CETERIS

PARIBUS MANUAL

BUSINESS
MARKETING
STRATEGIES

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CETERIS PARIBUS

About the manual

The CETERIS Paribus Manual is a product of Erasmus+ KA2 funded project CETERIS Paribus addressed to youth workers and young people.

It builds on the research and work conducted within the CETERIS Paribus project, aiming at:

- going deeper on economic literacy, building on materials already produced through other project activities,
- showing the basics of the logic behind the video game created under the project, and
- include list of additional resources that would allow readers to further focus on economic issues that affect young people daily lives.

Introduction: The connection of economic issues with our daily lives

Introduction

The study of economics is often considered as a complex and mysterious subject that is difficult to understand and disconnected from our daily lives. However, the reality is quite the opposite. Economic issues are not only relevant but also vital to our daily lives, affecting everything from the prices of goods and services to the job market and our standard of living. In this chapter, we will explore the connection of economic issues with our daily lives and how it impacts us as individuals.

Young people are often portrayed as disengaged and uninterested in economic issues. However, this is not entirely accurate. In fact, many young people are aware of the impact of economic issues on their daily lives and are concerned about their future financial security.

Throughout the chapter, we will provide young people with various activities designed to encourage active learning and critical thinking. Our goal is to equip youth workers with the knowledge and resources needed to make informed decisions about their financial futures, helping them thrive in a rapidly changing global economy.

Main economic issues

1.The cost of living

For young people, the cost of living is a major problem because it has an impact on their capacity to make ends meet and attain financial independence. High housing costs, rising healthcare expenses, and the cost of daily necessities such as food and transportation can make it difficult for young people to afford a decent standard of living. Furthermore, many young people are burdened with significant student loan debt, which can make it challenging to save money, purchase a home, or start a family.

Introduction

The cost of living can also have long-term consequences for young people's financial well-being. High housing costs can make it challenging to save for a down payment on a home, which is a critical asset for building wealth. Additionally, the high cost of healthcare can be a significant burden, especially for those without insurance.

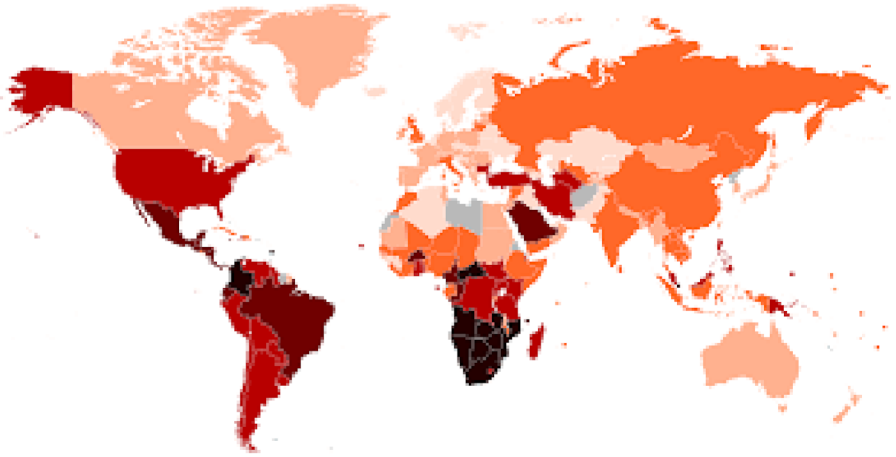
It is essential for policymakers to address the cost of living and take steps to make necessities such as housing, healthcare, and education more affordable for young people. By reducing the financial burden on young people, policymakers can help to promote financial stability and create a more equitable society for all.

2.Job opportunities

Job opportunities are crucial for individuals and the economy as a whole. They provide a means for individuals to earn an income, achieve financial stability, and contribute to the economic growth of their communities.

Having access to job opportunities is essential for reducing poverty and social inequality, as it allows individuals to achieve financial independence and improve their standard of living. Moreover, job opportunities contribute to the growth and development of industries, creating more goods and services for consumers to purchase, and increasing economic activity.

However, the availability of job opportunities is not always consistent or evenly distributed. Some industries may experience job growth, while others may face job losses. Additionally, job opportunities may be more accessible in some regions than others, creating economic disparities between different communities. The changing job market, including advancements in technology and the impact of global events, can also create uncertainties for job seekers. Therefore, it is essential for individuals, businesses, and governments to work together to create and sustain job opportunities for everyone, regardless of their background or location.



3. Income inequality

Income inequality is a growing concern in many countries, and young people are often disproportionately affected. In many cases, young people face lower wages, higher levels of unemployment, and fewer opportunities for career advancement. This can make it challenging for young people to achieve financial independence and attain a decent standard of living. Income inequality can also create barriers to accessing essential resources such as healthcare, education, and housing, making it harder for young people to build a secure future.

The impact of income inequality on young people can have long-term consequences, both for individuals and society as a whole. Individuals who face limited opportunities for economic advancement may be more likely to experience poverty and social exclusion, leading to increased stress and poor health outcomes. Furthermore, income inequality can contribute to social unrest, as people become increasingly dissatisfied with their economic situation and the perceived lack of opportunities. Addressing income inequality is essential for promoting economic growth and stability, creating opportunities for all, and building a more equitable society for future generations.

4. Climate change and Sustainability

Climate change and sustainability are critical issues that affect young people today and will continue to impact future generations. Climate change refers to the long-term changes in weather patterns, caused by increased greenhouse gas emissions from human activities such as burning fossil fuels and deforestation. Sustainability, on the other hand, refers to the ability to meet the needs of the present generation without compromising the ability of future generations to meet their own needs. Both of these issues are intertwined, as climate change poses a significant threat to sustainability by impacting the availability of resources and ecosystems.

Young people have a crucial role to play in addressing climate change and promoting sustainability. By adopting sustainable practices such as reducing waste, conserving energy, and using public transportation, young people can help to reduce greenhouse gas emissions and mitigate the impacts of climate change.

Additionally, young people can advocate for policies that support sustainability, such as renewable energy, green transportation, and sustainable agriculture. By taking action on climate change and sustainability, young people can contribute to a more sustainable and equitable future for themselves and future generations.

5.Wealth redistribution

Wealth redistribution is a contentious issue, but it is becoming increasingly relevant as income inequality continues to grow. Young people are among those who are most affected by income inequality, as they face rising costs of living and limited opportunities for economic advancement. Wealth redistribution is a way to address these issues by redistributing wealth from the wealthiest individuals and corporations to those who are most in need. This can take the form of higher taxes on the wealthy, increased spending on social programs, and policies that promote greater economic equality.

One of the most significant benefits of wealth redistribution for young people is that it can help to reduce poverty and promote social mobility. When wealth is concentrated in the hands of a few, it can create a cycle of poverty that is difficult to break. By redistributing wealth, young people can gain access to better education, healthcare, and other essential resources that are necessary for achieving economic stability. Wealth redistribution can also help to level the playing field and reduce systemic inequalities that prevent young people from achieving their full potential.

However, wealth redistribution is not without its challenges. Some argue that redistributive policies can stifle economic growth by reducing incentives for innovation and investment. Others argue that it is not the government's role to redistribute wealth and that individuals should be responsible for their own success.

Nevertheless, it is essential to consider the long-term implications of income inequality on young people and the wider economy. Wealth redistribution can promote greater social mobility, reduce poverty, and create a more equitable society for future generations.

6.Technological advancement

Technological advancements have had a significant impact on young people, shaping the way they live, work, and interact with the world around them. From smartphones and social media to artificial intelligence and robotics, technology has transformed the way young people communicate, learn, and access information. As technology continues to evolve, it is essential for young people to adapt and learn new skills to thrive in an increasingly digital world.

One of the most significant advantages of technological advancements for young people is the increased access to information and opportunities. The internet has opened up a world of knowledge and resources, providing young people with access to educational materials, job opportunities, and connections with people from all over the world. Additionally, technological advancements have created new industries and job opportunities, such as software development, digital marketing, and data analytics. Young people who are tech-savvy and adaptable can take advantage of these opportunities and build successful careers in these fields.

However, technological advancements have also created new challenges for young people, such as the risk of addiction, cyberbullying, and privacy concerns. The rise of social media has made it easier than ever for young people to connect with others, but it has also created new forms of social pressure and anxiety. Additionally, the prevalence of fake news and misinformation can make it challenging for young people to discern the truth from fiction. As technology continues to advance, it is essential for young people to be mindful of the potential risks and take steps to stay safe and healthy in the digital age.

Connecting with practical issues

There are several reasons why it is important to have a basic understanding of economics in our every-day life. Here are a few:

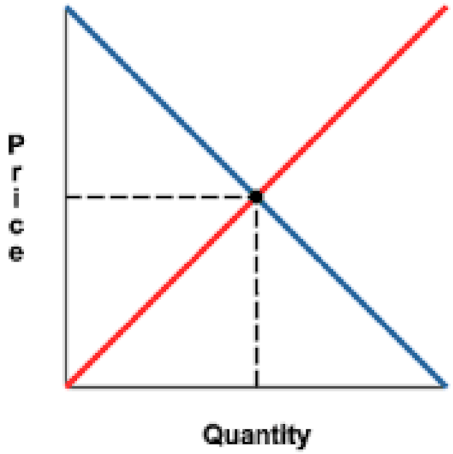
1.Opportunity cost

Opportunity cost is a concept that is all about trade-offs. Every time you make a decision, there is an opportunity cost involved. This means that when you choose to do something, you are also choosing not to do something else.

Example: An example of opportunity cost for young people is the decision to attend college or start working right after high school. If a young person chooses to attend college, they will incur the costs of tuition, room and board, and other expenses, as well as the opportunity cost of not working full-time during those years. The opportunity cost is the potential income the person could have earned during those years if they had chosen to work instead. For example, if a young person earns $25,000 per year working full-time after high school and decides to attend college for four years, the opportunity cost would be $100,000 (4 years' x $25,000/year). This means that the person is giving up the potential income of $100,000 in order to attend college. However, the decision to attend college also has potential benefits, such as higher earning potential and better job opportunities in the future. The opportunity cost of attending college must be weighed against the potential benefits to determine whether it is worth it. In summary, the decision to attend college or start working after high school is an example of how opportunity cost can affect decision-making for young people. Understanding opportunity cost is important for making informed decisions about how to allocate time and resources, and for evaluating the potential benefits and drawbacks of different choices.

2.Supply and Demand

The law of supply and demand is a fundamental concept in economics that affects the prices we pay for goods and services.



Example: An example of supply and demand is the market for sneakers. Let's say a popular brand releases a new limited edition sneaker that many young people want to buy. The demand for these sneakers may increase, causing the price to go up due to limited availability. This can lead to a situation where there are more buyers than available sneakers, resulting in a shortage. When the price of sneakers goes up due to increased demand, the supply may also increase as producers try to take advantage of the higher prices. More producers may enter the market and try to produce similar sneakers to sell at a higher price. This can eventually lead to a situation where the supply of sneakers exceeds the demand, resulting in a surplus. On the other hand, if the demand for sneakers decreases, the price may go down due to decreased competition among buyers.

This can lead to a situation where there are more sneakers available than buyers, resulting in a surplus. In summary, the market for sneakers is an example of how changes in supply and demand can affect prices and availability. Understanding supply and demand is important for young people who want to make informed decisions about what to buy and when to buy it, and for businesses who want to make informed decisions about pricing, marketing, and other economic policies.

3.Inflation

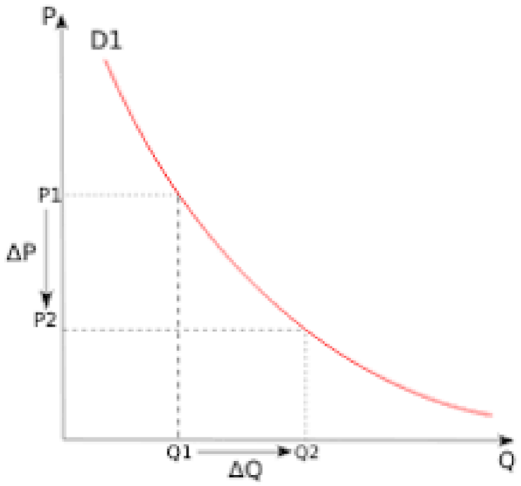
Inflation is the rate at which prices for goods and services are increasing over time. When inflation is high, the cost of living goes up, and your money doesn't go as far.

Example: An example of inflation for young people is the cost of buying a meal at a restaurant. If the overall price level in the economy increases due to inflation, the cost of producing and providing meals to customers may also increase. As a result, the prices of menu items may increase, which can make it more expensive for young people to eat out. For example, let's say that a burger and fries meal at a restaurant costs $10.

If there is a 10% inflation rate, the price of the meal may increase to $11 due to the increased cost of production and other expenses. This means that young people will need to spend more money to buy the same meal they could have bought for $10 before the inflation. Inflation can also affect the overall purchasing power of money, which can have implications for young people's ability to save and plan for the future. If the rate of inflation is higher than the rate of return on savings, the real value of savings can decrease over time.

4.Elasticity

Elasticity is a measure of how responsive consumers or producers are to changes in price or other factors. Understanding elasticity can help businesses and policymakers anticipate how changes in prices, taxes, or other factors will affect demand or supply for goods and services.



Example: Think about the price elasticity of demand for concert tickets. When the price of concert tickets goes up, the quantity demanded by young people may decrease. This means that the demand for concert tickets is relatively elastic among young people. For instance, if the price of a concert ticket increases from $50 to $75, some young people may choose to forgo the concert altogether, while others may look for cheaper alternatives, such as attending a local music festival or streaming the concert online.

As a result, the total revenue earned from selling concert tickets may actually decrease, despite the higher ticket prices. On the other hand, if the price of concert tickets decreases, the quantity demanded by young people may increase, indicating a relatively elastic demand. For example, if the price of a concert ticket drops from $75 to $50, more young people may be willing to attend the concert, resulting in higher total revenue for the concert organizers.

5.Budgeting

Creating a budget is an essential skill in managing personal finances. Understanding how much money you have coming in and going out each month can help you make better decisions about how to spend your money.

Example: An example of budgeting for young people is creating a budget for monthly expenses. This involves making a plan for how much money will be spent on necessary expenses such as rent, food, utilities, and transportation, as well as discretionary expenses such as entertainment and leisure activities. For example, let's say a young person has a monthly income of $2,000 from their job.

They decide to create a budget for their monthly expenses, which includes the following items:

Rent: $800
Food: $200
Utilities: $100
Transportation: $150
Entertainment/Leisure: $150
Savings: $600

The budget includes necessary expenses such as rent, food, utilities, and transportation, as well as discretionary expenses for entertainment and leisure activities. The young person also includes a savings category, which allows them to put aside money for emergencies or future goals. By creating a budget, the young person can track their expenses and make sure they are not spending more than they earn.

This can help them avoid debt and save money for future goals such as buying a car, going on a vacation, or investing in their education.

6.Market Structure

Market structure refers to the competitive environment in which firms operate.

Example: An example of market structure for young people is the market for smartphones. In this market, there are several major players such as Apple, Samsung, and Google who produce and sell smartphones.

The market can be considered an oligopoly, which is a market structure where a small number of large firms dominate the industry. In an oligopoly market, there are high barriers to entry, which means that it can be difficult for new firms to enter the market and compete with the established players.

This is because the large firms have economies of scale and significant brand recognition, which can make it hard for smaller firms to compete on price and quality. In the case of smartphones, the major firms such as Apple and Samsung invest heavily in research and development to produce new and innovative products, as well as marketing and advertising to promote their brands. This can lead to a high degree of product differentiation, where each firm offers unique features and designs to differentiate themselves from their competitors. As a result, consumers may be willing to pay a premium for smartphones from these established brands, even though there may be lower-priced alternatives available from smaller firms.

This can lead to a pricing strategy known as price discrimination, where firms charge different prices for similar products based on the willingness of consumers to pay. In summary, the market for smartphones is an example of an oligopoly market structure, where a small number of large firms dominate the industry and have significant market power. Understanding market structures is important for young people to make informed decisions about their purchases and to understand the competitive landscape of the industries they are interested in.

7.Externalities

Externalities refer to the unintended consequences of economic activity.

Example: When people drive cars, they release pollutants such as carbon monoxide and nitrogen oxides into the air. These pollutants can have negative effects on the environment and the health of people who live in the area.

This is an example of a negative externality, which is a cost that is not borne by the person who creates it. In this case, the driver of the car may not pay for the full cost of the pollution they create, but instead, the cost is borne by others who are affected by the pollution, such as people who live near highways or in cities with high levels of air pollution.

To address this negative externality, governments may impose regulations on cars and require them to meet certain emissions standards. This can help reduce the amount of pollution that cars produce and mitigate the negative effects on the environment and public health.

On the other hand, there are also positive externalities, such as education. When someone receives an education, they can gain knowledge and skills that can benefit society as a whole. For example, a well-educated person may be more productive in their job, which can lead to economic growth and higher living standards for everyone. In summary, pollution from cars is an example of a negative externality, where the costs of pollution are borne by society as a whole, rather than the individual who creates it.

Economy, economics and finance

An economy refers to the overall system of production, distribution, and consumption of goods and services within a society or country. It involves all the activities and interactions between individuals, businesses, and government that contribute to the creation and exchange of wealth. An economy includes various sectors such as agriculture, industry, and services. It is typically measured by various economic indicators such as gross domestic product (GDP), unemployment rate, and inflation rate.

Economics is the study of how individuals, businesses, and governments make choices about how to allocate scarce resources to meet their needs and wants. It involves analyzing the incentives, trade-offs, and costs of different choices, and how they affect the overall economy. Economics is divided into two main branches: microeconomics and macroeconomics. Microeconomics focuses on the behavior of individual consumers, firms, and industries, while macroeconomics studies the performance of the economy as a whole, including topics such as economic growth, inflation, and unemployment.
Finance refers to the management of money and other financial assets. It involves making decisions about how to invest, borrow, lend, and manage money in order to achieve financial goals.

Finance is an important part of economics, as it helps businesses and individuals make decisions about how to allocate their resources. Finance is also a separate field of study that includes topics such as investment management, financial markets, and corporate finance.

In summary, while all three concepts are related to the management and allocation of resources, they focus on different aspects of the economic system. Economy refers to the overall system of production, distribution, and consumption of goods and services, economics is the study of how individuals and organizations make choices about resource allocation, and finance is concerned specifically with the management of money and other financial assets. Together, these concepts provide a comprehensive understanding of how the economic system works and how individuals and organizations can make optimal decisions to achieve their goals.

Key Takeaways

★ Economics is not just about numbers and money - it's about understanding how people make choices and how those choices impact the world around us.

★ Economic issues can have a profound impact on our daily lives, from the prices we pay for goods and services to the jobs we have and the opportunities available to us.

★ It's important to understand how economic policy and decisions are made, and to be an informed citizen who can participate in the democratic process.

★ Consumer choices have economic consequences, and by being mindful of our consumption patterns, we can help create a more sustainable and equitable economy.

★ Economic issues are interconnected with other social and environmental issues, and it's important to take a holistic approach to understanding and addressing these challenges.

★ Economic issues are not just national or global, they can also be very local. For example, the cost of living in your city or neighborhood can greatly impact your daily life and financial well-being.

★ Economic issues can be complex and difficult to understand, but it's important to stay informed and ask questions. By learning more about economics, we can make better decisions for ourselves and our communities.

Further material & reading

- "Freakonomics" by Steven D. Levitt and Stephen J. Dubner - This book explores how economic principles can be applied to everyday situations, from parenting to crime to politics. It's a fun and engaging read that will help you understand the hidden forces that shape our world. https://freakonomics.com/

- "Planet Money" podcast - This podcast from NPR covers a wide range of economic topics, from the latest news in finance to stories about how everyday people are affected by economic policy. It's a great way to stay informed about economic issues and to learn how they impact our lives. https://www.npr.org/

- "The Economics of Happiness" documentary - This documentary explores the connections between economic growth, consumerism, and well-being. It offers a thought-provoking look at how our economic choices affect our happiness and the world around us. https://www.theeconomicsofhappiness.org/

- "The Wealth of Nations" by Adam Smith - This classic book is often credited with founding the field of economics. It offers a deep dive into the principles of economic theory and how they apply to society as a whole. While it can be a challenging read, it's an essential resource for anyone who wants to understand the roots of modern economic thought. http://www.rrojasdatabank.info/Wealth-Nations.pdf

- "Economics Explained" YouTube channel - This channel offers clear and concise explanations of economic concepts and current events. It's a great resource for anyone who wants to learn more about how economics affects our daily lives. https://www.youtube.com/c/EconomicsExplained

- “Complexity economics overview” YouTube channel - This channel offers clear explanations of the complexity in our economic system. It's a great resource for anyone who wants to learn more about how economics affects our daily lives.
- https://www.youtube.com/watch?v=dRz3WWbTUew

Chapter 1: Unemployment

This chapter will provide an overview on unemployment, its basic definitions and more over the understanding of how unemployment is measured or calculated and what are the main elements that affect the unemployment rate in countries. The chapter will also tackle what are the main categories of unemployment and how economists divide them.

The chapter will also provide the reader an insight on how politics influences unemployment and more over as a solution-based idea what can policymakers do to decrease unemployment and which policies can be put in place or enhanced in order to reduce unemployment.

In the second theoretical part the emphasis will be on Euro area unemployment. Taking into consideration that the EU unemployment rate is calculated as a meridian of all 27 Member States data, so fair to say some EU Member States have a more favorable statistical situation and reality than others.

One should recognize that the experience of long term unemployment is a horrid one for those unfortunate enough to experience it.

Main points of issue

An unemployed person is defined by Eurostat, according to the guidelines of the International Labour Organization, as:

- someone aged 15 to 74 (16 to 74 years in some EU Member States);
- not employed during the reference week according to the definition of employment;
- currently available for work, i.e. available for paid employment or self-employment before the end of the 2 weeks following the reference week;

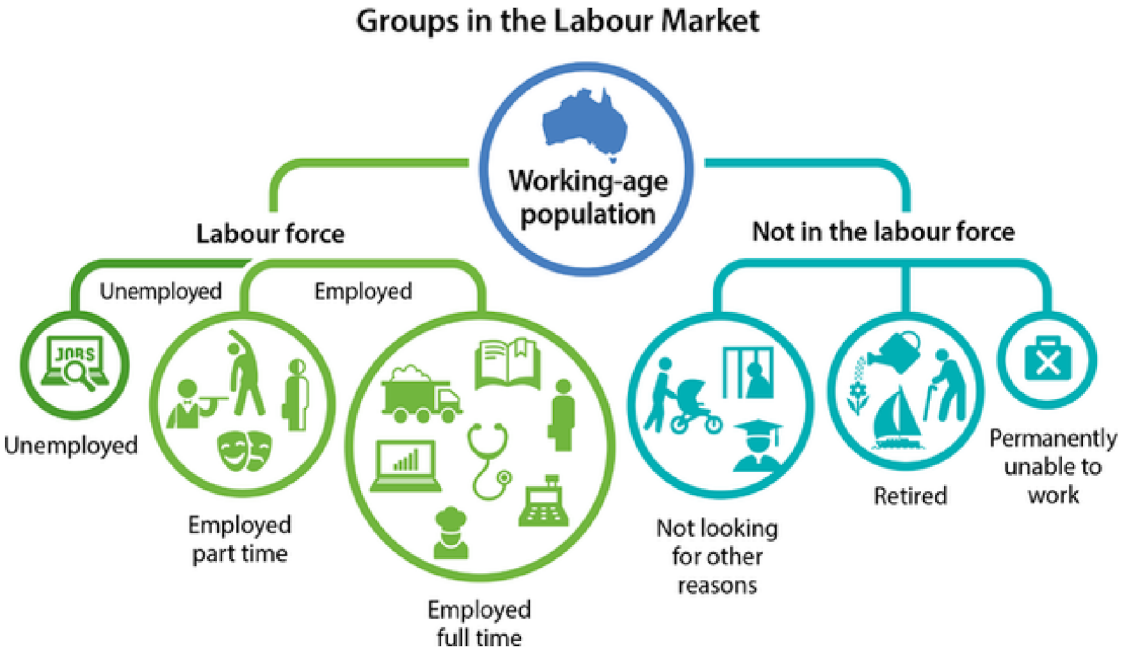
- actively seeking work, i.e. had either carried out activities in the four-week period ending with the reference week to seek paid employment or self-employment or found a job to start within a period of at most 3 months from the end of the reference week.

The unemployment rate is the number of people unemployed as a percentage of the labor force (Eurostat, 2023).

The unemployment rate is the most commonly used indicator for understanding conditions in the labor market. The labor market is the term used by economists when talking about the supply of labor (from households) and demand for labor (by businesses and other organizations). The unemployment rate can also provide insights into how the economy is performing more generally, making it an important factor in thinking about monetary policy (Reserve Bank of Australia, 2022).

Unemployment is a key economic indicator because it signals the ability (or inability) of workers to obtain gainful work and contribute to the productive output of the economy. More unemployed workers mean less total economic production (Reserve Bank of Australia, 2022).

The unemployment definition does not include people who leave the workforce for reasons such as retirement, higher education, and disability. (Reserve Bank of Australia, 2022)



While the definition of unemployment is clear, economists divide unemployment into many different categories. The two broadest categories are voluntary and involuntary unemployment. When unemployment is voluntary, it means that a person left their job willingly in search of other employment. When it is involuntary, it means that a person was fired or laid off and must now look for another job (Reserve Bank of Australia, 2022).

Today's economists point to three main types of unemployment: frictional, structural, and cyclical. Frictional unemployment is the result of voluntary employment transitions within an economy. Frictional unemployment naturally occurs, even in a growing, stable economy as workers change jobs. Structural unemployment can produce permanent disruptions due to fundamental and permanent changes that occur in the structure of the economy. These changes can marginalize a group of workers. They include technological changes, a lack of relevant skills, and jobs moving overseas to another country. Cyclical unemployment relates to the loss of jobs that occurs during changes in business cycles (Reserve Bank of Australia, 2022).

How is the unemployment rate measured?

Unemployment occurs when someone is willing and able to work but does not have a paid job. The unemployment rate is the percentage of people in the labor force who are unemployed. Consequently, measuring the unemployment rate requires identifying who is in the labor force. The labor force includes people who are either employed or unemployed. Figuring out who is employed or unemployed involves making practical judgements, such as how much paid work someone needs to undertake for them to be considered as having a job, as well as actually counting how many people have jobs or not (Reserve Bank of Australia, 2022).

