

ECONOMICS

TEACHER GUIDE BOOK

GRADE 10

Writers:

Achalu Berecha (MA, MSc)

Leta Sera (PhD)

Editors:

Mesfin Ketema (M.Sc.) (Content Editor)

Enguday Ademe (Ph.D) (Curriculum Editor)

Birhanu Engidaw (Ph.D) (Curriculum Editor)

Illustrator:

Endalkachew Mengesha (M.Sc.)

Designer:

Derejaw Lake (M.Sc.)

Evaluators:





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MINISTRY OF EDUCATION

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Foreword

Education and development are closely related endeavors. This is the main reason why it is said that education is the key instrument in Ethiopia's development and social transformation. The fast and globalized world we now live in requires new knowledge, skill and attitude on the part of each individual. It is with this objective in view that the curriculum, which is not only the Blueprint but also a reflection of a country's education system, must be responsive to changing conditions.

It has been almost three decades since Ethiopia launched and implemented new Education and Training Policy. Since the 1994 Education and Training Policy our country has recorded remarkable progress in terms of access, equity and relevance. Vigorous efforts also have been made, and continue to be made, to improve the quality of education.

To continue this progress, the Ministry of Education has developed a new General Education Curriculum Framework in 2021. The Framework covers all pre-primary, primary, Middle level and secondary level grades and subjects. It aims to reinforce the basic tenets and principles outlined in the Education and Training Policy, and provides guidance on the preparation of all subsequent curriculum materials – including this Teacher Guide and the Student Textbook that come with it – to be based on active-learning methods and a competency-based approach.

In the development of this new curriculum, recommendations of the education Road Map studies conducted in 2018 are used as milestones. The new curriculum materials balance the content with students' age, incorporate indigenous knowledge where necessary, use technology for learning and teaching, integrate vocational contents, incorporate the moral education as a subject and incorporate career and technical education as a subject in order to accommodate the diverse needs of learners.

Publication of a new framework, textbooks and teacher guides are by no means the sole solution to improving the quality of education in any country. Continued improvement calls for the efforts of all stakeholders. The teacher's role must become more flexible ranging from lecturer to motivator, guider and facilitator. To assist this, teachers have been given, and will continue to receive, training on the strategies suggested in the Framework and in this teacher guide.

Teachers are urged to read this Guide carefully and to support their students by putting into action the strategies and activities suggested in it.

For systemic reform and continuous improvement in the quality of curriculum materials, the Ministry of Education welcomes comments and suggestions which will enable us to undertake further review and refinement.

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FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
MINISTRY OF EDUCATION

Introduction to the Book

This book is intended for grade 10 students in Ethiopia. Economics starts at grade 9, thus this book is subsequent to that. Students will learn subsequent content similar to that of the previous grade. Accordingly, there is a little depth and width in terms of theories and applications.

The book has eight units. The first unit deals with the Theory of Consumer Behavior, under which students will learn from the definition of utility up to an illustration of the optimum of the consumer using the cardinal utility approach. The second unit deals with the Theories of Demand and Supply, in which students will learn from evaluating the effects of changes in demand and supply on equilibrium price and quantity to computing elasticities of demand and supply.

The third unit covers the Theory of Production and Cost, in which students will learn everything from short- and long-run production to cost of production mapping.

The fourth unit deals with the market structures, under which students will discuss various concepts, from basic features of different markets to understanding the sources of monopoly power.

The fifth Unit deals with Theories of Banking and Finance, with in which students will learn various concepts from the Financial Intermediaries up to the role of indigenous financial institutions such as Iqub and Idir. The Sixth Unit deals with the theories and measurements of Economic Growth with in which students will learn various economic growth concepts, from explaining how to measure economic growth to discussing about productivity, measurements in economics.

The seventh unit deals with discussing the overview of the Ethiopian Economy in which various economic situations in Ethiopia will be discussed, from the main sectors of the Ethiopian economy up to being able to write a brief report on Ethiopian economy. The eighth unit deals with Innovation and business startups in which students will learn various business concepts, from defining the term innovation up to conducting a strength, weakness, opportunity, and threat (SWOT) analysis of an existing enterprise.

Each unit begins with an introduction that states the lessons and the outcomes. It also provides a list of the key words and concepts you will encounter in the unit. The objectives are listed at the beginning of each lesson. The start-up activities are to introduce you to the lesson. On many pages, you will find tables and figures that illustrate the topic you are studying. There are also examples thataim to elaborate on the concept you are studying. Each lesson has at least one set of questions linked to the objective of the lesson. At the end of each unit, there is a unit summary of what you have read. This will help you revise. Finally, unit review exercises enable you to test your knowledge and understanding of the unit content.

In learning the economic literature throughout all the units included in this book, there are two things expected from both the teacher and the students. First they should understand the basic theoretical background of each unit. A teacher should understand the theories before starting to teach the students. For this, s/he has to refer to the reference lists indicated at the end of the student text or teacher's guide. The second thing is that students should try to associate the theories with the practical situation in their country. This can be accomplished via the different activities and also by examples that the teacher makes the students exercise.

Finally, this book is just one resource that students will use to learn economics at this level. Additional reference materials, books, and documents are listed at the end of the book.

TEACHER'S GENERAL GUIDE

Welcome to the Economics Teacher's Guide Book for Grade 10!

This guide is aimed at supporting you to teach and assist students in Grade 10. The book contains eight units that discuss the broader issues, from basic microeconomics to macroeconomics. In order to use this text successfully, you need to think about a few things.

1. PREPARATION

As you know, preparation is important before each lesson. We encourage you to spend your time reading through the student's book and the teacher's guide in detail and referencing materials before you start teaching. This is necessary to help you understand the ideas, the teaching methods, and the activities. You should always make sure you understand exactly what you will teach and how you will teach it before you start.

2. CLASSROOM ORGANIZATION

There are many pair-work and group-work activities in the textbook. Depending on the size of the class and the amount of time you have, you should decide how large the groups should be or whether learners should work in pairs or groups. The problem with large groups is that some learners will not get the chance to participate much in the activity. Also, don't always put students in the same groups or pairs. Change them around.

3. SELECTING ACTIVITIES

There are activities in this book. If you don't have much time, you need to decide which activities you want to do and which ones you won't have time for. Remember, you don't have to do everything in the teacher's guide! Choose what you think is appropriate for the amount of time that you have to teach the learners.

4. WORKING WITH TEXT

There is a lot of text in the student's book. If possible, try to use a few different ways of reading the text in class so that you don't always do the same thing. Here are some options:

I . Ask learners to read the text on their own and then check their understanding.

II . Put learners into pairs and ask them to read the text together and discuss the meaning.

III . Ask selected learners to read the text aloud (a paragraph or a sentence) to the rest of the class and discuss it together.

IV . Put learners into pairs or small groups and ask them to read the text and summarise the main points. Then ask one or two groups to explain the main points to the class. When they have finished, check with the class that they agree.

V . If you can think of a better way to do or explain something, or if you want to add or remove things, go ahead! You know your learners and your situation better than we do.

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Unit 1
Theory of Consumer Behavior

Periods Allotted: 6

Introduction

A consumer is a decision making unit (an individual or a household) who uses or consumes a commodity or service. The theory of consumer behaviour is concerned with how a consumer decides on the basket of goods and services he/she consumes in order to maximize his/her satisfaction. In this unit, we will discuss how the consumer decides to spend his or her income on different goods.

Unit objectives

At the end of this unit, the teacher will enable students to:

- Explain cardinal utility
- Discuss the law of diminishing marginal utility
- Illustrate the consumer optimum under the cardinal approaches
- Mentions the assumptions of ordinal utility theory

1.1 The Concept of Utility

Periods Allotted: 1

Specific objectives

At the end of this section, the teacher will enable students to:

- Define the term utility
- Discuss relativity of utility

Overview

In our everyday lives, we buy different goods and services for consumption. We derive satisfaction or pleasure from the consumption of a good or service. Thus, pleasure, or 'utility' is the power of a commodity to satisfy human wants.

Teaching learning Process

1. Suggested Teaching Aids
   - Tables
   - Illustrations
   - Graphs and figures
2. Suggested Teaching Methods
   - Start-up Activity/brainstorm
   - Open-ended questioning
   - Group discussion
3. Pre Lesson Preparation
   - Refer the topic in advance.
   - Prepare the appropriate teaching materials that are relevant to the topic.
4. Lesson Presentation
   a) Introduction to the lesson

Start the lesson by motivating students to revisit the previous grade's economics. Encourage them to reflect on what they know, particularly from the concept of demand, why they do buy the goods and services they do. Divide the class into groups of 3-5 students, assign them different roles, and ask them to discuss in 5–10 minutes, with time for each group to reflect on what they have discussed. This sub-unit deals with the concept of utility, its definition, basic assumptions and properties, and the approach to measuring utility.

b) Body of the lesson

The ongoing teaching learning process can be fruitful and attractive when you enable students to understand the significant points of the lesson. These are:

- Utility is the power of a commodity to satisfy human wants.
- The relativity of utility, i.e., the utility of a commodity is subjective to a person‘s needs.
- Classify approaches/theories to measure utility (cardinal and ordinal utility approaches).

c) Conclusion of the lesson

Conclude the lesson by revising the main ideas in the section.

5. Assessment and Follow-up

a) Assessment

Stabilize the lesson by posing these questions.

1. How do you define utility?
2. Why does the level of utility obtained by consuming the same product by different individuals differ?

b) Follow-up

- Arrange group discussion so that students express and realize the concept of utility.
- Give students homework and ask them what they have done in their homework.

1.2 The cardinal utility theory

Periods Allotted: 3

Specific objectives

At the end of this section, the teacher will enable students to:

- Discuss the cardinal utility and its key assumptions
- Compute total utility
- Calculate marginal utility
- State law of diminishing marginal utility
- Derive consumer optimum

Overview

According to Cardinal Utility theory, utility is measurable like weight, height and temperature, and they suggested a unit of measurement of satisfaction called 'utils'**.** The cardinal school postulated that utility can be measured in monetary units (i.e., by the amount of money that the consumer is willing to pay for another unit of a commodity) or by subjective unit called 'utils'. Thus, the school assumes that level of utility can be expressed in numbers.

In this sub-unit you discuss how cardinal utility theory explains the consumer behavior based on the concepts of total and marginal utility. The Cardinal Utility theory has been given the following assumptions.

- Consumer is Rational: the main objective of the consumer is to maximize his/her satisfaction given his/her limited budget or income. Cardinal utility**:** Utility is a cardinal concept, which means the utility of each commodity is measurable, with the most convenient measure being money.
- Constant Marginal Utility of Money**:** the utility that one derives from each successive unit of money income remains constant.
- Diminishing Marginal Utility**:** the utility gained from the successive units of a commodity diminishes.
- The total utility of a basket of goods depends on the quantities of the individual commodities.

Teaching learning Process

1. Suggested Teaching Aids
   - Tables
   - Illustrations
   - Graphs and figures
2. Suggested Teaching Methods
   - Start-up Activity/brainstorm
   - Open-ended questioning
   - Group discussion
3. Pre-lesson Preparation
   - Identify and sort out the necessary materials and organize them
   - Read relevant reference material.
   - Design the most appropriate teaching methods that you think are relevant.
   - Decide the most appropriate means of assessment
4. Lesson Presentation

a) Introduction of the lesson

In this sub-unit, introduce your students to the Cardinal Utility Theory, which is based on the assumption that utility is a cardinal concept (measurability of utility in terms of 'utils'). And also you need to discuss here about the other assumptions of the Cardinal theory such as rationality of consumer, constant marginal utility of money, diminishing marginal utility, and the total utility of a basket of goods depends on the quantities of the individual commodities.

b) Body of the lesson

After introducing the assumptions under this theory, discuss how cardinal utility theory explains the consumer behavior based on the concepts of total and marginal utility. During your discussion, you should highlight that as a consumer goes on increasing the consumption of a commodity, total utility increase by decreasing rate and then comes a point of saturation represented by maximum total utility. A further consumption of the commodity leads to a decline in total utility, thereby indicating towards negative marginal utility. Use table and graph from example given in the student's text book to make the students understand the relationship between total utility and marginal utility; and also give them some practical problems in a tabular form and ask them to draw TU and MU curves; and explain the relationship between the two curves.

Discuss the law of diminishing marginal utility (LDMU), which is the central to the

cardinal utility analysis of the consumer behavior. This law states that as the quantity consumed of a commodity increases over a unit of time, the utility derived by the consumer from the successive units goes on decreasing, provided the consumption of all other goods remains constant.

c) Conclusion of the lesson

Conclude the lesson by revising the main ideas in the section.

5. Assessment and Follow-Up

a) Assessment

Stabilize the contents of the lesson by asking the following questions.

State the main ideas of cardinal utility theory.

Give activity 1.2 as classwork and give them about 5-7 minutes. Then, go around ask students what they have done.

b) Follow-up

Give activity 1.3 as homework/ assignment. In the next period/s ask students what they have done and give them feedback.

1.3 The Consumer Maximization Problem

Periods Allotted: 1

Specific objectives

At the end of this section, the teacher will enable students to:

- Drive consumers' budget equations.
- Compute the optimum for the consumer.

