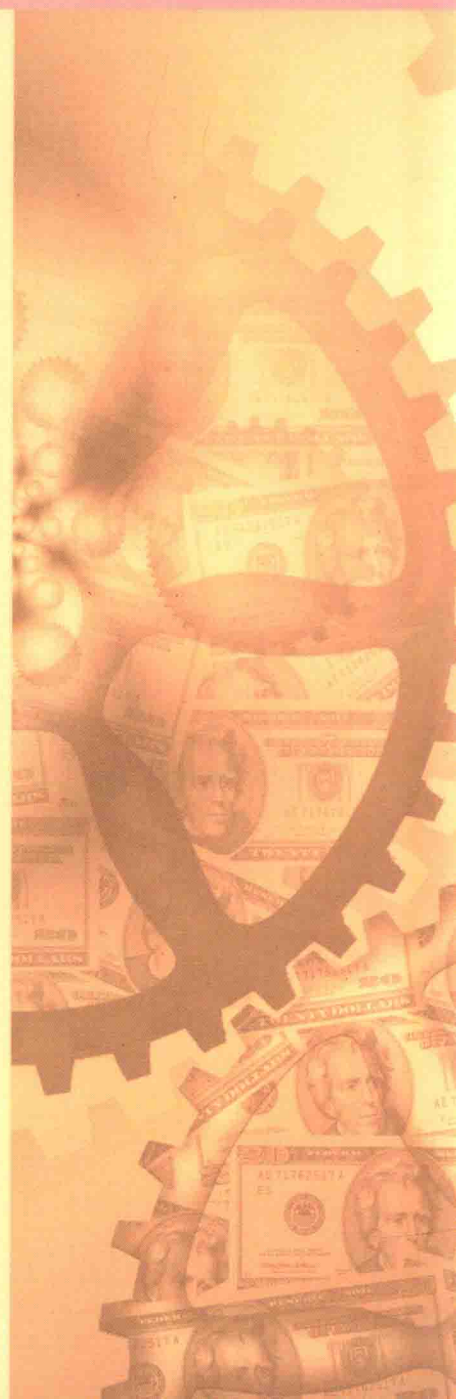
拓展课程



# Advanced Economics through Diagrams

# 牛津经济学英语图示教程

Andrew Gillespie



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# Advanced Economics through Diagrams

## 牛津经济学英语图示教程

Andrew Gillespie

赵孝盛 谭菁 注释

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**ECONOMICS**

*through diagrams*

*Andrew Gillespie*

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# 出版说明

教育部最新颁布的《大学英语课程教学要求》将大学英语的教学目标确定为“培养学生的英语综合应用能力，特别是听说能力，使他们在今后学习、工作和社会交往中能用英语有效地进行交际，同时增强其自主学习能力，提高综合文化素养，以适应我国社会发展和国际交流的需要”，并提出：

“将综合英语类、语言技能类、语言应用类、语言文化类和专业英语类等必修课程和选修课程有机结合，确保不同层次的学生在英语应用能力方面得到充分的训练和提高。”《大学英语课程教学要求》明确要求大学英语教学中开设选修课，以满足大学生的实际需求。

依据《大学英语课程教学要求》，上海外语教育出版社邀请国内外英语教学专家开发编写了选修教材，通过教材的出版引领、促进了大学英语选修课程设置的发展，丰富了我国大学英语教学。这些教材品种丰富，涵盖面广，包括以下多个系列：大学英语应用提高阶段专业英语系列教材、大学英语综合应用能力选修课系列教材、职场英语选修教程系列、大学目标英语、牛津专业英语基础丛书等。这些年来，全国数百所高校使用了这些教材，部分老师对教材的内容和编写形式提出了宝贵的建议，为我们进一步完善教材提供了实践依据。

虽然很多高校多年来一直尝试开设选修课，专家学者也进行了理论研究，但目前此类课程在大学英语教学中所占比重并不大，仍处于探索阶段。多数教学专家对大学英语选修课程的具体教学目标和教学内容范围未形成统一认识，教育主管部门亦未出台具体的选修课教学要求。为了进一步推动大学英语选修课教学的发展，外教社在多年选修课教材使用情况调研的基础上，结合专家学者的最新研究成果和建议，充分考虑我国目前的大学英语教学现状、师资条件、实际需求等因素，重新策划编写了“大学英语拓展课程系列”，该系列教材包括EAP、ESP和EOP三个子系列。

- EAP (English for Academic Purposes)

学术英语类，侧重高级水平英语听、说、读、写、译等技能的培养，为大学生出国留学、攻读研究生、进行科研等学术活动打下更扎实的英语基础。此类课程包括：演讲听说、跨文化交际、文学赏析、学术英语写作等。适合需要继续在学术上深造的大学生使用。

- ESP (English for Specific Purposes)

专业英语类，侧重提升专业英语能力，在培养学生听、说、读、写、译等基本语言技能的基础上，教授与该专业相关的英语词汇和表达，并尽可能传授专业知识，以使大学生轻松通过英语媒介获取本专业知识和信息。此类课程适合相关专业学生学习，针对性强。

- EOP (English for Occupational Purposes)

职场英语类，侧重提升职场英语能力，为大学生将来在英语环境中工作打下扎实的职场交际基本功。此类课程多数适合所有大学生使用，有部分教程与专业结合，适合相应专业学生使用。

除了重新修订已出版的教材外，我们还通过邀请更多海内外英语教学专家参与编写、和国外出版社合作出版等方式，扩大本系列教材的选题规模，以满足各专业大学学生的学习需求。本系列教材具有时代感强、实用性强、课堂可操作性强等特点，相信会给我国大学英语教学带来新风向。

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2013年2月

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## Macroeconomics

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# Answering economics exam questions

**What skills will you need?** To do well in economics you must show that you know the theories, can explain them, can apply them to the given question, can analyse the implications of the theories or reasoning behind them, and show judgment in your answer. Remember it is not just about learning the material - you must relate it to the question set and discuss the validity of your arguments.

