Advanced Economics Notes - Grade 9

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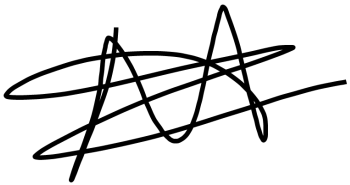

Unit 1: Introducing Economics

1.1 Meaning of Economics

- **Economics:** The study of how individuals, businesses, and governments make choices to deal with scarcity.
- **Nature of Economics:** Economics is both a science (using data and analysis) and an art (applying principles to solve problems).
- **Key Concepts:**
  - **Scarcity:** Limited resources relative to unlimited wants.
  - **Efficiency:** Using resources wisely to maximize output.
  - **Human Needs:** The things people require for survival and well-being.

1.2 Branches of Economics

1.2.1 Microeconomics

- **Definition:** Focuses on the economic behavior of individual decision-making units like households, firms, and consumers.
- **Key Issues:** How individuals and businesses make choices, how prices are determined in markets, and how resources are allocated.

1.2.2 Macroeconomics

- **Definition:** Studies the economy as a whole, including national income, unemployment, inflation, and economic growth.
- **Key Issues:** How government policies affect the economy, how to manage inflation and unemployment, and how to promote economic growth.

1.3 Methods and Approaches of Studying Economics

1.3.1 Methods

- **Deductive Method:** Reasoning from general principles to specific conclusions.
- **Inductive Method:** Reasoning from specific observations to general conclusions.

1.3.2 Approaches

- **Positive Economics:** Focuses on describing and explaining economic phenomena as they are, using facts and data.
- **Normative Economics:** Involves value judgments about what the economy *should* be like and how to improve it.

1.4 Decision Making Units

1.4.1 Households

- **Role:** Owners of factors of production (land, labor, capital, entrepreneurship).
- **Objectives:** Maximize their utility (satisfaction) by making choices about consumption, savings, and investments.

1.4.2 Business Firms

- **Role:** Combine factors of production to produce goods and services.
- **Objectives:** Maximize profits by making choices about production, pricing, and resource allocation.

1.4.3 Government

- **Role:** Provides public goods and services, regulates the economy, and redistributes income.
- **Objectives:** Promote economic efficiency, social welfare, and stability.

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Unit 2: The Basic Economic Problems and Economic Systems

2.1 The Basic Economic Problems

2.1.1 Scarcity

- **Definition:** The fundamental economic problem; limited resources relative to unlimited wants.
- **Importance:** Forces individuals, businesses, and governments to make choices about how to allocate resources.

2.1.2 Choice

- **Definition:** The act of selecting one option over others due to scarcity.
- **Link to Scarcity:** Because resources are scarce, we must choose how to use them.

2.1.3 Opportunity Cost

- **Definition:** The value of the next best alternative that is forgone when a choice is made.
- **Calculation:** Measure the opportunity cost of choosing one option in terms of the value of the best alternative you didn't choose.

2.1.4 Production Possibilities Frontier (PPF)

- **Definition:** A curve showing the maximum combinations of two goods that a society can produce with its given resources and technology.
- **Concepts Illustrated by the PPF:**
  - **Scarcity:** The PPF shows that the economy cannot produce unlimited amounts of both goods.
  - **Choice:** Points on the PPF represent different choices about how to allocate resources.
  - **Opportunity Cost:** The slope of the PPF represents the opportunity cost of producing one good in terms of the other.

- **Law of Increasing Opportunity Cost:** As an economy produces more of one good, the opportunity cost of producing additional units of that good increases. This makes the PPF concave to the origin.

2.2 Central Problems of Economies

- **What to produce:** (Problem of Allocation)
- **How to produce:** (Problem of Choice of Technique)
- **For whom to produce:** (Problem of Distribution)

2.3 Economic Systems

2.3.1 Traditional Economy

- **Features:** Decisions based on customs, traditions, and historical practices.
- **Examples:** Many indigenous societies, rural villages in developing countries.

2.3.2 Capitalist Economy

- **Features:**
  - Private ownership of resources.
  - Free markets and competition.
  - Profit motive.
  - Limited government intervention.
- **Examples:** United States, Canada, Japan.