Overview

The objective of any rational consumer is to maximize satisfaction or utility. So that, the consumer spends his/her income to maximizes utility and reaches his/her equilibrium position.

Teaching learning Process

1. Suggested Teaching Aids
   - Tables
   - Illustrations
   - Graphs and figures
2. Suggested Teaching Methods
   - Start-up Activity/brainstorm
   - Open-ended questioning
   - Group discussion
3. Pre-lesson Preparation
   - Identify and sort out the necessary materials and organize them.
   - Read relevant reference material.
   - Design the most appropriate teaching methods that you think are relevant.
   - Decide the most appropriate means of assessment.
4. Lesson Presentation
   a) Introduction of the lesson

In this sub-unit, introduce your students to the optimum of the consumer. The concept of consumer's equilibrium is based on the following assumptions:

- The consumer is rational.
- Cardinal measurement of utility is possible,
- If utility is measured in terms of money, marginal utility of money remains constant,
- The law of diminishing marginal utility operates,
- Consumer's income is given and remains constant,

- Prices of commodities are given and remain constant.

b) Body of the lesson

Discuss how a consumer allocate his/her given money income among the purchase of different commodities. Specifically a consumer will be in equilibrium when she/ he spends her/his given income on the purchase of different commodities in such a way so as to maximize her/his total utility. You can explain the concept of consumer's equilibrium using the example given in the student text. Practical problems involving a mathematical representation of the conditions for consumer equilibrium should be a part of your discussion in this sub-unit.

c) Conclusion of the lesson

Conclude the lesson by revising the main ideas in the section.

5. Assessment and Follow-Up

a) Assessment

Stabilize the contents of the lesson by asking the following questions.

Discuss how you spend your money? How should a consumer spend his/her income money on different commodities? Give them about 5-7 minutes. Then ask each pair to briefly explain what they have discussed.

b) Follow-up

Give activity 1.4 as homework/ assignment. In the next period ask students what they have done and give them feedback.

1.4 Introduction to the Ordinal Utility Theory

Periods Allotted: 1

Specific objectives

At the end of this section, the teacher will enable students to:

- Explain ordinal utility.
- State the assumptions of ordinal utility theory.

Overview

Ordinal utility theory states that utility cannot be measured absolutely but different consumption bundles are ranked according to preferences.

Teaching learning Process

1. Suggested Teaching Aids
    - Tables
    - Illustrations
    - Graphs and figures
2. Suggested Teaching Methods
    - Start-up Activity/brainstorm
    - Open-ended questioning
    - Group discussion
3. Pre-lesson Preparation
    - Identify and sort out the necessary materials and organize them.
    - Read relevant reference material.
    - Design the most appropriate teaching methods that you think are relevant.
    - Decide the most appropriate means of assessment.
4. Lesson Presentation
        a) Introduction of the lesson

In this sub-unit, introduce your students to the Ordinal Utility Theory, which is based on the assumption that utility is Ordinal concept. The concept is based on the fact that it may not be possible for consumers to express the utility of various commodities they consume in absolute terms, like, 1 util, 2 utils, or 3 utils, but it is always possible for the consumers to express the utility in relative terms. It is practically possible for the consumers to rank commodities in the order of their preference as 1^{st}, 2^{nd}, 3^{rd} and so on.

b) Body of the lesson

You need to introduce here about the other assumptions of the ordinal theory such as rationality of consumer, utility is ordinal, which is utility is not absolutely (cardinally) measurable. The consumer can rank his/her preference (order the various baskets of goods) according to the satisfaction of each basket. Diminishing marginal rate of substitution (DMRS); the marginal rate of substitution is the rate at which a consumer is willing to substitute one commodity for another commodity so that his/her total satisfaction remains the same. The rate at which one good can be substituted for another in consumer's basket of goods diminishes as the consumer consumes more and more of the good. This means that as the consumer substitutes more and more of one commodity (say Y) for another commodity (say X), he/she will be prepared to give up lesser units of the later (X) for each additional unit of the former (Y). The total utility of the consumer depends on the quantities of the commodity consumed: The total utility of a consumer is measured by the amount (quantities) of all items he/she consumes from his/her consumption basket. Finally, the assumption of consistency and transitivity of choices; which states that the consumer is consistent in his/her choice.

c) Conclusion of the lesson

Conclude the lesson by revising the main ideas in the section.

5. Assessment and Follow-Up

a) Assessment

Let student to revisit the content by asking the following questions.

- What is ordinal utility?
- Explain the difference between the cardinal utility and ordinal utility (their utility measurement approach).
- What are the assumptions of ordinal utility theory?

b) Follow-up

Arrange group discussion so that students express and realize the theory of ordinal utility.

Answer to Activities

Answer for Activity 1.1

1. Utility is the power of a commodity to satisfy human wants. It is the satisfaction or subjective pleasure that one gets from consuming a good or service.
2. The utility of a product will vary from person to person. The utility of a commodity is subjective to a person's need. It is not absolute (objectively determined).

Answer for Activity 1.2

The missed value of total utility (TU) and marginal utility (MU) are:

Quantity consumed (Q_b)	0	1	2	3	4	5	6	7	8	9	10
Total Utility (TU)	0	8	15	20	23	24	24	22	19	12	5
Marginal Utility (MU)	0	8	7	5	3	1	0	-2	-3	-6	-8

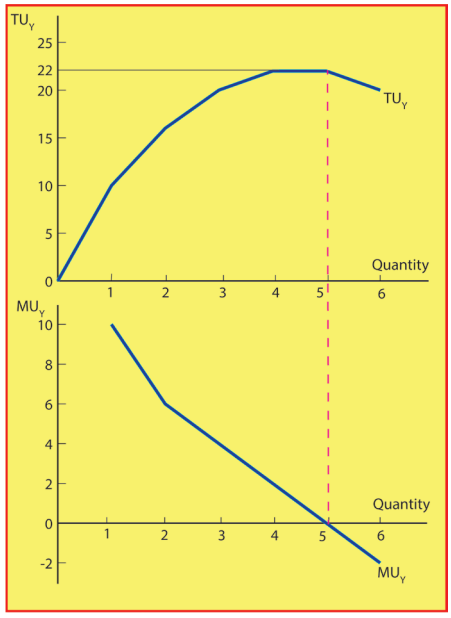
Answer for Activity 1.3

1.

a) Find marginal utility (MU_Y)

b) Draw total utility (TU_Y) and marginal utility (MU_Y) curve.

Units of Quantity(Y) consumed	0	1	2	3	4	5	6
TU_Y	0	10	16	20	22	22	20
MU_Y	-	10	6	4	2	0	-2



2. The Law of Diminishing Marginal Utility States that as the quantity consumed of a commodity increases per unit of time, the utility derived from each successive unit decreases, consumption of all other commodities remaining constant.
3. The main assumptions of the cardinal utility theory are:

   ii . Consumer is Rational

   iii . Cardinal utility: Utility is a cardinal concept; which means the utility of each commodity is measurable, with the most convenient measure being money

   iv . Constant Marginal Utility of Money

   v . Diminishing Marginal Utility

   vi . The total utility of a basket of goods depends on the quantities of the individual commodities.

✎ Answer for Activity 1.4

1. Indicate how much of X & Y the individual should purchase to maximize utility.

   =>X=2 and Y=6
2. Show that the condition for constrained utility maximization is achieved.

   => Px.X +Py.Y= M (income)

   => (2x2) + (1x6) = 10
3. Determine how much total utility the individual receives when he /she maximizes utility.

   TU= TUx+TUy

   =(10+6) +(5+4+3)=28

✎ Possible Answer for Activity 1.5

1. The ordinal utility approach implies that different consumption bundles are ranked according to preferences. It is practically possible for the consumers to rank commodities in the order of their preference as 1^{st} 2^{nd} 3^{rd} and so on.
2. The possible answer is:

   iii. Rationality: the consumer is assumed to be rational.

   iv. Utility is ordinal

   v. Diminishing marginal rate of substitution (DMRS):

   vi. The total utility of the consumer depends on the quantities of the commodity consumed.

   vii. Consistency and transitivity of choices.

Answers to Review Exercise

Part I

1. True 2. True 3. False
4. False 5. False 6. False

Part II

1. B 2. B 3. C
4. C 5. D

Part III

1. Consumer is Rational. The main objective of the consumer is to maximize his/her satisfaction given his/her limited budget or income. Thus, in order to maximize his/her satisfaction, the consumer has to be rational.
2. The marginal rate of substitution is the rate at which a consumer is willing to substitute one commodity for another commodity so that his/her total satisfaction remains the same. The rate at which one good can be substituted for another in consumer's basket of goods diminishes as the consumer consumes more and more of the good. This means that as the consumer substitutes more and more of one commodity (say Y) for another commodity (say X), he/she will be prepared to give up lesser units of the later (X) for each additional unit of the former (Y).
3.
   a. Compute the marginal utility of the two goods.

Q_X	TU_X	MUx	$\frac{MU_x}{P_x}$	Q_Y	TU_Y	MUy	$\frac{MU_y}{P_y}$
0	0	-	-	0	0	-	-
1	10	10	10	1	24	24	8
2	19	9	9	2	45	21	7
3	27	8	8	3	63	18	6
4	34	7	7	4	78	15	5
5	40	6	6	5	87	9	3
6	44	4	4	6	90	3	1
7	44	0	0	7	91	1	1/3
8	43	-1	-1	8	91	0	0
9	41	-2	-2	9	90	-1	-1/3

   b. Determine the quantities of the two goods that the consumer should buy in order to maximize his total utility.

From $\frac{MU_X}{P_X} = \frac{MU_Y}{P_Y} = \frac{7}{1} = \frac{21}{3} = 7$

Thus, PxX + PyY = I

$\Rightarrow$ 1(4) + 3(2) = 10

Unit 2
Theories of Demand and Supply

Periods Allotted: 14

Introduction

The tools of demand and supply can take us far in understanding not only specific economic issues but also how the entire economy works. As you recall, the circular flow model in your grade 9 course identified the participants in the product and resource markets. There, we asserted that prices were determined by the "interaction" between demand and supply in these markets. In this unit we examine that interaction in detail explaining how prices and output quantities are determined.

Unit Objectives

At the end of this unit, the teacher will enable students to:

- Explain the theory of demand.
- Describe the theory of supply
- Identify factors that affect demand and supply
- Distinguish between individual and market demand
- Distinguish between individual and market supply
- Demonstrate market equilibrium both graphically and mathematically
- Evaluate the effect of changes in demand and supply on equilibrium price and quantity.
- Define elasticity
- Calculate and interpret the different types of elasticity

2.1 Theory of Demand

Periods Allotted: 4

Specific objectives

At the end of this section, the teacher will enable students to:

- Define the concept of demand
- State factors affecting demand.
- Explain demand schedule and demand curve
- Interpret demand equations and the slope of a demand curve.
- Distinguish between chages in demand and changes in quantity
- Determine individual and market demand

Overview

Demand means the ability and willingness to buy a specific quantity of a commodity at the prevailing price in a given period of time. Therefore, demand for a commodity implies a desire to acquire it, willingness and an ability to pay for it.

Teaching learning Process

1. Suggested Teaching Aids
    - Tables
    - Examples
    - Graphs and figures
2. Suggested Teaching Methods
    - Start-up Activity/brainstorm
    - Open-ended questioning
    - Group discussion
3. Pre-lesson Preparation
    - Identify and sort out the necessary materials and organize them
    - Read relevant reference material.
    - Design the most appropriate teaching methods that you think are relevant.
    - Decide the most appropriate means of assessment
4. Lesson Presentation
    a) Introduction of the lesson

We can start the unit by raising certain questions for an open class room discussion, such as, why does a consumer buy a commodity? What do we mean by demand? Do you think it is synonyms with 'desire' or 'want'? Do we always buy that what

we want? Adopting an approach of *general to particular* you may introduce them to the concept of 'demand' and point out that in this unit we begin with the study of concepts, laws, and determinants and other aspects of *demand.*

b) Body of the lesson

Demand refers to the amount of commodity which an individual buyer is willing to buy at a given price during a given period of time. A demand schedules is a tubular statement that states the different quantities of a commodity that would be demand at a different prices.

Demand mainly depends upon:

- Price of the commodity
- Income of the consumer
- Price of related goods

c) Conclusion of the lesson

Conclude the lesson by revising the main ideas in the section.

5. Assessment and Follow-Up

a) Evaluation

Secure and broaden the scope of knowledge of students by asking them /give them as assignment the following questions.

- What factors affect demand?
- Explain the concepts of demand schedule and demand curve
- What is the difference between changes in quantity demanded and changes in demand?
- What meant by individual demand and market demand?

b) Follow-up

- In the next class (period) ask students Collect what they have done and give them feedback.

2.2 Theory of Supply

Periods Allotted: 3

Specific objectives

At the end of this section, the teacher will enable students to:

- Define the concept of supply.
- Explain supply function, supply curve, and supply schedule.
- Interpret the slope of a supply curve.
- Differentiate changes in quantity supply and changes in supply.
- State factors that affect supply.
- Derive market supply curve.

