

**ANNOUNCEMENT:  
FIRST EXAMINATION**

- THE FIRST UNIT EXAM WILL BE MOVED TO December 15, 2010 (WEDNESDAY) – TENTATIVE DATE**
- EXAMS BEGIN 30 MINUTES EARLIER, FROM 7:30 A.M. AND END AT 9 A.M.**
- ROOMS TO BE ANNOUNCED.**

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Econ 11 –Lecture #9

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**Lecture #9:  
APPLICATIONS OF SUPPLY & DEMAND**

- EXAMPLE #4: THE PESO (EXCHANGE RATE WITH THE US DOLLAR)**
- EXAMPLE #5: STOCK MARKET VALUES**
- EXAMPLES #6 & #7:**

**INTERACTION OF POPULATION SIZE, INCOME, GROWTH, AND WAGE LEVEL**

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**EXAMPLE #4:  
VALUE OF THE PESO IN TERMS OF FOREIGN MONEY**

- The fundamental value of the exchange rate is explained by the supply and demand for dollars.**
- The supply of dollars come from earnings from exports and services rendered by Philippine nationals**
- The demand for dollars come from payments that we make for imports and services rendered by foreign nationals**

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**DEFINITION OF TERMS**

- ❑ **EXCHANGE RATE** -- The peso price of the dollar
- ❑ When the price of the dollar in terms of pesos *increases*, the peso becomes *weaker*, for it cannot buy as much dollars as before. Therefore, the peso *depreciates* in value.
- ❑ When the price of the dollar in terms of pesos *decreases*, the peso becomes stronger, for it can buy more dollars than before. Therefore the peso *appreciates* in value.

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**Definition of terms**

- ❑ **Import payments:** dollars used to pay for goods and services from other countries.
- ❑ **Exports:** revenues from sale of Philippine goods abroad, in dollars.
- ❑ **Remittances:** Payments in dollars from RP to foreigners (*outward*) and from abroad to the RP (*inward* remittances)
- ❑ **OFWs:** Overseas Filipino Workers.

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**DEFINITION OF TERMS**

- ❑ **“DOLLARS”** in our example refers to any foreign currency, for simplicity.
- ❑ The US dollar is often the measure with which all currencies are compared, so the above example works well.
- ❑ **“Convertibility”** of all other currencies to the US dollar simplifies the example.

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**Definition of terms: Other FOREIGN CURRENCIES**

- ❑ *Major foreign currencies:* Japanese yen, European “euro”, British “pound”, Saudi “rial”.
- ❑ With the growth of the European Union, a single currency, *Euro*, has replaced many different national currencies like the franc, the lira, the mark, peseta, guilder, kroner, etc.
- ❑ *Some Asian currencies:* Chinese yuan, Singapore dollar, Indian rupee, Hong Kong dollar, Indonesian rupiah, Malaysian ringgit, Korean Won, Taiwanese dollar, etc.

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**TO ANALYZE THE DEMAND AND SUPPLY OF DOLLARS**

- ❑ We graph the price of dollars in terms of pesos on the vertical axis and the volume of dollars on the horizontal.
- ❑ The volume of transactions in the Foreign Exchange Market is huge. Per day, it could be in Millions of Dollars.