**What to do when revising:** Get hold of the syllabus. Break it down into manageable sections. Produce a revision timetable. Tick off items as you cover them. Summarise your notes into brief, memory jogging revision notes. Learn: What do the terms mean? What is the relationship between the different variables? What are the relevant diagrams? What is the significance of the topic - why have you studied it? Take 'investment', for example - What is it? What affects it? What are the consequences of it changing? Also, make sure you get hold of past papers - see how examiners have asked about topics in recent years. Practise!

**In the exam room:** Check you know exactly how much time you have, what you have to do, how many questions you must answer. Write down when you must move on to the next question. Quickly read through the whole paper a couple of times. Think before writing. Watch your time. Do not get carried away with the topics you know well and delay starting questions where you are more uncertain. Plan your answers to make sure you are answering the question properly.

**Answering questions:** Read the question. Read it again! One of the major mistakes that candidates make is that they fail to answer the question set. Once you get started on an answer it is very difficult to change it, so make sure you answer the question correctly first time. Read the question thoroughly, think about how you will answer it *before* you begin.

**Look for the trigger words:** Make sure you think about the type of question before answering. If the question asks you to 'identify' or 'describe' these are basic skills - you should simply make a series of points. If it asks you to 'explain' or 'account for' something you must show why these points are relevant. 'Analyse' or 'examine' means you should develop your argument in greater detail - What are the potential consequences of a particular change? Is there a secondary effect? Is the outcome certain? 'Consider', 'assess' or 'evaluate' means you need to weigh up the points you have made - Are they always true? What other factors are there? How reliable is the data? Do the facts fit the theory? Is the theory flawed? Are there alternative views? What is most likely to be the effect? Least likely? What does it depend on? Try to avoid simply listing points with these types of questions; discuss your ideas.

**Look for specific words:** check whether the question wants examples or refers to a specific situation, such as a 'dramatic', 'sudden', 'long term', or 'short term' change. Any extra words in the question need to be referred to in your answer.

**Data response questions:** Avoid general, journalistic answers. Make sure you have some economic theory! Try to explain your points with reference to economic analysis; illustrate your points with diagrams if you can. Avoid simply repeating the data, e.g. it goes up by 12%, down by 5%, down by 2%. Look for trends, overall changes and patterns within the trend, e.g. seasonal fluctuations or economic cycles. Think about causes and effects - What has brought about this pattern? What is the likely impact of the trends in the data? Relate your answer to theory.

**Remember:** to do well in high mark questions you must: show you know the topic, develop your points, relate them to the question and consider the significance/validity/underlying assumptions of your arguments. The depth of your argument is more important than making a series of points.

**Avoid:** **i)** answering too many or too few questions(!), believe it or not this is quite common; make sure you know what to do on each paper, **ii)** being too descriptive - develop your ideas, **iii)** answering the question you wished they had set instead of the one they did set.

Good luck!

# Introduction to Economics

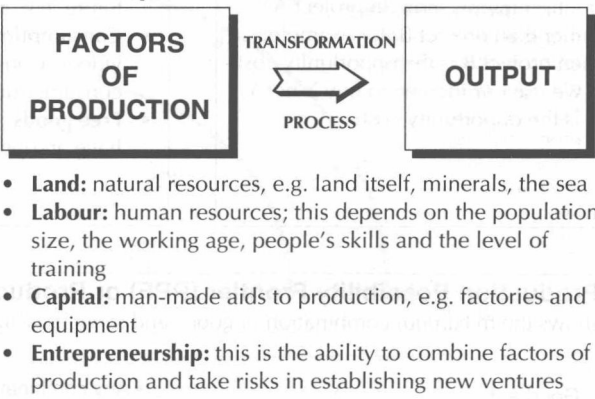
## Types of economics

- **Positive economics** is based on testable theories, e.g. the idea that higher interest rates lead to a fall in aggregate demand can be tested by looking at past data.
- V
- **Normative economics** is based on opinion, e.g. the idea that the Government should make the reduction of unemployment its priority, is one person's view; another person might think it is more important to increase growth. Normative statements often have 'should' or 'ought to' in them; they involve value judgements.
- V
- **Microeconomics** focuses on individual markets and decisions by individual households and firms.
- V
- **Macroeconomics** focuses on the economy as a whole, e.g. it considers the price level for the economy as a whole, rather than for one market.

## Sectors of the economy

- **Private sector:** resources owned by private individuals
  - **Public sector:** resources owned by the State
  - **Primary sector:** extractive industries, e.g. forestry, fishing, coal
  - **Secondary sector:** converts materials into goods, e.g. manufacturing
  - **Tertiary sector:** service sector, e.g. finance, tourism
- In the UK this century, the service sector has been growing and the primary sector has been declining.

## Factors of production



## Types of production

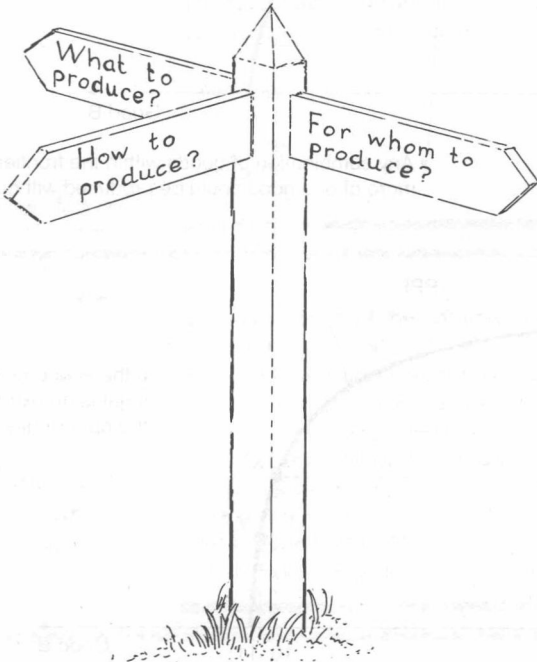
- Capital intensive: uses relatively high amounts of capital compared to other factors of production, e.g. oil refining
- Labour intensive: uses relatively high amounts of labour compared to other factors of production, e.g. hairdressing

## Scarcity and choice

At any moment in time output in an economy is limited by the resources and technology available. However, consumers' wants are unlimited and so decisions must be made about:

- What to produce? What goods and services should be made with the resources available?
- How to produce? What is the most efficient means of using the resources?
- For whom to produce? How are the goods and services allocated amongst consumers?