Overview

In a market, while buyers of a product constitute the demand side of the market, sellers of that product make supply side of the market. Supply may be defined as a schedule, an equation or a curve that shows the various amounts of a product which a producer (firm) is willing and able to produce and make available for sale in the market over specific time period, at given prices, ceteris paribus.

Teaching learning process

1. Suggested Teaching Aids
   - Tables
   - Examples
   - Graphs and figures
2. Suggested Teaching Methods
   - Start-up Activity/brainstorm
   - Open-ended questioning
   - Group discussion
3. Pre-lesson Preparation
   - Identify and sort out the necessary materials and organize them
   - Read relevant reference material.
   - Design the most appropriate teaching methods that you think are relevant.
   - Decide the most appropriate means of assessment
4. Lesson Presentation

a) Introduction of the lesson

The concept of supply can be realized broadly when it is addressed along with its

determinants and these are: price of the commodity, changes in factor prices, objective of the firm, state of technology, fiscal policy of the government, price of other goods. Moreover, explain that supply is dictated by law, thus law of supply expresses the functional relationship between the prices of a commodity and its quantity supplied.

b) Body of the lesson

Make sure that you are stabilizing the lesson by giving emphasis to important points like: Supply means the quantity which is actually brought in the market. A supply schedule is a tabular statement that states the different quantities of a commodity offered for sale at different pairs.

c) Conclusion of the lesson

Conclude the lesson by revising the main ideas in the section.

5. Evaluation and Follow-Up

a) Evaluation

Ask the student: What is the market supply of 100 identical wheat suppliers if the supply function of a typical supplier is Qs = 3p - 2?

b) Follow-up

Give activity 2.2 as classwork. Give them about 5 minutes. Then, go around ask students what they have done and give them feedback.

2.3 Market Equilibrium

Periods Allotted: 3

Specific objectives

At the end of this section, the teacher will enable students to**:**

- Define market equilibrium.
- Define surplus and shortage.
- Explain how surpluses and shortages cause the price to move towards equilibrium.
- Describe how change in demand and supply affect equilibrium.

Overview

You may start the lesson by defining the term equilibrium: In general sense, the term equilibrium means the "state of rest". In the context of the market analysis, equilibrium refers to the market condition, which once achieved tends to persist. This condition occurs when the quantity demanded of the commodity equals the quantity supplied of the commodity. This equality produces an equilibrium price (market- clearing price)

Teaching learning process

1. Suggested Teaching Aids
    - Tables
    - Graphs and figures
    - Examples
2. Suggested Teaching Methods
    - Start-up Activity
    - Open-ended questioning
    - Group discussion
3. Pre-lesson Preparation
    - Identify and sort out the necessary materials and organize them
    - Read relevant reference material.
    - Design the most appropriate teaching methods that you think are relevant.
    - Decide the most appropriate means of assessment.
4. Lesson Presentation
    a) Introduction of the lesson

Having seen the theory of demand and supply we can now bring them together to see

how the buying decisions of households and the selling decisions of firms interact to determine the price of a product and the quantity actually bought and sold. Market equilibrium explains the balance between demand and supply for a commodity. That is, equilibrium occurs when the quantity demanded by the buyers equals the quantity supplied by the sellers in a particular market so that the market clears. It is a condition which once it is achieved tends to persist because economic agents have no incentive to change their behavior.

b) Body of the lesson

Facilitate the teaching learning process and insist on the following significant points.

- The price level that the market clearing / equilibrium price and the corresponding quantity the equilibrium quantity.
- The equilibrium price in a free market is determined by the market force of demand and supply.
- Using the table and figure on the student text book to show the equilibrium.
- The concepts of excess demand and excess supply
- Effects of change in demand and supply on equilibrium quantity and price.

c) Conclusion of the lesson

Conclude the lesson by revising the main ideas in the section.

5. Assessment and Follow-Up

a) Assessment

Measure the students understanding by asking them the following questions:

- What does equilibrium mean?
- Define equilibrium price?

b) Follow-up

Give activity 2.3 and 2.4 as homework and in the next class (period) ask students what they have done and give them feedback.

2.4. Elasticities of Demand and Supply

Periods Allotted: 4

Specific objectives

At the end of this section, the teacher will enable students to:

- Define elasticity.
- Explain the types of elasticity.
- Describe elasticity of demand
- Discuss elasticity of supply.
- Analyse determinants of elasticity.

Overview

Elasticity is a measure of the sensitivity of one variable to another. It tells us the percentage change in one variable in response to a one percent change in another variable.

Teaching learning process

1. Suggested Teaching Aids
   - Tables
   - Illustrations
   - Graphs and figures
2. Suggested Teaching Methods
   - Start-up Activity/brainstorm
   - Open-ended questioning
   - Group discussion
3. Pre-lesson Preparation
   - Identify and sort out the necessary materials and organize them
   - Read relevant reference material.
   - Design the most appropriate teaching methods that you think are relevant.
   - Decide the most appropriate means of assessment.
4. Lesson Presentation
   a) Introduction of the lesson

Introduce elasticity of demand and supply focusing on the three basic elasticities such as price of the commodity, price of related goods, and consumers' income.

b) Body of the lesson

Using the table, figure and mathematical equation on the student text book discuss the following:

- Price elasticity of demand and supply
- Cross-price elasticity of demand and supply
- Income elasticity of demand and supply
- Factors that determined the price elasticity of demand and supply.

c) Conclusion of the lesson

Conclude the lesson by revising the main ideas in the section.

5. Assessment and Follow-Up

a) Evaluation

Ask the following questions to ensure their understanding of the lesson:-

- What is price elasticity of demand?
- What is price elasticity of supply?
- What are the types of elasticity of demand?
- Mention the main determinants of elasticity of supply

b) Follow-up

Give activity 2.5 to 2.7 as assignment, check and evaluate what they have done and give them feedback.

Answers to Activities

✎ Answer for Activity 2.1

1. Demand means the ability and willingness to buy a specific quantity of a commodity at the prevailing price in a given period of time. Thus, Demand = Willingness to buy + Ability to pay
2. There are various factors affecting the demand for a commodity, some of these are;
   - Price of the good
   - Price of related goods
   - Consumer's Income
   - Taste and habits
   - Population: if the size of the population is more, demand for goods will be more.
   - Season**:** The demand for a commodity is also affected by season.
   - Consumer's future price expectation
3. Demand could be expressed in the form of functions, schedules, or curves. Demand schedule can be constructed for any commodity if the list of prices and quantities purchased at those prices are known. A demand curve is a curve which represents the relation between the quantity of the good chosen by a consumer and the price of the good.
4. What is the difference between changes in quantity demanded and changes in demand?

   Change in quantity demanded: Other things being equal, it designates the movement form one point to another point – from one price quantity combination to another – on a fixed demand schedule or demand curve.

   Change in Demand: A change in one or more of the determinants of demand (other than own price) will change the demand data (the demand schedule). A change in the demand schedule, or graphically, a *shift* in the location of the demand curve is called a change in demand.
5. What meant by individual demand and market demand?

   Individual Demand: Individual demand may be defined as the quantity of a commodity that a person is willing and able to buy at given prices over a specified period of time.

   Market Demand: Market demand refers to the total quantity that all the users of a commodity are willing and able to buy at given prices over a specific period of time.

✎ Answer for Activity 2.2

1. Supply is the various amounts of a product which a producer (firm) is willing and able to produce and make available for sale in the market over specific time period, at given prices, ceteris paribus. The quantity supplied of a good or service is the amount offered for sale at a given price, holding other factors constant.
2. When the quantity demanded in the market exceeds the quantity supplied in the same market, we say there is shortage (excess demand), and when the opposite happens we say there is surplus (excess supply).

✎ Answer for activity 2.3

$$\Rightarrow \text{Price elasticity}(E_p^D) = \left(\frac{400-0}{4-8}\right)\left(\frac{4+8}{400+0}\right) = /-3/ = 3$$

✎ Answer for activity 2.4

$$\Rightarrow \text{Income elasticity}(E_I^D) = \left(\frac{20000-18000}{18-15}\right)\left(\frac{18}{20000}\right) = 0.6$$

✎ Answer for activity 2.5

$$E_d^s = \left(\frac{20-18}{120-100}\right)\left(\frac{20+18}{120+100}\right) = 0.017$$

✎ Answer for activity 2.6

1. Elasticity of demand is the measure of responsiveness of demand for a commodity to the changes in any of its determinants, such as price of the commodity, price of related goods, and consumers' income. Accordingly, there are three basic elasticities. These are Price elasticity of demand, Cross-price elasticity of demand & Income elasticity of demand.
2. The market said to be in a state of equilibrium, when the quantity demanded equals the quantity supplied. This equality produces an equilibrium price (market- clearing price).
3. What will be the effect on the demand for tea if the price of coffee rises?
   Since tea and coffee are substitute products, as the price of coffee increase the demand for tea increases, other things remain constant.
4. The elasticity of demand depends on the following factors:
   - Nature of the commodity.
   - Availability of close substitutes.
   - Income level of the consumer.
   - Proportion of income spent on the commodity.
   - Time, and so on.

Answers to Review Exercise

Part I

1. True 2. True
3. True 4. True

Part II

1. A	2. C	3. C	4. D	5. C
6. D	7. B	8. A	9. A	10. B

Part III

1. The Law of supply expresses the direct relationship between the prices of a commodity and its quantity supplied. Price and supply are positively related. Hence, the slope of supply curve is positive.
2. **Change in quantity demanded:** Other things being equal, it designates the movement from one point to another point from one price quantity combination to another on a fixed demand schedule or demand curve. The cause of such a change is an increase or decrease in the price of the product being considered. Downward movement along the demand curve is called extension of demand, while the upward movement as contraction of demand. A change in the demand schedule, or graphically, a *shift* in the location of the demand curve is called a change in demand. An increase in demand causes the demand curve to shift upward to the right; whereas, a decrease in demand causes the demand curve to shift down ward to the left. In other words, while an increase in demand is explained by an outward shift of the demand curve, a decrease in demand is explained by an inward shift of the demand curve.
3. If the demand and supply functions of a good are given as Q = 250-3P and Q = 2P - 50, respectively;

   A) Equilibrium price.
   $\Rightarrow$ At equilibrium $250-3P = 2P - 50$,
   $\Rightarrow$ $5P=300$
   $\Rightarrow$ $P=300/5$
   $\Rightarrow$ $P=60$

B) Equilibrium quantity.

$\Rightarrow$ Q = 250-3(60)

$\Rightarrow$ Q = 250-180

$\Rightarrow$ Q = 70

C) When market price be 75:

$\Rightarrow$ Q=250-3P (Demand) =>Q = 2P + 50 (Supply)

$\Rightarrow$ Q=250-3(75) => Q = 2(75) + 50

$\Rightarrow$ Q = 250- 225 => Q = 150 + 50

$\Rightarrow$ Q=25 => Q=200

Thus, Demand < Supply, the market will face surplus.

Unit 3
Theories of Production and Cost

Periods Allotted: 8

Introduction

We have discussed the theory of demand and supply in the previous unit. Under this unit we move to the theory of production and cost which emphasizes on understanding the behavior of firms in the production of goods and services. Firms incur costs when they buy inputs to produce the goods and services that they plan to sell. In this unit we examine the link between a firm's production process and its total cost.

Unit Objectives

At the end of this unit, the teacher will enable students to:

- State production and production functions in the short and long run.
- Derive and draw the various average and marginal functions from the total functions.
- Calculate the average and marginal cost and productivity values.
- Draw and explain the relationship between different types of cost curves.
- Show the relationship between production and cost curves.
- Discuss the stages of production.
- Analyze the concept of returns to scale in production.

3.1 Theory of Production

Periods Allotted: 4

Specific objectives

At the end of this section, the teacher will enable students to:

- Define the function of production.
- Describe short run and long run production functions.
- Calculate the average and marginal products.
- State the law of diminishing marginal productivity and its implications.
- Explain the concept of returns to scale.
- Clarify the stages of production.
- Analyse technology change and the position of production curves.

Overview

We have discussed the theory of demand and supply in the previous unit. Under this sub- unit we move to the theory of production which emphasizes on understanding the behavior of firms in the production of goods and services

Teaching learning process

1. Suggested Teaching Aids
    - Tables
    - Illustrations
    - Graphs and figures
2. Suggested Teaching Methods
    - Start-up Activity/brainstorm
    - Open-ended questioning
    - Group discussion
3. Pre-lesson Preparation
    - Identify and sort out the necessary materials and organize them
    - Read relevant reference material.
    - Design the most appropriate teaching methods that you think are relevant.
    - Decide the most appropriate means of assessment
4. Lesson Presentation
    a) Introduction of the lesson

You may start by introducing production, which is a scientific process which involves transformation of raw material (input) into desired product or service (output) by

adding economic value. Production of goods and services involves transforming resources—such as labor power, raw materials, and the services provided by facilities and machines—into finished products.

b) Body of the lesson

You may teach your student focusing on the following basic concepts;

- the production function
- short run production
- stages of production
- long run production

c) Conclusion of the lesson

Conclude the lesson by revising the main ideas in the section.