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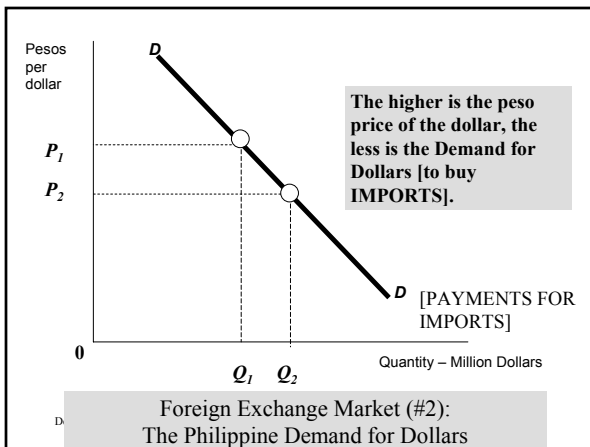
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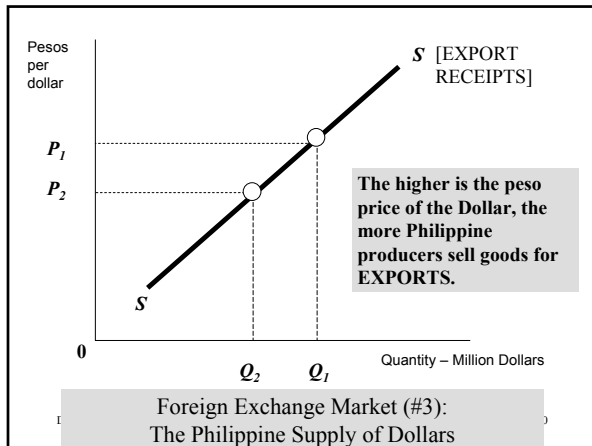
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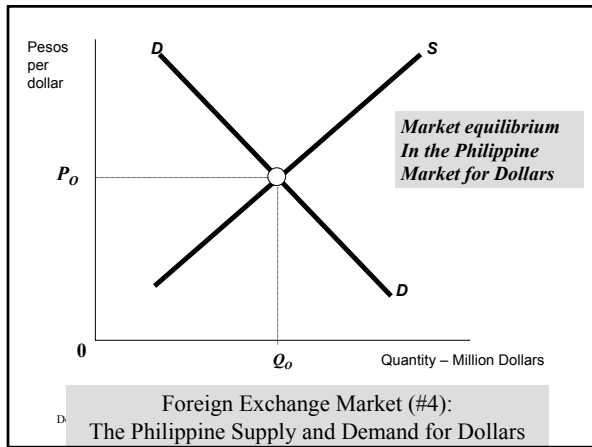
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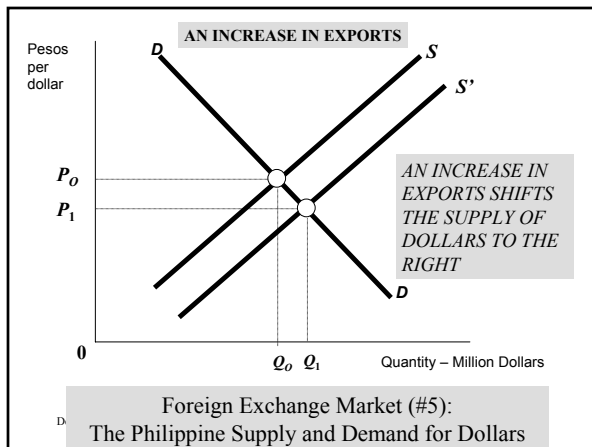
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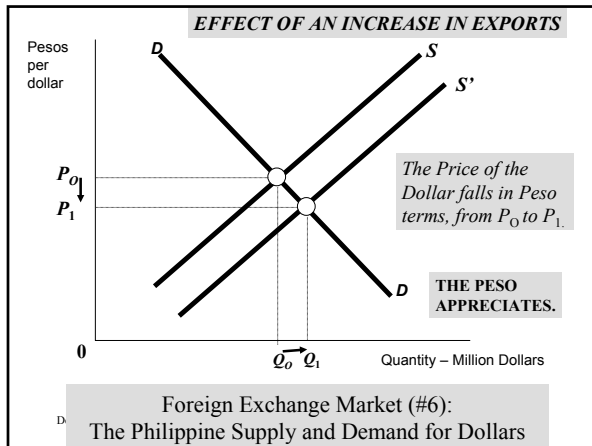
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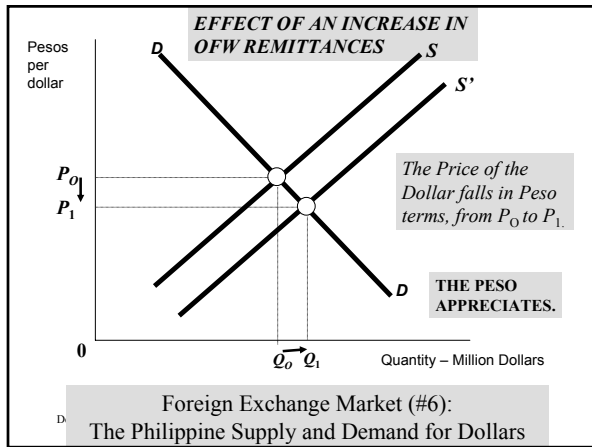
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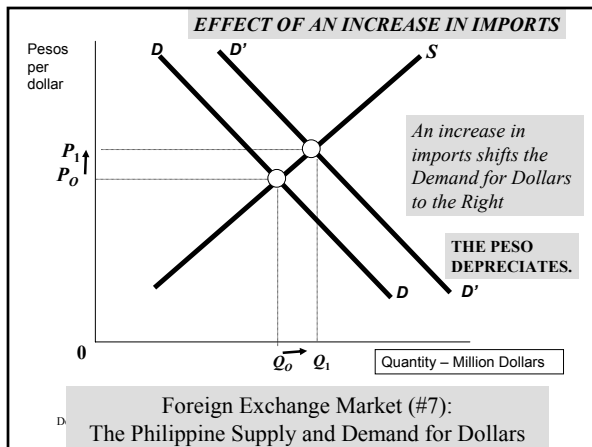
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### EXAMPLE #5: THE STOCK MARKET