2.3.3 Command Economy

- **Features:**
  - Centralized planning and government control.
  - Collective ownership of resources.
- **Examples:** Former Soviet Union, Cuba.

2.3.4 Mixed Economy

- **Features:**
  - Combination of private and public ownership.
  - Government regulation and intervention.
  - Free markets and competition.
- **Examples:** Most modern economies, including Ethiopia.

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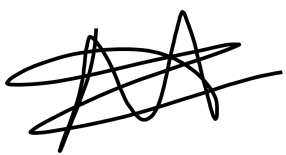
Unit 3: Economic Resources and Markets

3.1 Types of Resources and Factor Payments

- **Free Resources:** Unlimited in supply and have no price (e.g., air, sunlight).
- **Economic Resources:** Scarce in supply and have a price (e.g., land, labor, capital, entrepreneurship).

3.1.1 Types of Economic Resources

- **Land:** Natural resources used in production (e.g., fertile soil, minerals).
- **Labor:** Human effort used in production.
- **Capital:** Man-made resources used in production (e.g., machinery, tools, buildings).
- **Entrepreneurship:** The ability to organize and manage other factors of production.



3.1.2 Factor Payments

- **Rent:** Payment for the use of land.
- **Wages:** Payment for labor.
- **Interest:** Payment for the use of capital.
- **Profit:** Reward for entrepreneurship.

3.2 Renewable and Non-renewable Resources

3.2.1 Renewable Resources

- **Definition:** Can be replenished naturally over time (e.g., solar energy, wind energy, forests, fish stocks).

3.2.2 Non-renewable Resources

- **Definition:** Exist in fixed amounts and are not replenished at a rate comparable to consumption (e.g., fossil fuels, minerals).

3.2.3 Conservation

- **Importance:** Essential to ensure that resources are available for future generations.
- **Methods:** Reduce, Reuse, Recycle.

3.3 Types of Markets

- **Definition:** A place where buyers and sellers interact to exchange goods and services.

3.3.1 Goods and Services Market

- **Description:** Households buy consumer goods and services, businesses sell them.

3.3.2 Labor Market

- **Description:** Individuals sell their labor services, businesses buy them.

3.3.3 Financial Market

- **Description:** Individuals and businesses buy and sell financial assets (e.g., stocks, bonds).

3.4 Circular Flow of Economic Activities

- **Definition:** A simplified model showing how income and expenditure flow through an economy.

3.4.1 Two-Sector Model

- **Components:** Households and firms.
- **Flows:** Factor services (from households to firms), goods and services (from firms to households), money payments (in both directions).

3.4.2 Three-Sector Model

- **Components:** Households, firms, and government.
- **Flows:** Includes government revenue (taxes), government spending, and government transfers (e.g., subsidies).

3.5 Land as an Economic Resource in Ethiopia

- **Importance:** Land is a vital resource in Ethiopia, as agriculture is a major sector of the economy.
- **Soil Types:**
  - Red-to-reddish brown soils (suitable for crops).
  - Brownish-to-grey and black soils (with high clay content).
- **Land Ownership and Use Rights:** A complex issue in Ethiopia, with a history of feudalism, socialism, and current state ownership with restricted use rights.

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Unit 4: Introduction to Demand and Supply

4.1 Concept of Demand

- **Demand:** The quantity of a good that consumers are willing and able to buy at various prices, during a specific time period.

4.1.1 Law of Demand

- **Definition:** As the price of a good increases, the quantity demanded decreases, assuming other factors remain constant (ceteris paribus).
- **Explanation:**
  - **Substitution Effect:** Consumers switch to cheaper alternatives.
  - **Income Effect:** As the price rises, consumers have less purchasing power.

4.1.2 Demand Schedule and Curve

- **Demand Schedule:** A table showing the quantity demanded at different prices.
- **Demand Curve:** A graph showing the relationship between price and quantity demanded, typically downward sloping.

4.1.3 Demand Function

- **Definition:** A mathematical equation representing the relationship between price and quantity demanded.