Those officially measured as unemployed

Most advanced economies use a standardized and internationally recognized measure of unemployment, which is based on a survey (the 'Labor Force Survey', and which takes its definition of unemployment from the Geneva based International Labor Organization - ILO). Members of the EU are all required to use this standard definition, and most countries either adopt the definition, or modify it in minor ways (Measuring unemployment, 2023).

For the Labor Force Survey, the unemployed are defined as:

Those individuals who do not have a job but have been actively looking for one in the four weeks before the measurement date, and who are available to work within two weeks of the measurement date.

The rate of unemployment, expressed as a percentage, is:

“The proportion of the ‘economically active’ population who are jobless - that is, those who are in work, available for work and actively seeking work. The unemployment rate is NOT the proportion of the whole population, or the population of ‘working age’, who are unemployed” (Measuring unemployment, 2023).

What Can Policymakers Do to Decrease Cyclical Unemployment?

Cyclical unemployment is the result of a general decline in macroeconomic activity that occurs during a business-cycle contraction. There are two main approaches to reducing unemployment: demand-side policies and supply-side policies. When there is a rise in cyclical unemployment caused by a recession, it is considered demand-deficient unemployment and addressed by demand-side policies (Investopedia, 2023).

CYCLICAL: One of the primary policy goals of macroeconomics is to reduce or eliminate cyclical unemployment. To prevent cyclical unemployment, policymakers should focus on expanding output, which is most effectively achieved by stimulating demand. The goal of expansionary monetary and fiscal policies is to boost aggregate demand by cutting interest rates and taxes. Additionally, policymakers may also depreciate the exchange rate in order to boost export demand or introduce specific legislation and initiatives that target particular areas of the economy (Investopedia, 2023).

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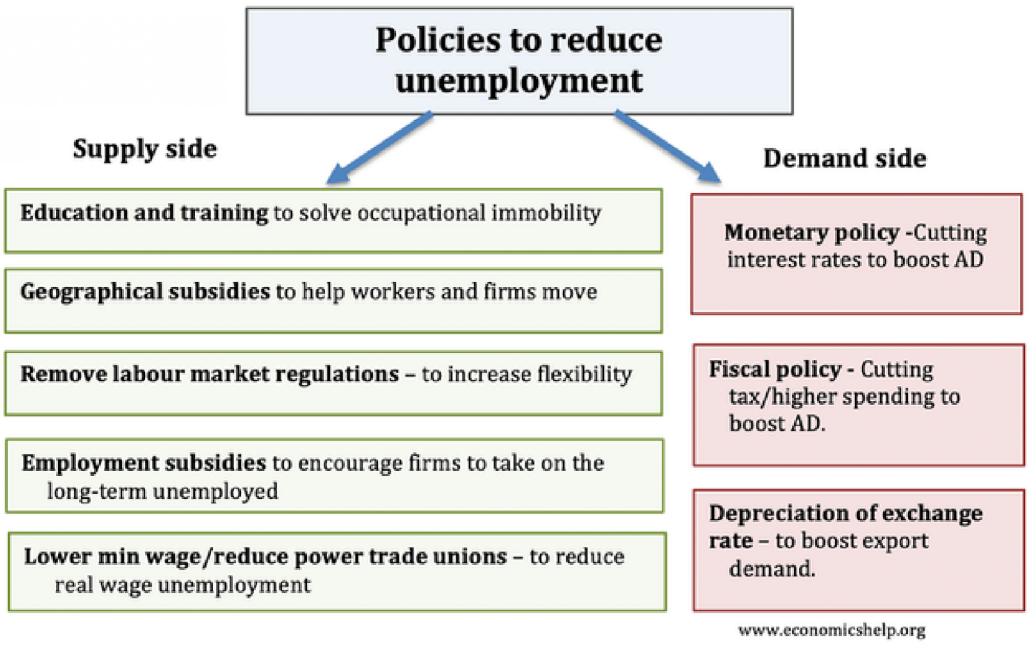
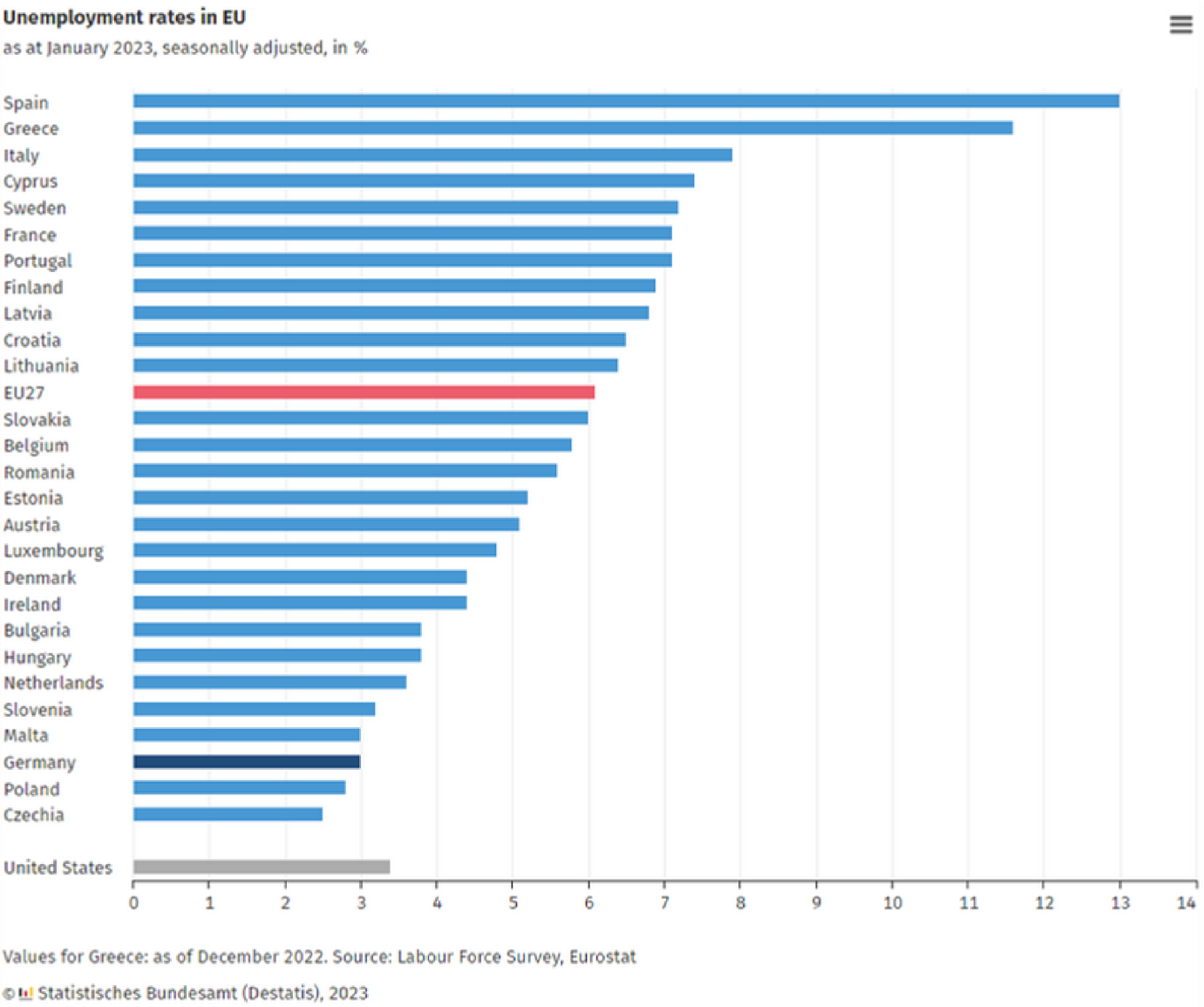
FISCAL: The goal of expansionary fiscal policy is to manage output and employment through increasing government spending and decreasing taxation. Lower levels of taxation lead to higher levels of disposable income and an increase in consumption. An increase in consumption results in higher aggregate demand and higher gross domestic product (GDP). Firms will respond to an increase in demand and higher GDP by increasing production, which requires more workers. Therefore, there will be less cyclical unemployment. Additionally, when there is strong economic growth and higher aggregate demand, there are fewer job losses, because companies remain in business (Investopedia, 2023).

MONETARY: The goal of expansionary monetary policy is to increase aggregate demand and economic growth through cutting interest rates. Lower interest rates mean that the cost of borrowing is lower. When it's easier to borrow money, people spend more money and invest more. This increases aggregate demand and GDP and decreases cyclical unemployment. In addition, when interest rates are lower, exchange rates are also lower, and an economy's exports are more competitive (Investopedia, 2023).



Euro area unemployment at 6.6% EU at 6.1%

In December 2022, the euro area seasonally-adjusted unemployment rate was 6.6%, stable compared with November 2022 and down from 7.0% in December 2021. The EU unemployment rate was 6.1% in December 2022, also stable compared with November 2022 and down from 6.4% in December 2021. These figures are published by Eurostat, the statistical office of the European Union. Eurostat estimates that 13.148 million persons in the EU, of whom 11.048 million in the euro area, were unemployed in December 2022. Compared with November 2022, unemployment increased by 28 thousand in the EU and by 23 thousand in the euro area. Compared with December 2021, unemployment decreased by 518 thousand in the EU and by 494 thousand in the euro area (Eurostat, 2023).



Youth unemployment

In December 2022, 2.862 million young persons (under 25) were unemployed in the EU, of whom 2.311 million were in the euro area. In December 2022, the youth unemployment rate was 15.0% in the EU and 14.8% in the euro area, respectively up from 14.8% and stable compared with the previous month. Compared with November 2022, youth unemployment increased by 30 thousand in the EU and by 3 thousand in the euro area. Compared with December 2021, youth unemployment increased by 209 thousand in the EU and by 156 thousand in the euro area (Eurostat, 2023).

It has become a platitude to say that every sensible piece of economic policy advice rests on a reasoned analysis of the underlying policy problem, and that every reasoned analysis is based on a theory of how the economy functions. Politicians may believe that their policy proposals rest simply on "common sense"; but if there is any sense underlying this common sense, it exists in the form of a coherent, self-contained theory (Snower, 1995).

As Keynes (in the London: Macmillan, 1936) put it:

"The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually slaves of some defunct economist."

In most European countries youth unemployment has risen significantly as a result of the COVID-19 crisis. Compared to youth unemployment, adult unemployment experienced the effects of the crisis with some delay. There are many reasons for youth unemployment: besides the general situation on the labour market, one might mention education and training systems, labour market and employment policies, but also the stratification and distribution of opportunities in society.

Connecting with practical issues

Calculating the Unemployment Rate

To understand how the unemployment rate is calculated we can use an example. In this example 12,6 million people are employed and 0,7 million people are unemployed. The size of the labor force is calculated as the sum of these groups.

Employes + Unemployes = Labour force

12.6m + 0,7m = 13.3m

With the unemployment rate being the percentage of people in the labour force who are unemployed, using the numbers in our example and the wquation below, the unemplyoment rate is calculated as 5.3 per cent.

Unemployment rate= (Unemployment / Labor force) * 100

= (0,7m / 13.3m)*100 = 5,3 %

The unemplyoment rate is affected by changes in the number of unemployed people (the numerator), which can result from cyclical factors, such as the number of people who become unemployed because of an economic downturn, or more structural factors in the economy. The unemployment rate is also affected by changes in the size of the labour force (the denominator).

Key Takeaways

★ The unemployment rate is the number of people unemployed as a percentage of the labor force;

★ The labor market is the term used by economists when talking about the supply of labor (from households) and demand for labor (by businesses and other organizations);

★ The unemployment definition does not include people who leave the workforce for reasons such as retirement, higher education, and disability;

★ The two broadest categories of unemployment are voluntary and involuntary unemployment;

★ Frictional unemployment is the result of voluntary employment transitions within an economy;

★ Structural unemployment can produce permanent disruptions due to fundamental and permanent changes that occur in the structure of the economy;

★ Cyclical unemployment relates to the loss of jobs that occurs during changes in business cycles;

★ Most advanced economies use a standardized and internationally recognized measure of unemployment, which is based on a survey (the 'Labor Force Survey', and which takes its definition of unemployment from the Geneva based International Labor Organization - ILO);

★ There are two main approaches to reducing unemployment: demand-side policies and supply-side policies.

Further material & reading

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Proposed Activities

Policies to Reduce Unemployment
Video is accessible here: https://www.youtube.com/watch?v=YYuW2S6Jnxo

Types Of Unemployment | Macroeconomics
Video is accessible here: https://www.youtube.com/watch?v=Ml4pVjoySa4

European Parliamentary Research Service
By promoting a high level of employment, the European Union (EU) has been fighting against unemployment since as long ago as the early 1950s. The fight against unemployment was brought to the top of the European agenda with the onset of the 2008 economic and financial crisis, and the consequent rise in unemployment rates in all European Union (EU) Member States. In its Europe 2020 strategy, the European Commission set a target to get 75 % of 20 to 64 year-olds into employment by 2020. EU labour market conditions have significantly improved in recent years, and most labour market indicators have strengthened steadily. Since mid-2013, the unemployment rate has continued to decline, and the EU is back to its pre-crisis level (6.8 % in July 2018). Despite the recovery in economic growth and its positive impact on the labour market, the EU has still to face unemployment challenges, particularly concerning differences between Member States, youth unemployment and long-term unemployment.

Proposed Activities

Since 2014, efforts have been made in a number of areas, including to help young people enter the labour market, to combat long-term unemployment, upgrade skills, and facilitate workers' mobility in the European Union. The improvement in labour market indicators has been reflected in citizens' improved evaluation of the EU's involvement in the fight against unemployment, but there is still a very high demand for even more EU intervention in this policy area (76 % of EU citizens). In the future, new or updated legislation relating to employment could modernise work to help in adjustment to a digital world, support sustainable transitions from unemployment into employment and between jobs, increase labour mobility and create closer coordination between economic and social policies.

Podcast available here: https://www.youtube.com/watch?v=ex8a_5Ol2nI

Europe's saga: Young, educated and unemployed
There are 5.5 million young people in Europe who are not in education, employment or training. New to the labour market, they are less likely to find a job, or are often employed on temporary or part-time contracts

Video is accessible here: https://www.youtube.com/watch?v=SBZhwgDUQ0w

EU Youth Unemployment: A Crash Course
Video is accessible here: https://www.youtube.com/watch?v=gtS3mj1xwFU

The Countries with the Highest Unemployment Rate in Europe
Video is accessible here: https://www.youtube.com/watch?v=uwTzVgP1K8k

Chapter 2: Inflation and Deflation

Introduction

In this chapter you can read more about the meaning and the difference between inflation and deflation as well as how they are being calculated and what are the characteristics that affect inflation. We have also included some predictions on what might happen in 2023 as regards to inflation. Also, the third term often used in monetary policy of stagflation will be introduced. In this chapter we will also make a short introduction to the very important institution in Monetary Policy in the EU, the European Central bank and what the ECB can do about the inflation on the E level. The chapter will then continue with practical examples as well as further materials such as videos and quizzes to deepen the understanding of the topics. Right before the practical side of how to calculate inflation we will share with you some overview on the annual inflation in the euro area.

Inflation

In a market economy where prices are determined by supply and demand, prices simply reflect what you have to pay for a product. These products can be goods such as a book or services such as a haircut (EUROSTAT, 2020).

The price of a good or service depends not only on their characteristics, but also where it is sold and in what condition. At a particular point in time, prices of even identical products vary between shops. For example, for a pair of jeans, prices differ according to the brand or model, and whether they are bought in a specific shop on a particular day or in a certain quantity (as a discount might be offered when buying several pairs) (EUROSTAT, 2020).

Consumer prices are of great interest simply because we are all confronted with them every day. Prices can change over time and vary across countries or regions. Even the same product that is purchased under the same conditions and at the same place may have different prices, just because it is bought at a different period of time — this is due to inflation and deflation (EUROSTAT, 2020).

Inflation is an increase in the prices of goods and services. The most well-known indicator of inflation is the Consumer Price Index (CPI), which measures the percentage change in the price of a basket of goods and services consumed by households (Reserve Bank of Australia, 2020).

The main causes of inflation can be grouped into three broad categories:
1. demand-pull,
2. cost-push, and
3. inflation expectations.

As their names suggest, ‘demand-pull inflation’ is caused by developments on the demand side of the economy, while ‘cost-push inflation’ is caused by the effect of higher input costs on the supply side of the economy. Inflation can also result from ‘inflation expectations’ – that is, what households and businesses think will happen to prices in the future can influence actual prices in the future. These different causes of inflation are considered by the Reserve Bank when it analyses and forecasts inflation (Reserve Bank of Australia, 2020).

How is inflation measured?

Inflation is measured through consumer price indices, which show the development over time of prices of goods and services paid by people (consumers). In other words, a price index compares the prices of a set of products at different points in time. A price index shows how much must be paid for a product at one point in time relative to what would have been paid for the same product at another point in time.

Within the European Union (EU) there are common standards for producing such indices to ensure the consistency at European level. These indices are called the Harmonised Index of Consumer Prices (HICP). These common standards are there to ensure that comparable inflation rates are produced across the EU Member States (EUROSTAT, 2020).

Different kinds of inflation rates
If we calculate the rate of change for an index from one period to another we calculate the inflation rate, in other words, how much prices have changed (in percentage) between different periods.

As the calculation of the inflation rate can be based on comparisons over different periods, it is possible to analyse a number of different kinds of inflation rates:

- The monthly rate of change, which shows the rate of change between a month and the previous month.
- The annual rate of change, which shows the rate of change between a month and the same month of the previous year.
- The annual average rate of change, which shows the rate of change between one year and another. This rate can be calculated when a year has come to an end and shows an average index for the year.
- The 12-month average rate of change, which is an average of the monthly rate of change for each of the previous 12 months.

So what will happen to inflation next year?

We expect inflation to go down over the course of 2023. Supply will gradually catch up with demand, markets anticipate energy prices will go down next year, and base effects will drop out of the yearly price comparison used to measure inflation.

However, because the pandemic was unprecedented in modern times, this recovery might also be different. It may take longer to repair the massive disruptions to supply chains. Energy prices may continue to rise, also due to the green transition.

We are also keeping a close eye on wages because prices and wages influence each other. Employees and unions are currently asking for pay rises to compensate for higher living costs. This is normal. But if wages continue to increase, businesses may recoup their higher costs by bumping up prices, which pushes up prices even more. If people and businesses start to expect higher inflation to last, actual inflation could rise as well. Economists call this a “second round effect”. So far, however, we have not seen a large increase in wages.

What can the European Central Bank do about all of this?

They are confident that inflation will decline in the course of 2023. Because monetary policy works with some delay, it can't help against short-lived spikes in prices. Making borrowing more expensive at a time when higher energy and fuel bills are squeezing people's incomes and companies' profits would create unwarranted headwinds for the recovery (European Central Bank, 2021).

And, higher interest rates won't solve the imbalance between supply and demand, energy prices and base effects that are currently pushing up prices: they won't make more shipping containers available or boost the supplies of semiconductors and fuel. But monetary policy can ensure that prices don't permanently go up at such a rapid pace. They are therefore carefully examining the outlook for inflation over the next few years (European Central Bank, 2021).

The mission of the ECB is to keep prices stable, which means that they are aiming at an inflation target of 2% in the medium term. That benefits people across the euro area: stable prices help to ensure that the economy is growing, jobs are safe and you can feel confident that the money in your pocket will be worth roughly the same tomorrow as it is today (European Central Bank, 2021).

Deflation and Stagflation

Deflation is the opposite of inflation. It refers to a decrease in general price levels, and generally considered to be harmful to the economy. It can be caused by a decrease in the money supply, government spending, consumer spending, and corporate investment (Syu, 2021).

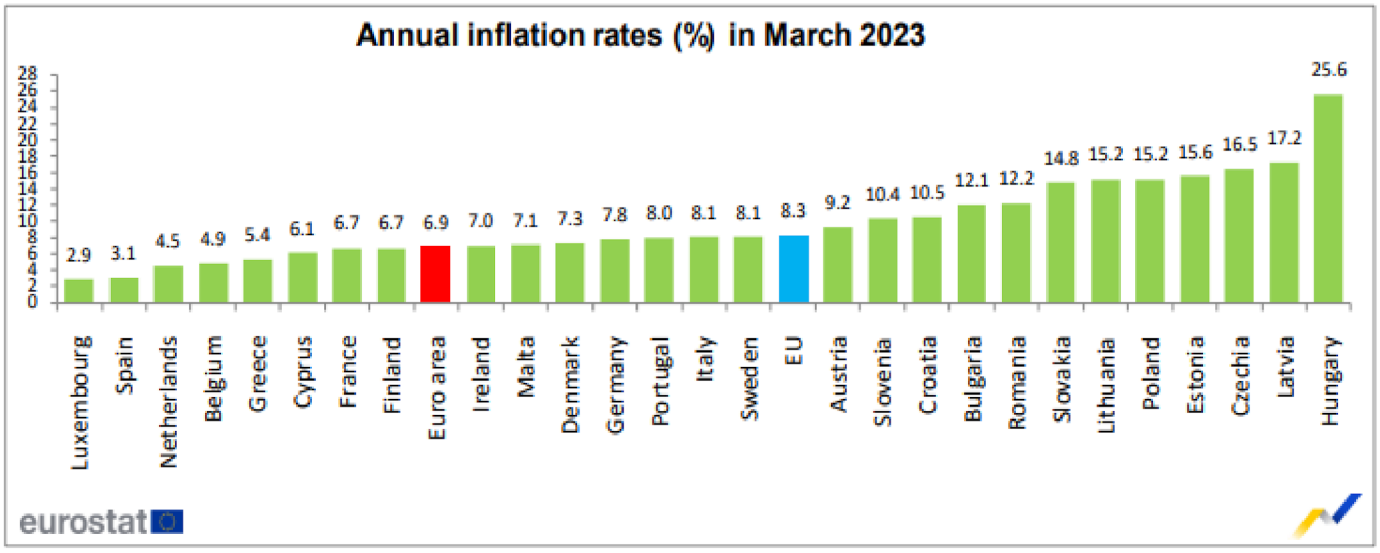
A deflation trade could be investors going defensive with high-quality bonds like government-issued debt and top-rated corporate bonds. On the equity side, investors would favor consumer staple industries and stocks with high dividend yield. Cash and cash equivalents, including Certificates of Deposit and money market accounts, are also seeing their sexy back (Syu, 2021).

Stagflation is the most dangerous of all and typically the result of a supply shock. It means “stagnation” in economic output and inflation at the same time. This is harmful for obvious reasons: with high unemployment and/or slow economic growth, people wouldn’t be able to earn enough to afford increased prices (Syu, 2021).

Annual inflation in the euro area

The euro area annual inflation rate was 6.9% in March 2023, down from 8.5% in February. A year earlier, the rate was 7.4%. European Union annual inflation was 8.3% in March 2023, down from 9.9% in February. A year earlier, the rate was 7.8%. These figures are published by Eurostat, the statistical office of the European Union.

The lowest annual rates were registered in Luxembourg (2.9%), Spain (3.1%) and the Netherlands (4.5%). The highest annual rates were recorded in Hungary (25.6%), Latvia (17.2%) and Czechia (16.5%). Compared with February, annual inflation fell in twenty-five Member States and rose in two.



Connecting with practical issues

To better understand how inflation is calculated we can use an example. In this example we calculate inflation for a basket that has one two items in it. The formula for calculating inflation for one single item is below.

$$Inflation = \frac{Price_{Year\,2} - Price_{Year\,1}}{Price_{Year\,1}} \times 100$$

Let's continue with the task of calculating the inflation for two items. The price of a book was 20 EUR in 2021 (year 1) and the price increased to 20,50 EUR in 2022 (year 2). The price of two tickets for a concert 30 EUR in 2021 and this increased 31,41 EUR in 2022[1].

[1] Note: the prices of the items are fictional and not a real representation of the market.

Items	2021	2022	Inflation
	20,00	20,50	2,5%
	30,00	31,41	4,7%

Using the formula, inflation for each of the individual items can be calculated. For books, annual inflation was 2,5 % and for concert tickets annual inflation was 4,7 %. To calculate inflation for a basket that includes books and concert tickets, we need to use CPI weights[1] that are based on how much households spend on these items. Because young people spend more on concert tickets than books, concert tickets have a greater weight in the basket. In this example, concert tickets account for 73 % of the basket and books account for the remaining 27 %. Using these weights, and the change in prices of the items, annual inflation for this basket was 4,1% - calculated as (0,73 * 4,7) + (0,27 * 2,5).

[1] A consumer price index (CPI) is usually calculated as a weighted average of the price change of the goods and services covered by the index. The weights are meant to reflect the relative importance of the goods and services as measured by their shares in the total consumption of households.

Key Takeaways

★ In a market economy where prices are determined by supply and demand, prices simply reflect what you have to pay for a product;

★ Inflation is an increase in the prices of goods and services;

★ Inflation is measured through consumer price indices, which show the development over time of prices of goods and services paid by people (consumers);

★ Within the European Union (EU) there are common standards for producing such indices to ensure the consistency at European level. These indices are called the Harmonised Index of Consumer Prices (HICP);

★ Consumer Price Index (CPI), which measures the percentage change in the price of a basket of goods and services consumed by households;

★ If we calculate the rate of change for an index from one period to another we calculate the inflation rate, in other words, how much prices have changed (in percentage) between different periods;

★ The mission of European Central Bank is to keep prices stable;

★ Deflation refers to a decrease in general price levels, and generally considered to be harmful to the economy;

★ Stagflation means “stagnation” in economic output and inflation at the same time.

Further material & reading

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- TAXEDU. (n.d.). Teachers Corner. From T04: “True Players are Taxpayers”: https://europa.eu/webassets/taxedu.campaign.europa.eu/courses/t04/en/t04_lesson_plan_en.pdf

Proposed Activities

What is tax?
The clip introduces the concepts of tax and taxation to the young audience with the help of a robot from outer space (2QT) who will be the students' guide. The lesson introduces the concept of "common contributions" and links it to the idea of supporting the common good. The concepts are explained using examples from everyday life students can easily relate to.