These are the three basic economic problems. Different economic systems solve them in different ways.



# Introduction to Economics continued

Types of economy

Free market: the allocation of resources is left to market forces of supply and demand.

Private sector

Mixed economy: some of the decisions are made by the Government and some are made by market forces.

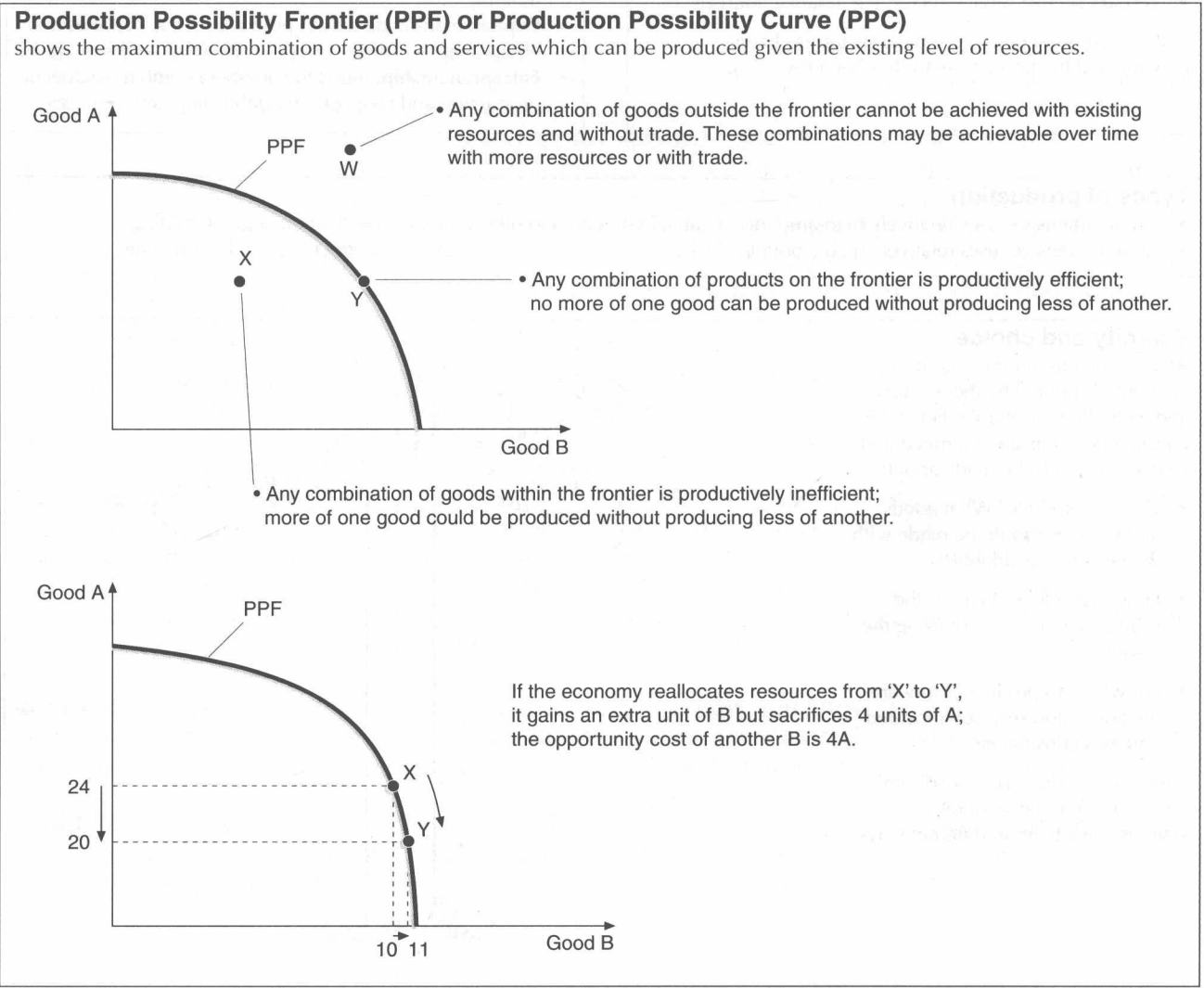
Command or planned economy: the Government decides what is produced, how it is produced, and for whom.

Public sector

In reality, all economies are mixed to some degree, but vary in the extent to which the Government intervenes. In the 1980s and 1990s, the UK Government has been trying to reduce its involvement in the economy (e.g. through privatisation) and increase the role of the private sector. This trend has been followed in many other countries, e.g. the decline of Communism in Eastern Europe.

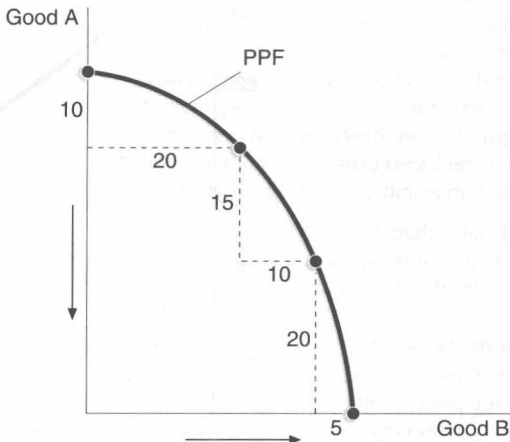
**Opportunity cost** is the sacrifice foregone in the next best alternative. If a firm invests more in project A rather than project B, for example, then project B is the opportunity cost. If we use our income to buy X not Y, Y is the opportunity cost.