4. Assessment and Follow-Up

a . Assessment

You may ask the following questions:

- How do you define production? What is needed to undertake production?
- Differentiate short run and long run production function
- State briefly the law of diminishing marginal productivity and its implication to Ethiopia in agriculture sector.
- What stages must a firm follow in its production process?
- Explain technology change and the position of production curves.

b . Follow-up

You can give activity 3.1 as an assignment and check what they have done and give them feedback.

3.2 Theory of Cost

Periods Allotted: 4

Specific objectives

At the end of this section, the teacher will enable students to:

- Define the cost of production.
- Explain the difference between short and long run costs.
- Calculate total, average, and marginal costs.
- Describe the link between production and costs.
- Analyze the relationship between product curves and cost curves.

Overview

In the production process, the firm needs to employ inputs in order to produce outputs. Thus, the prices of inputs or the expenditures the firm incurs on these inputs are referred to as cost of production.

Teaching learning process

1. Suggested Teaching Aids
    - Tables
    - Illustrations
    - Graphs and figures
2. Suggested Teaching Methods
    - Start-up Activity/brainstorm
    - Open-ended questioning
    - Group discussion
3. Pre-lesson Preparation
    - Identify and sort out the necessary materials and organize them
    - Read relevant reference material.
    - Design the most appropriate teaching methods that you think are relevant.
    - Decide the most appropriate means of assessment
4. Lesson Presentation
    a) Introduction of the lesson

In this sub-unit, you may start by introducing the types and behaviors of costs, cost function.

b) Body of the lesson

Teach your student focusing on the following basic concepts;

- Cost function
- Types of cost
- Short run cost
- long run cost
- relationship between production corves and cost curves.

c) Conclusion of the lesson

Conclude the lesson by revising the main ideas in the section.

5. Assessment and Follow-Up

a) Assessment

You may ask the following question to evaluate your students' understand;

- Differentiate short run and long run costs
- Explain the link between production and costs
- Describe the relationship between product curves and cost curves

b) Follow-up

- You may arrange a group discussion so that students express and realize the theory of cost.
- Arrange the class into different groups and assign different topics for each group and then they should present the content of each topic for the class.

Answers to Activities

Answer for Activity 3.1

1. The production function is a function that shows the highest output that a firm can produce for every specified combination of inputs. In particular, the production function tells us the quantity of output the firm can produce given the quantities of the inputs that it might employ.
2. The short-run refers to the period of time over which at least one factor of production is fixed. Whereas, the Long run is the period of time (planning horizon) which is sufficient in all quantities of inputs are variable (change).
3. The returns to scale is refers to the long run analysis of production. In the long run, where all inputs are variable output can be increased by changing all factors by the same proportion. The rate at which output increases as inputs are increased by the same proportion is called returns to scale.
4. The second stage (stage II) is where a rational firm operates. Here each additional labor contributes positively to the production but less than the average. At this stage as the use of a variable input (labor) increases with other inputs (capital) being fixed, the resulting additions to output (MP_L) will eventually decrease.
5. As knowledge of new and more efficient methods of production become available, technology changes. These changes in technology constitute technical progress. Graphically, the effect of technical progress is shown with an upward shift of the production function or a downward movement of the isoquant. This shift shows that the same output may be produced by less factor inputs, or more output may be produced with the same inputs.

Answer for Activity 3.2

1. Cost of productions refers to all the costs that are involved when an industry produce a product. Production costs are comprised of various expenses, including the cost of materials, employee wages, factory maintenance, shipping costs and more.
2. Short run costs vary in relation to the quantity of goods being produced. Long run cost includes the variation of quantities used for all inputs necessary for production.
3. Cost and production curves are mirror images of each other. Because factors of production are used as input to produce goods and services. Thus, the prices

of these factors *of production* are considered as cost of production.

4. Cost and production curves are **mirror images** of each other. Cost curves and production curves are related as follows:
   - when AP(MP) is ring AC(MC) is falling;
   - when AP(MP) is falling AC(MC) is rising; and
   - when AP(MP) is maximum AC(MC) is minimum.

Answers to Review Exercise: unit three

Part I

1. False	2. True	3. True	4. False	5. False
6. True	7. True	8. False	9. True	10. True

Part II

1.D 2. A 3. D 4. A 5. B

Part III

1. The shape of total product curve, first increases at increasing rate, then increase decreasing rate, and finally reaches to a maximum and starts to fall.

   a) Both AP &MP first increase and reaches maximum and then start to fall. MP curve reaches its maximum before the AP curve. Also, as long as the AP is rising, the MP is above it; when AP is falling, the MP_L is below it. When AP is at its maximum, the MP is equal to the AP.

   b) In any production function with fixed level of some of the inputs, it is impossible to expand the level of production indefinitely. Initially, as more of the variable inputs are employed together with the fixed ones, the output level increases dramatically to a certain extent, i.e. the marginal contribution of one more variable input (say labor) increases sharply. But as the number of labor employed increases with a fixed capital, the production capacity goes to exhaustion and eventually the total output declines, i.e. the additional contribution of extra labor employed becomes a loss or negative. Therefore, according to the law of diminishing returns, increasing the amount of the variable factor (labor) with fixed factor (capital) will lead to an eventual decline in the marginal contribution of the additional labor to the total output. This is also determining the shape of TP curve and stages of production.

2. An isoquant is a curve that shows all possible efficient combinations of inputs that can yield equal level of output. Isoquants are characterized by:

   i. Isoquants are down ward sloping
   ii. The further an isoquant lays away from the origin, the greater the level of output it denotes.
   iii. Isoquants do not cross each other.
   iv. Isoquants are convex to the origin.

3. Given the following TFC and TVC cost information, complete the following table.

Output	TFC	TVC	TC	AFC	AVC	ATC	MC
0	100	0	100	-	-	-	-
1	100	7	107	100	7	107	7
2	100	12	112	50	6	56	5
3	100	15	115	33.33	5	38.33	3
4	100	17	117	25	6.25	29.25	2
5	100	18	118	20	3.6	23.6	1
6	100	20	120	16.67	3.33	20	2
7	100	25	125	14.29	3.57	17.86	5
8	100	31	131	12.5	3.87	16.38	6

4. The MC curve passes through the minimum point of the AVC, and then as MC >AVC, average variable cost is increasing.

Unit 4
Market Structures

Periods Allotted: 8

Unit Introduction

In the previous unit, we have discussed the theory of production and cost. There, we studied concepts related to a firm's production function and cost curves. In this unit, we discuss the types and characteristics firm under different market models.

Unit Objectives

At the end of this unit, the teacher will enable students to:

- Explain the characteristics of the market structures.
- Analyze the nature of demand and revenue curves of a firm in each market.
- Make a list of the sources of monopoly.
- Calculate total, average, and marginal revenues.

4.1 Perfectly Competitive Markets

Periods Allotted: 2

Specific objectives

At the end of this section, the teacher will enable students to:

- Define a market that is completely competitive.
- Review the characteristics of a perfectly competitive market.
- Explain the nature of demand and revenue curves in a perfectly competitive market.
- Calculate total, average, and marginal revenues.

Teaching learning Process

1. Suggested Teaching Aids
    - Tables
    - Illustrations
    - Graphs and figures
2. Suggested Teaching Methods
    - Start-up Activity/brainstorm
    - Open-ended questioning
    - Group discussion
3. Pre-lesson Preparation
    - Identify and sort out the necessary materials and organize them
    - Read relevant reference material.
    - Design the most appropriate teaching methods that you think are relevant.
    - Decide the most appropriate means of assessment

4. Lesson Presentation

a) Introduction of the lesson

In economics markets are characterized based on the competition levels and the nature of these markets such as the nature of the products, the number of sellers, number of buyers, etc. Perfect competitive market is the market with large number of sellers and buyers.

b) Body of the lesson

Discuss in detail the features of perfect competitive market based on:

- The degree of competition.
- Type of product
- Demand curve

- Price, revenue and average revenue function.

c) Conclusion of the lesson

Conclude the lesson by revising the main ideas in the section.

5. Assessment and Follow-Up

a) Assessment

You may ask students the following question:

- Review the characteristics of the perfectly competitive market.

b) Follow-up

You may give activities under each sub-unit and give feedback after cheerfully visited what they have done.

4.2 Pure Monopoly Market

Periods Allotted: 2

Specific objectives

At the end of this section, the teacher will enable students to:

- Define pure monopoly market.
- Review the characteristics of the pure monopoly market.
- Describe the reasons for the existence of pure monopoly.
- Analyze the nature of demand and revenue curves of pure monopoly market.

Teaching learning Process

1. Suggested Teaching Aids
    - Tables
    - Illustrations
    - Graphs and figures
2. Suggested Teaching Methods
    - Start-up Activity/brainstorm
    - Open-ended questioning
    - Group discussion
3. Pre-lesson Preparation
    - Identify and sort out the necessary materials and organize them
    - Read relevant reference material.
    - Design the most appropriate teaching methods that you think are relevant.
    - Decide the most appropriate means of assessment
4. Lesson Presentation

a) Introduction of the lesson

The market in which an individual firm operates or sells its product (good or service) to consumers is categorized monopoly market. Monopoly market is dominated by one firm.

b) Body of the lesson

Discuss in detail the features monopoly market based on:

- The degree of competition
- Type of product
- Demand curve
- Price, revenue and average revenue function.

d) Conclusion of the lesson

Conclude the lesson by revising the main ideas in the section.

5. Assessment and Follow-Up

a) Assessment

You may ask students the following question:

- What are source of monopoly power?

b) Follow-up

You may give activities under each sub-unit and give feedback after cheerfully visited what they have done.

4.3 Monopolistically Competitive Market

Periods Allotted: 2

Specific objectives

At the end of this section, the teacher will enable students to:

- Define monopolistically competitive market
- Review the assumptions and characteristics of the monopolistically competitive market.
- Explain the nature of demand and revenue curves of monopolistically competitive market

Teaching learning Process

1. Suggested Teaching Aids
   - Tables
   - Illustrations
   - Graphs and figures
2. Suggested Teaching Methods
   - Start-up Activity/brainstorm
   - Open-ended questioning
   - Group discussion
3. Pre-lesson Preparation
   - Identify and sort out the necessary materials and organize them
   - Read relevant reference material.
   - Design the most appropriate teaching methods that you think are relevant.
   - Decide the most appropriate means of assessment
4. Lesson Presentation

a) Introduction of the lesson

In economics markets are characterized based on the competition levels and the nature of these markets such as the nature of the products, the number of sellers, number of buyers, etc. Monopolistic competition market is relatively large numbers of firms selling closely substitutable products

b) Body of the lesson

Discuss in detail the features of monopolistic competition market based on:

- The degree of competition

- Type of product
- Demand curve
- Price, revenue and average revenue function.

c) Conclusion of the lesson

Conclude the lesson by revising the main ideas in the section.

5. Assessment and Follow-Up

a) Assessment

You may ask students the following question:

- Discuss the nature of demand and revenue functions of monopolistic competitive market

b) Follow-up

You may give activities under each sub-unit and give feedback after cheerfully visited what they have done.

4.4 Oligopoly Market

Periods Allotted: 2

Specific objectives

At the end of this section, the teacher will enable students to:

- Define the oligopoly market perfectly.
- Review the characteristics of the oligopoly market.
- Explain the nature of demand and revenue functions of the oligopoly market.

Teaching learning Process

1. Suggested Teaching Aids
    - Tables
    - Illustrations
    - Graphs and figures
2. Suggested Teaching Methods
    - Start-up Activity/brainstorm
    - Open-ended questioning
    - Group discussion
3. Pre-lesson Preparation
    - Identify and sort out the necessary materials and organize them
    - Read relevant reference material.
    - Design the most appropriate teaching methods that you think are relevant.
    - Decide the most appropriate means of assessment
4. Lesson Presentation

a) Introduction of the lesson

Oligopoly market is which very few firms selling closely substitutable products.

b) Body of the lesson

Discuss in detail the features of oligopoly market based on:

- The degree of competition
- Type of product
- Demand curve
- Price, revenue and average revenue function.

c) Conclusion of the lesson

Conclude the lesson by revising the main ideas in the section.

5. Assessment and Follow-Up

a) Assessment

You may ask students the following question:

- Discuss the characteristics of the oligopoly market.

b) follow-up

You may give activities under each sub-unit and give feedback after cheerfully visited what they have done.

Answers to Activities

✎ Answer for Activity 4.1

1. Perfect competition describes a market in which no buyer or seller has market power or where all buyers and sellers are price takers. A perfectly competitive market is characterized by the fact that no single firm has influence on the price of the product it sells.
2. A perfectly competitive market has several distinguishing characteristics. The main features include:
    - Large number of buyers and sellers
    - Homogeneity of products
    - Free entry and exit
    - Perfect Mobility of Factors of Production
    - Perfect Information for Both Consumers and Producers
    - Firms Aim to Maximize Profit
    - Absence of Government Intervention
3. A competitive firm faces a completely horizontal demand curve for its product indicating that it can sell any amount of output only at the ongoing market price (P). In a perfectly competitive market, a firm's average revenue, marginal revenue and price of the product are equal, i.e. AR = MR = P = D_{firm}
4. Total revenue(TR)=P*Q

    => TR=Birr 200/kg *100kg=Birr 2000

    =>Marginal Revenue =Birr190/kg *1kg= Birr 190.