Video is accessible here:
https://audiovisual.ec.europa.eu/en/video/I-145760?&lg=SV

How did taxes come about?
The activity aims at helping students spotting the benefits of paying taxes, introducing examples of early and funny taxes in European history.

Video is accessible here:
https://audiovisual.ec.europa.eu/en/video/I-146791?&lg=SV

Who pays taxes nowadays?
The activity aims at helping students understand who has the responsibility of paying taxes nowadays and which are the main categories of taxpayers.

Video is accessible here:
https://audiovisual.ec.europa.eu/en/video/I-145763?&lg=SV

Who Collects Taxes and Why?
This clip presents the role of the tax authorities in each Member State and how tax revenue is converted into invaluable investments and public services at the local and national level, ensuring a better quality of life for everybody. The tax collection system is presented using an easy to understand analogy of how bees gather and share resources in their hive. Local and national budgets are presented, together with the ways in which they are supplied with funds and how these funds ultimately provide for the taxpayers.

Proposed Activities

Video is accessible here:
https://audiovisual.ec.europa.eu/en/video/I-145764?&lg=SV

Value added tax – VAT
The activity aims at helping students understand what Value Added Tax represents and how it is paid and collected in the EU.

Video is accessible here:
https://audiovisual.ec.europa.eu/en/video/I-146795?&lg=SV

Podcasts:
The podcast series 'Stats in a wrap' looks at the world through the eyes of statistics. Its aim is to pick the most delicious morsels and striking flavours to provide insights into the unexpected, the quirky and downright peculiar perspectives that only the numbers can reveal.

Episode 4: What is inflation and how is it calculated?
https://ec.europa.eu/eurostat/web/main/news/podcasts#What%20is%20inflation%20and%20how%20is%20it%20calculated?

Quizzes
Tay hero saved the day:
https://europa.eu/webassets/taxedu.campaign.europa.eu/courses/q01/MG02_EN/story_html5.html

What's the impact of taxes on Tina's life?
https://europa.eu/webassets/taxedu.campaign.europa.eu/courses/q01/MG01_EN/story_html5.html

The Mobility Era Board Game is an educational board game and app that will improve your financial literacy by using official statistics and fun facts about life. It's used by educators and students in over 40 countries, accessible here: https://mobilityeragame.com/

Chapter 3: Taxes, economic growth, public debt and public goods

Introduction

Tax collection, which is the process of collecting funds from individual social entities, is a very important part of the state functioning. Taxes contribute significantly to the economic growth of communities as well as to the management of public debt. Thanks to taxes, governments are able to finance important public services needed for the life and comfort of their residents. It is generally a very complex topic, as taxation has many forms, purposes, and consequences. And since all members of society are taxpayers to a greater or lesser extent, it is important that we understand how taxes and taxation work. Despite the fact that the forms and scope of taxation differ considerably from state to state, in this chapter we will focus on explaining the generally widespread forms of taxes, the differences between them as well as their consequences for society. We will touch on the often publicly discussed question of the benefits of higher versus lower taxation, and you will also understand whether it is okay for state budgets to be in deficit. Are you ready? So, let's explore it together and better understand the world of taxes and debt.

Types of Taxes

As was already said, each government in the world needs resources for its survival and further development. Taxes are one of the most important revenues of states and are usually classified based on different criteria. Individual governments collect different types of taxes, but in general, they all fall under the main category of direct and indirect taxes. So, what is the difference between them?

Direct taxes

The basic aspect of direct taxes is the fact that they are paid directly to the government by the individual or other entity. They therefore refer to a specific person or entity known (e.g. a company or an institution) who is obliged to pay the given amount. The nature and amount of direct taxation results from their monthly income and other types of assets.

They are therefore imposed based on the payment capacity of a specific individual or entity - in other words, those who earn more and have more wealth will pay higher taxes. These rules ensure the redistribution of money in the state. We often encounter the progressive character of direct taxes, which means that the tax rate will increase with increasing income and wealth.

Non-payment or tax fraud can be very expensive for a person or a company in terms of a large fine or long-term imprisonment. In many states, the penalties for financial fraud are even higher than for murder. So, you have to be really careful and responsible when it comes to taxes!

The most common types of direct taxes

Income tax – it is income taxation that is imposed by the government on individuals or companies, within the limits of the given jurisdiction. Higher income individuals and entities have their incomes taxed more. It is generally considered to be the fairest type of tax, as everyone pays in proportion to their salary, and, moreover, in specific situations, its amount changes (when child support obligations arise etc.). However, this tax also applies to profit from certain types of investments, which many people do not realize - for example, a very high tax is paid in some countries for profit from cryptocurrencies. In particular, income tax is divided into **personal income tax** and **business income tax**, which is called **corporate tax**. Several factors are taken into account when taxing businesses, such as their size and profit. In general, corporate tax plays a significant role in generating revenue for governments.

Property tax – This is a tax that the government or municipality collects from immovable property, which includes, for example, buildings, apartments and land. Also, some states may collect taxes on tangible property that is movable such as a car, jewelry or furniture. The amount of the tax is always subject to the specifics of the given country – its legal system, tradition, or the availability of other types of state income.

Estate, inheritance, or gift taxes – Most states in the EU but also in the world collect this type of tax. In the case of estate tax, the state collects directly from the property of the deceased. Most often, however, countries charge only one of them - property or inheritance tax. Gift tax must be paid if someone who is still alive decides to give you something.

Indirect taxes

As the above definition of direct taxes implies, some individuals with lower incomes do not have to pay such taxes to the state. But this does not apply to indirect taxes that are imposed on goods and services, and thus we are all their indirect payers. How does it work? Simply - the taxpayer should be the manufacturer or the retailer, but they will pass it on to the consumer in the form of an increased amount of goods or services, so that the buyer will pay it in the end. Let's now see what types of indirect taxes we know.

The most common types of indirect taxes:
Value added tax (VAT): This is the most common type of tax, the so-called the consumption tax we pay on the goods and services we buy. It more or less applies to all goods and services, the exception being situations where the annual turnover of the person or company that offers the product or service does not exceed a certain threshold – this amount may vary in each state. In products and services, VAT is charged as a certain percentage of the sales amount and is calculated as the final amount after adding the amount of VAT at each stage of production and distribution - in reality, however, it is directly paid to the tax authorities by the seller of the given goods or services. The average amount of VAT in EU member countries is 21%.

Consumption tax: This is the taxation of specific types of goods, which include, for example, alcohol, tobacco, or energy products. The recipients of taxes for such goods are the governments of the states where they are sold to final consumers. Their payers should be businesses, however, they often proportionally increase the prices of such goods for final customers. The purpose of such taxes is often also to discourage the consumer from buying - so the reasonable intention of the states should be to reduce the number of smokers and alcohol consumers.

Customs duties- If external importers want to import their goods to the European market or another foreign market, they must pay import duties. To give you an idea of how it works in the EU, VAT is not usually charged for goods intended for export, but on the contrary, importers from countries outside the EU pay import tax to enter the EU market, so that sellers based in the EU are competitive. We also encounter export customs.

VAT reverse charge mechanism – This is the transfer of the obligation to charge VAT for goods or services from the supplier to the buyer. The intention of this mechanism is to avoid the supplier having to register in a country where they are not established. It works in a way that the recipients receive an invoice without VAT, which they then calculate themselves and then declare in their tax return – it means they properly declare the given amount and pay it to the tax office afterwards. This mechanism was created in the EU in 1993 and its main goal was to simplify trade within the common EU market and also to prevent tax fraud.

What is more advantageous? Lower vs higher taxation?

Philosophers, economists, and politicians have been arguing for centuries about what is more beneficial for the state and society in general - lower or higher taxation? In the following text, we will describe you the most common arguments for both positions, but it is important to always take into account that none of them is universally applicable to every country in the same way - you must always keep in mind different historical realities, but especially the current economic and political situation in the country and choose the appropriate way of taxation accordingly.

Arguments for lower taxation:

Economic growth - It is assumed that by reducing taxes, the purchasing power of consumers will increase and demand will increase as well, which will contribute to higher economic growth of the country. Therefore, if we reduce taxes for individuals and businesses, their average monthly net profit will be higher. They will be able to save, spend or invest the money saved in this way.

The growth of jobs and innovations - With the reduction of taxes and the increasing income of individuals and business entities, the number of new jobs and investments in innovations also increases in direct proportion. How is it possible? Simply, when companies and entrepreneurs have additional income left, they can reinvest it, expand their business activities, or invest in the development of new products, or further research. However, lower taxes can also encourage the creation of new businesses and an overall increase in entrepreneurs who will bring new products, services, and ideas to the market.

Attracting investments and qualified workforce to the country - according to many experts, a lower tax burden is a great tool for attracting new investors to the country, who will open new businesses there, and for attracting qualified labor from abroad. The growth of jobs and the economy as such creates an increased demand for skilled individuals. Lower taxes can be a real attraction for many to move abroad or within the country.

Greater motivation and productivity of work - Higher disposable profit of employees assumes that they can save more money, which is directly related to their increased motivation to work more and longer - so overtime will pay them much more than before. According to supporters of lower taxation, this increases labor productivity, which has an impact on general economic growth. According to theorists, a higher disposable income also goes hand in hand with the principle of freedom - with a higher income, an individual is freer to make decisions about his/her life and can afford a better quality of life.

Arguments for higher taxation:

Higher taxation brings higher revenues to the state budget, which the state can subsequently use for the benefit of the quality of life of its residents. This is the main argument of supporters of higher taxes. But let's break it down step by step:

Better provision of public services and goods - For the state to function effectively and adequately meet the needs of its citizens, it must provide public services. With higher taxation, the total revenues in the budget will be higher, thanks to which the state will be able to provide such services of higher quality. Namely, it concerns the provision of life and social needs such as health care, social care, public safety, education, cultural and social enjoyment, infrastructure etc. With a higher budget, the state will be able to respond to social changes in a timely and adequate manner and thus satisfy the needs of all social groups.

Support of social justice - The introduction of progressive taxation, i.e. taxing high-income entities more is, according to some experts, socially fair, since the so-called redistribution of wealth through taxation aims to close the ever-widening gap between the rich and the poor. Thus, more money is left in the hands of low-income individuals to spend on providing for their basic needs, while high-income individuals and entities provide more resources that will be used to meet the needs of all citizens.

Stabilizing the economy in times of crisis - The world of economics is a series of repeating cycles - fluctuations in economic activities that mean alternating periods of recession and growth. Even if the state can be more or less prepared for, its development can be influenced by other unexpected factors, such as the global pandemic or the war in Ukraine. Higher taxation is therefore an effective tool to stabilize the economy, especially during a recession. Thanks to higher state revenues, governments can more effectively help the most affected groups of the population and also finance various projects and programs stimulating economic growth and economic recovery.

It ensures fiscal stability - It often happens that states operate with an unbalanced budget, or even a balanced budget can become unbalanced - in deficit, due to unpredictable factors. In order to cover their deficits, countries have to borrow money from various sources. It is precisely higher taxation that can effectively help states to have money to repay their debts with, and thus move towards fiscal stability, which is very important for the healthy functioning of the state in the long term.

A debate between neo-Keynesian and neo-liberal views on taxation

When discussing taxation, we cannot miss the dispute between the followers of the neo-Keynesian and neo-liberal approaches. These groups basically have opposing views on taxation policy and its effects on society. So what are the basic differences between them?

Neo-Keynesian approach - its main attributes are a focus on economic growth and stability, while the main argument is the need for active government intervention in the management of the economy. According to them, the market is imperfect, and therefore the state should make active efforts to eliminate its failures. One of the tools that the state can use is the taxation policy, which can strengthen economic performance or employment growth in times of crisis, or, conversely, stimulate investments or spending in times of economic growth. Followers of the neo-Keynesian approach are often supporters of progressive taxation.

Neo-liberal approach – Neo-liberal followers, on the other hand, are supporters of a free market with minimal state intervention. They advocate for general freedom that should not be restricted by high taxes. According to them, these are a disruption of the functioning of the market, which will cause stagnation of investments and overall economic growth. They think a lower tax burden brings greater economic efficiency because it reduces the state's costs of control and promotes better compliance.

These two opposing attitudes towards taxation have long shaped political debates about the need for taxation, its role and forms. Could you identify which groupings on the political spectrum are the usual followers of the neo-Keynesian and neo-liberal approach? The most frequent supporters of the neo-Keynesian approach to taxation are parties from the center-left spectrum, which include social-democratic as well as liberal and progressive political movements. On the contrary, right-wing political parties, conservative groups, or libertarian movements usually lean towards a neoliberal understanding of taxation policy. However, we must take into account the fact that these positions of political parties are not immutable, and, above all, they are not generally applicable to all types of parties of the given spectrum.

Why do states run deficits and how are they covering them?
State budget deficits and indebtedness of the developed countries are a very common economic phenomenon nowadays. Is it a problem or a common practice of state management? From a short-term perspective, a deficit budget is nothing exceptional and it is not a tragedy for the state. A problem can arise if the state has a deficit budget repeatedly, having to constantly increase its public debt. But let's first look at the cause of deficit budgets.

Deficit state budgets are most often created in an **economic recession**, during which the economic activity of the population decreases and at the same time state income from taxes decreases. On the other hand, the social system is also heavily burdened, as several groups of the population may find themselves in need. However, it is a normal part of the economic cycle, because recession is always followed by growth, which, with good management, assumes a **budget surplus**. However, states can easily run into a deficit even when **financing very economically demanding infrastructure investment projects** or when approving expensive social packages to support residents. This type of politics is typical of many populistic political parties, which often use this tool in the pre-election battle.

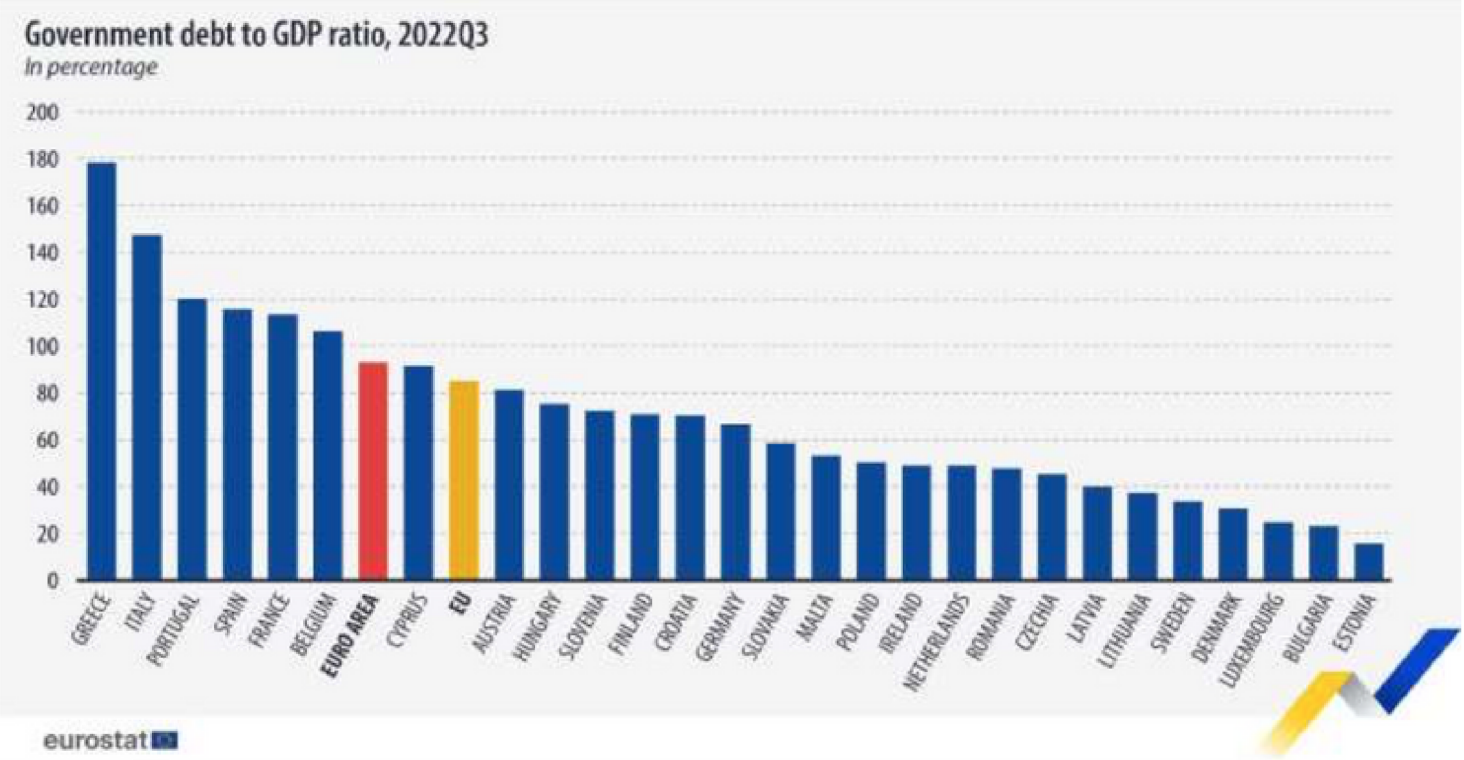
How do states repay their debts and how does this affect the average citizen?

States generally use several instruments to repay their public debt, the most common of which are the following:

1. **The state relies on economic growth** - every recession is followed by growth, so some well-run states tend to rely on an expected budget surplus.
2. **The state borrows money** - this is a commonly used practice, and most often states borrow from investors. It works in such a way that if the state wants to borrow, it issues government bonds, i.e., securities, which are offered to investors on the market - most often pension funds and insurance companies. By buying government bonds from selected investors, the government gets money, which it then pays back with interest.
3. **Getting finance from reserve funds** - well-run governments save accumulated surpluses during economic growth in reserve funds, from which they draw precisely in times of crisis.
4. **Tax increase** - it is one of the common fiscal measures that governments introduce in times of crisis and deficit budgets. They will either increase the existing tax burden or introduce a completely new type of taxes.
5. **Public Private Partnership (PPP)** – this is a form of cooperation between the state and the private sector, the purpose of which is to jointly finance the construction or reconstruction of public infrastructure. The counter value for such investment is the subsequent authority of the operation, which is often related to the charging of the respective public service.
6. **State spending cuts and reforms** – States often cut various public expenditures in less important areas to reduce their public debt and also introduce reform measures with the aim of saving.

As for the impact of the state deficit on the everyday life of citizens - it depends on several factors that are present in the given state. Citizens and their quality of life are more negatively affected the longer the deficit lasts, and the public debt grows. Citizens can significantly feel the negative effects of tax increases, deterioration of the quality of public services, and even job losses due to the crisis.

Check on the levels of public debt all over Europe:



Connecting with practical issues

Imagine a world where we didn't pay any taxes! Hmm, at first sight and hearing, it sounds like a perfect world - I don't have to pay any of my hard-earned money to the state. I can enjoy life and afford to buy more, so my life would be much better. But don't forget to look at the other side of the matter - where would the states get the money to provide us with the basic services, which we cannot imagine life without? We would not get a quality education, if we got seriously ill, there would be nobody to help us or pay sickness benefits, our safety and rule of law would not be guaranteed, we would be driving on broken roads...and we could go on. In short, without public finances obtained from taxes, democracy, and the state as such could not function. Taxation must be seen as a necessity, without which the state would not be able to fulfill its basic functions. Let's now use a few practical examples to illustrate how individual types of direct taxes work:

Income tax - Adam finished high school, got a job in an IT company and finally holds his first envelope with a payslip in his hands. He discovers that the amount is significantly lower than he expected, i.e. different from what he was promised during the interview. Surprised, he runs to his boss, who explains to him that his salary was reduced by the so-called income tax that was paid to the state. Adam is confused that the government is taking part of his salary and wonders if every worker pays the same amount and what the government needs the money for. "No, no, everyone's income tax is calculated as a percentage, which means that the more you earn, the more you pay to the state. The state is then able to cover basic public services from the collected money", answered Mr. Smith. Adam was relieved and felt a good sense of belonging for building the community together.

Property tax - Loren finally bought her dream apartment after many years of saving. One pleasant afternoon, she was having coffee with her friend Stella, who asked her if she had paid her property tax yet. Shocked, Loren asked her what kind of tax it is and to whom it should be paid. "It's a regular tax that property owners pay to the local government, which then finances various important public services with the collected money," replied Stella. "Ugh, I didn't know that, do you know how it works?" Loren asked. Stella explained to her that the tax is calculated on the basis of several factors such as the price of the property, its size or location. She also reassured her that she would receive all the information in time from the local responsible office. Loren was relieved.

Estate, inheritance, or gift taxes - Some time ago, Joseph learned the sad news that his beloved grandfather had died. He decided to leave his small house to his grandson. One day the father sat down with Joseph to discuss the situation. He wanted to remind him not to forget that despite the grief they have, he has to do some paperwork regarding the inherited property with the authorities and pay the inheritance tax. However, Joseph does not know these things and asked his father for advice: "Inheritance tax? How much and to whom should I pay it?" The father explained to Joseph that he must gather all the papers proving his claim to the property and ideally, he must seek the help of a tax expert or a lawyer to help him handle everything with the authorities. However, he explained to him that the amount is mostly calculated according to the value of the property. Joseph thanked his father and promised to take care of it as soon as possible.

Key Takeaways

★ Every government needs revenue to provide public services and further development, while taxes are one of the most important state revenues.
★ All residents are co-responsible for financing the proper functioning of the state and its public services, which include, for example, social care, healthcare, security, education, infrastructure, etc.
★ The types of taxes and their scope may differ from country to country, but taxes are generally divided into direct and indirect.
★ Direct taxes apply directly to a specific person or entity that pays them to the government. Such taxes include income tax, property tax, estate, inheritance, or gift taxes.
★ Indirect taxes are mostly part of the prices of goods and services, and thus everyone is their indirect payer. Such taxes include VAT, excise duty or duties.
★ For decades we have witnessed debates about the benefits of lower reps. higher taxation. The main advantages of lower taxes include, for example, the support of economic growth, the stimulation of investments, research, and jobs. Conversely, supporters of higher taxes point to better provision of public services, support of social justice or support of the country's economic stability.
★ The discussion between the neo-Keynesian and neo-liberal views on taxation has been shaping political debates for a long time, as their views on the issue are completely different. While the neo-Keynesians emphasize the need for economic stability and growth even at the cost of state intervention in the economy, neoliberals prefer the free market, low taxes and minimal state intervention.
★ Deficit budgets are not unusual, but it is important to have a clear plan on how to repay the public debt. There are several ways, such as drawing money from loans, from reserve funds, higher taxation, PPP projects or reducing expenses and introducing reforms.

Further material & reading

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- Congressional Research Service, 2017, Deficits and Debt: Economic Effects and Other Issues, Retrieved from: https://crsreports.congress.gov/product/pdf/R/R44383/5

Proposed Activities

Videos

What kinds of taxes are there?

The video's purpose is to assist students in comprehending the primary categories of taxes implemented within the European Union.
Link for video: https://www.youtube.com/watch?v=gma5ofcKsJA

VAT Across Europe

For businesses engaged in or considering selling products in Europe, Value Added Tax (VAT) can present complexities. This video aims to explaining the fundamental principles of VAT in Europe, providing clarity on the topic.
Link for video: https://www.youtube.com/watch?v=MziueJjeQm0

What is income and how is it taxed?

The video explains the concept of income and how taxation applies for both individuals and companies. It describes the benefits coming from paying income tax.
Link for video: https://www.youtube.com/watch?v=tvsRURiN-DM

What's The Difference Between Progressive And Regressive Taxes?

In this video, the distinctions between progressive, regressive, and proportional taxes are explored, aiming to educate viewers about the advantages and disadvantages of each tax system.
Link for video: https://www.youtube.com/watch?v=Ofy7JkIzrOs

Lower Taxes, Higher Revenue

The question of whether tax rates should be higher or lower is a complex one, and different perspectives exist on the matter. In this video professor Tim Groseclose explains one of the very important economic concept – Laffer curve.
Link for video: https://www.youtube.com/watch?v=FqLjyA0hL1s

Podcasts:

This episode explains on the problem of public dept, its history and if we should be worried about our future or not.
Link for podcast: https://www.bbc.co.uk/programmes/m001hx4q

The Economy: 4. Bonds, Gilts, Stocks and Shares

In this episode you will listen who is lending money to governments and how the whole system works.
Link for podcast:https://www.bbc.co.uk/programmes/m001dxv3

Chapter 4: Central banks and currencies

Introduction

Money, currency, coins, and banknotes. These are the most tangible things and terms from the world of economics and basically everyone knows and uses them. In politics, money is certainly one of the most used words. It did not always have the same form it has today, the means of payment underwent quite a long development process throughout the time. In fact, it's still changing and how we are going to pay for goods and services is one of the discussion points for economists and other financial experts. It's a part of our everyday's life, we can also say an indispensable one. Therefore it's useful and important to have insights into various aspects of currencies and institutions that issue them - central banks.

We cannot forget about exchange rates, because from time to time it's necessary to convert amounts when asking for reimbursement of expenses, or to get currencies from other countries - for business, holidays, or just if you collect money from around the world. It's also not so difficult to find money exchanges that use a very bad rate, which is not related to the reality of the foreign exchange market. Hence the knowledge from this field helps to not get scammed and quickly check how to save money.

We will also touch upon the topic of alternative currencies, which are gaining more prominence as a means of promotion of towns, regions, or fields of work, and support of local economies. Even though we live in an interconnected world, or perhaps because of that, turning attention to local producers and supporting them is an increasing trend. Alternative currencies are then complementary to their national counterparts and help keep financial resources in a certain locality, community, or economic sector. As the reader will find out, they can also contribute to democratic public participation. On the other hand, there are also common currencies, those shared by one or several countries, but there is a special chapter dedicated to this topic.

The goal of this chapter is to provide an overview of main terms and concepts related to currencies and central banks, so that youth workers can effectively pass them on to young people and make them aware of what is behind money in their bank accounts or wallets, and ultimately empower them with knowledge to not get fooled by fraudsters, make good economic decisions, and have their personal finances more resilient. Proposals of a few activities that support this goal are included at the end of the chapter.

