
amount of countries Principle #4,5,9

Posted by Rosy Zhang - 2009/09/10 11:57

The following summarizes my understanding and questions regarding principles 4,5,and 9. Principle 5: Trade can make everyone better off Trade is a very important factor that influences our lives in numerous aspects. A wealthy society must have a well-structed trade system and also one that is well-functioned to ensure further prosperity. Trade amongst countries allow more varieties of goods and services to be available, benefiting the people at large. It's rather limited to think that competitions between countries for trade will diminish or harm countries' domestic or local productions, where the trading can allow each to specialize in certain area according to their own advantages. Not only will trade save time and energy for a country or person to produce all the goods and services needed, it allows more financial benefits where the production costs of a product by others will be lower. For example, cheap and fresh tropical fruits are widely available in countries like Canada at a much lower market price than if Canada was to waste time in producing its own tropical fruits. On the other hand, Canada exports a majority of its wheat products from the prairies to the U.S., which is Canada's largest trading partner while also being its biggest competitor. However, both people of U.S and Canada are able to enjoy a wide range of cheap products and services. Principle 9: Prices rise when the government prints too much money Government or its central bank controls the printing of its countrie's currency, and the amount printed can directly cause drastic changes in the economy of a country. Once the government prints too much money than its volume of gold and silver currency, severe consequences will accumuluate. There is a inverse relationship between the amount of money and its value: the more money circulating, the lower its value. The result of that is inflation, where an increase in the overall level of prices in the economy occurs. Once the prices in the economy rises, other costs such as labor and raw material also rises, causing inflation. As exemplified by the U.S Economic Crisis, the government tried to encourage its people to consume by printing a large quantity of currency causing its currency value to drop and also causing inflation. The inflation Germany experienced shortly after WWI was directly resulted from the massive printing of its money to a point where people were actually using the paper money to fire the stove because of its ridiculously low currency value to a pratically worthless situation. Thus, it's crucial for government to control the printing of its currency carefully to avoid creating inflation and maintaining the health of its economy. Principle 4: People respond to incentives For this concept, I understand that people make decisions when comparing costs and benefits while making purchases and also how policy makers should keep the idea of including incentives to appeal to people. But what exactly are incentives? Is it merely the benefits people consider or is it the difference when considering the costs or advantages of something? Does it affect the decisions of people differently? Thank You^^

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