✎ Answer for Activity 4.2

1. Monopoly is a market structure in which there is only one supplier in the market (industry). A monopoly market structure requires that there is a single producer of a particular commodity; no other commodity works as a substitute for this commodity; and for this situation to persist over time, sufficient restrictions are required to be in place to prevent any other firm from entering the market and to start selling the commodity.
2. Pure monopoly exists when a single firm is the only producer of a product for which there are no close substitutes. The main characteristics of this market structure include:
    - Single seller and many buyers
    - No close substitutes:
    - Price maker
    - Price Discrimination
    - Restrictions on Entry
3. There are various reasons for the existence of monopoly and help the monopolists to maintain monopoly power. Some of these factors are the following.
    - Absence of close substitutes
    - Economies of scale
    - Ownership of strategic or key inputs
    - Patent rights for the products or production processes give legal monopoly rights to firms.
    - Government policies such as related to granting licences or imposing foreign trade restrictions (like quotas, etc.) result in limiting the number of sellers.
    - Exclusive (special) knowledge of low cost production or technology

✎ Possible answer for Activity 4.3

1. Monopolistic competition market refers a market structure where there are relatively large number of sellers and buyers, free entry and exit of firms, producing and selling differentiated (heterogeneous) product. A seller of a differentiated product has limited monopoly power over customers who prefer his/her product to others.
2. Monopolistic competition describes a market with the following characteristics.

- Product differentiation
- Many sellers and buyers
- Free Entry and Exit of Firms
- Existence of non-price competition

✎ Aanswer for Activity 4.4

1. Oligopoly is a market organization in which there are few firms that produce identical or closely substituted products (identical or differentiated). Oligopoly is said to exist when there are more than one seller in the market, but their number is not so large so as to make the contribution of each firm negligible.
2. Oligopoly market describes a market with the following characteristics:
   - Few dominant firms
   - Entry barrier
   - Products may be homogenous or differentiated.
3. Explain the nature of demand and revenue functions of the oligopoly market. As the result of product differentiation characteristic of oligopoly market, firms are price maker and each firm faces a downward-sloping demand curve. Like all other markets, the revenues of a firm in oligopoly are the receipts that it obtains from selling its products. AR curve of a firm is also the same as its demand curve. Thus, the firm has downward sloping AR curve.

Answers to Review Exercise

Part I

1. False 2. False 3. True 4. True 5. True

Part II

1. A 2. A 3. B 4. A 5. B

Part III

1. Some the distinguishing characteristics of a perfectly competitive and pure monopoly markets are:

Perfectly competitive market	Pure monopoly market
• Large number of sellers in the market • Price maker • Free entry and exit • Price taker	• Single seller • Restrictions on entry • No close substitute

2. There are various reasons for the existence of monopoly that help the monopolists to maintain monopoly power. These are:
    - Absence of close substitutes
    - Economies of scale
    - Ownership of strategic or key inputs
    - Patent rights for the products or production processes give legal monopoly rights to firms.
    - Government policies such as related to granting licences or imposing foreign trade restrictions (like quotas, etc.) result in limiting the number of sellers.
    - Exclusive (special) knowledge of low cost production or technology.
3. The factors that determine the amount of monopoly power of an individual firm:
    - Number of sellers in the market.
    - The degree of close substitute of the commodity.
    - Product differentiation.
    - The nature of market (the degree im/possibility of entry).

4. The three attributes of monopolistic competition are:
    i. Product differentiation
    ii. Many sellers and buyers
    iii. Free Entry and Exit of Firms.

Monopolistic competition has some features of competition and some features of monopoly. The market is competitive due to the existence of large number of firms and there is no barrier to entry or exit. Its monopoly features, results from differentiated products which give some power to be price maker.

Unit 5
Banking and Finance

Periods allotted: 10

Introduction

Banking and finance is about financial intermediaries and institutions. Financial institution is a broad concept and includes the banking, insurance and microfinances that operate in the economy. This institution gives us confidence in our daily transactions by using money. Thus, this unit is about the general description of the banking and the non-banking financial institutions. It also discusses the different technological advancements in the electronic banking areas.

Unit Objectives

At the end of this unit, the teacher will enable students to:

- Discuss about the different types of financial intermediaries.
- Analyze the role of indigenous financial institutions.
- Describe the historical development of the financial institutions (Banks, Microfinances and Indigenous institutions) in Ethiopia.
- Describe the financial institutions (Banks, Microfinances and Indigenous institutions).
- Identify financial institutions in Ethiopia (Banks, Microfinances and Indigenous institutions).
- Evaluate the roles of financial institutions for the socio-economic improvement of the society.

5.1 Introduction to Financial Intermediaries

Period Allotted: 1

Specific Objectives

At the end of this section, the teacher will enable students to:

- Define financial intermediation,
- List financial intermediaries.
- List the benefits of financial intermediaries.

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**

   a. Introduction to the lesson

Introduce this section by defining financial intermediation. This is a theoretical as well as practical lesson. Discuss about financial intermediaries and then relate it to the real-world issues around us. Banks, insurance companies and microfinance institutions are some examples of financial intermediaries. They save money for those who want to save and lend money for those who want to borrow.

b. Body of the lesson

Continue the discussion by asking the students to reflect on the question in the start up activity. It asks them about the benefits of banks. You may ask them whether they have bank accounts or not, whether they know someone who takes do business by borrowing money from banks, whether or not they have received or sent money through banks. Therefore, the benefits of banks include saving/depositing money, lending money,

transferring money, etc.

Then, by taking real examples of banks from around the community discuss what financial intermediation roles they play. They are formal financial institutions who deposit money for the depositors and lend money for the borrowers. You can make the students understand the banking system by making them visit banks in the town and report back to you that they have observed. Make them connected to the real world by telling them about bank accounts, sending and receiving money through banks, etc.

They earn or pay money for the services they provide. Every activity they provide has charges. There is a saving interest for the deposits which they pay for the depositors and lending interest for the money they lend.

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 5.1.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity.
Check and record their achievements.

5.2 Introduction to financial markets

Period Allotted: 1

Specific Objectives

At the end of this section, the teacher will enable students to:

- Describe financial markets,
- Identify components of financial markets.

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**
   a. Introduction to the lesson

Introduce the lesson by asking the students what market is? Market is a situation where buyers and sellers meet each other and make transactions. Like-wise, financial market is a situation where those who have finance and those who need finance come and transact. They are markets that provide channels for allocation of savings to investment. They provide a variety of assets to savers as well as various forms in which the investors can raise funds and thereby decouple the acts of saving and investment.

b. Body of the lesson

The financial markets have two major components:

- **Money market:** is a financial market where you can get treasury bills, commercial papers, negotiable certificates of deposit, repurchase agreements, and Bankers' acceptances.
- **Capital market**: is a financial market where long-term financial instruments

are issued by corporations and governments. Types of capital market products include equity and debt obligations.

Discuss the following additional terms so that students will understand financial markets: bank loans and debt securities. *Bank Loans*- a loan in which a group (or syndicate) of banks provides funds to the borrower. *Debt securities*: a *debt security with a maturity of at issuance of 10 years or less (Notes)*; *and those with a maturity greater than 10 years (Bonds).*

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 5.2.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity.
Check and record their achievements.

5.3 Introduction to Financial Institutions

Period Allotted: 1

Specific Objectives

At the end of this section, the teacher will enable students to:

- Describe the financial institutions
- Describe the banking system
- Elaborate the treasury bills
- Analyze the roles of banks and treasury bills

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**

a. Introduction to the lesson

Start this lesson by discussing institutions. Institutions are the rules and regulations governing the functioning of a system. Like-wise, financial institutions are the rules and regulations governing the operations of financial institutions.

b. Body of the lesson

There are *three* major types of financial institutions:

i. *Depositary Institutions:* Deposit-taking institutions that accept and manage deposits and make loans. Example: *banks and credit unions*.

ii. *Contractual Institutions:* Insurance companies and pension funds; and

iii. *Investment Institutes:* Investment Banks, underwriters, brokerage firms.

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 5.3.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity. Check and record their achievements.

5.4 Historical Development of banks in Ethiopia

Periods Allotted: 2

Specific Objectives

At the end of this section, the teacher will enable students to:

- Describe the historical development of banks in Ethiopia
- Identify the non-banking financial institutions in Ethiopia
- Explain the roles and functions of banks

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**
   a. Introduction to the lesson

This section is about the historical development of banks in Ethiopia. Therefore, make them understand the history of banks in Ethiopia. Tell them when banking was started and what happened to the number and types of banks in Ethiopia.

b. Body of the lesson

And then discuss about the three major groups of banks:

First is National bank of Ethiopia, just like other countries' national or central banks, control interest rates, manage the amount of credit available, and control the amount of money supply. National Bank of Ethiopia, on behalf of the government, controls and regulates the activities of the financial sector, the commercial banks, insurance companies and microfinance institutions.

Second groups are Commercial banks generate profit by depositing money, borrowing money from the national bank, and lending money to the public. National banks, however, are not profit-making banks, rather they control the overall financial sector in the country. The objective of controlling the financial sector is to bring price stability or control inflation.

Third group is the development bank of Ethiopia (DBE) is one of the financial institutions engaged in providing short, medium and long term development credits/loans. It has a "project" based lending tradition. Project financed by the Bank are carefully selected and prepared through appraised, closely supervised and systematically evaluated.

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 5.4.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity.

Check and record their achievements.

5.5 Micro-finance institutions

Periods Allotted: 2

Specific Objectives

At the end of this section, the teacher will enable students to:

- Explain micro-financing
- List microfinances in their locality
- Analyze microcredit, clients and mention features of moneylenders.

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**

   a. Introduction to the lesson

Start this lesson by asking students whether the banks can give loan to a poor woman selling fruits on the road side. Microfinance is a financial innovation by Mohamed Yunus to help the poor get credit who otherwise were left out because they don't have the necessary collateral in the banks.

   b. Body of the lesson

And then teach students the group lending mechanism used by these microfinance institutions. In a group lending mechanism, the probability of default is reduced. This is because, if one member of the group fails to pay the loan back, the remaining will take care of the loan. Thus, the collateral in the microfinance institutions is the group members. In such a way, it solves the credit problem of the active poor and make them productive.

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 5.5.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity. Check and record their achievements.

5.6 Electronic Banking (e-banking)

Periods Allotted: 1

Specific Objectives

At the end of this section, the teacher will enable students to:

- Describe the role of technological innovations in the banking service sector,
- Examine how e-banking has increased the convenience of transactions

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**

   a. Introduction to the lesson

Introduce the lesson by discussing that technology in all sectors of the economy is changing faster than ever and the banking/financial sector is not an exception. Banking and money management became increasingly more electronic these days. And give them some examples of financial innovations in the area of banking like the ATM.

b. Body of the lesson

Electronic banking, which is also known as electronic fund transfer (EFT), refers to the transfer of funds from one account to another through electronic methods. Mobile phone payment is one good example for this electronic banking. A study in United States of America (USA) found out that more than twenty (20) percent of mobile phone owners used mobile phone payment methods to facilitate transactions or payment for services.

Discuss the following three key aspects of electronic banking:

- Automated Teller Machines (ATMs),
- Direct deposits and
- Debit card purchases.

Please add more electronic banking system from what you have encountered. Make the students associate the study with their practical day to day business and financial life. It should not be their own, but their families or relatives' financial lives can be considered.

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 5.6.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity.

Check and record their achievements.

5.7 Indigenous financial institutions

Periods Allotted: 2

Specific Objectives:

At the end of this section, the teacher will enable students to:

- Distinguish the difference between different types of indigenous financial institutions in Ethiopia,
- Examine the role of indigenous financial institutions on the improvement of the livelihoods of the community

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**
   a. Introduction to the lesson

Introduce the lesson by discussing the Ethiopian traditional indigenous financial system known as *'iqqub' and 'idir/mahiber and others from your locality*. 'Iqub' is a traditional money saving mechanism in which people save some amount of money depending on their income. This ranges from 100 birr to 10, 000 birr or beyond based on the capability of the members in that "Iqqub". While most employees do this on a monthly basis, business people also save on either a weekly or even daily basis. The Iqub money is used mostly in social occasions such as *weddings, funerals, sickness*, and also to finish some unfinished activities like building/constructing a house, etc. and it circulates among members regularly until all the members get their part of the saving. (6).

'Iddir' on the other hand is a traditional money saving mechanism mostly for emergencies like funeral and associated services. Membership is mostly based on locality and the contributions are monthly. It is based on the wisdom that, death to the family member is sure to come one day. Until that, the member will contribute some amount of money every month in "iddirs". The Iddirs will give the member some amount of money so that he will undertake the necessaries.

b. Body of the lesson

Please discuss in some detail the requirements for becoming members of the above and other traditional/indigenous financial institutions.