Main points of issue

What are currencies

As a basic definition, we can say **the currency** is a commonly accepted form of money (e.g. coins, notes, virtual form) that is issued by a state or monetary union and circulated in a particular or global economy.

Now you are probably wondering what **money** is. It is any physical (and today also virtual) item that is generally accepted as a medium of exchange or, in other words, a means of payment - it can be currency, but also commodities - in a particular country or economy. Other functions of money are: a unit of account and a store of value. Before the introduction of money, people just exchanged one good or service for the other in an act of trading called **barter**.

Back to currencies. There are two basic types of them, which define how strong and reliable it is, or in other words, how much it's suitable for trading and savings. **Hard currency** is always exchangeable (convertible) and globally traded, serving as a stable and reliable store of value. Globally used hard currencies are the United States dollar, pound sterling, Swiss franc, Japanese yen, or euro. However, we can say that any currency of the EU Member States is a hard one, because they are stable.

Soft currency is very sensitive to harmful events, both internal and external. It doesn't maintain its value. It's therefore unreliable and referred to as a "weak" currency. It is also often not openly exchangeable (non-convertible) for any other currency on the foreign exchange markets (forex, FX, which is a global and decentralised market for trading of currencies) or other stores of value.
They can be exchanged in countries of their origin, sometimes in banks or exchange offices. For example, during communist regime, Czechoslovak koruna was an example of soft currency. Usually, weakness of the currency is related to political or economic uncertainty of the country that uses it. Today, soft currencies are for example Zimbabwe dollar or the Venezuelan bolivar. Some countries decide to peg their soft currency to a hard currency, e.g. euro or U.S. dollar. You will explore what it means later in this chapter.

Where do the currencies come from? In most of the cases, they are issued by central banks, governments, or even private organisations (in the case of alternative ones). Nowadays, **issued currencies** don't need to have a physical form, they can also be digital, virtual (by the way, these are not cryptocurrencies).

But even in that case they **have a creator who controls their quantity** and they exist, in the form of numbers on computers. These currencies are used during transactions

The other **currencies are metric**. Simply speaking, they are digital units of value. They are measuring the value that is going from the provider to the receiver. Since they do not exist on traditional markets, no one accumulates or chases after them. They don't have a creator who controls their quantity. They are basically made after the transaction as its **virtual record**, but do not exist before. For example, currencies used in Community Exchange Systems (CES), which is a type of a Local Exchange Trading Systems (LETS), are metric. How does it work in practice? Like this:

A person creates an account enabling them to use a particular local exchange via the Community Exchange System platform. Then they get access to space which is similar to a social networking website or online shopping mall. There they can offer goods or services (including work/volunteering time) and accumulate units of value after they sell something. These units allow them to buy things on the platform/exchange. Generally speaking, each platform uses its own unit of measurement of values that are transferred and recorded in the system. Hence we can call those units “currencies”. On other types of LETS, it’s possible to use issued virtual currencies instead of units of value. Some platforms also use physical currencies as a tangible record of the electronic credit.

One role of money is to be a unit of account. Before the introduction of the euro, the European Economic Community used the European Currency Unit which had exactly this function. It was not circulating and didn’t replace any currency of the EU Member State. It was a so-called currency basket - a portfolio of currencies with various weightings - used e.g. to indicate the value of some international financial transactions and transfers of capital.

Monetary system
This is the system, in which the state or a supranational entity, such as the EU, is providing money in the economy of that country or union. These systems usually consist of the national treasury, the mint, the central bank, and commercial banks. There are three types of this system:

-**Commodity money**, where commodities such as gold are used as money themselves.

-**Commodity-backed money**, where currency has no or very low real value, but it's backed by commodity (typically gold, silver, or both at the same time, when we talk about metal-backed currencies) and can be exchanged for it.

-**Fiat money**, where money is so-called legal tender: something that is recognised as a satisfactory payment. That something is an official national or supranational currency and coins and banknotes of that currency are usually defined as a legal tender. Some countries also include a specific foreign currency in this definition. On the other hand, personal cheques, credit cards, or other non-cash methods of payment are usually not a legal tender.

A currency is taking a physical form - coins and banknotes - and a virtual form on the bank accounts or exchange platforms, basically virtual coins and banknotes. Cheques, cards, coupons, vouchers, etc. used for payment are then backed by currency in these forms. Also value of securities, stocks, or bonds is predominantly expressed in a certain currency.

It was possible to read on banknotes that they are backed by gold. How does it work precisely? First of all, the value of the currency was directly linked to gold in the so-called **Gold standard**. One unit of the currency was also equal to a certain amount of gold. For example, in 1929 the law in the Czechoslovak republic determined that one Czechoslovak koruna (crown) has a value equal to 44,58 milligrams of gold. Practically, there were mainly two options. Currency was exchangeable for other currencies that were covered by gold, or it was possible to exchange it directly for gold. Even though the currencies are usually not backed by gold anymore, the central banks are still keeping gold reserves.

What are central banks

They have been already mentioned several times in this and other chapters, but what are they and what are they doing? Sometimes referred to as the monetary authority or national bank, the central bank determines the **monetary policy** of the country, keeps an account of the state budget, manages foreign currency and gold reserves, and is a m**onopoly issuer of national currency**. As such, central banks regulate the value and amount of currency in circulation, whether in physical or virtual form (with the exception of countries in the eurozone, where the European Central Bank has taken over this role).

Central banks set rules for and supervise activities of commercial banks and other financial institutions. They also provide licenses to them. Through their interventions, they can influence the exchange rate of the currency, interest rates, and inflation/deflation.

By the way, a bank in general is a financial institution that accepts deposits from the public, creates deposit accounts (e.g. savings accounts, current accounts), or provides loans. The bank can also carry out lending activities indirectly through the capital markets. Today they are providing additional services, such as insurance.

Now, why is there a distinction between notes and banknotes? In the times of economic crises, governments and sovereigns used to issue the state notes to lower the state budget deficit. These notes were not backed by gold, for example, and their exchange rate was authoritatively determined by the issuer. People were obliged to accept these notes. Issuers could exchange them for gold, but it was usually not the case due to the state budget deficit. Something else happened instead - deficit and amount of state notes were increasing, which sometimes led to state bankruptcy. Today it’s prohibited to issue this kind of notes.

Why do we need central banks? They issue the currencies, the money, and take care of their stability and real value. But there is more and you can find an answer in the next chapter “Connecting with practical issues”. Before that, let’s have a look at European, international, and local levels.

European Central Bank

It is one of the institutions of the European Union and has its seat in Germany, Frankfurt am Main. It has the several roles:

- develop and issue euro banknotes (Member States that use euro are responsible for issuing the coins and the ECB is approving their quantity);

- take care of the financial stability of the Eurozone;
- make sure that euros in your wallet or account is a valuable and safe currency;

- set regulations and minimum standards, e.g. interest rates, for banks and other financial institutions in the Eurozone;

- make sure loans and mortgages are accessible, people get good interests on their accounts, and prices are more stable in the Eurozone (by making sure the inflation is predictable, low, and stable).

The ECB formally replaced the European Monetary Institute on 1 June 1998 on the basis of the Treaty on European Union (Treaty of Maastricht). It started to exercise its full mandate and powers by the introduction of the euro on 1 January 1999.

Eurosystem

Group of EU Member States (currently 20) is called the euro area or eurozone. The Eurosystem is something different: it comprises the European Central Bank and the national central banks of the Member States who are part of the eurozone. The Eurosystem as a whole is the monetary authority of the eurozone.

Its primary objective is to maintain price stability. It also aims to safeguard financial stability and promote European financial integration. The Eurosystem basically guarantees that cooperation, and not excessive centralisation, is the leading principle in European central banking.

Cooperation among central banks

Cooperative approach is not reserved only for central banks in the eurozone, it's practised all over the world. They can be in touch via diverse channels, fora, meetings, or conferences. Bank for International Settlements (BIS) is an example of institutionalised networking. As stated on its website, it promotes global monetary and financial stability through international cooperation. Its members are central banks from all over the world. It also has an Innovation Hub to support technological development in the banking and financial sector. Bank for International Settlements is also a bank for central banks.

International banks

There are also international organisations with the word "bank" in their name. Probably you heard about the World Bank. Contrary to BIS, it doesn't have central banks as members, but it's also an important actor in the financial and banking cooperation. The World Bank is made up of 189 member countries. These are basically shareholders and are represented by a Board of Governors - the policymakers at the World Bank. Generally, the member countries' ministers of finance or ministers of development are appointed as governors.

The World Bank is also a group. Its five institutions are IBRD (the International Bank for Reconstruction and Development), IDA (the International Development Association), IFC (the International Finance Corporation), MIGA (the Multilateral Investment Guarantee Agency), and ICSID (the International Centre for Settlement of Investment Disputes). They all are committed to reducing poverty, increasing shared prosperity, and promoting sustainable development.

The Council of Europe Development Bank (CEB) is a multilateral development bank, which has an exclusively social mandate, as it promotes social cohesion in Europe. The bank is financing social investment and projects that serve vulnerable people. Currently it has 42 member states who are its shareholders. All members of the Council of Europe (which is, by the way, the leading human rights organisation in Europe) are eligible to join the CEB.

Other regional banks are for example African Development Bank (AfDB) Group and Inter-American Development Bank. Shareholders of the former are 54 African countries and 27 non-African countries, shareholders of the latter are 48 member countries from across the world (it has headquarters in Washington, DC, and focuses on development in Latin America and the Caribbean).

Alternative currencies

These currencies are not issued by central banks and contrary to national or supranational currency (like euro) they are not a legal tender, meaning they are not recognised as a means of payment by national, European, or international law. However, it doesn't mean they would be illegal - their creators just need to guarantee that they are backed by some currency issued by a central bank or by a commodity. If they are metric, the exchange system needs to be safe. There can be several types of these currencies:

-complementary currency: issued to complement a national currency, but it's usually not a legal tender (there can be exceptions though);
-community currency: used by a group of people, such as residents in certain area, or members of an association, business, or online community;
-local currency: used in a small geographical area, such as town;
-regional currency: used in a larger geopolitical area, such as region;
-private currency: these are used for payments in specific shops or when trading with a specific private organisation, e.g. business or non-profit;
-sectoral currency: used within a specific economic sector, such as education;
-alternative currency: generally it's a synonym for above mentioned currencies. Other synonyms are auxiliary currency, microcurrency, or Eco-Money.

If these currencies are not issued by central banks, who creates them? It can be basically anyone - local public authorities, communities of people, private companies, non-profits, or even individuals. Don't forget they don't need to have a creator, since they can be metric. Their aims also vary - from supporting local economy, own business or non-profit activities, to drawing attention and propagation.

When it comes to the latter, promotional notes and coins are not alternative currencies. They are issued just as souvenirs for tourists and collectors. These cannot be used for payment.

What else should not be confused with alternative currencies? Various coupons, vouchers, or tickets that are used for payment only for a specific good or service (if you have a voucher for public transport you cannot use it to buy vegetables at a local market).

IWho issues cryptocurrencies? They are virtual (digital) currencies based on a decentralised model, there is no central authority that is creating these currencies, which can be local, but mostly are global. Software for cryptocurrency can be created by anyone who has technical knowledge and capacities. Also these currencies need to be exchangeable for those issued by central banks: a decentralised digital system verifies that the parties of a transaction have the money they claim to have.

Local exchange trading system

Alternative currencies are also used in local exchange trading systems (LETS). They are local, democratic, and non-profit community enterprises that record transactions of involved people who are exchanging goods and services. They also provide relevant information services. In LETS, it can be possible to negotiate the value of goods and services. Both issued and metric currencies can be used.

Similar systems are called for example Mutual Credit trading systems, Community Exchange Systems, Trade Exchanges, Time Banks, or Clearing Circles. Those use metric currencies.

What is the (foreign) exchange rate

The exchange rate is basically the value (price) of one currency expressed in terms of another currency. At this rate, one currency can be exchanged for another currency. However, the exchange rate is not always determined only by the rules of the free market, because central banks may intervene and change it, especially when they want to support either import or export of goods and services.

A bit of mathematics. The quoted currency - which we have at hand - is typically the numerator. The base currency - which we want to purchase - is the denominator. For example, if we are quoting the number of the Czech koruna needed to purchase 1 euro, then we note CZK 23,648 / EUR 1. Like this, we use home currency as the quoted currency - this is direct or price quotation. If we used home currency as the base currency (EUR 0,04229 / CZK 1), then we would use indirect or quantity quotation.

There are two main types of exchange rates. The first one is **fixed**. It means that a government or central bank ties the exchange rate of the country's official currency to the stable reference point, typically the price of gold. The purpose is to keep a currency's value stable.

The second type is **floating**. Here the exchange rate of the currency is set by the forex market based on supply and demand. It's not determined by the government, however the central banks may intervene.

There is also a third type, and it is the **pegged** exchange rate system. This one combines aspects of floating and fixed systems: the government or central bank decides to "peg" the national currency to one other currency or a basket of currencies (based on trading relationships or which currency the country's debt is denominated in). Value of the pegged currency then fluctuates in roughly the same way as the main currency. The examples are Bulgarian lev or convertible mark from Bosnia and Herzegovina.

Connecting with practical issues

Do we really need currencies?

By far, currencies are the most common form of money, the most used form of payment. They make it easier for us to determine the value of things and pay for goods and services. Without them, we would need to go back to barter trading or use commodities, such as rare metals, as a means of payment. That would make things complicated and also, sources of rare metals are limited. Cryptos are increasingly used in digital space, but it's unlikely they would replace classical currencies, because they are used only in virtual space and their values can be influenced by external events and fluctuate.

The discussion today is not about replacing currencies, but how to adjust them to the modern world. Virtual form of currencies is now predominant. Large transitions are no longer made in cash, but via bank transfers. People buy a lot of stuff online and pay with credit or debit cards. In some countries, coins and banknotes are still used in shops and stores a lot, but in some countries people tend to pay rather by cards. Both methods have their pros and cons. Paying by cash gives you anonymity and you can more easily control how much you spend at the moment, but you need to carry coins and banknotes with you. Paying especially by card or via bank transfer is faster and you can easily track your spendings, but it's much easier to spend more than you planned at the moment and lose control of your finances.

The discussion is about virtual currencies rather than replacing them e.g. with cryptos. It seems that currencies will not be replaced in near future, physical coins and banknotes will not disappear. Their virtual forms and virtual payments are just on the increase.

Dollarization and euroization

Another discussion point is about whether it's necessary for a country to have its own currency. In the case of monetary unions the members are using the common currency (here we will not go into details, as there is a chapter dedicated to this topic). However, a country can decide to use the currency of another country even if they are not in any kind of union. This phenomenon is called dollarization, euroization, or more officially a currency substitution. It can be complete or partial. For example, Montenegro is using only the euro as its official currency. Partial substitution means a possibility to use two (and theoretically more) currencies simultaneously: national one and foreign, a stronger (hard) one. Advantage is that the country in question is able to trade in a stronger and more internationally recognized currency. Disadvantage is partial or complete loss of financial autonomy (limited possibilities of central banks to implement their own monetary policies and influence exchange rate when really needed).

And why do we need central banks?

They issue the currencies and take care of their stability and real value. Even if they don't issue currency, like central banks in the eurozone, and even if alternative currencies are well and effectively used, central banks are still important. They manage foreign currency and gold reserves that can be used for international transactions and used to stabilise the economy and value of the currency. They create regulations and minimum standards to make sure the whole banking system is safe and sound and your money stays safe in the banks. For reliable commercial (private) banks it's also important to help their clients to be financially literate and stable and keep their money safe, but their main aim is still to make profit and be more successful than others. Central banks don't need to consider these aspects of banking.

They also publish information and materials to raise financial literacy of the public and various predictions which can help you plan your savings and spendings. They can control floating exchange rates through interventions (make the currency stronger to support import, or make it weaker to support export), or influence inflation (for example through interest rates).

When it comes to interest rates, by their increase or decrease the central banks can control accessibility of mortgages and loans. There are also other parameters in this regard whose value is being set in rules created by central banks: LTV (Loan to Value), DTI (Debt to Income), or DTI (Debt to Income).

In this context, let's also mention one good example from the European Central Bank. It's called TLTRO (Targeted Long-Term Refinancing Operations). It basically is a long term plan to incentivize national banks to lend, and thereby to support customers, businesses, etc.

Criticism of (policies of) central banks

There is also criticism of central banks. One of them is related to inflation. They can set a so-called inflation target and if the inflation is lower, then they increase it, so that prices don't decrease too much. This is, however, considered an unnecessary decrease in the value of money. Critics also say that the natural state in the economy is deflation (prices go down) and not inflation.

Monopoly to issue national currencies and set regulations is also often criticised, especially because it can be misused by politicians. Therefore, one of the principles of democracy is independence of central banks on governments and other institutions of the executive power. Today, there are also alternative and crypto-currencies and therefore the monopoly of central banks is a bit limited or, we can say, bordered.

In the past, cheaper metals were added to the coins whose real value was then lower. In modern times, political misuse of central banks leads for example to extensive printing of new banknotes, which can result in hyperinflation or even collapse of the economy. Last but not least, presidents (or other heads of state) often have power to appoint the head of the central bank. Sometimes there is a risk that they will appoint someone based on political affiliation or loyalty rather than professional capacities.

Advocates of an absolutely free market would say that central regulations are not needed and it should be up to providers to offer good options and up to customers to choose what's the best for them. The question is, who would protect people against misinformation, fraud, or malicious activities then?

Some economists, e.g. F.A. Hayek, criticise the existence of central banks as such. According to them, there cannot be one institution managing or running the whole economy or its parts, because it's decentralised by its nature.

Politicisation of the (European) Central Bank

One topic associated with central banks, and one we have mentioned a bit under the previous point, is their politicisation. It's discussed at both national and European levels. The actions of central banks and potential political influence in this context are sometimes controversial. Are these banks acting solely in the interest of citizens and the free market, or do they rather follow political interests and somehow populistic tendencies? There are three principles that should guarantee the former case and it's important to draw attention to them, so that it's not so easy for political power to influence central banks and value of money in our pockets: independence, impartiality, and conventionalism.

Independence means that central banks are highly autonomous and are not subordinated to other institutions. There can be some dependency, for example when the head of the central bank is appointed by the head of state.

Therefore impartiality is so important, because the bank's decision should not create winners and losers. When deciding, the bank should always consider the interests of the citizens, not particular economic, social, or political groups. Conventionalism means central banks should follow their conventional policy means and objectives. In other words, they should not go over the mandate they have by the law (e.g. issue currency, take care of financial stability, etc.) and should not be creative or start seeking some other, for example political, goals. Their decisions need to be made only on the basis of economic factors and reasons, and not political ones.

The biggest cash changeover in history

When euro was introduced, it was a huge logistical exercice. 5 billion banknotes and 52 billion coins were put into circulation in a matter of weeks and under the strictest security. Public also had to be educated about the new currency: its 7 denominations and their security features.

The European Central Bank develops and issues euro banknotes. But how is it with coins? It's the responsibility of EU Member States that are part of the eurozone to issue the euro coins. Typically, the issuing body is the treasury within the national ministry of finance. National mint physically produces the coins, which are then put into circulation by the national central bank. ECB approves quantity of coins.

Alternative currencies

There are many alternative currencies around the world. In this chapter, we use Corrency as an example, because it has quite an interesting concept. It's a system that used virtual issued currency, supported the local economy, and allowed citizens to participate in the process. During a pilot project in 2021, inhabitants of the city of Kyjov in the Czech Republic who signed-up to the online system received in total 800.000 corrents (local currency) from local public authority, which were fully backed by the Czech koruna. Having the corrents encouraged citizens to buy goods and services from local businesses. When paying, citizens added 50% as a kind of co-financing. Basically speaking, people paid for 50% of the content of their baskets with the Czech koruna and 50% with corrents. Public authorities then received corrents from businesses back and exchanged them for the Czech koruna. Alternative currencies are mostly exchanged with the official (national) currency at a rate 1:1, and this one was not an exception.

The co-financing is not usually used. The System of Corrency also shows that alternative currencies can support democratic public participation.

In Kyjov, people decided which businesses they support by buying their goods and services, but it's also possible to use the same approach when distributing public funds - in that case people decide which project they support with alternative currency that was given to them by public authorities (with or without the option to add money from their own pocket). It can be more attractive to the people than just voting for projects and it would increase transparency in public space, from local to the European level.

Advantages of alternative currencies:

-they tend to circulate more rapidly and it's not necessary to issue bigger quantity;
-some of them are covered by local commodity and are resistant to inflation;
-usually they motivate people to buy local products and services;
-they can strengthen local communities and relationships between their members.

Disadvantages of alternative currencies:

-they are not under control of the central bank;
-they can help create income/profit within grey economy;
-these currencies and their use are not included in the law - hence there is higher risk they can be misused;
-if they are metric, they cannot be used outside the community trading system.

Also in the centrally planned economy, where state institutions dictate what needs to be produced or what are the prices, there can be something like a complementary currency. In Czechoslovakia, there was a network of retail stores with foreign goods, mostly of Western origin. In these stores, only foreign currencies or Tuzex vouchers (bony) were used for payments. Since it was possible to get vouchers only in exchange for foreign currencies, the communist government used this system to regulate the trade with foreign goods and to draw foreign currencies from the population. Since bony were used for payment of any goods offered by Tuzex, we could call them an alternative state currency.

Value of cryptocurrencies

Cryptocurrencies are certainly a medium of exchange, but they differ from traditional currencies: they are based on a decentralised model and created through software. They are often not considered as currencies in the traditional sense, but as distinct tradable assets (like stocks, securities, commodities). Their value is determined by the economic law of supply and demand, interest in buying them on the market and quantity that is available to buy. Hence the ideal price would be if these two were in equilibrium, but we can see that it is increasing when there is higher interest and limited availability. The price drops also down when the interest (and mostly the trust) in crypto goes down as well.

There can be two specific situations. First, if the demand rises regardless of the crypto's value we say it's overbought (and usually expensive). Second, if a big quantity of crypto is sold and there is no solid reason for that, then it's oversold (and usually underpriced, as there is a high supply).

Local exchange trading system

Now we are going back to alternative currencies for a while. They are important for the existence of Local exchange trading systems. One could say these would work with the official currency as a means of payment as well, but then there would be no reason why to create LETS, because within traditional market space it's possible to create various platforms for exchange of goods and services where people pay with the official currency (or use barter system). Dimension of strengthened support of local businesses, specific economic sectors, or local communities would be basically lost.
As described in the previous chapter, both issued and metric currencies (units of value), and even cryptos, can be used in LETS. Practically speaking, these currencies are traded in exchange for goods or servicesand can be - in most of the cases - exchanged for official currency later.

However, they can also be bartered. First case is this: if we don't see them as a medium of exchange, but as a commodity (e.g. for those who collect notes and coins). In the second case, they are proofs / records of transactions within the system and cannot be used outside the system, e.g. exchanged for official currency. However, it's questionable whether we can talk about barter system here.

Third case is this: let's also say that for example at a Community Exchange System platform people are directly exchanging some goods or services and this action is also recorded as an exchange of certain virtual amounts of units of values (e.g. as a bonus or an incentive to encourage people to use the system further).

These systems are developing and there is still a lot of space for innovations.

Examples of LETS can be found in Prague and Brno in the Czech Republic. Through a system called PRALETS, people from Prague are offering and buying goods and services. Instead of official currency, they use a virtual form of local currency recorded on accounts on platform Cyclos. In Brno, their system is called RozLEŤSe and also uses platform Cyclos. In the UK, there is even the Local Exchange Trading and Complementary Currencies Development Agency. They support these systems nationally, represent them in media, to government, and to organisations, organise various events focused on LETS, and facilitate networking in this field.

Pegged or floating exchange rate?

From time to time there is a situation when we need to get a foreign currency to pay with it. It's also possible to see currencies as a commodity (a resource or another economic good) which someone wants to buy. Hard currencies are openly traded on the foreign exchange market, which determines exchange rates for every currency. For those that are not openly traded there, exchange rates are managed by monetary authorities, typically central banks, who buy and sell the currencies. Hence exchange rates are a very important part of the world of currencies and knowledge of how to work with them is useful.

We have already mentioned that having a pegged exchange rate can help countries whose currency is not really strong, because then its value is linked with the value of a hard currency. With floating exchange rate, currencies can be traded without restrictions (if they can be traded, of course), but at the same time, they are exposed to fluctuations of the rate. Hence it's not beneficial for soft currencies. Sometimes the rate is more beneficial for importers (when the currency is stronger, because then the foreign currency becomes cheaper), sometimes for exporters (when the currency is weaker, because then they get more money in exchange for foreign currency).

When taking part in international mobilities, people and organisations are asking for reimbursement of expenses. If their tickets are in other currency than euro, they need to convert the amounts to euros. With a pegged exchange rate, they can use just one exchange rate. With a floating exchange rate, they should use the rate that was published by the ECB (or national bank) on the day of purchase. And that takes more time. Sometimes it's possible to use monthly rates published by the European Commission.

On forex, values of currencies change very quickly, even every second. However, central banks are publishing reference exchange rates - these are very helpful as they help people not to get scammed by exchange offices or people who use a very bad rate. When checking rates at various exchanges, it's always a good idea to compare them with reference rates.

Sometimes there are three exchange rates: buy (price the bank or exchange office uses when it buys a certain currency), sell (price the bank or exchange office uses when it sells that currency), and middle (the reference rate, or mid-point between buy and sell rates from the currency market).

The Old Lady

Central banks are also targets of jokes and satire. The Bank of England is quite old already, over 300 years. Almost all of that time, it has its seat on Threadneedle Street in the centre of the City of London. In 1797, James Gillray published a cartoon depicting the Prime Minister of the day, William Pitt the Younger, who was wooing an old lady representing the Bank of England. However, he wanted to get his hands on gold reserves of the Bank of England. That's why the nickname of the Bank of England is The Old Lady of Threadneedle Street.