- Types of goods**
- **Capital goods (producer goods):** used to produce consumption goods in the future, e.g. machinery and equipment; not bought for final consumption.
  - **Consumption goods:** bought for final consumption, e.g. washing machines, videos. Consumer non-durables (e.g. food) are immediately consumed; consumer durables are not consumed immediately, e.g. televisions.
  - **Free goods:** involve no opportunity cost, e.g. air. Note: nowadays clean air may have an opportunity cost because resources are needed to remove pollution.

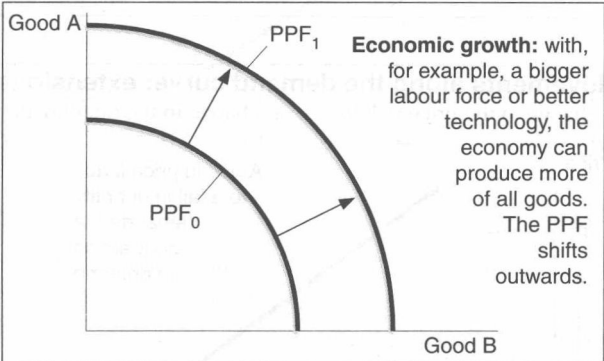
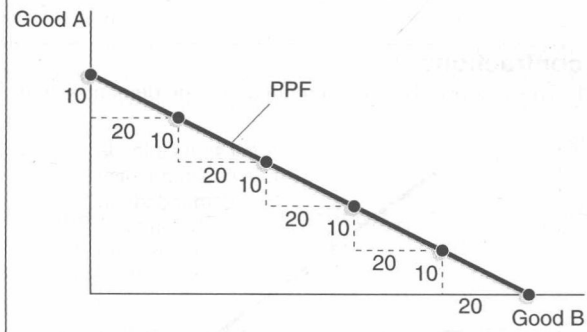


Shape of the production possibility frontier

usually convex to the origin due to the law of diminishing returns - as resources are transferred from Good A to Good B, the extra output of B becomes successively smaller, whilst the amount being sacrificed in A become successively larger.



If returns are constant, the PPF is a straight line - as resources are transferred from one good to another, the amount of output sacrificed by one good and gained by the other is constant.



Types of economy

Free Market

- decisions are made by individual buyers and sellers who act in their own self interest; producers aim to maximize their profits; consumers aim to maximize their utility
- the price mechanism allocates resources

Command or planned economy

- decisions made by central planning agency
- State ownership of resources
- prices set by the State
- motive for production is social welfare
- lack of market forces

Advantages of the free market

- resources are allocated by market forces and the price mechanism (called the Invisible Hand by Adam Smith); there is no Government intervention
- the profit motive provides an incentive to reduce costs and be innovative
- the free market maximizes community surplus if there are no failures and imperfections

Disadvantages of free market

- see market failures and imperfections on pages 20–22 e.g.
- public goods
  - merit goods
  - externalities
  - instability

Free Market

Advantages of the command or planned economy

- the Government can influence the distribution of income to make it more equal
- the Government can determine which goods are supplied (e.g. it can prevent the production of socially undesirable goods)

Disadvantages of the command or planned economy

- requires an enormous amount of information (and almost inevitably there will be information overload leading to inefficiency); often bureaucratic
- no incentive for individuals or firms to be innovative; lack of a profit motive; goods are often poor quality and usually a limited choice.
- liable to lead to allocative and productive inefficiency due to lack of competition and no profit motive

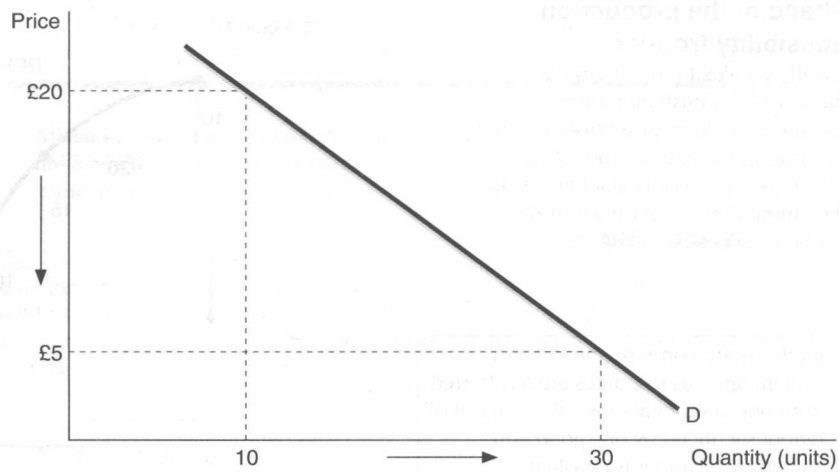
Command or Planned economy

# Demand

A demand curve shows the quantity that consumers are willing and able to purchase at each and every price, all other things unchanged. If other things do change (e.g. the consumers' incomes rise) the consumers are likely to want more or less at each and every price and the demand curve shifts.