Membership in the "iqqub" is based on *pre-established social ties*. It consists of *homogeneous groups*: people from the *same work place*, *same ethnic background*, *same trade* or business activity, *schooling background* or *neighborhood*.

Membership in the 'Iddir" is basically on being neighbors and following the same religion.

Please also compare these indigenous financial institutions with the formal modern financial institutions. For instance, most people prefer the 'Iqqub' because of the following reasons:

- The strengthening of the ties of solidarity and friendship in the group,
- The forced savings of a contractual nature,
- The flexibility and adaptability of the *"iqqub"* to various situations and needs,
- The low risk of default,
- The low or practically non-existent costs of administration and transactions,
- The absence of minimum investment threshold,
- Tendency to gamble and the consequent attraction which the lottery holds for them,

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 5.7.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity.

Check and record their achievements.

Answers to Activities

The following are possible answers to the activities in unit Five.

✎ Activity 5.1

1. *Financial intermediaries* are individuals (money lenders) or institutions (banks, microfinance institutions) who lend money to those in need. To get the loan/saving services one should register at the financial institutions and fulfill the lenders/savers criteria.
   a. This process of saving and lending money is called *financial intermediation*.
2. *Examples* of financial intermediaries include friends/relatives, banks, microfinance institutions, iqubbs and iddirs, etc.
   Dear Teacher, you can also make them list the real examples from their locality.
   For instance, make them mention names of banks, names of microfinances, names of iddirs, names of iqqubs, etc. that they know from their locality. You can give them as Home Work, and make them discuss their answers in class.

✎ Activity 5.2

1. Financial markets are places or situations where financial instruments/assets are traded.
2. Components of financial markets are: Money markets & Capital markets
3. *Examples include: Money markets-* short-term Treasuries (e.g., T-bills), certificates of deposit (CDs), commercial paper, repurchase agreements (repos), and money market mutual funds; Capital Markets- the New York Stock Exchange, American Stock Exchange, London Stock Exchange, and NASDAQ.

✎ Activity 5.3

1. *Definition:* Financial institutions (FIs) are a companies engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange.
2. *Components of financial institutions/system:* Five Basic Components of Financial System- 1. Financial Institutions, 2. Financial Markets, 3. Financial Instruments (Assets or Securities), 4. Financial Services and 5. Money.
3. *Roles of banks in Society: Banks operate by borrowing funds-usually by accepting deposits or by borrowing in the money markets. ... Through the process of taking deposits, making loans, and responding to interest rate signals, the banking system helps channel funds from savers to borrowers in*

an efficient manner.

Definition: T-bills - issued with short term maturities (in Ethiopia we have 1-month, three-month, six month and twelve-month maturity periods). They offer investors the lowest yield of all government bond issues. Similar to zero- coupon bonds, T-bills are auctioned off to investors at a discount to par.

✎ *Activity 5.4*

1. After learning the sections about the historical development, each should tell the other a story of at least one bank. Please facilitate this.
2. More funds will be available for lending and investment.
3. Major functions of the following banks:
   a. NBE: over all supervision of the banking sector and money supply.
   b. CBE: taking deposits and providing loans.
   c. DBE: provide loan for development projects.

✎ Activity 5.5

1. Basic reason for the existence of microfinances is that the active poor lack collateral requirement of the formal banks for their loan requirements.
2. Let them discuss whatever they think is reason and make them understand #1.
3. Activities of microfinances – they give saving and credit services to the active poor in the town. To do this, they use group lending as a collateral.
4. Make them discuss whatever activity they think microfinances are doing (having some microfinances from their locality in mind).

✎ Activity 5.6

- e- banking (mobile banking) saves lots of time and energy for doing the financial intermediation of the formal banks (going in person).
- Transferring money to other people, checking money balances on our bank accounts, making payments, etc.

✎ Activity 5.7

1. Benefits of indigenous financial institutions include saving, insurance and credit facilities.
2. Let them list all the benefits they know of the indigenous financial institutions, guide them to think of the iqqubs, iddirs and SACCos they know in their area.

Answers for the Review Exercises

Part I. True/False

1. True 2. True 3. True 4. False

Part II. Choose the best answer from the given alternatives

1. D
2. B
3. C
4. C

Part III. Fill in the blank spaces for each of the following with appropriate words

1. Iqqubs & Iddirs
2. ATMS, Direct Deposits, Debit/Credit card and Mobile banking
3. Deposits/Loans
4. Monetary and Banking Proclamation No. 83/1994 /1994.

Unit 6
Economic Growth

Periods Allotted: 9

Introduction

This unit requires the teacher to cover all the portions in the unit about economic growth. The basic reason for the different living conditions among countries of the world is their differences in economic growth. A difference in economic growth is because of differences in natural resources and their efficiency. Differences in natural resource capacity among countries is because of their natural endowment or locational advantage on the surface of the earth. Differences in efficiencies or productivities of the factors of production are because of education, innovation, skill development, work culture, saving culture, etc.

"Poverty is not a curse and prosperity is not a blessing, economic growth is possible for a committed government with good institutions allocating the factors of production efficiently and effectively!"

Thus, in this unit students will learn what economic growth is, factors contributing towards economic growth, difference between economic growth and development, etc.

Unit Objectives

After completing this unit, the teacher will enable students to:

- Identify the major sources of economic growth.
- Explain the different phases of business cycles.
- Discuss about alternative ways of measuring economic growth

6.1 Macroeconomic Variables

Periods Allotted: 2

Specific Objectives

At the end of this section, the teacher will enable students to:

- Identify the basic macroeconomic variables,
- Evaluate the desirable and the non-desirable magnitudes of these macroeconomic variables

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**

   a. Introduction to the lesson

Introduce the lesson by differentiating between the macroeconomics and the microeconomics branches of the discipline of economics. Economics is all about making prioritization decisions because of the limited resources we have and the unlimited wants we have. Decisions made at individual decision maker's level; the analysis will be categorized under *microeconomics.* Decisions made at a country level, and the analysis will be categorized under *macroeconomics.*

b. Body of the lesson

Individual decision-making units in economics include individual consumer (buyer) and individual producer (seller) in the economy. Consumers try to maximize their satisfaction from the goods and services they consume. Producers try to maximize

their profit from selling the goods and services. Thus, *microeconomics* gives a good analysis of how much the consumer should consume (buy) with the available budget. Similarly, the producer decides on the quantity of input used in the production process to maximize profit from the goods and services produced with the limited factors of production available. This is known in economics as optimization.

Please discuss the following major macroeconomic variables in economics: the *Current Account Balance, Inflation, Economic Growth and Unemployment*. On the other hand, the major macroeconomic goals pursued by governments of countries are; *improved current account balance; stable prices; increased economic growth; and reduced unemployment.*

You can also add other macroeconomic variables from references or what you know from previous academic exposures.

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 6.1.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity. Check and record their achievements.

6.2 Definition and Measurement of Economic Growth

Period Allotted: 1

Specific Objectives

At the end of this section, the teacher will enable students to:

- Define economic growth
- Measure economic growth
- Differentiate between economic growth and economic development

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**

   a. Introduction to the lesson

Introduce the lesson by discussing about the fact that pursuing better economic growth is one of the macroeconomic goals of the government of countries. Also differentiate between economic growth and economic development. Economic growth is the increase in the REAL GDP of a country whereas economic development refers to the sustainable over all improvement in the livelihoods of the citizens of the country. It includes among other things decrease in income inequality, provision of health and education services for those who need them.

b. Body of the lesson

Discuss the measurement/indicators of economic growth and other related topics as well in the body. Economic growth comes when *resources are recreated*, *reorganized* and *reallocated in a more efficient manner*. Technological improvement brings

economic growth since it increases productivity. Imagine using tractors rather than oxen for farming. Tractors can do far more than do the oxen within a short period of time. The others are the factors of production; increases in the factors of production like land, labor and capital bring economic growth.

Economic growth is characterized by supply of more as well as better goods and services on a sustainable basis with minimum harmful byproducts. Higher growth rate of the GDP (economic growth) is taken as ***basic*** *for improving living standard, alleviating poverty, creating more employment opportunities and greater social security.*

The *level of real GDP is a good indicator of economic prosperity*, and *the growth of real GDP is a good indicator of economic progress*. (9). Growth rate measures how rapidly real GDP per person grew in the typical year.

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 6.2.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity.

Check and record their achievements.

6.3 Sources of Economic Growth

Periods Allotted: 2

Specific Objectives

At the end of this section, the teacher will enable students to:

- Identify the various sources (reasons) of economic growth
- Explain why some countries are poor and others are rich

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**
   a. Introduction to the lesson

Introduce this lesson by discussing the differences in living standards of countries in the world. In the world, there is tremendous variation in the standard of living. In richer countries' (such as; the United States, Japan, or Germany) average income, is more than ten times the average income of poor countries (such as India, Indonesia, or Nigeria). These large differences in income lead to large differences in the quality of life. People in richer countries have *better nutrition, safer housing, better healthcare, and longer life expectancy* as well as *more automobiles, more telephones, and more televisions*.

In different countries, economic growth rates are substantially different. Recently, some East Asian countries, such as Singapore, South Korea, and Taiwan, have achieved economic growth of about seven percent (7%) per year. At this rate, their average

income doubles every ten (10) years. Even more recently, China has enjoyed an even higher rate of growth—about twelve percent (12%) per year. *A country experiencing such rapid growth can, in one generation, go from being among the poorest in the world to being among the richest*.

b. Body of the lesson

Discuss some of the reasons why the poor countries are left behind and other related topics. The key distinctive feature that sets apart rich from poor countries is their respective productive structures and the specific characteristics of the products that they export. These, in turn, depend on the capabilities that firms possess. Development in this paradigm is a process of accumulating capabilities, generating new activities and letting others disappear. The primary driver of growth is the gradual build-up in firms' capabilities, which raises the economy-wide real wage. (10).

The poor countries couldn't catch up with the rich counties as theorized by the early neoclassicals. The neoclassical theory predicted that poor countries would grow faster than wealthy countries, because of technological advances and diminishing returns to capital in the latter. However, the reverse has occurred: poor countries are falling back rather than catching up. Kefer and Knack suggested that deficient institutions in the poor countries is the reason for falling back rather than catching up. The indicators for deficient institutions in the poor countries include lack of institutional quality, including the rule of law, the pervasiveness of corruption, and the risk of expropriation and contract repudiation. They argued that the ability of poor countries to catch up is determined in large part by the institutional environment in which economic activity in these countries takes place. (11).

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 6.3.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity.
Check and record their achievements.

6.4 Weaknesses of Using Economic Growth (Based on GDP Per Capita)

Periods Allotted: 2

Specific Objectives

At the end of this section, the teacher will enable students to:

- Calculate and evaluate the economic growth of Ethiopia over the past five years
- Identify the weaknesses of GDP per capita based Economics growth calculation.

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**
   a. Introduction to the lesson

Introduce the lesson by discussing about the gross domestic product [GDP] as a measure of the performance of an economy's production capacity. GDP measures the measures the monetary value of all final goods and services produced with in the territory of the country with in a given year. It can be measured by using three approaches: the income approach, the expenditure approach and the product/value added approach.

b. Body of the lesson

Discuss that almost all countries of the world use GDP per capita as a measure of their production capacity per citizen of their countries. Nevertheless, GDP has some limitations that hinder it from depicting the true production capacity/performance of a country. Some of the reasons include:

- I***t excludes the value of almost all activity that takes place outside markets.***

C*hild care by parents at home is not considered as part of GDP because it is not paid.*

Volunteer work also contributes to the well-being of those in society, but GDP does not reflect these contributions.

- GDP also excludes *the effect on the quality of the environment of mass productions*. The deterioration in the quality of air and water of these mass productions would more than offset the gains from greater production.
- GDP also excludes the *issue of income distribution/ income inequality*. GDP per capita tells us what happens to the average person, but behind the average lies a large variety of personal experiences. (9).
- GDP also excludes those transactions that take place in Black markets. Their transactions are valuable to the society's well-being but since they are illegal, they will not be counted in the GDP.

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 6.4.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity. Check and record their achievements.

6.5 The Business Cycle and Its Phases

Periods Allotted: 2

Specific Objectives

At the end of this section, the teacher will enable students to:

- Describe the business cycle
- Explain the ups and downs in the business cycle

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**

   a. Introduction to the lesson

Introduce the lesson by defining the business cycle and showing the phases of it. Business cycle id the irregular ups and downs movement of the real GDP around the trend path/ the potential full employment real GDP level. It some times moves up to the extent of the PEAK, this is when the economy is said to have over-heated. It also moves down to the level known as TROUGH.

b. Body of the lesson

Discus the phases of the business cycle explaining the reasons why they happen.

i. ***Prosperity or boom or peak***: is a phase of economic activity characterized by rising demand, rising prices, rising investment, rising employment, rising incomes, rising purchasing power and hence rising demand and so on. The investors, therefore, voluntarily undertake risks

and go in for investment. These further fuels boom conditions through the working of the multiplier effect.

ii. ***Recession:*** during the boom period, the economy may get over- heated and the monetary authorities, the financial institutions and the business itself may begin to play cautious. There may be cuts in investment, resulting in cuts in employment, fall in incomes, decline in purchasing power and demand. Prices may begin to fall.

iii. ***Depression or slump or trough:*** if the effective corrective measures cannot be undertaken, the economy may find itself go into depression. It is a stage when the business confidence is at its lowest. Investment, employment, output, income and prices touch the bottom.

iv. ***Recovery or expansion:*** as the economy moves out of depression, it enters the phase of recovery. Sustained recovery will find the level of investment, employment, output, income and prices moving upwards. This may finally result in boom conditions in the economy.