Key Takeaways

★ There are several types and forms of currencies: hard and soft, issued and metric, traditional and alternative, having physical or virtual form. The latter should not be confused with cryptocurrencies.
★ A country doesn't need to have its own currency. If it's a member of some union, it can decide to use common currency. If it's not, it can use the currency of another country (after mutual agreement). It's also possible to use two or even more currencies simultaneously – the national currency and a stronger foreign currency, such as the euro or US dollar. This phenomenon is called dollarization or euroization.
★ There are several types of alternative currencies - used in a specific geographical area or context. All of them support economies, as they usually motivate people to buy products and services from certain localities, stores, or economic sectors. People can also create and join communities using these currencies. Online it's possible e.g. through LETS (Local Exchange Trading Systems) or CES (Community Exchange Systems).
★ Central banks issue the currencies and take care of their stability and real value. Through monetary policy, they make sure that money in your wallet or accounts is valuable and safe currencies. They also manage foreign currency or gold reserves, set regulations and minimum standards, e.g. interest rates, for banks and other financial institutions in the particular economy, and make sure loans and mortgages are accessible. The European Central Bank is doing this in the whole eurozone.
★ In the monetary system, a state or a supranational entity, such as the EU, is providing money in the economy of that country or union. There can be commodity money, where commodities such as gold are used as money themselves; Commodity-backed money, where currency has no or very low real value, but it's backed by commodity and can be exchanged for it; and Fiat money, where money is so-called legal tender: something that is recognised as a satisfactory payment - the currency.

Key Takeaways

★ Exchange rates are pegged (fixed to the value of another currency) or floating (changing their value). Before exchanging both of these currencies, it’s useful to check reference exchange rates published by the European Central Bank or national banks. These help you not to get scammed - if someone offers exchange at a rate that differs a lot from the reference rate, then it’s suspicious.
★ Cryptocurrencies are often not considered as currencies in traditional meaning, but rather as a specific tradable asset. They are based on a decentralised model and created through software. Their value is determined by the economic law of supply and demand, interest in buying them on the market and quantity that is available to buy.

Further material & reading

Currencies

- https://www.pimco.com/gbl/en/resources/education/understanding-currencies
- https://www.community-exchange.org/home/issued-currencies-vs-metric-currencies-2/

Central banks

- https://www.bis.org/cbanks.htm
- https://www.ecb.europa.eu/pub/html/index.en.html
- https://www.ecb.europa.eu/ecb/orga/escb/eurosystem-mission/html/index.en.html
- https://www.bankofengland.co.uk/museum
- https://www.ecb.europa.eu/euro/intro/html/index.en.html
- https://www.ecb.europa.eu/euro/intro/production/html/index.en.html
- https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7217227/
- https://www.imf.org/en/About/Factsheets/Sheets/2023/monetary-policy-and-central-banking#:~:text=Central%20banks%20use%20monetary%20policy,are%20moving%20to%20inflation%20targeting.
- https://www.bis.org/cbanks.htm
- https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7217227/

International cooperation and banks

- https://www.bis.org/
- https://www.worldbank.org/en/who-we-are
- https://coebank.org/en/
- https://www.afdb.org/en
- https://www.iadb.org/en
- https://www.bankofengland.co.uk/explainers/who-is-the-old-lady-of-threadneedle-street

Exchange rates

- https://corporatefinanceinstitute.com/resources/foreign-exchange/fixed-vs-pegged-exchange-rates/
- https://corporatefinanceinstitute.com/resources/economics/dollarization/

Further material & reading

Local currencies and LETS

- https://archive.lets.net/gmlets/design/home.html
- https://www.community-exchange.org/home/what-is-the-ces/
- https://kyjov.corrency.cz/en/
- https://pralets.cz/cyclos/do/login
- https://rozletse.cz/
- https://www.letslinkuk.net/home/about-us.htm

Generic

- https://www.federalreserve.gov/aboutthefed/educational-tools/default.htm
- https://www.bitstamp.net/learn/
- https://www.gi-de.com/en/spotlight/payment/1-euro-20-years-and-10-interesting-facts

Proposed Activities

The following materials will help you when delivering activities focused on central banks and currencies. You can also find additional resources on the CETERIS Paribus website:
-Currency infographics: https://www.infographicszone.com/economy/top-10-currency-infographics
-European Central Bank: https://www.youtube.com/watch?v=wJlrGBdosQ0
-Trading game: https://tradinggame.com/de/
-CETERIS Paribus: https://www.ceteris-paribus.eu/manual

Activity 1: Currencies
There are many currencies around the world, some of them are stronger and globally traded, some of them are quite weak and have very high denominations and you can find notes whose value is millions of dollars. What is the highest denomination that you can find and which currency does it belong to?
Answer: .....

And which was the highest denomination ever?
Answer: .....
Key: One hundred trillion dollar note used in Zimbabwe, Africa.

By the way, can you find out what is the highest denomination of the US dollar?
Answer: .....
Key: https://www.coins-auctioned.com/learn/coin-articles/currency-notes-history-of-large-denominations

Pegged	Floating

Proposed Activities

Currency	Best exchange rate offered by:	Worst exchange rate offered by:

Activity 2: Central banks

Choose any central bank, it can be also the European Central Bank, and check:

-what measures they took to slow down the inflation;
-what measures they took to make sure people's savings are safe;
-what rules they adopted to make sure people get fair mortgages and loans.
Now, compare how activities (not only those listed above) of the central bank influence the floating exchange rate of the currency and what can be effects of that change in the rate?

Source of pictures in this chapter: pixabay.com

Chapter 5: Common Currency

Introduction
A key topic explored in this manual is the concept of a common currency, such as the euro. As young people grow up in an interconnected world, understanding the impact of a shared currency on their daily lives is essential. We'll delve into the practical aspects, illustrating its benefits and drawbacks with real-world examples.

Throughout the chapter, we'll provide youth workers with various activities designed to encourage active learning and critical thinking. Our goal is to equip youth workers with the knowledge and resources needed to empower young people to make informed decisions about their financial futures, helping them thrive in a rapidly changing global economy.

Main Points of Common Currency

1. A trip down memory lane: common currency in the past and present

The idea of using a single currency to unite people and make trade easier has been around for a long time. Let's jump in our time machine and explore some examples:

Ancient empires: The Roman Empire was one of the first big players to use a common currency. They had coins like the silver denarius and the gold aureus, which were accepted across the vast empire. This made it easier for people to trade goods and services and helped the empire maintain control over its diverse territories
.
The gold standard: Fast forward a few centuries, and we had something called the gold standard. From the late 19th century until around the 1930s, many countries linked their currencies to gold. This meant that the value of a country's money was directly tied to how much gold they had. This system created a sort of unofficial common currency because countries could easily exchange their money for gold, making international trade smoother.

The euro: In 1999, the euro came into the picture as the official currency for many European Union (EU) countries. This common currency aimed to make trading between countries more efficient and bring them closer together. As of now, 20 of the 27 EU member states use the euro, creating a unified economic area known as the **Eurozone**.

The euro was a huge step towards achieving the goal of a united Europe, and it has had a significant impact on the daily lives of people living in the Eurozone. They can now travel, work, and shop across borders without having to exchange currencies, which saves time and money. Plus, it's way easier to compare prices across countries, so consumers can spot the best deals.

So, the idea of a common currency has evolved over time, but the basic concept remains the same: it's all about bringing people together, making trade easier, and promoting stability. By understanding the history of common currency, youngsters can better appreciate how it influences today's world and the complexities that come with it.

2. Jumping through hoops: the Maastricht Criteria and ERM II

Before any country can join the Eurozone and start using the euro, it has to meet a set of rules known as the Maastricht Criteria. These rules are like a checklist to make sure a country's economy is in good shape before it joins the club. Let's break down these criteria and see what they're all about:

Low inflation: Inflation is when the general price of goods and services goes up over time, meaning your money buys less than it used to. The Maastricht Criteria requires countries to have an inflation rate that's not too far above the average of the three best-performing EU countries. This helps to ensure that everyone in the Eurozone has a similar rate of inflation, keeping things stable and fair.

Sound public finances: This means that countries need to keep their government spending under control. They must have a budget deficit (when the government spends more than it earns) of less than 3% of their GDP (the total value of everything a country produces in a year). They also have to keep their total government debt below 60% of their GDP. By sticking to these rules, countries can make sure they don't borrow too much and get into financial trouble.

Stable exchange rates: To join the Eurozone, countries have to participate in something called the European Exchange Rate Mechanism (ERM II). This system helps keep exchange rates from swinging wildly between EU currencies. Countries in ERM II need to keep their currency's exchange rate within a certain range for at least two years before they can adopt the euro. This shows that they can maintain a stable exchange rate, which is essential for a smooth transition to a common currency.

Low long-term interest rates: Interest rates are what you pay to borrow money or what you earn when you save or invest. The Maastricht Criteria requires countries to have long-term interest rates that aren't too far above the average of the three best-performing EU countries. Keeping interest rates low and stable is important because it shows that a country's economy is healthy and that investors trust it will repay its debts.

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So, the Maastricht Criteria is like a report card that countries need to ace before they can join the Eurozone. By meeting these requirements, countries prove that their economies are strong and stable enough to handle the challenges of using a common currency. For youngsters, understanding these rules helps them see how countries must work together and follow guidelines to create a successful and unified economic area.

3. Teamwork makes the dream work: economic and monetary policy coordination

When countries decide to share a currency, they've got to be in sync with their economic and monetary policies. It's like being part of a sports team where everyone needs to work together to win the game. Let's explore how countries using a common currency cooperate and coordinate their policies:

One central bank to rule them all: The European Central Bank (ECB) is the head honcho when it comes to setting monetary policy for all Eurozone countries. It's responsible for managing the euro, controlling the money supply, and setting key interest rates. By having one central bank, all the countries using the euro can make sure they're on the same page when it comes to important decisions affecting their shared currency.

Fiscal policy guidelines: When it comes to government spending, countries using the euro need to follow some rules called the Stability and Growth Pact. This pact is like a playbook that helps countries keep their budget deficits and debt levels in check. For example, it says that countries should aim for a budget deficit of no more than 3% of their GDP and a total government debt of less than 60% of their GDP. These guidelines help promote responsible spending and prevent economic problems that could hurt the common currency.

Working together on financial regulation: Sharing a currency also means that countries need to cooperate on financial regulation to make sure banks and other financial institutions are playing by the same rules. By working together, countries can create a more stable financial system that benefits everyone.

Sharing the burden of economic shocks: When countries have closely coordinated economic policies, they're better equipped to handle economic shocks, like a sudden recession or a financial crisis. By working together, countries can pool their resources and take joint action to address economic challenges, helping to protect the stability of their common currency.

For youngsters, understanding how countries work together to coordinate their economic and monetary policies when using a common currency is like seeing teamwork in action. It shows that adopting a shared currency isn't just about changing the money in your wallet—it's also about joining forces with other countries to create a stronger, more stable economic environment. This spirit of cooperation can help youngsters appreciate the importance of collaboration and shared goals in the global economy.

4. The perks of having a common currency: all the cool stuff

Using a common currency, like the euro, has some pretty sweet advantages for countries and their people. Here are some of the top benefits that make sharing a currency so appealing:

Price transparency: With a common currency, it's easy to compare prices across different countries. For example, if you want to buy a new pair of sneakers, you can check the prices in France, Germany, and Italy without having to worry about converting currencies. This price transparency encourages businesses to be more competitive and can lead to better deals for consumers.

No more currency conversion fees: When you're traveling or doing business in another country, exchanging currencies can be a real pain. But with a common currency, you don't have to worry about that! You can spend your euros anywhere in the Eurozone without losing money on conversion fees. That means more cash in your pocket for souvenirs or adventures!

Stronger economic ties: When countries share a currency, they tend to trade more with each other and make more investments across borders. This increased economic cooperation can lead to more job opportunities and higher living standards for everyone. Plus, it helps build stronger relationships between countries, making it more likely that they'll work together on other issues, like climate change or global security.

Financial stability: A common currency can make it easier to manage financial crises and keep things stable. For example, during the 2008 financial crisis, the European Central Bank (ECB) was able to take action to protect the euro and prevent the crisis from spreading. By sharing a currency, countries can work together to tackle economic challenges and reduce the risk of financial problems spreading from one country to another.

For youngsters, these benefits show how sharing a currency can lead to some pretty awesome perks. By understanding the advantages of a common currency, they can see how it affects their daily lives—from saving money on vacation to having more job opportunities. Plus, it can help them appreciate the importance of working together and building stronger relationships between countries in today's interconnected world.

5. The flip side: some not-so-cool stuff about having a common currency

While having a common currency has its perks, it also comes with some drawbacks. Here are some of the challenges that countries and their citizens might face when they share a currency:

Less control over monetary policy: When countries use a common currency, they no longer have control over their own monetary policy, like setting interest rates or controlling the money supply. Instead, decisions about these issues are made by a central bank, like the European Central Bank (ECB) for the euro. This loss of control can make it harder for countries to respond to economic issues, like a recession or high inflation, in the way that best suits their individual needs.

Fiscal constraints: With a common currency, countries have to follow certain budget rules, like the Stability and Growth Pact in the Eurozone. These rules can limit how much a country can spend or borrow, which might make it difficult for them to invest in areas they think are important, like education, healthcare, or infrastructure. In some cases, these constraints could hinder a country's ability to address economic problems or pursue its own development goals.

Risk of contagion: When countries share a currency, financial problems in one country can spread to others in the currency union. This is because their economies are closely linked, and investors might worry that problems in one country could affect the whole region. For example, during the European debt crisis, concerns about high debt levels in countries like Greece, Portugal, and Ireland led to fears that the crisis could spread to other Eurozone countries, causing economic turmoil across the region.

Loss of national identity: For some people, giving up their national currency means losing a piece of their cultural heritage. National currencies often feature images of important historical figures, landmarks, or symbols, and they can be a source of pride for citizens. When countries adopt a common currency, they might feel like they're sacrificing a part of their national identity in exchange for economic benefits.

However, the European Central Bank (ECB) and other Eurozone authorities have implemented measures to mitigate these challenges and foster a sense of unity and identity among Eurozone countries. One such measure is the design of the euro banknotes themselves. Each euro banknote depicts different architectural styles throughout European history, symbolizing the unity and diversity of the continent. Moreover, while the design is the same across all Eurozone countries, each note carries a serial number that begins with a letter indicating the country that issued the note. This allows for a subtle representation of individual countries within the shared currency.

Furthermore, these banknotes have become a collectible item for some people, making the euro not just a medium of exchange but also a way to engage with the culture and history of the Eurozone. This has helped foster a sense of shared identity and ownership among Eurozone citizens, enhancing the acceptance of the common currency and making it a symbol of European unity.

It's important for youngsters to understand that while a common currency can offer some great advantages, it also comes with trade-offs. By exploring these challenges, they can gain a more balanced view of the pros and cons of sharing a currency and appreciate the complexities that countries face when deciding whether to join a currency union. This knowledge can help them develop a deeper understanding of the interconnected world they live in and the tough choices that governments must make.

Connecting with practical issues

1.Traveling and shopping with a common currency: making life easier for youngsters

No more currency exchanges: When traveling across multiple countries in the Eurozone, young people can enjoy the convenience of using the same currency. This means they no longer have to visit currency exchange offices or deal with fluctuating exchange rates. The ease of using a common currency allows them to focus on their travel experiences without worrying about how much local currency they have left or need to acquire.

Example: Emma is going on a school trip that includes visits to Belgium, the Netherlands, and Austria. Instead of having to exchange her money in each country, she can use the same euros throughout her journey. This saves her time and money, allowing her to enjoy her trip without worrying about currency conversions.

Easier price comparisons: A common currency enables young people to compare prices easily when shopping in different countries. This price transparency encourages businesses to be more competitive and can lead to better deals for consumers. Young people can make more informed decisions about their purchases, helping them manage their money effectively.

Example: During his vacation in the Eurozone, Max wants to buy a new skateboard. He notices that the prices vary between France, Italy, and Spain. Thanks to the euro, Max can easily compare the prices without having to convert currencies, ultimately finding the best deal and saving money.

Budgeting and saving: For young people learning to manage their finances, a common currency makes it easier to create and stick to a budget while traveling. They can plan their expenses in one currency without worrying about exchange rates and additional fees. This helps them develop financial responsibility and manage their money effectively during their travels.

Example: Sofia is backpacking through Europe on a tight budget. She has allocated a certain amount of euros for each day of her trip. Because she doesn't need to exchange currencies or pay conversion fees, she can better manage her daily expenses and avoid overspending.

In summary, a common currency simplifies traveling and shopping experiences for young people by removing the need for currency exchanges, enabling easier price comparisons, and helping with budgeting and saving. These benefits not only save time and money but also contribute to a more enjoyable and worry-free travel experience for youngsters.

2. Job opportunities and a common currency: expanding the horizons for young professionals

A common currency can have a substantial impact on job opportunities for young people. By facilitating cross-border trade and fostering economic integration, a shared currency like the euro can make it more appealing for businesses to operate in different countries, leading to increased job openings and more accessible pathways for young professionals to work abroad.

Economic integration and job creation: A shared currency helps to create a more integrated economic environment among the countries that use it. This integration can encourage businesses to expand their operations across borders, leading to the creation of new jobs. As a result, young people can benefit from a wider range of job opportunities, both domestically and internationally.

Example: Laura, a recent graduate in marketing, is looking for her first job. With the euro facilitating cross-border trade, she has access to job openings not only in her home country but also in neighboring countries within the Eurozone. This increases her chances of finding a suitable position and kick-starting her career.

Working abroad and cultural exchange: A common currency can make it more attractive for businesses to hire employees from different countries, providing young people with opportunities to work and live abroad. This experience can be invaluable for personal and professional growth, as it exposes them to new cultures, languages, and perspectives, enhancing their skill sets and making them more marketable in the job market.

Example: Michael, a software engineer, is offered a position at a tech company in another Eurozone country. Because of the shared currency, the company finds it easier to manage its finances and is more inclined to hire employees from different countries. Michael can seize this opportunity to work abroad, develop his language skills, and gain valuable international experience.

Easier salary comparisons and negotiations: A common currency simplifies salary comparisons for young job seekers. They can easily compare job offers and average salaries in different countries within the currency union, allowing them to make informed decisions about their career choices and negotiate better compensation packages.

Example: Fatima, an aspiring graphic designer, is considering job offers in two different Eurozone countries. By comparing the salaries and living costs in both countries using the same currency, she can better evaluate which offer would be more advantageous for her career and financial goals.

Increased cross-border networking: A shared currency can also foster cross-border networking and collaboration, as businesses and professionals within the currency union are more likely to interact with one another. This can provide young people with valuable connections and resources, helping them advance in their careers and potentially find new job opportunities.

Example: At a Eurozone-based conference, Pedro, a young entrepreneur, meets professionals from various countries who share his passion for sustainable business practices. The connections he makes at the conference can help him find new job opportunities or potential collaborators for future projects.

In conclusion, a common currency can significantly enhance job opportunities for young people by promoting economic integration, job creation, and international collaboration. These benefits not only provide young professionals with a wider range of career options but also encourage personal and professional growth, making them more versatile and adaptable in the global job market.

3.Studying abroad and a common currency: facilitating educational experiences for young people

A common currency can play a crucial role in making studying abroad more accessible and affordable for young people. By reducing currency exchange costs and simplifying financial management, a shared currency like the euro can help students focus on their educational experience and personal growth without worrying about monetary complications.

Lower currency exchange costs: When young people study abroad in countries that share a common currency, they no longer need to exchange their money when they arrive. This not only saves them money on exchange fees but also reduces the stress associated with managing multiple currencies during their stay.

Example: Maria is from Spain and has been accepted to study for a semester in Germany. Since both countries use the euro, she doesn't need to exchange her money before leaving or worry about fluctuating exchange rates while abroad. This makes her study abroad experience more financially manageable and less stressful.

Simplified financial management: A common currency allows young people to easily plan their budget and track their expenses while studying abroad. They can better understand the cost of living in their host country and make informed decisions about their spending habits without having to constantly convert currencies.

Example: Liam, an Irish student studying in Italy, can create a budget in euros before leaving for his semester abroad. This helps him plan his expenses, such as rent, food, and transportation, and monitor his spending throughout his stay. With a shared currency, Liam can easily understand and manage his finances during his time in Italy.

I**ncreased scholarship and funding opportunities**: A shared currency can encourage the establishment of cross-border scholarships and funding programs, as the financial transactions between countries become simpler. This can make studying abroad more accessible to young people who may not have been able to afford it otherwise.

Example: Sophie, a French student, receives a scholarship from a Eurozone-based organization to study in Portugal. The simplified financial transactions within the Eurozone make it easier for the organization to provide funding, and Sophie can focus on her studies without worrying about the financial burden.

Easier comparison of tuition fees: A common currency can help young people compare tuition fees across different countries more easily. This enables them to make informed decisions about where to study based on their financial capabilities and the value of the education they'll receive.
Example: Petros, a student from Greece, is considering studying at universities in multiple Eurozone countries. With all tuition fees denominated in euros, he can quickly compare the costs and choose the university that offers the best value for his investment.

In summary, a common currency simplifies the study abroad experience for young people by reducing currency exchange costs, making financial management more straightforward, and encouraging the availability of scholarships and funding opportunities. By easing the financial challenges associated with studying abroad, a shared currency allows young people to focus on their education, personal growth, and cultural exchange, enriching their lives and broadening their horizons.

4. Starting a business and a common currency: empowering young entrepreneurs

A common currency can have a significant impact on young entrepreneurs who dream of starting their own businesses. By facilitating trade and simplifying financial operations across different countries, a shared currency like the euro can help young business owners expand their customer base, attract investors, and navigate the challenges of starting a business in an increasingly globalized economy.

Simpler cross-border trade: A shared currency streamlines trade among countries within the currency union, making it easier for young entrepreneurs to sell their products and services across borders. This can lead to a larger customer base and higher revenue, allowing their businesses to grow and thrive.

Example: Ella, a young fashion designer from Belgium, starts an online boutique selling her handmade clothing. With the euro as a common currency, she can easily sell her designs to customers throughout the Eurozone without worrying about currency conversions or complicated financial transactions.

Attracting international investors: A common currency can make it more appealing for investors from different countries to invest in businesses within the currency union. This can provide young entrepreneurs with additional funding sources and support, increasing their chances of success.

Example: Raj, a recent graduate, has developed an innovative mobile app to help people reduce their carbon footprint. By using the euro as a common currency, he can more easily attract investors from various Eurozone countries, giving him the financial backing needed to launch and grow his business.

Easier price comparisons and competitiveness: A shared currency allows young entrepreneurs to compare prices and costs more easily with competitors in other countries within the currency union. This helps them make informed decisions about their pricing strategies and can lead to increased competitiveness in the market.

Example: Mei, who runs a small organic food delivery service in Finland, can easily compare her prices with similar businesses in other Eurozone countries. This information helps her set competitive prices, ensuring her business stays relevant and successful in the market.

Lower transaction costs and simplified financial management: A common currency reduces the transaction costs associated with cross-border trade, such as currency conversion fees. This can lower the expenses for young entrepreneurs, making it more cost-effective to start and run a business. In addition, a shared currency simplifies financial management, allowing them to focus on other aspects of their businesses.

Example: Carlos, a young entrepreneur from Portugal, has started an e-commerce platform that connects local artisans with international customers. By using the euro as a common currency, he can avoid currency conversion fees and manage his finances more efficiently, enabling him to invest more resources in growing his business.

In conclusion, a common currency can empower young entrepreneurs by facilitating trade, attracting international investors, enabling easier price comparisons, and simplifying financial management. These benefits not only help young business owners overcome the challenges of starting a business but also provide them with the tools needed to succeed in an interconnected global economy.

5. Economic stability and a common currency: providing a supportive environment for young people

A common currency can contribute to economic stability within a currency union, which in turn, creates a more supportive environment for young people to pursue their education, careers, and personal goals. By promoting economic growth and reducing currency-related risks, a shared currency like the euro can help young people enjoy a more stable and prosperous future.

Promoting economic growth: A shared currency can help facilitate economic growth within the currency union by encouraging trade and investment among its member countries. As the economy grows, more opportunities arise for young people in terms of education, employment, and personal development.

Example: Anna, a young professional from Italy, benefits from the economic growth driven by the euro. As businesses expand and create new job opportunities, she can pursue her career goals and enjoy a higher standard of living.

Reducing currency-related risks: A common currency can help to reduce the risk of currency fluctuations, which can negatively impact businesses and the overall economy. With a more stable currency, young people can plan for their future with greater confidence and certainty.

Example: James, a student from Ireland, plans to study abroad in a Eurozone country in a few years. The stability of the euro allows him to save for his studies without worrying about significant currency fluctuations, giving him peace of mind as he pursues his educational goals.

Lower inflation and interest rates: A common currency can contribute to lower inflation rates and more stable interest rates within the currency union. This can result in a more predictable economic environment, making it easier for young people to save, invest, and plan for their future.

Example: Zoi, a young adult from Greece, benefits from the lower inflation and interest rates within the Eurozone. She can save and invest her money with more confidence, helping her achieve her long-term financial goals, such as buying a home or starting a business.

Economic cooperation and support: A shared currency can foster economic cooperation and support among its member countries, particularly during times of economic crisis. This can help to mitigate the negative effects of such crises on young people, who often face significant challenges in finding employment and securing their financial futures.

Example: During an economic downturn, Eurozone countries work together to implement policies that support their economies and help them recover more quickly. This cooperation can provide some protection for young people, like Oliver from France, who may otherwise struggle to find a job or maintain their standard of living during challenging economic times.

In summary, a common currency can contribute to economic stability within a currency union, providing a more supportive environment for young people to pursue their goals. By promoting economic growth, reducing currency-related risks, maintaining lower inflation and interest rates, and fostering economic cooperation, a shared currency can help young people enjoy a more stable and prosperous future.

Key Takeaways

★ A common currency, such as the euro, simplifies cross-border trade and financial transactions, leading to increased economic cooperation and growth among member countries.

★ Adopting a shared currency can have both positive and negative effects on a society, impacting areas like fiscal policy, inflation, and employment opportunities.

★ A common currency can benefit young people by offering more educational opportunities, particularly for those studying abroad, by reducing currency-related barriers and costs.

★ Young entrepreneurs can benefit from a shared currency through simpler cross-border trade, easier access to international investors, and more efficient financial management.

★ Economic stability within a currency union can provide a supportive environment for young people to pursue their education, careers, and personal goals.

★ Engaging, interactive activities can help youth workers teach economic literacy more effectively, fostering critical thinking and a deeper understanding of the material.

★ Economic literacy empowers young people to make informed decisions about their financial futures, equipping them to succeed in a rapidly changing global economy.