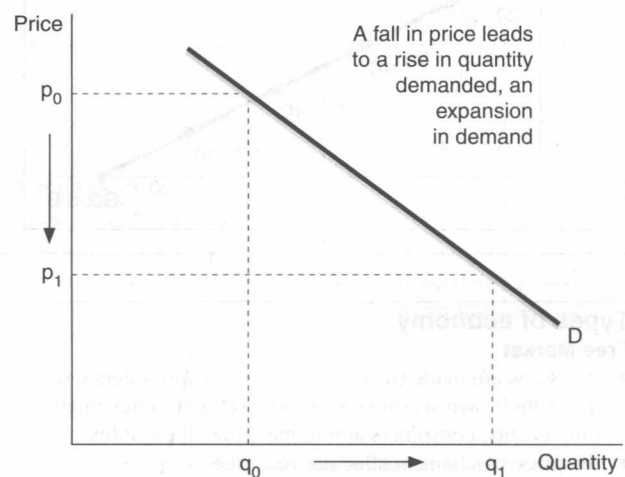
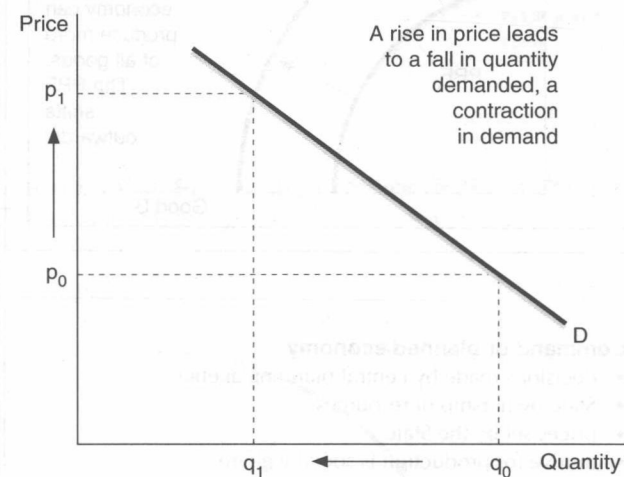
**The law of demand** states that a higher quantity will be demanded at a lower price assuming all other factors remain constant.

The demand for a product or service depends on factors such as the price, consumers' income, the price of other goods, advertising, the consumers' tastes.



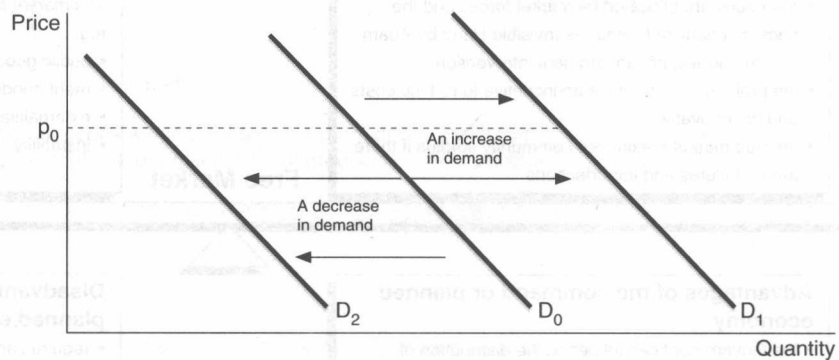
## Movements along the demand curve: extensions and contractions

A change in the price will lead to a 'change in the quantity demanded'. This is shown by a movement along the demand curve.



## Shift in demand

A change in any of the other factors affecting demand (except price) leads to a shift in demand. At each and every price there is an increase or decrease in the quantity demanded, so the demand curve shifts.



## Outward shifts of the demand curve

The demand curve will shift outwards when more is demanded at each and every price. This could be because:

- real incomes have risen (assuming the good is normal)
- the price of a substitute product has gone up, e.g. higher prices for coffee might increase demand for tea
- the price of a complement product has gone down, e.g. a fall in the price of cars might increase demand for petrol
- the product has been advertised more effectively
- the population has grown so there are more consumers
- tastes have changed so more people want the product
- more credit is available so people can borrow more money



# Demand continued

## Downward sloping demand curves

The demand curve is downward sloping because of the law of diminishing marginal utility. Each extra unit of a good or service will eventually give less extra satisfaction (utility); therefore the consumer will only be willing to pay less for more goods.

*Note: although the consumer gets less extra satisfaction from each additional unit, his or her total satisfaction is rising.*

**Market demand curve:** the horizontal summation of individuals' demand curves.

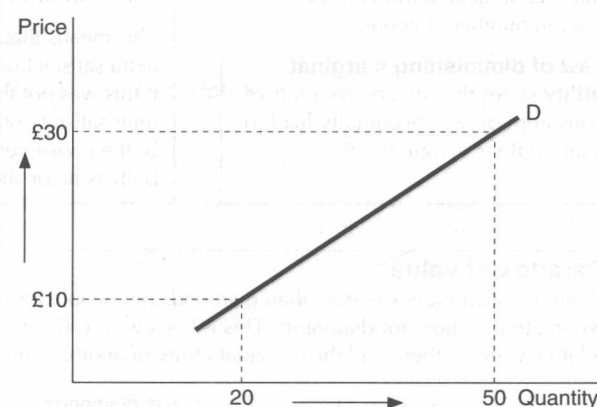
## The price, income, and cross elasticity of demand (also see pages 11–13)

- The size of the change in the quantity demanded following a price change depends on the price elasticity of demand.
- The increase or decrease in demand following a change in income depends on the income elasticity of demand.
- The increase or decrease in demand following a change in the price of other goods depends on the cross elasticity of demand.

## Upward sloping demand curves

The demand curve can slope upwards. This means more is demanded when the price increases. This can occur with

- 'ostentatious goods' – people want to be seen buying more expensive goods. Also called Veblen goods.
- Giffen goods – these are very inferior goods and, when they become more expensive, consumers cannot afford any other products, so spend what money they have on these.