4.1.4 Market Demand

- **Definition:** The total quantity demanded of a good by all consumers in a market at various prices.

4.2 Concept of Supply

- **Supply:** The quantity of a good that producers are willing and able to sell at various prices, during a specific time period.

4.2.1 Law of Supply

- **Definition:** As the price of a good increases, the quantity supplied increases, assuming other factors remain constant (ceteris paribus).
- **Explanation:**
  - **Profit Incentive:** Higher prices mean higher profits, encouraging producers to produce more.

4.2.2 Supply Schedule and Curve

- **Supply Schedule:** A table showing the quantity supplied at different prices.
- **Supply Curve:** A graph showing the relationship between price and quantity supplied, typically upward sloping.

4.2.3 Supply Function

- **Definition:** A mathematical equation representing the relationship between price and quantity supplied.

4.2.4 Market Supply

- **Definition:** The total quantity supplied of a good by all producers in a market at various prices.

4.3 Market Equilibrium

- **Equilibrium:** A state of balance where opposing forces are equal.

4.3.1 Market Equilibrium

- **Definition:** The point where the quantity demanded equals the quantity supplied.
- **Graphical Representation:** The intersection of the demand curve and the supply curve.

4.3.2 Equilibrium Price and Quantity

- **Equilibrium Price:** The price at which quantity demanded equals quantity supplied.
- **Equilibrium Quantity:** The quantity bought and sold at the equilibrium price.

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Unit 5: Introduction to Production and Cost

5.1 Definition of Production, Inputs, and Outputs

- **Production:** The process of combining inputs to create outputs.

5.1.1 Inputs

- **Definition:** Resources used in the production process (e.g., land, labor, capital).
- **Types of Inputs:**
  - **Fixed Inputs:** Quantity cannot be changed in the short run (e.g., factory buildings).

  - **Variable Inputs:** Quantity can be changed in the short run (e.g., labor, raw materials).

5.1.2 Outputs

- **Definition:** Goods or services that are produced.
- **Types of Outputs:**
  - **Tangible Outputs:** Physical goods that can be touched (e.g., cars, furniture).
  - **Intangible Outputs:** Services that are not physical (e.g., education, healthcare).

5.2 Periods of Production

5.2.1 Short Run

- **Definition:** A time period where at least one input is fixed, while others are variable.

5.2.2 Long Run

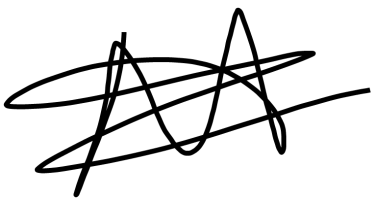
- **Definition:** A time period where all inputs are variable.

5.2.3 Productivity Measures

- **Total Product (TP):** The total output produced.
- **Average Product (AP):** Total product per unit of a variable input.
- **Marginal Product (MP):** The change in total product from using one additional unit of a variable input.

5.2.4 Stages of Production

- **Stage I:** Increasing marginal returns (MP is rising).
- **Stage II:** Diminishing marginal returns (MP is falling, but still positive).
- **Stage III:** Negative marginal returns (MP is negative).



5.3 Cost of Production

5.3.1 Explicit Costs

- **Definition:** Actual monetary outlays for inputs purchased from outside the firm.

5.3.2 Implicit Costs

- **Definition:** The opportunity cost of using the firm's own resources.

5.3.3 Economic Cost

- **Definition:** The sum of explicit and implicit costs.

5.3.4 Accounting Cost

- **Definition:** Only includes explicit costs.

5.3.5 Fixed Costs (FC)

- **Definition:** Costs that do not vary with the level of output.

5.3.6 Variable Costs (VC)

- **Definition:** Costs that vary directly with the level of output.

5.3.7 Total Cost (TC)

- **Definition:** The sum of fixed costs and variable costs.
- **Equation:** TC = FC + VC

5.3.8 Average Total Cost (ATC)

- **Definition:** Total cost per unit of output.
- **Equation:** ATC = TC / Q (where Q is quantity of output)

5.3.9 Marginal Cost (MC)

- **Definition:** The additional cost of producing one more unit of output.
- **Equation:** MC = Change in TC / Change in Q

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Unit 6: Introduction to Money

6.1 Definition of Money

- **Money:** Anything that is generally accepted as a medium of exchange, unit of account, and store of value.