Further material & reading

- Common currency history and the euro, "The Euro: A Brief History" by European Commission, https://ec.europa.eu/info/business-economy-euro/euro-area/euro/history-euro_en
- Ancient empires and their currencies, "Ancient Currency and the Roman Economy" by World History Encyclopedia https://www.worldhistory.org/article/927/roman-economy---trade--commerce---currency/
- The gold standard, "The Gold Standard" by Federal Reserve History https://www.federalreservehistory.org/essays/gold_standard
- Maastricht Criteria and ERM II, "The Maastricht Convergence Criteria and the Euro" by European Central Bank https://www.ecb.europa.eu/explainers/tell-me/html/maastricht-criteria.en.html
- Stability and Growth Pact, "What is the Stability and Growth Pact?" by European Commission https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact_en
- Economic and monetary policy coordination, "Economic and Monetary Union (EMU)" by European Central Bank https://www.ecb.europa.eu/ecb/tasks/html/index.en.html
- Benefits of a common currency, "The Benefits of the Euro" by European Commission
- https://ec.europa.eu/info/business-economy-euro/euro-area/benefits-euro_en
- Drawbacks of a common currency, "The Costs and Benefits of Economic and Monetary Union" by European Parliament
- https://www.europarl.europa.eu/RegData/etudes/IDAN/2015/536354/IPOL_IDA(2015)536354_EN.pdf
- European debt crisis, The Eurozone Crisis: Overview and Issues for Congress" by Congressional Research Service, https://fas.org/sgp/crs/row/R42377.pdf
- Cultural aspects of currency, “National Currencies in the Age of the Euro" by VoxEU https://voxeu.org/article/national-currencies-age-euro

Proposed Activities

Activity 1: Eurozone Debate

Instructions:

1. Prepare background information on the Eurozone, the Maastricht Criteria, and the potential advantages and disadvantages of joining for the participants. You can use online resources, articles, or books to gather this information.
2. Divide the youngsters into two groups: one supporting a non-euro country's transition into the Eurozone and the other opposing it. Assign a specific non-euro country for them to focus on which is expected to join the Eurozone in the future.
3. Provide each group with a list of resources, including articles, reports, and data on the assigned country's economy and the Eurozone. These resources will help the groups research and develop their arguments.
4. Allow time (e.g., a week) for each group to research and prepare their arguments. Encourage them to consider both the short-term and long-term consequences of joining the Eurozone, and how it might affect various stakeholders, such as citizens, businesses, and the government.
5. Organize a structured debate, with each side presenting their arguments, followed by a question and answer session. Assign a moderator to ensure that the debate remains on topic and respectful.
6. Conclude the debate by summarizing the key points and discussing the complexities of joining the Eurozone. Encourage reflection on the importance of considering diverse perspectives and understanding the trade-offs involved in such decisions.

Tools:

- Access to research materials, such as articles, books, and online resources.
- A designated space to hold the debate, with chairs and a table for each group.
- A timer to keep track of time during presentations and discussions.
- A moderator to guide the debate and ensure a respectful and productive conversation.

Proposed Activities

Activity 2: Currency Trading Simulation

Instructions:

1. Create a fictional currency market with exchange rates between several fictional currencies. Designate a base currency (e.g., the "CetCoin") to simplify calculations.
2. Provide each participant with an equal amount of one or more currencies. For example, each participant could receive 100 CetCoins.
3. Explain the basics of currency trading, including buying low and selling high, and discuss the potential risks and rewards of currency speculation. Use real-world examples to illustrate these concepts, such as the story of George Soros and the British pound.
4. Establish a set period (e.g., 30 minutes) during which participants can trade currencies with one another, attempting to maximize their profits. Encourage them to track their transactions and the changing exchange rates using a simple spreadsheet or pen and paper.
5. Update the exchange rates at regular intervals (e.g., every 5 minutes) to simulate fluctuations in the currency market. You can use a random number generator or a predetermined set of exchange rate changes for this purpose.
6. At the end of the trading session, have participants calculate the total value of their currency holdings in CetCoins. Determine the winners by identifying those with the highest total value.
7. Debrief the activity, discussing the challenges of currency trading, the impact of speculation on exchange rates, and the potential consequences for economies and societies. Encourage reflection on the ethical implications of currency speculation and the role of regulation in financial markets.

Tools:

- A set of fictional currencies and their initial exchange rates.
- A spreadsheet or pen and paper for participants to track their transactions and currency holdings.
- A timer to keep track of time during the trading session.
- A random number generator or predetermined set of exchange rate changes to simulate market fluctuations.

Proposed Activities

Activity 3: Community Interviews

Instructions:Introduce the topic of common currency and its potential societal impacts, both positive and negative. Discuss the benefits, such as increased trade and simplified travel, as well as the drawbacks, like concerns about national identity and loss of control over domestic economic policies.

1. Provide guidelines on how to conduct an interview, including preparing open-ended questions, active listening, and note-taking. Offer sample questions, such as "How do you think adopting a common currency would affect our local economy?" or "What concerns do you have about joining the Eurozone?"
2. Encourage the youngsters to interview family members, neighbors, or other community members about their opinions on adopting a common currency and how it might affect their lives. Set a target number of interviews for each participant, such as three to five interviews.
3. Set a deadline for the interviews to be completed, allowing enough time for participants to schedule and conduct their interviews, as well as to compile their findings (e.g., one week).
4. Organize a debriefing session where the youngsters share their interview findings, discuss common themes, and reflect on the diverse perspectives they encountered. Use a whiteboard or flip chart to record the key points and encourage group discussion.

Tools:

- Access to background information on the topic of common currency and its societal impacts.
- Interview guidelines, including sample questions and tips for active listening and note-taking.
- A designated space for the debriefing session, with seating for participants and a whiteboard or flip chart to record key points.
- A set deadline for completing interviews and compiling findings.

Proposed Activities

Activity 4: Pros and Cons Brainstorm

Instructions:

1. Divide the youngsters into small groups, and provide each group with a large sheet of paper and markers.
2. Instruct each group to create a T-chart, labeling one side "Pros" and the other "Cons."
3. Encourage the groups to brainstorm and list the advantages and disadvantages of adopting a common currency, considering the perspectives of different stakeholders (e.g., consumers, businesses, governments). Offer prompts or guiding questions, such as "How might a common currency affect prices for consumers?" or "What challenges might governments face in coordinating economic policies within the Eurozone?"
4. Allow time (e.g., 20-30 minutes) for the groups to brainstorm and record their ideas.
5. Have each group share their findings with the larger group, and facilitate a discussion on the complexities and trade-offs involved in adopting a common currency. Encourage participants to consider the pros and cons from different perspectives and to think critically about the potential consequences of adopting a common currency.
6. Conclude the activity by summarizing the key points and reflecting on the importance of understanding the pros and cons of a common currency when making decisions about economic policy.

Tools:

- Large sheets of paper and markers for each group.
- A designated space for group work and discussion, with seating for participants.
- A list of prompts or guiding questions to help facilitate brainstorming.
- A timer to keep track of time during brainstorming and sharing sessions.

By incorporating these expanded activities with detailed instructions and tools, youth workers can engage youngsters in meaningful conversations about common currency and its impact on society. These practical exercises will help them better understand the complexities of the subject and develop essential skills for critical thinking and informed decision-making.

Chapter 6: Monopolies, Oligopolies, Cartels

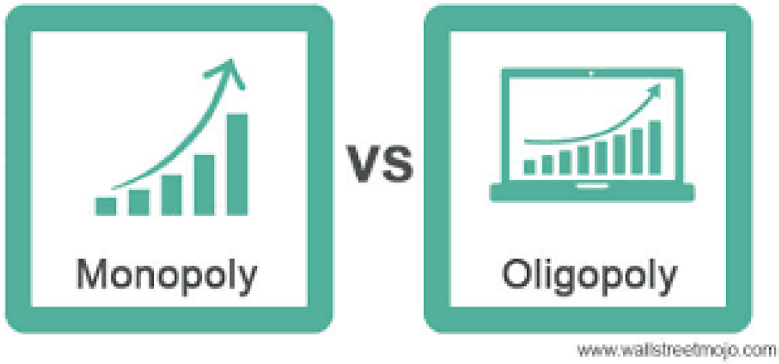
Introduction
The market mechanism is a form of economic organization in which individual consumers and businesses, through mutual interactions on the market, solve three basic problems of economic organization, i.e. what, how and for whom to produce.

Basically, the market economy is about competition in selling goods and services. However, there are several ways to reduce such competition and influence the market, both negatively and positively. The most common ways of market competition interference are known as monopolies, oligopolies and cartels.

In an ideal scenario, the market is free, non-regulated and without state interventions. Hence, pure competition in the market emerges. In practical terms, consumers buy what they want at the best possible price. Overcharging the products and services does not work and sellers thus do not profit if they take advantage of the others. On the other hand, markets can become controlled, either in the form of state regulation or by a strong players on the market. This results in controlling the prices and profits.

In this chapter, we will have a look over three most used ways of market control, its imbalance and use of monopoly, oligopoly and cartel practices and examples.

Monopoly, Oligopoly and Cartel – what is the difference and why does it matter?



Monopoly and oligopoly both refer to the competition in the market, specifically its imbalance.

As such, **monopoly** refers to a company that produces goods without competition.

On the contrary, oligopoly refers to a larger number of companies that produce similar or slightly different goods.
In both cases, however, there are obstacles that prevent other companies from entering the competitive environment.A monopoly exists in areas where one company is the sole or dominant force for selling a product or service in a specific industry. This gives the company enough power to keep competitors out of the market.

In an **oligopoly**, a group of two or more companies dominates the market. However, no single company can prevent others from having a significant impact on that industry, and each may sell products that are slightly different.

The geographical size of the market is important, which determines whether it is a monopoly or an oligopoly. In this case, a company may be a monopoly in one region, but operate in an oligopolistic market in a larger geographic area.

There are 7 types of monopolies:

- Simple monopoly - a simple monopoly firm sets a uniform price for its products to all buyers. It operates in a single market with a single price. An example is railway services.
- Discriminatory monopoly – price becomes a special power that the monopoly has and its goal is profit maximization. This type of monopoly discriminates against its buyers in different markets with different prices.
- Pure monopoly - pure monopolies do not have even remote competition in the provision of services or the sale of a specific product. Therefore, the power concentrated around a pure monopoly is enormous. We can talk about unfairness, but buyers will have to stick to this price. For example, a pharmaceutical company that offers a unique, specific type of drug that no other company provides.

- Imperfect monopoly - a single firm that produces a commodity that has no similar substitute. But the degree of monopoly power is less than in the case of perfect monopoly or pure monopoly.
- Natural monopoly – this type of monopoly arises due to natural causes. This means that it produces unique goods. A natural monopoly offers an industry a special advantage of producing a product at a lower cost. For example, Canada has a natural monopoly on nickel production.
- Legal monopoly – a company becomes a legal monopoly if anyone acquires monopoly power based on legal provisions in the country. Legal provisions in this regard are patents, trademarks or copyrights. These protect the products from unauthorized use by a third party. The law prohibits potential competitors from imitating the form and design of products registered under given trade marks or trademarks.
- Industrial monopolies or public monopolies - arise as a result of various government measures. Governments may nationalize certain industries in the public sector in the general interest of the nation. For example, in 1956, the arms and ammunition manufacturing sector in India was nationalized and placed under the sole monopoly of the central government.

Did you know...the word monopoly is derived from Greek words meaning „one seller“?

Did you know...monopolies have been outlawed in the United States since the 19th century?

A cartel is often associated with monopolies. A cartel is an agreement between different organizations, companies or even states, which purposefully eliminates the competitive space. A kind of struggle is created between the members of the given cartel, the aim of which is to maximize their profits. It de facto prevents the development of a competitive environment. It is also banned in many countries for that reason.

However, we can find cartels also in oligopoly areas. In this regard, we speak of a contractual or collusive oligopoly. This situation arises when several companies or firms realize that they sell the same products or offer similar services. While they find that their prices are approximately at the same level. They will realize that it could lead to a price war and it would definitely weaken their companies or profits. Therefore, they will realize that the most suitable way is to get together and conclude a secret agreement on setting the prices of products or services. They even set a market share and then behave like monopolies. Neither will lose profit.

In some European countries (Germany, France or Italy) the existence and recognition of cartels is legal. In Japan, these are even required. On a contrary, the United Kingdom outlaws cartels although some forms of agreements between companies do exist and are allowed.

Cartels can agree on the following:

1. Price adjustment - cartels set a minimum price strategy where members cannot sell products or services below the set minimum price. At the same time, however, they can be asked to raise their prices uniformly at any time.
2. Market share - cartel members can divide customers and even regions and thus ensure an even flow of income. However, cartel members may also be limited in their product offerings depending on the region or customers they serve.
3. Delivery conditions - cartel members create formal delivery conditions. These conditions can be the regime, delivery time, but also invoicing and interest payments.
4. Output and production - within the framework of the agreements, cartels can increase compliance with the level of production and thus force higher price trends for the offered goods or services. Cartels may require members to maintain production levels, thereby forcing higher price trends for goods or services. This happened, for example, in Slovakia when one of the largest cartel agreements was proven which limited competition in 2004. This agreement was between the construction companies.

How do they influence everyday life?

Monopoly

A monopolistic company controls the market because there is only one seller. Thus, it has the power to influence market prices and decisions. The consumer has limited choice and therefore has to choose from what the given company supplies. The monopoly exerts all its power and the consumer has to choose the given product they offer if they want it. Because it has no competition, it creates its own prices.

This means that it determines the price at which their product is sold and can change these prices at any time. In layman's terms, you are bound to buy his product even at a higher price. Monopolies can exist when they benefit the consumer and the consumer is dependent on him. In some cases, governments can step in and create a monopoly on the provision of specific services, such as railways, public transport or postal services. For example, the United States Postal Service has a monopoly on first-class mail and advertising mail, along with monopoly access to mailboxes.

Oligopoly

Prices in such market circumstances are moderate due to the presence of competition. When one company sets a price, others will respond in a fashion to remain competitive. For example, if one company lowers prices, other players usually follow such a trend. Prices are usually higher in an oligopoly than they would be in perfect competition. Because there is no dominant force in the industry, companies may be tempted to collude rather than compete, preventing non-established players from entering the market. Thanks to this cooperation, they function as one company.

In a free market, price fixing – even without judicial intervention – is unsustainable. If one company undercuts its competition, others are forced to quickly follow. Companies that lower prices so much that they are not profitable are not able to stay in business for long. For this reason, members of oligopolies tend to compete on image and quality rather than price.

Did you know... Oligopolies can operate without restriction in the United States as long as they do not violate antitrust laws. Without competition, companies can fix their prices and thus create a shortage of products in the company. That is why antitrust laws are in place in the US and many other states.

Cartel

Cartels harm consumers, i.e. ordinary citizens as well. Their existence leads to higher prices and at the same time the offer of products or services is limited. The Organization for Economic Co-operation and Development (OECD) identifies and prosecutes cartels when there is evidence of price-fixing, output restrictions, market partitioning, bid-rigging or secret bidding.

The power of a cartel often depends on the leadership of the country in which it operates. While the cartel members benefit from the agreement, the competition and the consumer suffer.

Cartels also affect the economic efficiency of a given country. However, it should be noted that the success of the cartel depends significantly on its ability to raise prices above the competitive level and at the same time reduce production. Consumers can choose to pay more than the market price or forego the product or service. When a cartel protects its members from full exposure to competitive market forces, it reduces the pressure on them to control costs or innovate. This adversely affects efficiency in a market economy.

European Union´s measures to protect the market competition

The European Union has exclusive decision-making authority in the area of establishing competition rules necessary for the functioning of the internal market, as well as in the area of common commercial policy. However, in the area of the internal market, the EU exercises joint competence with the member states.

In fulfilling its tasks in the area of the internal market, the European Commission follows the development of the conditions of economic competition in the Union in such a way as to improve competitiveness. This means that decisions are taken that do not harm the member states or individual business entities.

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The European Union introduces several measures to combat the violation of antitrust measures. This area falls under the area of economic competition. The area of economic competition is one of the fundamental ones, because the European Union began to take shape through the gradual creation of economic cooperation, or the internal market. For that reason, it was necessary to solve the issue of access of individual companies in the member states to the common European market.

The Lisbon Treaty stipulates that even member states´ monopolies shall not discriminate against other entities. It also focuses on the abuse of any dominant position in the internal market by one or more entrepreneurs. This is mainly justified by the possibility of a negative impact on trade between individual member states.
There is an incredible amount of measures in the field of competition.

Does the term antitrust, antitrust behavior or antitrust control mean something to you? All the mentioned terms refer to anti-competitive behavior. As already mentioned above, the EU fights against such behavior. It prohibits antitrust conduct, which can be seen in two forms, namely:

- agreements and business practices that restrict economic competition
- abuse of a dominant position.

If you think that what is written above is too technical and you do not understand it well, then read on... we will try to explain it to you in a simpler way.

The EU prohibits any agreements between two or more companies that want to limit competition. It can be a limitation of price or production, but they can also agree with the manufacturer or distributor. In this way, they can affect not only the quality of the product or service, but also the access of other companies to the market. If that reminds you of something, you're right.

n this case, we are talking about cartels and cartel agreements. Any abuse of the dominant position of individual companies is prohibited under EU contract law. A dominant position means that the given company has a significant market share. A company can agree that it wants to achieve bigger and bigger profits and thus disproportionately lowers the price of its product or service and thus prevents the access of other companies to the market.

After all, if I can buy the given product cheaper, I will not look for the same product at a different and higher price. In this way, however, I am discriminating against other companies, which will not even start applying for a place on the market.

The European Commission can impose fines on individual companies for such actions. Even since 2004, the national authorities for the protection of economic competition have had the same status. They can find such EU antitrust rules and thus have the right to apply antitrust rules. Authorities for the protection of economic competition are created within individual EU member states.

In 2014, the European Commission started proceedings in the form of an investigation into online hotel reservations in three EU member states. Specifically, these were hotels in Sweden, France and Italy. Do you know and use the Booking.com service? Thus, it was precisely this service that was used by hotels in the given countries, and the EC came to the opinion that it was through them that they could violate the EU's anti-monopoly rules. It follows from the parity provisions in the contract that Booking.com is obliged to provide room prices that are at least as advantageous as the prices they offer compared to other online or offline channels. The French, Swedish and Italian competition authorities have said that these provisions conflict with their national competition rules. Concerns were directed at limiting competition between Booking.com and other online travel agencies.

In 2015, the European Commission accused Lithuanian Railways of gross violation of antimonopoly policy and unfair competition. It was the problem of removing the railway line that previously connected Lithuania and Latvia. In this way, the country lost an important train connection that was used by customers to transport goods. At the same time, however, they prevented passengers from using this line. For that reason, antitrust proceedings took place and they abused their dominant position on the market.

In 2016, the European Commission fined the Austrian waste company ARA (Altstoff Recycling Austria) because it blocked the access of competing companies to the waste management market between 2008 and 2012. The European Commission characterized its actions as a violation of EU antitrust rules. The fine that was awarded to them was in the amount of 6 million euros. ARA later admitted its mistake, realizing a breach of the Treaty on the Functioning of the EU, which prohibits the abuse of a dominant market position.

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Connecting with practical issues

How do the existence of monopolies, oligopolies or cartels affect us in real life?

In practical terms **MONOPOLIES**:

Imagine that you are good at IT technologies. You will create absolutely new technology in your room that no one else has developed so far. Yes, you can be a modern day Steve Jobs. You will find that your technology can help humanity immensely and you are the only one who can provide this technology to humanity. You create a company and start providing a product, technology or service to the company. Yes, you got it right. At this moment you are the owner of a monopoly company. You can set any price for your product, technology or service. If there is a demand for it in the company, you will set a price that you consider appropriate.

Did you know that Google or Microsoft are monopolies? Think about it, do you know of another company that offers an operating system like Microsoft, have you ever searched for information anywhere other than Google's web browser?

Google Microsoft

Examples of monopolies in the United States are, for example, John D. Rockefeller's Standard Oil Company, and the American Tobacco Company. Did you know that the U.S. Steel has a monopoly not only in the United States but also in Europe? U.S. Steel Košice has a monopoly in Slovakia.

These companies have maintained a monopoly since the 19th century, meaning that they had a dominant position in determining the prices of oil, steel and tobacco.

U. S. Steel

In practical terms **OLIGOPOLIES**:

Do you watch series and movies on online streaming services? Surely your answer is yes, because we are in the 21st century. But have you thought about whether Netflix is a monopoly or an oligopoly? The correct answer is oligopoly. You ask why? After all, they offer unique films and series that you can't watch anywhere else. The answer is that HBO also offers streaming services. They do not have a monopoly in the industry, even if they produce their own films or series.

However, Amazon Prime Video (Prime video) competes with Netflix. It is an American streaming service that also offers original films or series produced by Amazon Studios. But the interesting thing is that Prime Video was initially only available in the USA, UK, Japan, Germany and Austria. It is currently available worldwide except for mainland China, Cuba, Iran, North Korea and Syria.

Another provider of online series and movies is Hulu, which is a subsidiary of Disney Media and Entertainment Distribution. And we are back at Disney+, which is an American streaming service. It produces not only animated films, but also various TV series. They even created brands like Star Wars, Marvel, National geographic or Pixar. The service was originally launched in 2019 in the USA and Canada and from European countries in the Netherlands. Subsequently, it immediately spread to Australia, Puerto Rico and New Zealand. Since March 2020, it has gradually expanded to European countries and Latin America.

Imagine starting a company with a new or innovative product or service. At that point you have a monopoly, but only until competitors appear. Sometimes, however, a situation arises when these new products or services of yours are protected by law. Examples include pharmaceutical companies, the gas industry or energy companies.

If you want to do business in the field of media, for example, your company will become an oligopoly. You offer services that other companies also offer and you are not unique, but you complete the market together with other media oligopoly companies. An example can be the Disney Company, which is not the only company that produces animated films.

Did you know that there are also oligopolies in the telecommunications sector?

You can choose between several operators on the telecommunications market. For example, in Slovakia you can choose between Orange, Telecom or various others. However, this was not always the case. Sometimes you only have one company to choose from.

Other oligopolies are, for example, Coca Cola, which uses a unique composition in its production, but is not the only company on the market that offers customs products to the consumer. There is also Pepsi-Cola and others.

In practical terms **CARTELS**:

Cartels can be formed between construction companies, oil companies, but also other types of industries or trade. But we can also mention cartels that determine prices in industries such as airlines or telecommunications.

IAre you asking how we can talk about cartels at airline companies? Simply. Airlines will agree on the amount of fuel surcharges or security surcharges. Cartel cooperation was concluded in the past by airlines such as Air France, Dutch KLM and Martinair, British Airways, Luxembourg Cargoluc, Asian commercial airline Cathay Pacific Airways, Japan Airlines, Singapore Airlines, Scandinavian airline SAS, Australian national carrier Qantas and LAN Chile. They were even fined by the European Commission for this cooperation. Some companies are even suing the EU until now and are still filing appeals.

However, cartel agreements also appear between telecommunications companies. For example, the Spanish telecommunications company Telefónica was accused of a cartel agreement together with the Portuguese company Portugal Telecom. These companies have agreed not to compete with each other on the Iberian Peninsula market. This means that they have agreed not to interfere in each other´s home country markets. In essence, they restricted competition in the free market.

You might be wondering what the word cartel is most associated with. Not? Do you know the name Pablo Escobar? It was he who led one of the most famous cartels in the 80s. This cartel was known as the Medellín Cartel and was led by Pablo until his death in 1993. The drug cartel focused on the cocaine trade to the United States and was also known for its violent practices.

Drug cartels are very well known in South America. They are a typical example of cartels as such. They are groups that establish among themselves the rules for the sale of goods, specifically drugs, and at the same time they also get used to determining the territories of their operations. An example can be the Sinaloa Cartel, which deals in drugs but is also known for money laundering. It operates not only in Mexico, South America, but also in the United States of America.

In Spain, a cartel was formed between dairy companies when they exchanged information on purchases, prices and surpluses of milk. Therefore, they coordinated with each other and restricted farmers from getting high prices for milk. In Australia, there was Qteq, which operated within the oil and gas companies.

There is also a so-called "super cartel" operating in Europe, which controls approximately one third of the cocaine trade in Europe. EUROPOL investigated the activities of this criminal network that trafficked drugs and laundered money in some European countries. These are Spain, Belgium, the Netherlands and France. Trade took place between these countries and the United Arab Emirates. The United Arab Emirates itself was instrumental in the fight against this super cartel. In this way, 30 tons of drugs were seized.

The Balkan cartel also operates in Europe, which smuggles drugs from South America to Europe via private planes. The Croatian police began investigating this cartel in 2018, and cooperation was extended to include authorities from the Czech Republic, Serbia, Slovenia, France, Belgium, Italy, and even cooperation with Switzerland. Cooperation also took place with the Asian continent, namely Hong Kong, Macao and the Malaysian Police. From South America, it was Uruguay and Paraguay. European agencies, namely EUROPOL and FRONTEX, dealt with this issue. The fight against this cartel took place on different continents, i.e. in Europe, Asia and South America.

Key Takeaways

★ Perfect competition refers to a market in which no company or consumer is large enough to influence the market price by themselves. If the principles of perfect competition operate in all markets, then markets will ensure the production of an efficient set of outputs using the most efficient techniques and using the minimum inputs.

★ An imperfect market is any economic market that does not meet the strict standards of a hypothetical perfectly – or purely – competitive market.

★ Because all real markets exist outside the spectrum of the perfect competition model, all real markets can be classified as imperfect.

★ In an imperfect market, individual buyers and sellers can influence prices and production, information about products and prices is not fully disclosed, and market entry and exit are hindered.

★ A monopoly, or complete monopoly occurs when one producer controls the entire market. It determines the conditions under which it offers the product - primarily price and quantity.

★ There can be a monopoly created by the decision of the state. In some countries it is, for example, the post office.

★ There are specific monopolies that arise on the basis of patents. An example can be the software of the multinational company Microsoft, to which the Office software is linked.

★ The existence of monopolies affects us in our everyday life, even if we may not perceive it directly.