## Income and substitution effects

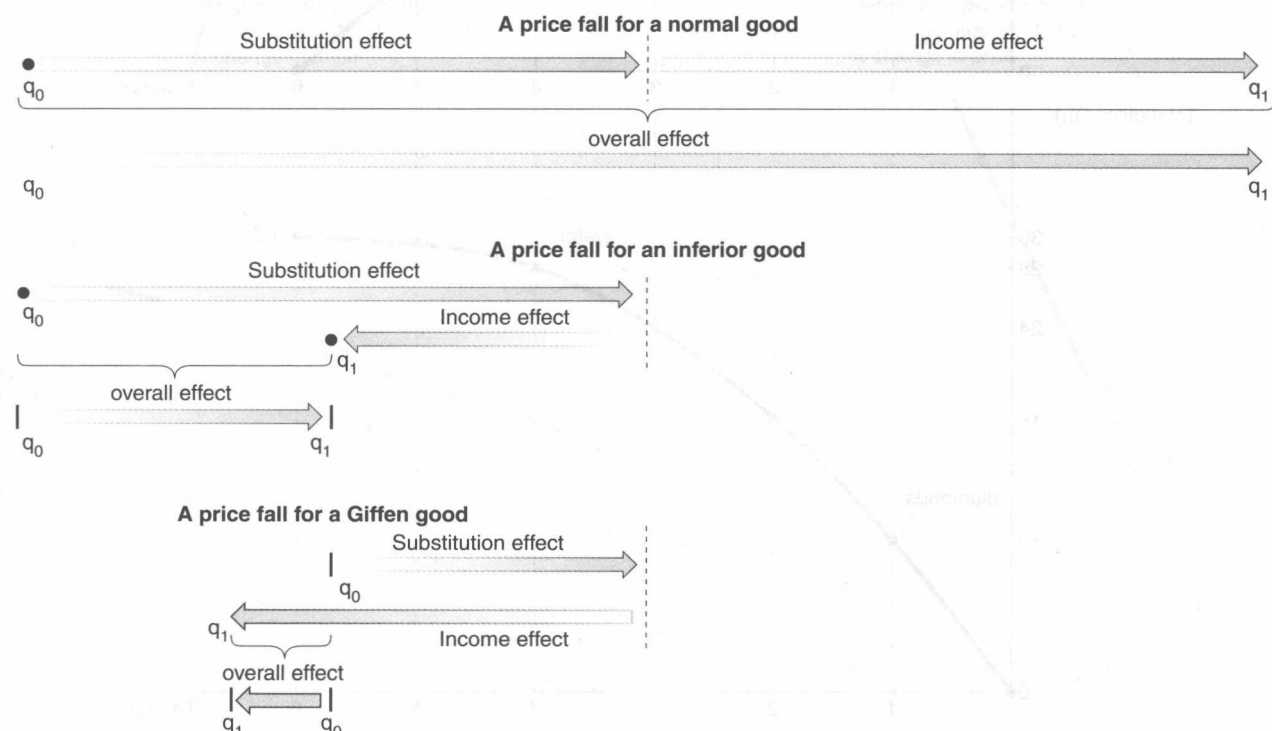
If the price of a good falls, the quantity demanded will usually increase. This is because of:

- a substitution effect - with the fall in price of good A, A becomes relatively cheaper than other goods and inevitably there is a desire to buy more. Consumers inevitably switch to the relatively cheaper good.
- an income effect - with a lower price of good A, the consumer has more real income. If he/she bought the same amount of goods as before, there would be money left over. This means the consumer has more purchasing power because good A is cheaper. This leads to an income effect. If the good is normal, the consumers will want to buy more because of the income effect. This

means both the income and substitution effects make the consumer want to buy more.

If the good is inferior, the consumer will actually want to buy less; now that they have more real income they will want to switch away to buy more luxurious goods. The income effect therefore works against the substitution effect. However, the substitution effect is larger and so overall the consumers do buy more.

If the good is a Giffen good, the income effect again works against the substitution effect and actually outweighs it. This means that overall the quantity demanded falls when the price falls and so the demand curve is upward sloping.