#### ☐ Definitions–

☐ The capital stock of a corporation is divided into many *shares*. A share (or stock certificate) represents the ownership right for a *part* of the capital stock of a corporation.

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### THE STOCK MARKET (#2)

#### ☐ Definitions–

- ☐ Familiar corporations in the PHILIPPINES:
  - SAN MIGUEL CORP. has 1.454 billion shares of stock on issue.
  - MERALCO (electricity utility serving Metro Manila) has 1.127 billion shares of stock.
  - PLDT – PHILIPPINE LONG DISTANCE TELEPHONE
  - JOLIBEE FOOD CORPORATION (fast food chain restaurant)

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### STOCK MARKET (#3)

#### ☐ Definitions–

- ☐ A *stock market* is the market where shares of stocks of companies are bought and sold.
  - On July 10, 2008, 166,390 shares of PLDT shares were sold at an average price of P2,429 pesos a share.
  - But yesterday, July 8, 2010, shares of PLDT closed at a price of P2,445 pesos.

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### STOCK MARKET (#4)

Definitions–

- In the Philippines – The stock market is the Philippine Stock Exchange (PSE).
- The PSE stock index corresponds to the *index* of the prices of designated companies that compose the index.

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### THE STOCK MARKET (#5)

Participants in the STOCK MARKET

- o *Companies* – These companies pre-qualify. They are normally big, established companies that need additional capital to finance their activities.
- o *Investors* – These are institutions (banks, insurance companies, mutual funds, other companies and persons, etc.) that invest the savings that they mobilize to buy stocks or to sell them.
- o *Stock Brokers* – Businesses that facilitate the buying and selling of stocks for a commission.