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 6.5.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity. Check and record their achievements.

Answers to Activities

The following are possible answers to the activities in unit Six.

✎ Activity 6.1

- Sources of economic growth- increase in raw materials (inputs) and technological progress. Besides, good weather conditions (rainfall) are factors for economic growth in developing countries.
- Poor countries export cheap primary agricultural products and import heavy machineries which are very much expensive. Thus, low export – high import = deficit in current account.

✎ Activity 6.2

1. Economic growth is when Real Gross Domestic Product (RGDP) increases in the short run, whereas it refers to a sustained increase in per capita income and associated structural changes in the economy, in the long run.
2. According to the data for 2019, 2020 and 2021 (Gregorian Calendars), economic growth of Ethiopia was calculated in the following table: the currency is in USD. This is only for exercise purpose!

2019	Real GDP	95.91 billion	2021	Real GDP	110.00 billion
	Population	110 million		Population	110 million
	GDP per capita	871.91		GDP per capita	1000
	Economic growth	We need 2018 data!		Economic growth	14% ??
2020	Real GDP	96.61 billion			
	Population	110 million			
	GDP per capita	878.27			
	Economic Growth	878-872= 0.007% ??			

3. **Economic growth** is an increase in the real gross domestic product per capita (Real GDP per Capita) over time. **Economic development** is economic growth coupled with infrastructural, institutional and other growths for a long period of time. Increase in health facilities and decrease in income inequality are among the indicators of economic development.

✎ *Activity 6.3*

1. Done in previous activity! #1
2. Our country has large number of population and good natural resources (land, forestry, livestock, water, fish, etc.). But we have poor technology and poor institutional set up leading to poor infrastructure and high corruption. That is why our country has different (low) living standard than the neighboring country (Kenya).
3. Various ways of categorizing the world countries- 1. Level of income: Low-, Middle-, and high-income countries; 2. Level of development: Developed and least developed; etc.

✎ *Activity 6.4*

1. Ethiopia's economy experienced strong, broad-based growth averaging 9.4% a year from 2010/11 to 2019/20, Ethiopia's real gross domestic product (GDP) growth slowed down to 6.1% in 2019/20 due to COVID-19 (coronavirus pandemic. Industry, mainly construction, and services accounted for most of the growth. Agriculture was not affected by the COVID-19 pandemic and its contribution to growth slightly improved in 2019/20 compared to the previous year. Private consumption and public investment explain demand-side growth, the latter assuming an increasingly important role.
2. True. Ethiopia is also one of the poorest countries, with a per capita income of $850. It aims to reach lower-middle-income status by 2025. Per capita GDP divides RGDP by Total population, implying that all income of the country is divided by all the population resulting in over estimation in our country's case.

✎ **Activity 6.5**

1. The trend line in business cycle diagram is the full employment level of production.
2. Real GDP growth is indicated by the actual line (cycle) fluctuating around the Trend Line.

Answers for the Review Exercises

Part I. True/False

1. True
2. False
3. False
4. False

Part II. Multiple Choice Questions

1. D
2. B
3. B
4. D

Part III. Fill in the blank spaces with appropriate words for the following questions

1. market/final/in the country/current
2. Export value/Import value
3. 49/33/15/Haiti
4. Peak/Trough

Unit 7
The Ethiopian Economy

Periods Allotted: 8

Introduction

This unit is about the Ethiopian economy. The economic history of Ethiopia moves from feudal agricultural economic system during the Hailesellassie (1931-1974) to the developmental state economic system of the FDRE (1991-2021). Thus, in this unit students will learn a lot about the past and present economic history of the country. Emphasis will be made to the different regimes for the past many years, the dominant economic sectors of the country and a lot of other issues.

Unit Objectives

At the end of this unit, the teacher will enable students to:

- Examine the macroeconomic performance of Ethiopia.
- Analyze the role and performance of each sector in economic growth.
- Write a brief report on Ethiopian Economy

7.1 Components of the Gross Domestic Product (GDP)

Periods Allotted: 1

Specific Objectives

At the end of this section, the teacher will enable students to:

- Describe the major components of the macro economy (GDP).
- Mention the most common consumption expenditures in your family

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**

   a. Introduction to the lesson

Introduce the lesson by discussing the components of the gross domestic product GDP. These are households' consumption expenditure (C), business firms' investment expenditure (I), governments expenditure (G), and foreign purchases expenditure net of imports (Nx).

b. Body of the lesson

Discuss the above mentioned components of GDP in detail and make the students associate them with what they know from their surroundings.

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 7.1.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity. Check and record their achievements.

7.2 Real GDP Vs Nominal GDP

Periods Allotted: 1

Specific Objectives

At the end of this section, the teacher will enable students to:

- Differentiate between nominal GDP and Real GDP
- Calculate the GDP deflator

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**

   a. Introduction to the lesson

Introduce the lesson by differentiating between Nominal and Real GDPs. Both are the monetary values of final goods and services produced but the latter takes one base year price. This is to control for the effect of increase in prices.

   b. Body of the lesson

GDP measures the *total spending* on goods and services *in all markets in the economy*. If total spending rises from one year to the next, at least one of two things must be true: Either,

1. *The economy is producing a larger output of goods and services*, or
2. *Goods and services are being sold at higher prices*.

When studying changes in the economy over time, economists want to separate *these two effects*. In particular, they want a measure of the *total quantity of goods and*

services the economy is producing *that is not affected by changes in the prices of those goods and services*.

To do this, economists use a measure called ***real GDP***. Real GDP answers a hypothetical question: *What would be the value of the goods and services produced this year if we valued these goods and services* ***at the prices that prevailed in some specific year in the past***?

- By evaluating current production using prices that are fixed at past levels, real GDP shows how the economy's overall production of goods and services changes over time.

To obtain a measure of the amount produced *that is not affected by changes in prices*, we use real GDP, which is *the production of goods and services valued at constant prices*. We calculate real GDP by;

1 First designating one year as a base year
2 Then use the prices of goods and services in the base year to compute the value of goods and services ***in all the years***.

In other words, the prices in the base year provide the basis for comparing quantities in different years.

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 7.2.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity. Check and record their achievements.

7.3 The Agricultural Sector in the Ethiopian Economy

Periods Allotted: 2

Specfic Objectivies

At the end of this section, the teacher will enable students to:

- Describe the main sectors of the Ethiopian Economy
- Examine the forward and backward linkages of the agricultural sector;
- Assess the role of the agricultural sector in Gross Domestic Product and in the creation of employment.
- Analyze the structure of the agricultural sector of Ethiopia,

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**

   a. Introduction to the lesson

Introduce the lesson by discussing about the agricultural sector of the Ethiopian economy. It is the backbone of the Ethiopian economy as it contributes huge share of GDP, almost all the exports come from this sector, almost all the employment is in this sector, etc.

b. Body of the lesson

Agriculture contributes about 45% of the overall GDP of the country; generates more than 80% of export earnings; employs about 85% of the population; and supplies about 70% of raw materials to the secondary activities (Central Statistics Office, 2006). The agricultural sector produces both crops and livestock. The crops produced include

food crops, cash crops, fruits, and vegetables. It constitutes the greatest share of the country's GDP and export earnings when compared to the livestock production. (14).

Major Problems of the Sector:

- Frequent drought,
- Soil degradation largely caused by overgrazing and overpopulation,
- Land fragmentation,
- Prevalence of backward agricultural practices,
- Poor marketing facilities due to poor road networks, etc.
- Rapidly increasing prices of agricultural inputs like fertilizers etc.

Also discuss the roles and other aspects of the agricultural sector of the country. Make the students associate their classroom discussions with their objective realities.

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 7.3.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity. Check and record their achievements.

7.4 The Industrial Sector in the Ethiopian Economy

Periods Allotted: 1

Specific Objectives

At the end of this section, the teacher will enable students to:

- Describe the industrial sector of Ethiopia,
- Examine the role of the industrial sector to the economy of Ethiopia

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**
   a. Introduction to the lesson

Introduce the lesson by emphasizing the fact that the industrial sector produces highly valuable products. That will increase the earning from exports.

b. Body of the lesson

The Ethiopian industrial sector has been small compared to the agricultural and service sectors. This could be due to the short history of industrialization in the country. Its growth was modest, not exceeding 6.7 percent for the last four decades except during the years from 1997/98 to 2009/2010. (14).

The industrial sector is dominated by three sub-sectors: manufacturing (38%), construction (25%), and electric and water supply (18%). The remaining sub- sectors, electricity, mining and quarrying, etc., constitute the remaining 19%.

Major Problems in the Sector;

- Low industrial base
- Low productivity level
- Underutilization of capacity
- Shortages of foreign exchange, new investment, raw materials and spare parts
- Very low level of technology/high dependence on imported technology
- Low-level skills and management

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 7.4.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity. Check and record their achievements.

7.5 The Service Sector in the Ethiopian Economy

Periods Allotted: 1

Specific Objectives

At the of this section, the teacher will enable students to:

- Describe the service sector of Ethiopia
- Evaluate the role of the service sector to the economy of Ethiopia

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**

a. Introduction to the lesson

Introduce the lesson by discussing what the service sector is. The services sector is the sector that gives you services not goods. You get the service you want and pay the price. Health is a service provided by health professionals, education is a service provided by schools and tourism is a service provided by the tour guides.

b. Body of the lesson

The service sector is composed of various sub-sectors that range from wholesale and retail trade, to restaurants and to education and health service provision. More specifically, the service sector includes:

- wholesale and retail trade,
- hotels and restaurants,
- transport and communication,

- banking and insurance,
- public administration and defense,
- education,
- Health, domestic and other services.

Main Features of the Sector:

- The sector's share in GDP was 45.1% during 2008/09.
- A relatively small percentage of population (about 10%) has been engaged in the services sector.
- The large contribution of the sector to the GDP comes mostly from government employment.
- Significant achievements have been made in areas of health, trade, tourism, banking and insurance in the past few years.
- Growth Performance: The growth in the services sector has been significant following the reform carried out in the early 1990s. Consequently, its growth rate and hence its share in GDP has progressively increased during the last two decades.

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 7.5.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity. Check and record their achievements.

7.6 Agriculture versus Industrial Development

Periods Allotted: 2

Specific Objectives

At the end of this section, the teacher will enable students to:

- Differentiate between agricultural development and Industrial development strategies.
- Evaluate the Agricultural Development Led Industrialization (ADLI) of Ethiopia.

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**

a. Introduction to the lesson

Introduce the lesson by showing the clear demarcation between industrial and agricultural development strategies. The former focusses on the development of the agricultural sector forgetting the other sectors, while the latter focusses primarily on the industrial sector for the development of a nation.

b. Body of the lesson

Different views or paradigms have been adapted for the development of a country. The role of agriculture in economic development has been considered as largely passive and supportive or secondary. In the Western economies, the industrial sector was given priority, based on the assumption that it has the largest potential to adopt technology and to create forward and backward linkages with the other sectors.

However, the desirability of placing such heavy priority on industrial growth is questionable for most developing countries like Ethiopia. Since the 1970s, development economists have come to realize that the agricultural sector needs to be viewed as a leading and dynamic sector. They further state that, without the development of the agricultural sector, the growth of the industrial sector will become weak. Hence, the agricultural sector has to be the leading sector, and this is the approach of the current Ethiopian strategy of development, ADLI.

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 7.6.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity. Check and record their achievements.

Answers to Activities

The following are possible answers to the activities in unit Seven.

✎. ***Activity 7.1***

1. Consumption (C) includes all the household expenditures except expenditure on building a house. Expenditure on foods, clothing, schooling, etc. make them list as much as they can!! Investment (I) includes firms' expenditure on their production of goods and services; payment for workers, rents, warehouse, etc. Government Expenditure (G) includes all the payments by the government (federal as well as regional) on their day-to-day activities. Exports (X) include all the goods and services sold outside while Imports (M) includes all the goods and services purchased from outside.

✎ *Activity 7.2*

Let the students fill the following table by collecting data from real goods and services in their locality, just to make them exercise the concept.

	Prices and Quantities				
Year	Price of the commodity 1 in Birr	Quantity of the commodity 1 in Units	Price of Commodity 2 in Birr	Quantity of Commodity 2 in Units	Total
2021	*150*	*100*	*250*	*50*	Example data
2015					
2014					
2013					
	Calculating Nominal GDP				
2021	*150*100= 15,000*		*250*50= 12,500*		*27,500*
2015					
2014					
2013					
	Calculating Real GDP (base year 2021)				
2021	150*100= 15,000		250*50= 12,500		27,500
2015					
2014					
2013					
	Calculating the GDP Deflator				
2021	(27,500/27,500) *100= 100				GDP Deflator= (NGDP/ RGDP) *100
2015					
2014					
2013					

✎ Activity 7.3

1. Ethiopian agriculture is characterized by land fragmentation. Farmers own small sized farmland (around 0.5 ha) on which they cultivate rain-fed crops waiting for the good rainy season. It is a subsistence farming. Please teacher, customize this with their locality (all year rain areas where cultivating almost three times a year is possible, dry areas where livestock rearing is possible, irrigation areas where cultivating for market is possible, etc.)
2. Agriculture is the source of their food, agriculture is where they get employment, agriculture is where they get additional income by selling their surplus crops, etc.