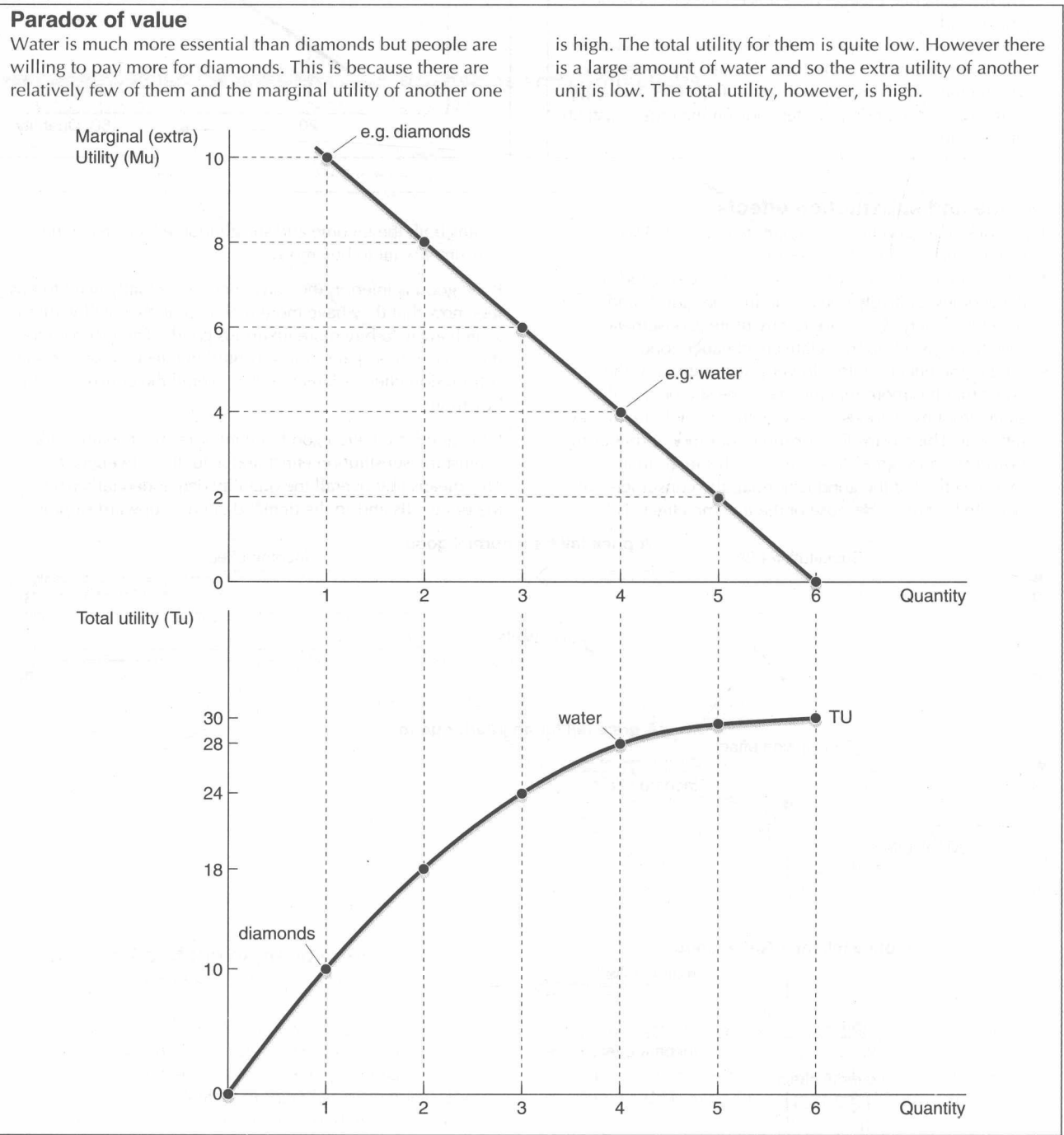
# Demand continued

**Utility**  
Utility is another word for satisfaction.

**Marginal and total**  
Marginal utility (MU) is the extra satisfaction gained from consuming another unit of a good.  
Total utility (TU) is the total satisfaction gained from consuming a given number of goods.

**Law of diminishing marginal utility** states that successive units of consumption will eventually lead to a fall in their marginal utility.

**Maximizing utility**  
We assume the aim of rational consumers is to maximize their utility, given the following constraints: a) limited income b) a given set of prices c) constant tastes.  
To maximize utility, consumers will consume up to the point where
$$\frac{MU_A}{P_A} = \frac{MU_B}{P_B} = \frac{MU_C}{P_C} = \dots$$
This is known as the equi-marginal condition.  
This means that the extra satisfaction per £ on the last unit of good A equals the extra satisfaction per £ on the last unit of good B and that of C and D and so on. If this was not the case, consumers would reorganize their spending and increase their satisfaction. For example, if the last A per £ was more satisfying than the last B; the consumer would buy more As and less Bs. (They could not have more of both as he or she is constrained by income.)



# Elasticity of demand

The elasticity of demand measures the sensitivity of demand to a change in a variable. The variable might be the price of the good, the price of other goods, or income.

**The sign of the answer** depends on the direction in which the two parts of the equation move. If both demand and the variable move in the same direction (e.g. they both increase or both fall) the sign will be positive. If they move in different directions the answer will be negative, e.g. if demand rises when income rises, the answer will be positive; if demand falls when income rises, the answer will be negative. The sign shows the direction of movement; it does not show the actual elasticity; this is shown by the size of the number (i.e. whether it is greater or less than one)

**The size of the answer (ignoring the sign)**

- If demand is elastic this means that the percentage change in demand is greater than the percentage change in the variable. The value of the answer (ignoring the sign) will be greater than one.
- If demand is inelastic this means that the percentage change in demand is less than the percentage change in the variable. The value of the answer (ignoring the sign) will be less than one.
- If demand is unit elastic the percentage change in demand is the same as the percentage change in the variable. The value of the answer (ignoring the sign) is equal to one.

Elasticity of demand		
	Value	Description
Perfectly elastic	infinity	the percentage change in the quantity demanded is infinite
Elastic	>1	the percentage change in the quantity demanded is greater than the percentage change in the variable
Unit elastic	=1	the percentage change in the quantity demanded is equal to the percentage change in the variable
Inelastic	<1	the percentage change in the quantity demanded is less than the percentage change in the variable
Perfectly inelastic	0	there is no change in the quantity demanded