Key Takeaways

★ An oligopoly is a type of imperfect competition in which a small number of large firms dominate an industry. Every company is so big that it can control and influence prices to a certain extent. Products do not have to be differentiated. A characteristic feature of an oligopoly is that a decisive part of the production is delivered to the market by a few companies.

★ Oligopolies are different ways in which a small group of companies controlling price and output can operate in a particular market.

★ Cartel occurs when the producers of particular markets agree to fix the prices and production levels of the entire market.

★ The agreements establish them in such a way that all members of the pact have benefits, but at the expense of the consumer.

★ The clearest example of a cartel is OPEC (Organization of the Petroleum Exporting Countries), which consists of the fourteen largest oil producers in the world.

★ The idea of reducing supply is to keep the price higher than it would be in a competitive situation.

★ Cartels are among the most serious violations of competition rules that benefit only their participants.

Further material & reading

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- Harvard Business Review, 2020. Monopolies and Tech Giants. Harvard Business Review Press, 2020. ISBN 978-16-33-6-9902-1.
- Malewska, A. 2021. Failed Attempt to Break Up the Oligopoly in Sovereign Credit Rating Market after Financial Crises. In Contemporary Economics,2021. vol. 15, no. 2, pp. 153.
- Hall, M. 2021. Monopoly vs. Oligopoly: What's the Difference? In Investopedia.com. https://www.investopedia.com/ask/answers/121514/what-are-major-differences-between-monopoly-and-oligopoly.asp
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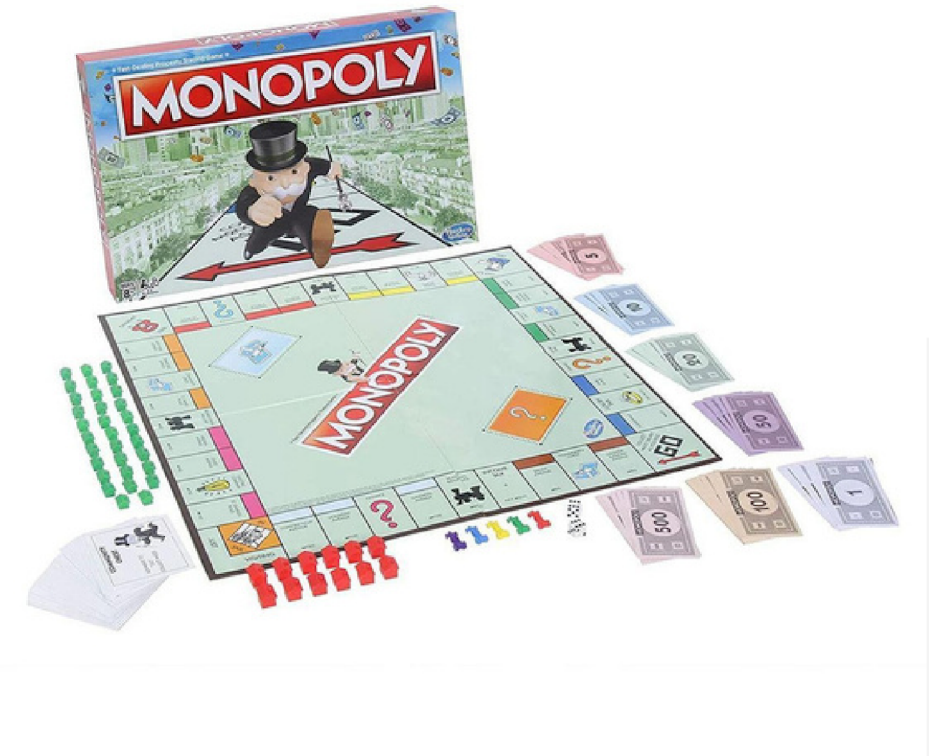
- Wallstreetmojo Team, 2023.Imperfect Competition. In wallstreetmojo.com. https://www.wallstreetmojo.com/imperfect-competition/
- Understanding Imperfect Competition. https://www.youtube.com/watch?v=EpX-AH_vokE
- Surbhi, S., 2018. Difference Between Monopoly and Oligopoly. In keydifferences.com. https://keydifferences.com/difference-between-monopoly-and-oligopoly.html

Proposed Activities

1. **You can now play a classic Monopoly game known for generations on your cell pho**ne:

https://play.google.com/store/apps/details?id=com.marmalade.monopoly&hl=sk&gl=US
https://apps.apple.com/us/app/monopoly-classic-board-game/id1477966166

2. **If you prefer to play with your family or friends, ask them if they have the traditional board game:**



Proposed Activities

3. Want to play for free? Create your own game of Monopoly: Create a monopoly board game (on any topic they've learned during the school year) individually, with partners, as a small group, or whole group. Templates provided for game board, cards, money, and pieces.

https://www.teacherspayteachers.com/Product/Monopoly-Game-Day-February-6th-Center-Idea-1076754?st=cd800d38b23dd8390ac1c174275b129f

4. Try a game about cartels. The STEAM company has created a game where you can try out how a cartel is formed. This simulator is inspired by drug dealing. The game offers you options to expand and under other cartels. However, the simulation game is charged. However, the plus is that it is available in several languages. You can find it at this link:

<https://store.steampowered.com/app/1220140/Cartel_Tycoon/>

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5. Since this entire chapter is about Monopolies, Oligopolies and Cartels, let's try to do one exercise. Each of us is from a country that is also a member state of the EU. Try to write down which Monopolies, Oligopolies or Cartels you know. Of course, except for the ones you read about above. Write individual examples in the following table, classifying them into individual categories.

Country: ....

MONOPOLIES	OLIGOPOLIES	CARTELS

If you have written at least one example for each category, now look at it again. Think about whether you have classified them correctly. If you think so, then keep working. In the following table, you will fill in other fields to make sure that this is really the right category. You have to fill in the individual boxes and finally you will find out if the given company in your country ir really a Monopoly.

Proposed Activities

MONOPOLIES	1.	2.	3.
TYPE OF GOODS/ SERVICES			
SECTOR/INDUSTRY			
COMPETITION ON THE MARKET			
TYPE OF MONOPOLY			
CHARACTERS			

Do the same for Oligopolies and Cartels.

OLIGOPOLIES	1.	2.	3.
TYPE OF GOODS/ SERVICES			
SECTOR/INDUSTRY			
COMPETITION ON THE MARKET			
TYPE OF OLIGOPOLIES			
CHARACTERS			

CARTELS	1.	2.	3.
TYPE OF GOODS/ SERVICES			
SECTOR/INDUSTRY			
COMPETITION ON THE MARKET			
TYPE OF CARTELS			
CHARACTERS			

THE RESULT:

The Monopolies in my country are.....

The Oligopolies in my country are.....

The Cartes in my country are.....

So how did you do? Did you manage to find out if you thought correctly that the companies you wrote at the beginning could be classified into individual categories?

Chapter 7: Business, Non-profits and Public Economics

Introduction

A business is an organization engaged in commercial, industrial, or professional activities for the purpose of generating profit or revenue. A business can take many different forms, including sole proprietorships, partnerships, limited liability companies (LLCs), and corporations. A non-profit organization is a type of organization that is dedicated to a particular social cause or purpose, rather than seeking to generate a profit. Non-profit organizations can take many different forms, including charities, advocacy groups, religious organizations, and educational institutions. Public policies are important for both profit-making and non-profit organizations because they create a framework of regulations, laws, and guidelines that influence how businesses operate and interact with the public. In particular, public economic policies are government interventions or actions aimed at influencing the overall functioning and outcomes of the economy. These policies are designed to address issues related to economic growth, stability, efficiency, and equity. Businesses and non-profits play a critical role in modern societies and they greatly affect the lives of many people. At the surface, they are very different organizations. In terms of purpose, funding, tax status and accountability they seem to belong to different worlds. However, they also share many characteristics: they require effective leadership and skilled employees and they need to generate revenue and effectively manage resources.

The basic arguments of this Chapter are:
(1) public economic policies are important for both businesses and non-profits and
(2) profits and n0n-profits can learn much from each other by closer and deeper interaction encouraged by public economic policies.

Young entrepreneurs, young civil society activists and public policy-makers will greatly benefit if they interact more frequently, exchange views and practices in more systematic ways, cooperate, develop synergies and networks and learn from each other.

Businesses and Non-profits: Similarities and differences

Business organizations and non-profit organizations may seem different on the surface, but they share several similarities:

1.Both types of organizations require effective leadership: Effective leadership is essential for both business and non-profit organizations to achieve their objectives. Leaders in both types of organizations must make strategic decisions, manage resources, and motivate their team to work towards a common goal.

2.Both types of organizations need to generate revenue: While non-profit organizations may not be focused on making profits, they still need to generate revenue to support their mission. Similarly, businesses need to generate revenue to sustain their operations and make a profit.

3.Both types of organizations require skilled employees: Both business and non-profit organizations require skilled employees who can contribute to their success. These organizations need employees with a range of skills, including management, marketing, finance, and operations.

4.Both types of organizations need to manage their resources effectively: Effective resource management is essential for both business and non-profit organizations. Both types of organizations need to manage their finances, staff, and equipment to maximize their efficiency and achieve their objectives.

However, they have important differences:

1.Purpose: The main difference between business and non-profit organizations is their purpose. Business organizations are typically focused on making a profit, while non-profit organizations are focused on serving a specific social or charitable purpose.

2.Funding: Business organizations are funded by investors, shareholders, and customers who purchase their products or services. Non-profit organizations, on the other hand, rely on donations, grants, and fundraising to support their operations.

3.Legal structure: Business organizations are typically structured as corporations, limited liability companies (LLCs), or partnerships. Non-profit organizations are usually structured as either a charitable trust or a nonprofit corporation.

4.Tax status: Business organizations are subject to corporate taxes on their profits, while non-profit organizations are fully or partially exempt from paying taxes on their earnings, provided they meet certain criteria.

5.Accountability: Business organizations are accountable to their shareholders or investors, while non-profit organizations are accountable to their donors, their beneficiaries and the wider public.

In conclusion, while there are several similarities between business and non-profit organizations, they differ significantly in their purpose, funding, legal structure, tax status, and accountability. Understanding these similarities and differences can help organizations make strategic decisions and operate effectively in their respective fields.

Economic Impact

Businesses and nonprofit organizations can influence the economic life of their sectors in various ways:

1.Providing goods and services: Businesses and nonprofits provide goods and services that meet the needs of customers and clients, creating jobs and generating revenue in the process. Their products and services help to satisfy demand in the economy, contributing to overall economic growth.

2.Creating jobs: Businesses and nonprofits provide employment opportunities, which contribute to reducing unemployment rates and improving the standard of living in the economy. The jobs they create can also help to reduce poverty and inequality by providing stable income sources.

3.Innovation and research: Many businesses and nonprofits invest in research and development to improve their products and services. These investments can lead to the creation of new technologies, products, and services, which can contribute to economic growth and development in their sectors.

4.Philanthropy and social responsibility: Nonprofit organizations often engage in philanthropic activities, such as donating money or resources to charitable causes, or engaging in community development projects. Many businesses also engage in corporate social responsibility initiatives, which aim to support the social and environmental wellbeing of their communities. These activities can have a positive impact on the economic life of their sectors, by creating positive social and environmental outcomes.

5.Advocacy and lobbying: Both businesses and nonprofits can engage in advocacy and lobbying efforts to influence government policies that affect their sectors. This can include advocating for regulations or lobbying for tax incentives or other policies that benefit their organizations and society in general. These efforts can have a significant impact on the economic life of their sectors, by influencing the regulatory environment in which they operate.

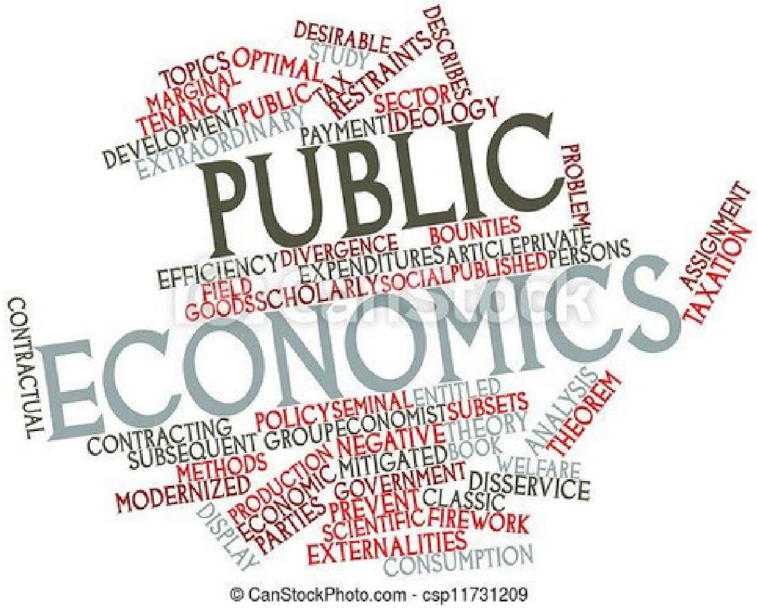
Overall, businesses and nonprofit organizations play a critical role in shaping the economic life of their sectors by providing goods and services, creating jobs, investing in research and development, engaging in philanthropy and social responsibility, and advocating for policies that benefit society.

It is estimated that there are over 1.5 million nonprofit organizations in the United States but they represent only 5.7% of the U.S. economy. They are more significant for employment. Nonprofits employ 12.3 million people in the US – about 10.2% of private sector employment. Moreover, approximately 63 million Americans volunteered with nonprofits. However, it should be underlined that the non-profit sector in the United States is far more important than in most other countries. The European third sector engages an estimated 28.3 million paid and volunteer workers in the 28 EU countries and Norway (Enjolras 2018).

Why public economic policies are important for both businesses and non-profits

Public policies are important for both profit-making and non-profit organizations. They create a level playing field for all organizations by setting standards and rules that apply to everyone. They provide clarity and certainty about the rules and regulations that organizations must follow. Public policies also protect the public interest by setting standards for safety, environmental protection, and consumer protection. Encouraging innovation: Moreover, public policies can encourage innovation by providing incentives for research and development, as well as by promoting the adoption of new technologies and practices. Finally, public policies foster social responsibility by encouraging organizations to act in ways that benefit society as a whole. This can include promoting sustainable business practices, supporting local communities, and contributing to social causes.

States subsidize both profit-making and non-profit organizations for a variety of reasons. First, to promote economic growth. This can include subsidies for research and development, tax incentives for new investments, and other forms of financial assistance that encourage businesses and non-profits to expand and create jobs. Secondly, for reducing inequality. States use subsidies to reduce inequality by providing financial support to organizations that serve marginalized or disadvantaged communities. This can include subsidies for non-profit organizations that provide social services, as well as subsidies for businesses that operate in economically depressed areas. Thirdly, states may provide subsidies to encourage innovation by supporting research and development in emerging technologies or industries. This can benefit both profit-making and non-profit organizations by promoting the adoption of new technologies and practices that can lead to increased efficiency and productivity. Ensuring public goods: The state may provide subsidies to ensure the provision of public goods, such as education, healthcare, or environmental protection. This can involve subsidizing both profit-making and non-profit organizations that provide these goods and services.



What non-profits can learn from businesses

Non-profit organizations can learn a lot from businesses, particularly in areas such as marketing, strategic planning, and financial management. Here are some specific lessons that non-profits can learn from businesses:

1. Clear and well-defined goals: Just like businesses, non-profit organizations need to have a clear and well-defined mission statement, goals, and objectives. Having a clear focus on what the organization is trying to achieve can help guide decision-making and resource allocation.
2. Efficient resource management: Businesses are often focused on optimizing their resources to maximize profits, and non-profits can apply this same mindset to their fundraising efforts and use of resources. Non-profits should seek to maximize the impact of their resources and ensure that they are being used in the most effective way possible.
3. Effective marketing and branding: Successful businesses have strong branding and marketing strategies that help them stand out in a crowded market. Non-profits can learn from this by developing strong branding and marketing campaigns that help them raise awareness of their cause and connect with potential supporters.

4. Data-driven decision-making: Businesses often rely on data to make informed decisions, and non-profits can do the same. By tracking and analyzing data on their fundraising efforts, program outcomes, and other key metrics, non-profits can make more informed decisions about how to allocate resources and where to focus their efforts.

5. Strategic partnerships: Businesses often form strategic partnerships with other companies to help them achieve their goals, and non-profits can do the same. By partnering with other non-profits, businesses, or government agencies, non-profits can expand their reach and achieve greater impact.

Overall, non-profits can benefit greatly from learning from businesses in these areas and applying business principles to their own operations. However, it's important for non-profits to remember that their goals and priorities are different from those of businesses, and they should always prioritize their mission and the needs of their community above profit.

What businesses can learn from non-profits

Businesses can learn a lot from non-profit organizations, particularly in areas such as social responsibility, community engagement, and long-term sustainability. Here are some specific lessons that businesses can learn from non-profits:

1. Social responsibility: Non-profits are often focused on promoting social and environmental causes, and businesses can learn from this by prioritizing their social responsibility and ethical practices. Businesses can strive to be more environmentally conscious, support social causes, and engage in fair labor practices.
2. Community engagement: Non-profits often have deep connections to the communities they serve, and businesses can learn from this by prioritizing community engagement and giving back to the communities where they operate. This can include volunteering, charitable giving, and partnerships with local organizations.
3. Long-term sustainability: Non-profits often operate with a long-term view, working towards sustainable solutions that will have lasting impact. Businesses can learn from this by prioritizing long-term sustainability in their operations, including environmental sustainability and financial sustainability.

4. Collaboration and partnerships: Non-profits often work collaboratively with other organizations and community members to achieve their goals, and businesses can learn from this by seeking out partnerships and collaborations that can help them achieve their objectives. This can include partnerships with other businesses, non-profits, and government agencies.

5. Empathy and human connection: Non-profits often work closely with individuals and communities in need, and businesses can learn from this by prioritizing empathy and human connection in their operations. This can include prioritizing employee well-being, customer satisfaction, and community outreach.

Overall, businesses can benefit greatly from learning from non-profits in these areas and applying non-profit principles to their own operations. However, it's important for businesses to remember that their goals and priorities are different from those of non-profits, and they should always prioritize their profitability and financial sustainability while also striving to make a positive impact on society and the environment.

Combining profit and non-profit objectives and public economic policies

Public economic policies can benefit both profits and non-profits simultaneously by creating an environment that fosters economic growth and supports the needs of communities. One example of such a policy is tax incentives for businesses that invest in socially responsible practices, such as reducing carbon emissions or supporting local charities. Another example is government funding for infrastructure projects that improve the quality of life for everyone, such as public transportation or affordable housing. These projects can create jobs and stimulate economic growth, while also addressing social and environmental issues. Public economic policies can also support non-profits directly, by providing funding or tax breaks for organizations that serve the public good. This can include charities, education and healthcare institutions, and other non-profit organizations that provide essential services to the community.

A good example of businesses commitment to non-profit objectives, is the United Nations Global Compact, a non-binding agreement to get businesses and other organizations worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The pact commits businesses to meet fundamental responsibilities in four areas: human rights, labor, environment and anti-corruption. More than 16,000 participating companies and 3,800 non-business participants have already embraced the commitments of the UN Global Compact.

Moreover, super-rich people have created large philanthropic foundations to support charity. For decades, the usual charity strategy has been for the super-rich (from Carnegie and Ford to Soros and Gates) to give a large chunk of their fortune to a foundation, usually carrying his/her name, which then supported charities or philanthropic causes. However, in the 21st century, more and more capitalists think about charitable donations like hard-nosed investments. Recipients are now ranked by which offered the most charitable return. The impact of every dollar is measured, and, if a project faile to deliver its expected “social return”, funding is cut.

Pierre Omidyar, the founder of Ebay, is a good example of this new strategy. He argued that if certain conditions are met, a business can be at least as powerful a force for good as a charity. Thus, in 2004 he created the Omidyar Network, which sees itself as an active investor, not a passive donor, and is free to put money equally into for-profit and non-profit ventures. This is the so-called “venture philanthropy”—developing a non-profit start-up in the same way as a new business venture, except for not expecting it to make money. The Network has concentrated on trying to build viable businesses that sell to the very poorest consumers. The for-profit counterpart to venture philanthropy is the so-called “impact investing”: aiming to turn a profit while doing some social or environmental good.

Moreover, the corporate world started to realize that non-profits can also become assets for businesses. Western companies are finding that NGOs possess the expertise, cultural awareness and trusted relationships that are critical to expanding in new markets. The recent partnerships between Unilever and Care is a good example.

On the other hand, there are many NGOs that adopt business strategies to achieve their goals more effectively. These organizations are in some countries known as social enterprises or impact-driven organizations. They use business models and principles to create social or environmental impact, as well as generate revenue to sustain their operations. Some examples of NGOs that adopt business strategies include Ashoka which is a global organization that supports social entrepreneurs in launching and scaling their innovative ideas and Acumen which is a non-profit that uses impact investing to support social enterprises that are focused on solving some of the world's most pressing problems, such as poverty and access to healthcare. These organizations demonstrate that adopting business strategies can help NGOs achieve greater impact, sustainability, and scale.

Key Takeaways

★ Businesses and nonprofit organizations play a critical role in shaping the economic life of their sectors by providing goods and services, creating jobs and investing in research and development.

★ Non-profits can learn a lot from businesses, particularly in areas such as marketing, strategic planning, and financial management.

★ Businesses can learn a lot from non-profit organizations, particularly in areas such as social responsibility, community engagement, and long-term sustainability.

★ Public policies play a critical role in shaping the business and non-profit environment and ensuring that organizations operate in a way that benefits both themselves and the public.

★ By subsidizing both profit-making and non-profit organizations, states seek to support a diverse range of activities that contribute to the overall well-being of society.

Further material & reading

- UN Global Compact (2020), Uniting Business in the Decade of Action, https://unglobalcompact.org/library/5747
- Jung, Tobias, Jenny Harrow, and Diana Leat (2018), 'Mapping philanthropic foundations' characteristics: Towards an international integrative framework of foundation types', Nonprofit and Voluntary Sector Quarterly, Vol. 47 (5), pp. 893-917.
- 'The Omidyar way of giving', The Economist, October 26, 2013.
- 'How a tide of tech money is transforming charity', The Economist, February 9, 2023.
- Beyond charity: three innovative types of business partnerships for nonprofits, The Guardian, February 27, 2014.
- Enjolras, Bernard, et al. "The size and composition of the European third sector." The third sector as a renewable resource for Europe: Concepts, impacts, challenges and opportunities (2018): 49-94.
- Bill Gates: Non-profits vs. for-profit businesses https://www.youtube.com/watch?v=yZG3-DW5V1g

Proposed Activities

- Watch the videos of Public Goods Games.
- Visit a social enterprise that operates as a business but also has a social or environmental mission. This will give you an understanding of how businesses can create value for society while generating profits. Discuss with the staff and the volunteers of the organization how they are affected by public economic policies.
- Create two case-studies on a business and a non-profit organization that have successfully navigated their interaction with a public policy. Research the organization's history, revenue-generating activities, and policy environment to understand how they have been successful. Write a 1000 word essay and discuss your findings with your friends.

Chapter 8: The Political Economy and Economic Policy

Introduction

Political economy, as a branch of social science, studies the relationships between individuals, society, markets and the state. As "political economy" we can understand the study of how a state's public 'household' is managed. States create the rules and the government applies them in different ways. Governments make decisions to influence the production, consumption and sharing of wealth. Economic policies are statements of aims and ideals to be achieved through various instruments applied by a Government to guide the process of economic development. Governments manipulate economic and social variables, influence the process of resource allocation to achieve desired levels of economic development with social justice and stability. Economic policy-makers are guided by economic considerations supported by economic theories that help them frame various subsets of economic policies. Economic policies are the end results of economic planning. Economic policies are present at several levels, from the local to the supranational, and can affect international trade and foreign relations. Economic policies are also connected to other policies such as health, social or environmental policies.

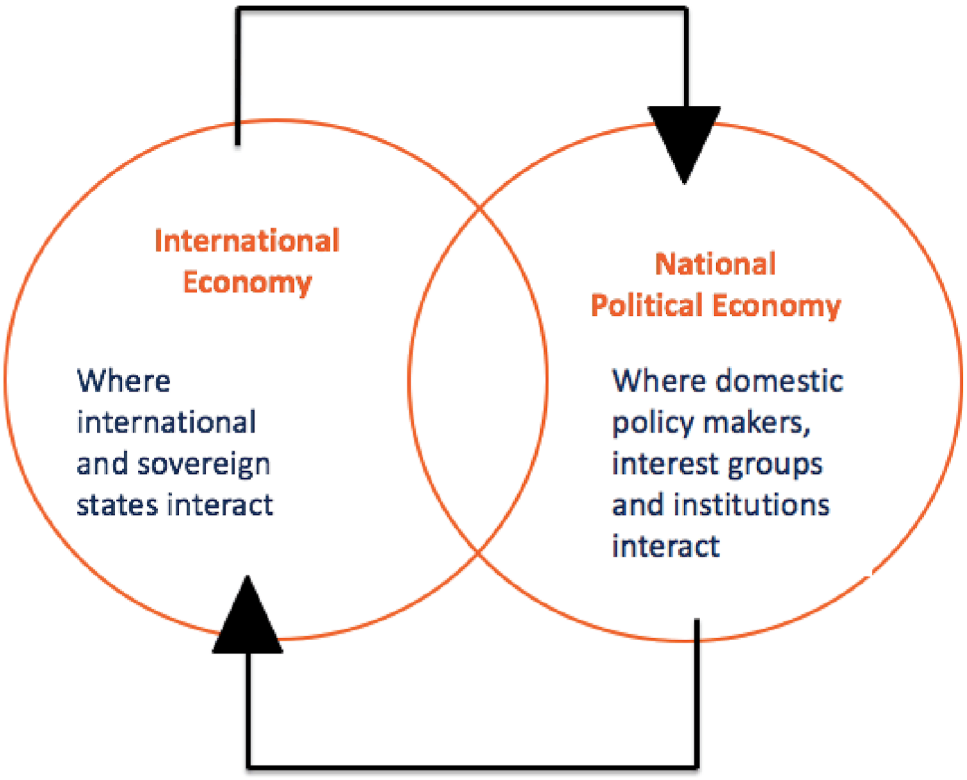
Political economy

Political economy is an intellectual project and effort to develop a model of social order and change. Political economy aims to understand how capitalism works and assess its consequences for the organization of social and political life.