✎ Activity 7.4

- Cement from cement factories, sugar from sugar factories, clothes from textile industries, etc.

  Cement factories in Ethiopia include Mugher cement factory, Dangote cement factory, Mosobo cement factory, Capital Cement Factory, Habesha Cement factory, etc.

  Sugar factories include Finche'a Sugar, Metehara Sugar, Wenji Shoa sugar, Omo Kuraz Sugar factory I, II & III, Kessem Sugar Factory, Arji Dediessa Sugar Factory, Tendaho Sugar Factory, Tana Beles Sugar Factory, etc factories.

  Textile industries include Adam Spinning Factory, Edget Yarn Sewing Thread Sh.Co, Alemgena Textile P.L.C, Al-Star Industries P.L.C, Ethiopian Sewing Thread Factory S.C, Almeda Textile P.L.C, Awassa Textile S.C, Arbaminch Textile S.C, Ayka Addis Textile & Investment Group, Bahirdar Textile S.C, Bekimar Industry P.L.C (Desta Garment), Debre Berhan Blanket Factory PlC, DH Geda Blanket Factory PLC, etc.
- Roles (benefits) of the industrial sector include out puts or products, employment opportunity and foreign exchange earnings, etc.

✎ Activity 7.5

- List out the services that you know from your area provided by the service sector
  - Health service by clinics, health centers and hospitals
  - Education service provided by schools, colleges and universities
  - Entertainment services provided by hotels, tour guides, etc
- In a group of four students evaluate the roles of the service sector to the economy of Ethiopia
  - The share of service sector out of GDP is the highest followed by agriculture and manufacturing industries. Therefore, the service sector role is very much significant in the Economy of Ethiopia.

✎ Activity 7.6

1. Let them debate and the teacher should chair their debate. Whether agriculture or industry depends on what resources you have in abundance. Agriculture requires agricultural resources endowment whereas industry requires heavy machinery and high technology.
2. ADLI is not a success, that is why we proceeded to Industrial parks development without agriculture developing!!

Answers for the Review Exercises

Part I. True/False

1. False
2. False
3. False
4. False

Part II. Choose the best answer from the given alternatives.

1. A
2. C

Unit 8
Business Startups and Innovation

Periods Allotted: 6

Introduction

One of the factors behind the economic growth differences of countries is their passion for invention, innovation and business startups. Thus, in this unit students will learn about innovation and businesses. Innovation is the creation and implementation of new things, methods of production, etc. Business startups are businesses coming out of creativity, the profit return of startups may take long time before enjoyed. Student should critically ask themselves why countries are different in their creativity. Countries and also some companies have their own research and development budgets that will enable them create new ways of life.

Unit Objectives

At the end of this unit, the teacher will enable students to:

- Define innovation
- Analyze innovation and its determinants
- Explain the main components of a business plan
- Distinguish among different businesses organizations
- Review a business plan

8.1 Innovation

Period Allotted: 1

Specific Objectives

At the end of this section, the teacher will enable students to:

- Describe innovation
- Mention the types of innovation

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**

   a. Introduction to the lesson

Introduce the lesson by defining innovation and relating it with business startups. Innovation is the combination of creativity and implementation of new product, new ideas, or new techniques. The creation of new things is the first step in the process of innovation. If the new idea or product is marketed/implemented, then we call that innovation.

b. Body of the lesson

According to the 4th and most recent edition (2018) of the Oslo Manual, there are four main types of innovation:

i. **Organizational Innovation**

Organizational innovation refers to the development of a new organizational strategy

that will somehow change a company's business practices, as well as the way its workplace is organized and its relationship with external stakeholders.

ii. **Process Innovation**

Process innovation is about implementing a new or improved production or delivery approach, including changes in operational methods, the techniques used and the equipment or software.

iii. **Product Innovation**

Product innovation is the introduction of a new or improved good or service. These inventions or changes may have to do with improving technical specifications, the materials or the software used or even advancing on UX (user experience). However, product innovations don't need to improve all functions or performance specifications. An improvement to or addition of a new function can also be merged with a loss of other functions or the downgrade of some other specifications.

Moreover, a product innovation must add available to potential users but doesn't necessarily need to generate sales. Because if it did, then innovations with low demand or, for instance, digital products like apps that are free would be excluded. At the same time, routine changes or updates aren't considered product innovations as they are only correcting errors or making some seasonal changes.

iv. **Marketing Innovation**

Marketing innovation means developing a new marketing strategy that produces changes in, for instance, the way a product is designed or packed, or even other decisions regarding price or promotion.

v. **Eco Innovation**

Eco-innovation is an innovation resulting in significant progress towards the 2030 goals sustainable development established by the UN. In practice, it means reducing the impacts of our production modes on the environment, improving nature's resilience to environmental stresses, or achieving a larger efficient and responsible use of natural resources.

In this way, we can say eco-innovation may create value in two different areas. First, from a sustainable development perspective, as it promotes sustainability throughout a product's entire life cycle, it helps to address challenges such as climate change, resource scarcity, and biodiversity. Second, it can also boost a company's performance and competitiveness. By embracing new and greener processes, technologies and

services, eco-innovation can help organizations access new markets, increase productivity and profitability across the value chain, strengthen their reputation or attract new investors.

Please discus more on examples of each type of innovation mentioned above from the text book. Make the students associate the lesson with innovations, inventions, and business startups around them.

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 8.1.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity.
Check and record their achievements.

8.2 Business Startups

Period Allotted: 1

Specific Objectives

At the end of this section, the teacher will enable students to:

- Describe business startups
- Differentiate small businesses from business startups
- Relate innovation and business startups

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**
   a. Introduction to the lesson

Introduce the lesson by differentiating between businesses and startups.

When an entrepreneur starts a business, they may see startups and small businesses differently. While these two types of businesses have a lot in common, there are some key differences that you should know about when creating your company so that you don't make any critical mistakes early on.

The initial decisions that you make when forming your business will fuel your early success or cause you to experience numerous hurdles at a time when you likely don't know how to navigate such problems. While there are no strict guidelines that determine what a startup is, the general definition of a startup is any company that's in the initial stages of operations but expects significant growth in the near future.

b. Body of the lesson

For many organizations, innovation is difficult to understand and execute. There remains a clear discrepancy between how big business and start-ups approach it. As a result, big business is looking to start-ups and entrepreneurs to identify disruptive ideas and opportunities for their business, and to unlock innovation through the spirit, blood, sweat and tears of entrepreneurship.

On the other hand, a small business is any kind of business that only has a certain number of employees, the maximum of which differs by industry. Though these types of businesses may sound the same, understanding the differences between the two will be integral to your future success as an entrepreneur.

Startups are entirely different than small businesses when it comes to business growth and revenue. For instance, startups are focused primarily on top-end revenue and growth potential. A startup is considered to be a temporary business model wherein the focus is on rapid growth. Unlike a small business, there are no restrictions or limitations placed on growth. While small businesses are perfectly content with operating in a small portion of a large market, startups usually want to obtain as much market share as they can with the product or service that they provide.

Funding for most startups involves *seed funding*, which means that the startup will approach potential angel investors for money. These investors are individuals who want to invest in a company that they believe is going to eventually make it big. These investors will get a share of the business for their money, which usually equates to 5-10 percent.

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 8.2.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity.
Check and record their achievements.

8.3 Types of Businesses Organizations

Period Allotted: 2

Specific Objectives

At the end of this section, the teacher will enable students to:

- Identify different forms of business organization;
- Explain features, merits and limitations of different forms of business organizations;
- Discuss the factors determining choice of an appropriate form of business organization.

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**
   a. Introduction to the lesson

Introduce the lesson by differentiating among the three different types of businesses. The classification is basically based on the number of owners of the business. Sole proprietorship is owned and managed by one individual, Partnerships are owned and operated/managed by two or few partners, Corporation owned by the shareholders but managed by a hired professional manager. Increasing the amount of capital for the business is the factor behind increasing the number of owners.

b. Body of the lesson

Characteristics of Sole Proprietorship Form of Business Organization

a) Single Ownership
b) No Separation of Ownership and Management.
c) Less Legal Formalities
d) No Separate Entity
e) No Sharing of Profit and Loss
f) Unlimited Liability
g) One-man Control

Characteristics of partnership form of business organization:

a) *Two or More Persons*
b) *Contractual Relationship.*
c) *Sharing Profits and Business.*
d) *Existence of Lawful Business*
e) *Principal Agent Relationship*
f) *Unlimited Liability*
g) *Voluntary Registration*

Characteristics of Corporation form of businesses:

a. Has a separate legal personality from its owners.
b. Owners have Limited liability but have limited involvement in the company's operations.
c. The board of directors, an elected group from the stockholders, controls the activities of the corporation.
d. In general, a corporation has all the legal rights of an individual, except for the right to vote and certain other limitations.

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 8.3.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity. Check and record their achievements.

8.4 Business Feasibility Analysis

Periods Allotted: 2

Specific Objectives

At the end of this section, the teacher will enable students to:

- Describe Cost benefit Analysis for business feasibility studies
- Explain business plan
- Develop a business plan
- Undertake the cost benefit analysis of business startups

Teaching-Learning Process

1. **Suggested Teaching Aids**
   - Student text book
   - Teachers' guide Book
   - References
2. **Suggested Teaching Methods**
   - Brainstorming
   - Explanation
   - Questioning
   - Individual and group activities
3. **Pre-Lesson Preparation**
   - Get ready in advance with the suggested teaching aids and other reference materials
   - Prepare notes, activities and exercises.
4. **Lesson Presentation**
   a. Introduction to the lesson

Introduce the lesson by emphasizing the importance of business feasibility analysis for any type of business including startups. We prepare a business plan one component of which is a feasibility analysis. We analyze whether that business is worth lending money or not.

b. Body of the lesson

A feasibility study is designed to discover if a business or project is "feasible" or if it is not: (In short, does the business or project warrant further investment of time, money and further study or is it a non-starter). A feasibility study is a relatively inexpensive way to safeguard any wastage of further investment (will it work or won't it). If a project is seen to be feasible from the results of the study, the next logical step is to

commission a full business plan. Will the investment made in the feasibility study itself then be wasted? No. Because the research and information uncovered in the study will be of good use in the business planning stage and will also reduce the research time and therefore the cost of the business plan. On the other hand, a business plan is designed to "plan" in advance how a business or project will be started, implemented and managed. Business plans are commissioned for one of three reasons: Re-organization, investment/funding or a management blueprint for operation.

People never plan to fail; people only fail to plan! FEASIBILITY STUDIES demonstrate to a prospective project owner or investor that a given concept is financially viable and whether further study and/or a business plan is warranted. For a feasibility study, basic data is obtained through a series of queries, questions and meetings, wherein the client provides some of the research and other data and facts need to be gained from a variety of sources. The typical feasibility study contains, among other items, notes on financial projections, a general description of the business, general details describing how the company / project will be formed, managed and marketed, statements concerning the competition and a cash-flow projection based on averages. Further notes can be included as to general details of the project and revelations found during the research stage. The study will normally be completed quickly and in very general format compared to that of a business plan.

5. **Assessment and Follow-up**

a) Assessment

Summarize the main contents of the lesson by asking the questions in **Activity 8.4.**

Facilitate conditions for students to discuss each question in this activity. Let students also argue about their answers among themselves and they can contribute more to the discussion.

b) Follow-up

Guide the students to come with answers for the given questions in this activity.
Check and record their achievements.

Answers to Activities

The following are possible answers to the activities in unit Eight.

✎ Activity 8.1

- Innovation is creation of new products, or new production process.
- BPR is a process innovation, KAIZEN is a process innovation, DRONE is a product innovation, etc.

✎ Activity 8.2

- Startup businesses are new businesses coming as new based on innovations.
- Small businesses do not necessarily need innovation like startups.

✎ Activity 8.3

1. Sole ownership business, Partnership business, and Corporations.
2. Any small shops – Sole ownership; any medium sized two/three owners owned businesses- Partnership; Banks, insurance companies, etc. are Corporations.

✎ Activity 8.4

1. Business plan is a detailed plan of a new business.
2. Components of a business plan- please refer from the text book!

Answers for the Review questions for Unit Eight

Part I. True/False

1. False
2. False
3. False
4. True

Part II. Multiple choice questions

1. B
2. D
3. all provide incentives from external links (not included in the choices)
4. A
5. A
6. A
7. D
8. D
9. A
10. D

Part III. Fill in the blank space with appropriate words

1. Creativity/Implementation.
2. Sole ownership, Partnership and Corporation.

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