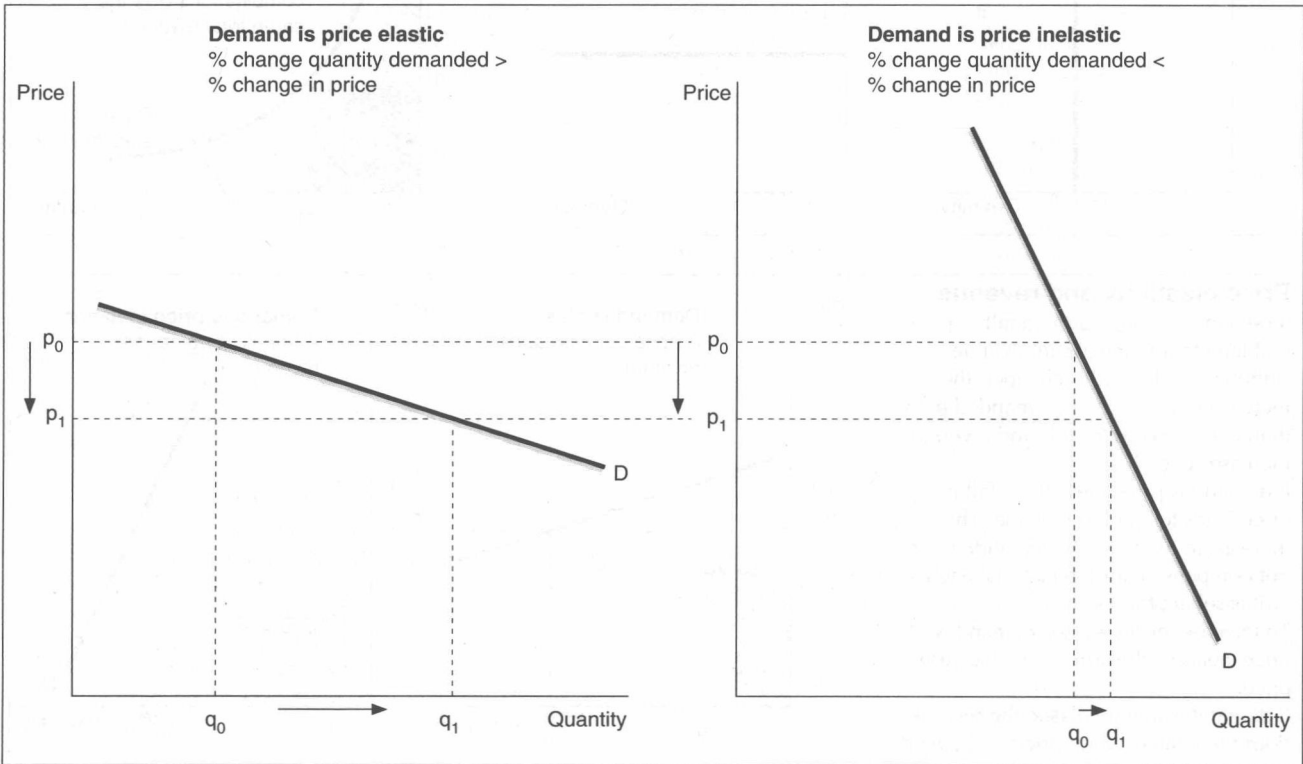
**Price elasticity of demand**

Measures the sensitivity of demand to a change in price.

$$\frac{\text{percentage change in quantity demanded}}{\text{percentage change in price}}$$

**The sign**

The price elasticity will usually be negative - when the price goes up, the quantity demanded falls, and vice versa. However, for a Giffen good or Veblen good, the price elasticity is positive. When price increases, the quantity demanded also rises.





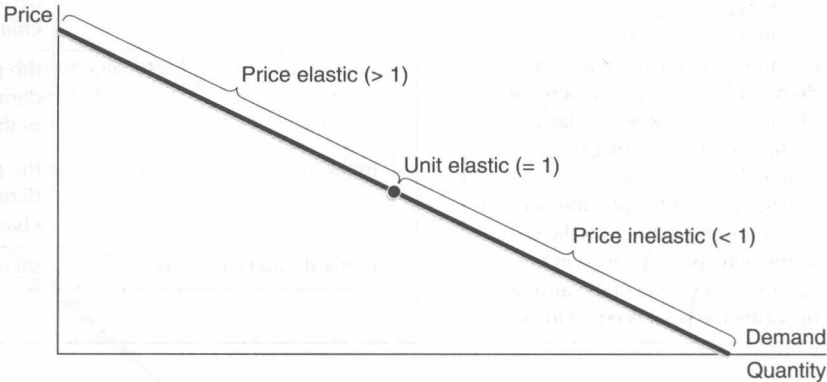
# Elasticity of demand continued

## The size of the price elasticity of demand depends on

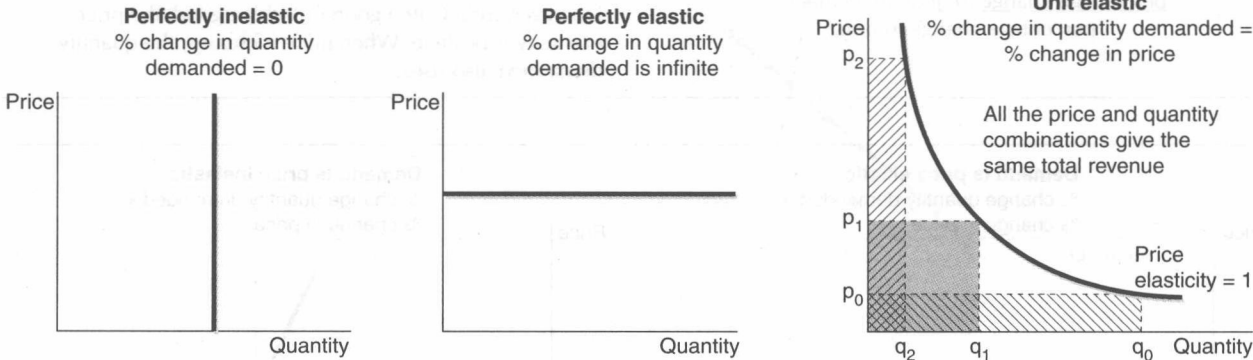
- the number and availability of substitutes. If there are many substitutes available, consumers can easily switch away if the firm increases its price. Demand will be more price elastic.
- the time horizon. In the short run it may not be easy to find alternatives and so demand is likely to be price inelastic. Over time, consumers can shop around and search for more substitutes and so demand is likely to be more price elastic.
- the percentage of income spent on the good, e.g. consumers only spend a small percentage of their income on salt and so are not very sensitive to price changes in this product. Demand is price inelastic. By comparison, washing machines, personal computers, and holidays take a greater percentage of income and households are more likely to look around for the best price. These goods are more price sensitive.
- the type of good. Some goods are habit forming and so tend to be price inelastic. In the extreme case this could be drugs, but is also true of items such as newspapers and brands of coffee.
- the width of the definition. If we define the category of goods and services we are interested in very widely, demand will be more price inelastic, e.g. if we look at the demand for one brand of butter or margarine, consumers can switch easily to another brand if the price goes up; if we look at all brands, consumers are less likely to give up the product altogether.

## Price elasticity and a straight line demand curve

Price elasticity will vary on a downward sloping straight line demand curve from being elastic on the top left, unit elastic in the middle and inelastic at the bottom right.



## Extreme cases of price elasticity of demand



## Price elasticity and revenue

If demand is price elastic, a fall in price will lead to an increase in revenue. Although each good is cheaper, the increase in the number demanded more than compensates for this and revenue increases overall.

If demand is price inelastic, a fall in price leads to a fall in revenue. The increase in the quantity demanded does not compensate for the fact that each unit is selling for less.

To increase revenue when demand is price inelastic, the firm should increase price.

If demand is unitary elastic the revenue does not change when price is changed.