6.1.1 Criteria for Money

- **Standardization:** Must be easily recognizable and have a consistent value.
- **Acceptability:** Must be widely accepted by buyers and sellers.
- **Divisibility:** Must be easily divisible into smaller units.
- **Portability:** Must be easy to carry and transport.
- **Durability:** Must be resistant to damage and wear.

6.2 Evolution of Money

- **Barter System:** Direct exchange of goods and services without money.
- **Commodity Money:** Early forms of money, using valuable commodities (e.g., gold, silver, salt).

- **Paper Money:** Fiat money, backed by government decree, not by a tangible commodity.
- **Checks:** Written orders to banks to transfer funds.
- **Electronic Money (e-money):** Digital forms of money (e.g., debit cards, credit cards).

6.2.1 History of Money in Ethiopia

- **Early Forms:** Salt, cloth, beads, Maria Theresa thalers.
- **Modern Money:** Birr, introduced in 1945.

6.3 Functions of Money

- **Medium of Exchange:** Facilitates transactions, reducing the need for barter.
- **Unit of Account:** Provides a common measure of value.
- **Store of Value:** Allows individuals to save purchasing power for later use.
- **Standard of Deferred Payments:** Enables borrowing and lending.

6.4 Demand and Supply of Money

6.4.1 Demand for Money

- **Motives for Holding Money:**
  - **Transaction Motive:** For everyday purchases.
  - **Precautionary Motive:** To cover unexpected expenses.
  - **Speculative Motive:** To profit from changes in interest rates.

6.4.2 Supply of Money

- **Components of Money Supply:**
  - **Currency:** Cash in circulation.
  - **Bank Deposits:** Balances held in checking and savings accounts.

6.5 Money and Electronic Money (e-money)

- **Definition of e-money:** Digital forms of money used for transactions.
- **Examples:** Debit cards, credit cards, mobile money.
- **Advantages of e-money:** Convenience, speed, security.
- **Disadvantages of e-money:** Cybersecurity risks, potential for fraud.

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Unit 7: Introduction to Macroeconomics

7.1 Definition of Macroeconomic Variables

- **Macroeconomics:** The study of the economy as a whole, focusing on aggregate variables and national-level issues.

7.1.1 Key Macroeconomic Variables

- **Gross Domestic Product (GDP):** The total market value of all final goods and services produced in a country during a specific time period.
- **Gross National Product (GNP):** The total market value of all final goods and services produced by a country's residents, regardless of location.
- **Per Capita Income (PCI):** Average income per person in a country.

7.2 Macroeconomic Goals

- **Economic Growth:** Sustained increase in national income.
- **Full Employment:** Maximizing the use of resources, with minimal unemployment.
- **Stable Balance of Payments:** Equilibrium between a country's payments and receipts from international transactions.
- **Price Stability:** Controlling inflation to keep the price level stable.
- **Fair Distribution of Income and Wealth:** Ensuring that the benefits of economic growth are shared equitably.

7.3 Macroeconomic Problems

7.3.1 Inflation

- **Definition:** A sustained increase in the general price level of goods and services.
- **Causes:**
  - **Demand-Pull Inflation:** Excessive demand relative to supply.
  - **Cost-Push Inflation:** Increased costs of production, leading to price increases.

7.3.2 Unemployment

- **Definition:** Individuals who are willing and able to work but cannot find jobs.
- **Types:**
  - **Frictional Unemployment:** Temporary unemployment due to job transitions.
  - **Structural Unemployment:** Unemployment due to a mismatch between job seekers' skills and available jobs.
  - **Cyclical Unemployment:** Unemployment due to downturns in the business cycle.

7.3.3 Disguised Unemployment

- **Definition:** Workers are employed but are not fully productive, or their skills are underutilized.

7.3.4 Trade Balance Deficit

- **Definition:** A country's imports exceed its exports, leading to a negative trade balance.