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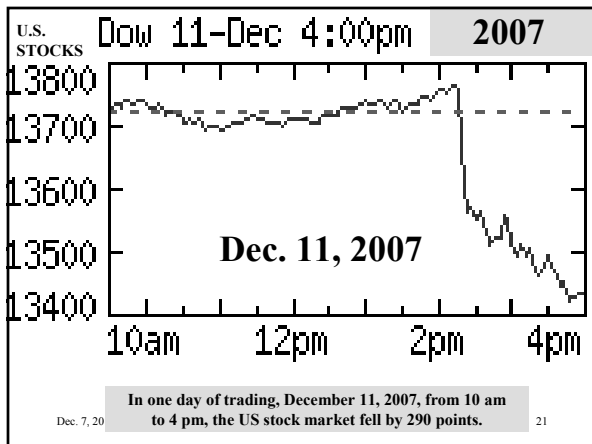
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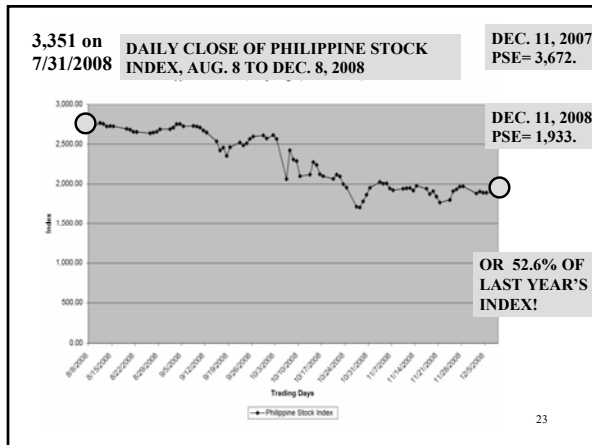
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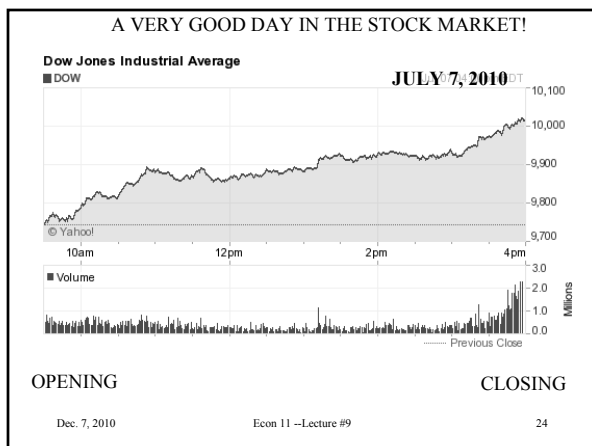
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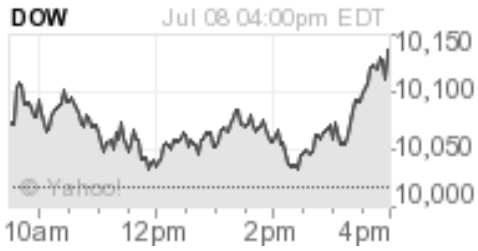
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CHOPPY BUT UP TODAY, JULY 9, 2010, IN NY!



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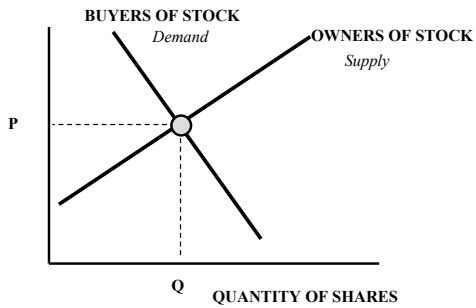
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PRICE PER SHARE

MARKET FOR SHARES



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### WHAT WILL MAKE THE PRICE OF JOLIBEE STOCK TO RISE

- HIGH DEMAND FOR THE STOCK RELATIVE TO THE SUPPLY OF THOSE WILLING TO SELL THEIR STOCK HOLDINGS
- A GOOD BUSINESS REPORT ABOUT THE PROSPECTS OF THE STOCK
- A LARGE INVESTOR WHO WANTS TO ACQUIRE A LARGE BLOCK OF JOLIBEE STOCK.
- A PROSPEROUS YEAR FOR ALL. "BULLISH" PROSPECTS.