In its simplest form, political economy is the study of the relationship between the market and powerful actors, such as a country's government. It is the study of how economic theories affect different socio-economic systems, along with the creation and implementation of public policy.

Political economics is split into two sub-disciplines: Classical Political Economy and Modern Political Economy. Classical Political Economy studies the works of philosophers such as Machiavelli, Adam Smith, and Karl Marx. Modern Political Economy focuses on the work of modern philosophers, economists, and political scientists such as John Maynard Keynes and Friedrich Hayek

The study of political economy is influenced by game theory, as it involves different groups competing for finite resources and power that assess which policies will provide the most beneficial results. It also relates to the capability of the economy to achieve the desired results.



Economic Policy
In general economic policy can be understood as the set of controls used by the government to regulate economic activity. Economic policy can be broadly classified into three areas: fiscal policy (issues related to taxation, government spending, and public deficit); monetary policy (interest rates,inflation and money supply), and trade policy (tariffs and trade agreements). In simple explanation it represents a course of action that is intended to influence or control the behavior of the economy. Economic policies are typically implemented and administered by the government. Examples of economic policies include decisions made about government spending and taxation, about the redistribution of income from rich to poor, and about the supply of money.

What are the 4 components of economic policy?
Four key economic concepts—scarcity, supply and demand, costs and benefits, and incentives—can help explain many decisions that humans make. Economic policy covers a wide range of measures which governments use to manage their economy. These include monetary policy (money supply and demand), taxation, budget, job creation, etc. There are four major goals of economic policy: stable markets, economic prosperity, business development and protecting employment.

Economic policies are the end results of economic planning: the decisions governments make to influence the production, consumption, and sharing of wealth. Research explores economic policies from the local to the international level, including their effects on international trade and foreign relations, their relation to policies focusing on public health and the environment, and their impact on economic growth and recessions.

Watch the video - How economic policy can help the world recover: https://www.youtube.com/watch?v=oZt6io7JmW8
Goals of economic policy

The goals of economic policy consist of value judgments about what economic policy should strive to achieve and therefore fall under the heading of normative economics. While there is much disagreement about the appropriate goals of economic policy, several appear to have wide, although not universal, acceptance. These widely accepted goals include:

1. **Economic growth**: Economic growth means that the incomes of all consumers and firms (after accounting for inflation) are increasing over time.
2. **Full employment**: The goal of full employment is that every member of the labor force who wants to work is able to find work.
3. **Price stability**: The goal of price stability is to prevent increases in the general price level known as inflation, as well as decreases in the general price level known as deflation.

Economic policies are statements of aims and ideals to be achieved through various instruments outlined by a government to guide the process of economic development. In a way, it can be termed as a structural response to correct economic imbalances (and inequality). Governments, by manipulating economic and social variables, influences\ the process of resource allocation to achieve desired level of economic development with social justice and stability. An economic policy essentially relates to either or all of the three basic economic decisions viz., 'what to produce', 'how to produce' and 'for whom to produce' at macro level. Generally, it is believed that economic policy-makers are guided by economic considerations supported by economic theories in framing various subsets of economic policies. In democratic countries, the decisions about public policy in general and economic policy in particular are taken by elected representatives at different levels. Hence, these are essentially political decisions. Apart from legislators, different interest groups like business lobbies, trade unions, experts' bodies and voluntary organizations influence the processes of economic policies formulation. Hence, understanding the interaction between politics and economics can help us to gain insight into the key questions of 'making, implementation and failure' of economic policies and programmes. This unit aims to introduce you to the economic policy formulation process wherein apart from interaction between economists and politicians, a large number of institutions/organizations influence the policy formulation process. To begin with, let us discuss the need and importance of economic policy and its various instruments.

The goals of economic policy consist of value judgments about what economic policy should strive to achieve and therefore fall under the heading of normative economics. While there is much disagreement about the appropriate goals of economic policy, several appear to have wide, although not universal, acceptance. These widely accepted goals include:

Here is a list of different types of economic policies:

- Monetary policy
- Fiscal policy
- Supply-side policies
- Microeconomic policies – tax, subsidies, price controls, housing market, regulation of monopolies
- Labour market policies
- Tariff/trade policies

Connecting with practical issues

Here are a few practical examples to demonstrate why is important to have knowledge about political economy & economic policy:

Keynes vs. Hayek or state regulation of the economy and market vs. minimal regulation of the economy and market
Example: The most influential economists of the twentieth century were John Maynard Keynes and Friedrich A. Hayek. Keynes stood for massive intervention in the economy to lift it out of recessions while F. Hayek believed that the government should do nothing during a recession. Their approaches of implementing strong interventions in the economy (Keynes) or minimal interventions in the economy (Hayek) are also currently adopted by representatives of political parties who can become part of a government. Some of them prefer interventions in the regulation of the economy by the state, others, on the contrary, do not consider this as appropriate and let the market regulate itself. When electing politicians, it is therefore necessary to consider which approach is more acceptable to us. Around the world we see different levels of intervention in the regulation of the economy.

Fiscal Policy and its goal is to influence the economy to create the highest possible economic growth with low unemployment. The main instrument of fiscal policy is the state budget.
Examples: State budget revenues are formed mainly from tax collection. In addition to taxes, customs duties, administrative fees, interest on loans or deposits also form key revenues for the state budget. The state uses money obtained in this way for various purposes. Its main goal is to spend money in such a way as to ensure economic growth. The state has the possibility to support the economy with the help of appropriate instruments or, on the contrary, to dampen it slightly. In democracies, the state budget is approved by the legislature. Ideally the budget should be balanced or in surplus. In that case, revenues are higher than expenses.

Monetary policy is a process aimed at regulating the amount of money in circulation. It is used by governments, central banks or other monetary institutions.
Examples: the main objective of monetary policy is to act for price stability. States can regulate their internal environment when they aim to change the financial management of the economy. For example, politicians manipulate money circulation to increase employment or economic growth. In their foreign economic policies, states try to manage the exchange rate, which influences exports and imports. A real-world example relates to the coronavirus pandemic situation, when the US central bank cut the key interest rate close to zero. This affected the interest rate of loans and consumer loans, increasing economic growth.

Labour Market Policy is related with publicly-financed interventions intended to improve the functioning of the labor market.
Examples: governments play an important role in the labor market in several ways by using different tools such as imposing minimum wages, introducing employment protection legislation, increasing or reducing public expenditure and taxes or changing specific labor market policies and social protection programmes. For example, the government can create programmes to help the unemployed find work or to help employees find better jobs. If a citizen loses his/her job or is currently unemployed, he/she can turn to the state to help them find a new job.

Taxes & VAT: VAT is an important indirect tax and one of the main revenues of the state budget. VAT is charged on the price of goods that the customer pays, is collected and remitted by the seller.
Example: Governments have the power on setting the value of VAT on various types of goods and services. The amount of VAT depends on the product or service. Through VAT, the state regulates the amount of collected money which can then redistribute back to society. If we decide to travel to different countries of the world, we can identify different amounts of VAT. Differences between states occur in the basic VAT rate, but also in goods and services. Basic VAT is, for example, 20% in Bulgaria, 24% in Greece, 21% in the Czech Republic and 20% in Slovakia. States apply reduced VAT to various goods and services. They are e.g. food, medicines, books, hotel services, restaurants, public transport or cultural events.

Key Takeaways

★ Political economy analyzes the organization of social or political life and studies relations between market and government
★ Political economy answers the question on how much the government intervenes in the economy and on what are the relationships between law, government and the socio-economic system
★ Political economy focuses on public economy policy and on the influence and involvement of various interest groups
★ Actors tries to ensure maximum amount of power and resources what creates most beneficial results for them
★ At the national level policy makers interact with institutions and interest groups
★ At the international level, sovereign states interact with international organizations
★ Economic Policy is created by a set of controls used by governments to regulate economic activity.
★ Economic Policy influences or controls the behavior of the economy.
★ Economic Policy covers three main areas: fiscal policy, monetary policy and trade policy.
★ Governments make decisions about money spending, taxation, redistribution of income from rich to poor, budget, job creation or about the supply of money; Government decisions can affect sharing of wealth, production and consumption.
★ Basic goals of Economic Policy are stable markets, economic prosperity, business development, protection of employment, economic growth or price stability.
★ Governments, by manipulating economic and social variables, influence the process of resource allocation.
★ At the macro level economic policy aims at three economic questions: What to produce? How to produce? And for whom to produce?
★ In democratic countries, the decisions about economic policy are taken by elected representatives and can be influenced by public opinion, mass-media, trade organizations, expert bodies, voluntary organizations or other interests groups

Further material & reading

Recommended bibliography

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- Emerson, T. L., and English, L. K. (2016). “Classroom Experiments: Teaching Specific Topics or Promoting the Economic Way of Thinking?”, Research in Economic Education, 47(4): 288-299.
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- McNally,D. (2011), Global Slump. Oakland: PM Press. Sayer, A. (2016), Why We Can’t Afford the Rich. Bristol and Chicago: Policy Press.
- Stiglitz, J. E. (2013), The Price of Inequality. New York and London: W.W. Norton and Company.
- Weeks, J. F. (2014), Economics of the 1%. Cambridge: Cambridge University Press.

Further material & reading

Links to websites/videos/podcasts

- Fear the Boom and Bust: Keynes vs. Hayek - The Original Rap Battle: https://www.youtube.com/watch?v=d0nERTFo-Sk
- What is Political Economy?: https://corporatefinanceinstitute.com/resources/economics/political-economy/
- The IMF Center of the International Monetary Fund, in partnership with the U.S.'s National Council on Economic Education (NCEE). 2005: Thinking Globally: Effective Lessons for Teaching about the Interdependent World Economy are eight classroom-tested lessons on globalization, comparative advantage, economic growth, exchange rates, and other international topics. https://www.imf.org/external/np/exr/center/students/hs/think/lesson5.pdf
- Classroom Experiments & Games: https://www.economicsnetwork.ac.uk/themes/games
- Different types of economic policy: https://www.economicshelp.org/blog/1011/recession/solving-current-economic-problems/
- Dollar Street: https://www.gapminder.org/dollar-street
- Economic Policy: An Introduction: https://egyankosh.ac.in/bitstream/123456789/38007/1/Unit-1.pdf
- Economic Policies and Regulations: https://www.lessonplanet.com/lesson-plans/economic-policies-and-regulations
- Play Economics: The Top 5 In-Person Economic Games https://mru.org/teacher-resources/active-learning/play-economics-top-5-person-economics-games-updated-202
- Economic Policy: https://www.rand.org/topics/economic-policy.html

Proposed Activities

Real world: make things concrete

The main aim is to make things concrete by grounding the topic in the real world. Structure: Introduce students to the economy around them - Show them the main economic sectors of their country, the core institutions and the distribution of wealth. But also let them experience the economy firsthand in their own daily lives, by identifying what forms of economic organization they interact with, and exploring their own position in the world.

Dive into history with them, of economic thought and of the real economy. The evolution of economies throughout history is a fascinating and motivating field, full of drama and action. It is also highly relevant for anyone trying to understand the current economy: History can provide great insight into how economic processes work, how the current status quo has come about, and how it might be changed.

A good understanding of the past can also help us look more sharply towards the future. Economists have claimed, repeatedly, to have solved the economic problems of the past, such as booms and busts. Recent history, however, has shown us that this is far from the truth. Many of the key issues of our time – financial instability, trade wars, economic inequality – are not new at all. Teach them to draw on past episodes, to learn how to avoid old mistakes.

Proposed Activities

Pluralism: show the whole economic ecosystem

The main aim is to sketch the current system in more detail. Economies are like ecosystems. What types of organizations do ours contain, how do they interact? Households, production and extraction multinationals, unions, network organizations, family firms, nation states and their various agencies, small businesses, cooperatives. Which among these are the keystone species, holding the entire fabric together?

Instructions: Show through what mechanisms these organizations function and connect: market trade, hierarchy, reciprocity and other traditions. Sketch, also, how these systems work at larger scales, including their political sides. Canada's current capitalism is a very different ecosystem from the Chinese political-economic system, which again differs enormously from, say, Cuba's integration of market mechanisms and government organization

Price ceiling or a price floor

Determine whether a price ceiling or a price floor is being described:

- A city law prevents landlords from raising the rents for existing tenants by any more than 2 percent per year.
- The nation passes a new minimum-wage that states that all employers must pay their employees at least $8 per hour.
- A professional sports league sets a rule that sets a maximum price that can be set for a ticket to a game.
- The government imposes a minimum price that must be paid for certain agricultural products.

More details at: https://study.com/academy/lesson/price-ceiling-in-economics-definition-effects-examples.html

Proposed Activities

Alphabet Soup:

Instructions: Students are given a table with - on the left column with the definitions and the right one is blank/empty. They should write the term, which is defined.
There are some terms on political economy (capitalism, marxism, win-win game,...etc.) below the table. The table contains only definitions which are cut into some sections and messed in the table.

Role of the students:
a) to complete the definition
b) to attribute the right term to the definition.
Then discuss with the class. Students may work separately, in couples/groups, may use some textbooks, or the internet.

Understand the effect of minimum wage on employment after watching the video:

Instructions: Study wage employment graphs and how they work, and discover pros and cons of minimum wage increase effects: https://study.com/academy/lesson/minimum-wage-and-its-effects-on-employment.html

Explore the concept of economic policy after watching the video.
Learn the definition of economic policy and understand its different types.
Discover various economic policy examples.
https://study.com/academy/lesson/what-is-economic-policy-definition-examples.html#lesson

Proposed Activities

Euro/Dollar/Other Currency Auction

Instructions: You will auction off a euro/dollar/other currency for more than a euro/dollar/other currency. In the process, students will learn some important economic concepts.
Links: https://www.investopedia.com/terms/d/dollar-auction.asp
Supplies: An actual euro/dollar/other currency coin or bill.
Resource Type: Classroom Activity

Learning Objectives:

- Demonstrate the importance of incentives.
- Explain what sunk costs are.

for more see: https://www.investopedia.com/terms/d/dollar-auction.asp

QUIZ: What is Economic Policy?

Including explanatory video about Economic Policy. After watching the video 1: Explore the concept of economic policy. Learn the definition of economic policy and understand its different types. Discover various economic policy examples. then test yourself in the quiz:

https://study.com/academy/lesson/what-is-economic-policy-definition-examples.html#lesson

After watching the video 2: Understand the effect of minimum wage on employment. Study wage employment graphs and how they work, and discover pros and cons of minimum wage increase effects.
More details at: https://study.com/academy/lesson/minimum-wage-and-its-effects-on-employment.html

Proposed Activities

International institutions- Headline Bingo

Description: Distribute copies of the International Institutions – Headline Bingo game cards and markers. Give each student one bingo card (make sure to alternate the eight different forms of these cards as you pass them out) and 24 markers. Tell students that, for the first round, any five markers in a row wins. Slowly read and repeat each headline in Activity 2, International Institutions: Headline Bingo. Instruct students to listen carefully as each headline is read and to place a bingo marker over the name of the organization they think is most likely to be associated with the action occurring in each headline. Remind students that, in order to get a bingo, they must have correctly placed five markers in a row. Offer small incentives to the winners; you may have some leftover candy bars from the trading activity.

Once “bingo” is called, have students read back the squares they had marked. Check these against the headlines read. Be certain the spaces the student has covered correspond correctly to the headlines read. If not, resume play until a correct bingo is called. Award prizes. Play additional rounds using several variations of the basic bingo format to check students’ comprehension. For example, require that winners’ markers must form a cross (middle vertical row, middle horizontal row) on their card or that only the top or bottom row may be completed for a win. Review again the major institutional roles played by international organizations, stressing the importance of international trade.

Chapter 9: Delving Deeper into CETERIS Paribus

A Gamified Exploration of Economic Theory

Introduction

CETERIS Paribus is an innovative gaming project developed by the CETERIS Paribus partnership that combines economic principles with fun gameplay. By incorporating a captivating narrative and the concept of gamification, CETERIS Paribus offers players a unique and engaging experience. In this chapter, we will discuss the game's background, explore the meaning behind its name, and delve into the narrative elements that set this game apart.

About the Project:

The CETERIS Paribus project aims to create an immersive gaming environment that encourages players to learn and apply economic concepts in a fun and interactive way. By leveraging the power of gamification, the project turns complex economic theories into accessible and enjoyable game mechanics. The game's strategically placed historical elements challenge players to think critically and discover the world of economics through real-life examples, taken from history, stimulating their intellectual curiosity and fostering a deeper understanding of the underlying principles.

What Does "Ceteris Paribus" Mean?

"Ceteris Paribus" is a Latin phrase that translates to "all other things being equal." In economics, this term is used to describe a scenario where all variables remain constant except for one, which is being examined or manipulated. This favourite economic term is one of many, which players learn about through the game.

Narrative:

Kai is in big trouble! Economics homework is due tomorrow and it's too late to study. Luckily, Professor Pavlos lives right next door! Pavlos will not only help Kai complete their homework on time, but also explain economics practically, through the different ways it affects our lives.
Follow Kai across Pavlos' house, discovering pieces of the old professor's life in every room. Each piece teaches Kai something new about economics, in a simple and contextual way. Complete all rooms and finish Kai's homework and you too will know the basics of economics!

In Ceteris Paribus you will:

- Navigate a charming, hand-crafted environment built in Unreal Engine;
- Experience a combination of classic point-and-click adventure and hidden object games;
- Discover open and secret rooms in Pavlos' house, filled with memories and references to real historical events;
- Learn more about economics in a fun way, maybe understanding terms such as "inflation" and "cryptocurrency" for the first time;
- Decide for yourself if Pavlos is really a vampire or not.

Kai is anxiously awaiting your help!

Analysis of the rooms in the game:

Room 1: Kitchen

The kitchen represents the exciting beginnings of Pavlos' investment firm in Czechoslovakia during the 50s and 60s of the last century. This was a time when his company really took off, and Pavlos built relationships with people from different countries. The room is full of items from various nations such as the US dollar bill, Tuzex, a globe, and others, showing how the world's economies were getting more and more connected.

Players will learn about important economic ideas like income, budgets, deficits, and economic globalisation. These concepts help explain how the world of finance and investments worked during this period and how Pavlos' company grew and thrived. It's a great way for players to explore the excitement of building a successful business in a time of global change.

Postcard US Dollar Bill Tuzex Globe Elizabeth II Shinkansen Aeroplane

Room 2: Dining Room

The dining room takes visitors to the 70s, a challenging time for Pavlos' company. The painting to be found in this room, captures the busy and chaotic atmosphere of an office during tough times. Amidst the mess, you'll see luggage, crumpled notes, and other items indicative of the rough times of the era.

In the 70s, the economy faced some tricky situations, like high inflation and slow growth, which made it hard for businesses to succeed. As players explore this room, they'll learn about interesting economic ideas like marginalism, the law of diminishing marginal utility, and the law of diminishing returns. These concepts help explain how businesses struggled during this time.

Players will also discover the concept of the sunk cost fallacy, a common mistake where people keep investing in something just because they've already spent a lot on it. This idea is important for understanding the tough choices Pavlos and his team had to make when deciding whether to keep their company going or call it quits.

By learning about the 70s and these valuable economic concepts, players will better understand the challenges businesses faced and the difficult decisions they had to make during this exciting and unpredictable time.

Car Ladder Scales Luggage Anchor Oil Tanker

Room 3: Secret Study

The secret study takes players back to the 1930s, when the Great Depression hit the United States. This room shows how tough times were for many people, with images of run-down farms and homes in rural America.

Players will explore important economic ideas like unemployment, scarcity, and stagnation. They'll learn how many people couldn't find jobs during the Great Depression, making it hard to get by. Scarcity means there wasn't enough to go around, and stagnation meant the economy just wasn't growing.

Players will also discover graphs and GDP (Gross Domestic Product), which help us see how big the crisis was. Graphs show trends in the economy, and GDP measures how much a country is producing. By learning about these tools, players can better understand the challenges people faced during the Great Depression and how they worked together to overcome them.

Room 4: Basement

The basement takes players to the 1940s, when Pavlos served as a US soldier in France during World War II. This painting shows a store, with only a few unwanted items left on the shelves.

Players will explore interesting economic ideas like supply and demand, inflation, and currency. They'll learn how war can impact the economy, making it difficult for people to get the things they need. Supply and demand help explain why some items were hard to find, while inflation means prices kept going up.

By learning about these economic concepts and understanding life during wartime, players can better comprehend the challenges people faced and the tough choices they had to make to survive in this difficult period.

5000 Franc Bill Bag of Coal Price Tag M1 Garand Empty Shelves Cigarettes

Room 5: Bedroom

The bedroom takes players to the 1990s, when Pavlos worked as a university professor teaching economics in Europe. This painting depicts an office, complete with a bookcase, computer and a desk.

Players will explore exciting economic ideas like monopoly, utility theory, and comparative advantage. They'll learn about how some companies can control an entire market and why that's not good for consumers. Utility theory helps explain how people make choices based on what makes them happiest, while comparative advantage shows how companies or even countries can benefit by focusing on what they do best and trading with others.

Coupon Voucher Ink Pad Monopol Piggy Bank Tank Farm Machine Medal

Room 6: Library

The library takes players to the late 2000s, during the mid-2000s economic crisis and housing bubble. This room shows a house on sale, with a yard sale happening outside, giving away objects at low prices.

Players will explore intriguing economic ideas like cryptocurrency, sustainable economy, and income. They'll learn about how the financial crisis affected people's lives and led to the development of new, digital forms of money like cryptocurrencies. The sustainable economy concept shows how we can create a better future by focusing on green and circular practices, reducing waste, and protecting the environment.

In this painting, players also learn about the importance of income and how it affects people's lives. They'll see how economic crises can impact families and communities, making it difficult for people to pay their bills and keep their homes. By exploring these interesting economic concepts, players can better understand the challenges of the late 2000s and how people worked together to overcome them and build a more stable and sustainable future.

Room 7: Foyer

The foyer serves as an introduction to the entire journey through the different rooms and paintings, setting the stage for the economic adventure ahead. Here, players will encounter the term "ceteris paribus," a Latin phrase that means "all other things being equal." This important concept is used throughout economics to simplify complex situations and help us understand how one factor can influence another.

In this room, players will begin to grasp the interconnectedness of economic ideas and how these concepts shape the world around us. They'll learn that economics isn't just about numbers and charts, but also about people, choices, and the consequences of those choices.

The foyer offers a welcoming space for players to start their exciting exploration of economics, as they prepare to dive into the fascinating stories and lessons that await them in the other rooms. With curiosity piqued, they'll embark on a journey that opens their minds to the complex and intriguing world of economics.

Room 8: Kai's Room

Players start and end their game journey in Kai's room. In the first encounter of players, they have the chance to get to know who Kai is and relate to them as a character, as well as understand the journey ahead.

On the way back, Kai's room is a unique and interactive space designed to engage players and consolidate their learning from the other rooms. While there is no specific painting in this room, it features interactive objects and a library with QR codes that provide access to educational materials.

Kai's room is the perfect place for players to complete their final homework, synthesising the knowledge they've gained and applying it to real-world situations. It's a fun and engaging space that reinforces the importance of learning and reminds players that economics can be found in every aspect of our lives.

Gamification and its Impact on Learning:

Gamification is the application of game design elements and principles in non-gaming contexts, with the goal of enhancing user engagement, motivation, and learning. In the case of Ceteris Paribus, gamification plays a crucial role in making economic theory accessible and enjoyable for players.

One of the primary benefits of gamification is its ability to boost engagement and motivation in learners. Traditional educational methods often struggle to capture and maintain the interest of students, especially when it comes to abstract and complex topics like economics. Gamification, on the other hand, leverages the innate appeal of games to create a more enjoyable and interactive learning experience. As a result, learners become more invested in the subject matter, which in turn leads to increased motivation, retention, and ultimately, a better understanding of economic concepts.

Gamification promotes active learning and problem-solving by encouraging learners to apply economic concepts in various scenarios. In a gamified environment, players are often faced with challenges that require strategic thinking and the application of learned principles. This hands-on approach allows learners to directly interact with economic concepts and observe the consequences of their decisions in real-time. As a result, learners develop a deeper understanding of the subject matter and sharpen their critical thinking skills, which are essential for success in both economic literacy and non-formal education.

Another advantage of gamification is its adaptability and potential for personalization. Gamified learning environments can be tailored to accommodate different learning styles, abilities, and interests, ensuring that the educational experience is both inclusive and relevant for each learner. This level of customization allows learners to progress at their own pace, explore topics of interest, and engage with the material in ways that best suit their individual needs.

Consequently, gamification can play a pivotal role in promoting economic literacy and non-formal education by making them more accessible and appealing to a diverse range of learners. For example, information is provided to players in several forms: through association with an object; through a story of personal experience; as well as written out as theory in the Journal tab of the game. This provides the opportunity for the same piece of information to be received and fortified in different ways, giving a better chance for understanding of the material and remembering.

Additionally, the game's narrative elements provide an added layer of immersion, motivating players to actively engage with the content and develop their understanding of the material. As they progress through the game, players naturally become more adept at applying economic concepts, ultimately leading to a deeper comprehension of the subject matter.

Conclusion:

In conclusion, gamification is an effective approach to promoting economic literacy and non-formal education by making complex subjects more engaging, stimulating active learning, and providing a personalised learning experience. By leveraging the power of games, educators can create immersive and interactive environments that foster a deeper understanding of economic principles, enhance critical thinking skills, and promote lifelong learning. As the world continues to evolve, embracing gamification as a means to boost economic literacy, among other strands of education, and non-formal education overall, will become increasingly essential for preparing learners to navigate the complexities of the modern economy.

CETERIS Paribus is a ground-breaking project that combines economic principles, gamification, and a compelling narrative to create an immersive and intellectually stimulating gaming experience. By leveraging the power of gamification, CETERIS Paribus successfully transforms complex economic theories into accessible and engaging gameplay, fostering a deeper understanding of these concepts for players of all backgrounds.

For more information about Ceteris Paribus and the developer's insights, visit the official blog at https://xencaye.com/ceteris-paribus/ or follow along with added materials to the current manual, which include podcasts with the creative team from The Future Now Association (Bulgaria).

CETERIS PARIBUS

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