7.3.5 Balance of Payments Deficit

- **Definition:** A country's payments to other countries exceed its receipts from other countries.

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Unit 8: Basic Entrepreneurship

8.1 Definition of Enterprise, Entrepreneur, and Entrepreneurship

- **Enterprise:** A business or organization.
- **Entrepreneur:** An individual who creates and manages a business, taking risks and seeking profits.
- **Entrepreneurship:** The process of creating, developing, and managing a business venture.

8.1.1 Social Entrepreneurship

- **Definition:** Using entrepreneurial principles to address social problems and create positive change.

8.2 Creativity and Innovation in Solving Local Problems

- **Creativity:** The ability to generate new ideas and solutions.
- **Innovation:** The implementation of new ideas to create value.
- **Relationship:** Creativity is essential for innovation, and innovation is crucial for entrepreneurship.

8.3 Entrepreneurial Attitudes, Behaviour, and Mind-set

- **Entrepreneurial Mind-set:** A state of mind that embraces innovation, risk-taking, and a desire to solve problems.

8.3.1 Key Attitudes

- **Passion:** Enthusiasm and dedication to the business.
- **Bravery:** Willingness to take risks and persevere through challenges.
- **Flexibility:** Adaptability to change and new circumstances.
- **Strong Work Ethic:** Commitment to hard work and dedication.
- **Integrity:** Honesty and trustworthiness in business dealings.

8.3.2 Skills and Attributes

- **General Management Skills:** Strategy, planning, marketing, finance, project management, time management.
- **People Management Skills:** Communication, leadership, motivation, delegation, negotiation.

8.4 Windows of Entrepreneurial Opportunities

- **Entrepreneurial Opportunity:** A situation where a profitable idea meets a viable market demand.

8.4.1 Finding Opportunities

- **Methods:**
  - Identify unmet needs in the market.
  - Develop new markets for existing products.
  - Use technology to create new products or processes.

8.5 Entrepreneurial Success, Teamwork, and Diversity

8.5.1 Importance of Teamwork

- **Benefits of Teamwork:**
  - **Cooperation:** Working together to achieve common goals.
  - **Broader Perspectives:** Different team members bring unique ideas and viewpoints.
  - **Productivity:** Teamwork can increase efficiency and output.
  - **Learning:** Members can learn from each other's skills and experience.
  - **Company Culture:** Strong teams contribute to a positive and supportive work environment.

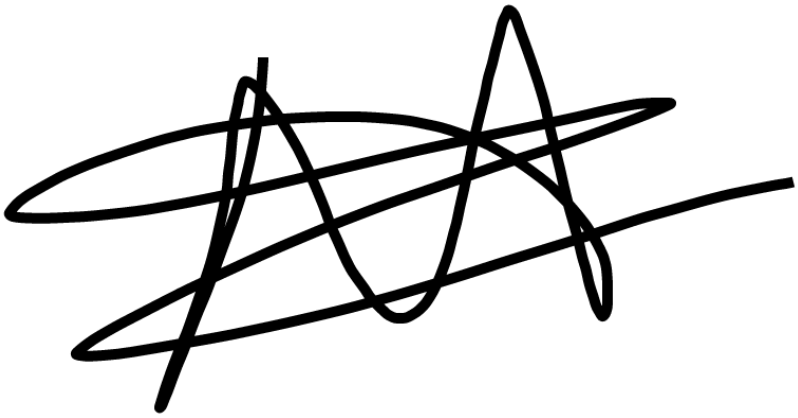
8.6 Finance and Promotion of Entrepreneurship

8.6.1 Financial Requirements

- **Permanent Capital:** Long-term financing for the initial setup and major expansions of a business.
- **Working Capital:** Short-term financing to cover day-to-day operations.
- **Asset Finance:** Loans to purchase fixed assets (e.g., machinery, buildings).

8.6.2 Financing Options

- **Personal Savings:** Self-funding.
- **Friends and Relatives:** Investments from close contacts.
- **Partners:** Sharing ownership and resources.
- **Angels:** Wealthy individuals who invest in start-ups.

- **Venture Capital Firms:** Organizations that invest in high-growth businesses.

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