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- WHAT WILL MAKE THE PRICE OF *MERALCO* STOCK TO FALL**
- DESIRE TO SELL A LARGE SUPPLY OF STOCK HOLDINGS RELATIVE TO THE EXISTING DEMAND FOR THEM.
  - A BAD BUSINESS REPORT ABOUT THE PROSPECTS OF THE COMPANY. (RECENT CRITICISMS ABOUT MERALCO BY THE GOVERNMENT.)
  - A LARGE INVESTOR WHO WANTS TO SELL OUT FOR MANY REASONS – LIKE NEED FOR CASH.
  - A POOR YEAR FOR BUSINESS AND THE ECONOMY. “BEARISH” PROSPECTS.

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**EXAMPLE #6 & 7:  
PRELIMINARIES –  
Labor, Population, and  
Wages**

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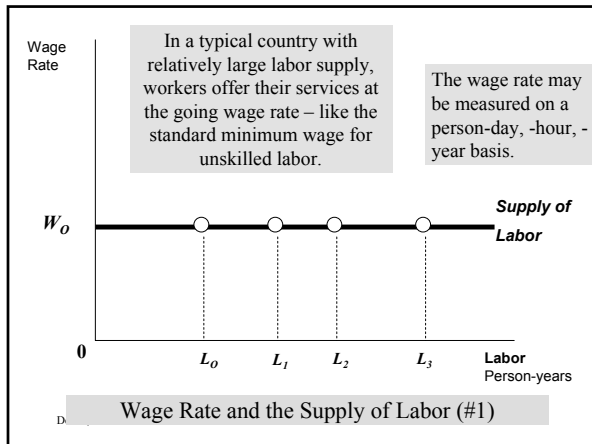
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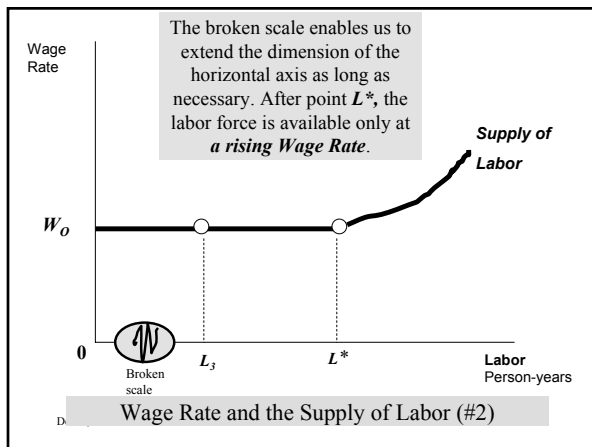
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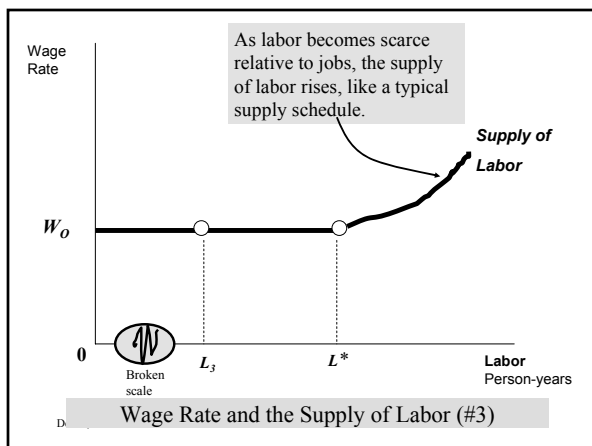
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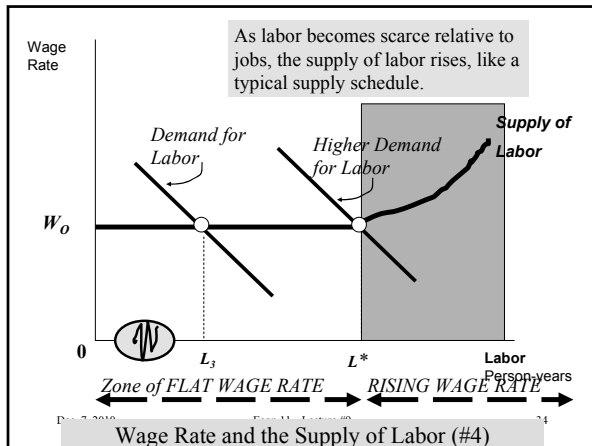
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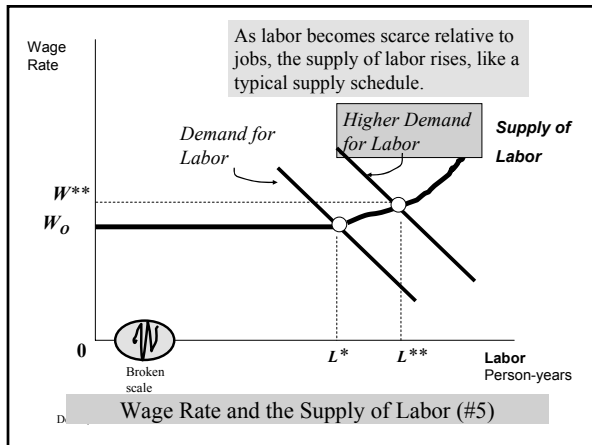
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**EXAMPLE #6:  
LEVELS OF POPULATION  
GROWTH –  
TWO COUNTRIES**

*Question:* Which country will have a higher per capita income and wage rates after a time?

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Assuming the same rate of growth of demand, compare two countries with different population growth:

- Country A has a low rate of population growth – 1 % per year
- Country B has twice the rate of population growth rate – 2 % per year
- Result: Labor supply in B grows faster. See next table.

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**Two countries with Different Population Growth Rates:** A (1% per year) B (2% per year)  
Labor is 60% of population level

Country	Initial year	Five years after	Ten years after
A's population <b>Labor</b>	10 million <b>6.0 m</b>		
B's population <b>Labor</b>	10 million <b>6.0 m</b>		

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**Two countries with Different Population Growth Rates:** A (1% per year) B (2% per year)  
Labor is 60% of population level

Country	Initial year	Five years after	Ten years after
A's population <b>Labor</b>	10 million <b>6.0 m</b>	10.51 million <b>6.31 m</b>	
B's population <b>Labor</b>	10 million <b>6.0 m</b>	11.04 million <b>6.62 m</b>	

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**Two countries with Different Population Growth Rates:** A (1% per year) B (2% per year)  
 Labor is 60% of population level

Country	Initial year	Five years after	Ten years after
A's population	10 million	10.51 million	11.05 million
<b>Labor</b>	<b>6.0 m</b>	<b>6.31 m</b>	<b>6.63 m</b>
B's population	10 million	11.04 million	12.19 million
<b>Labor</b>	<b>6.0 m</b>	<b>6.62 m</b>	<b>7.31 m</b>

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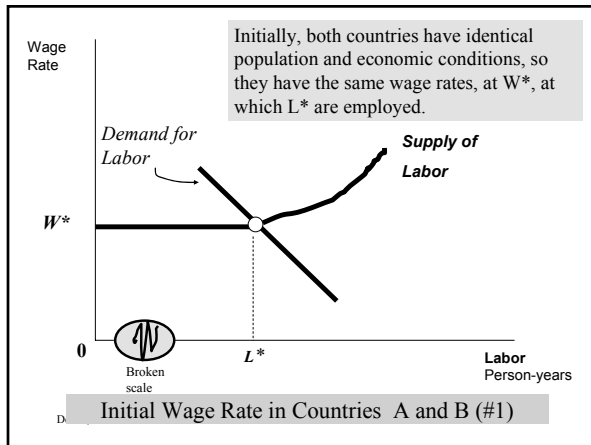
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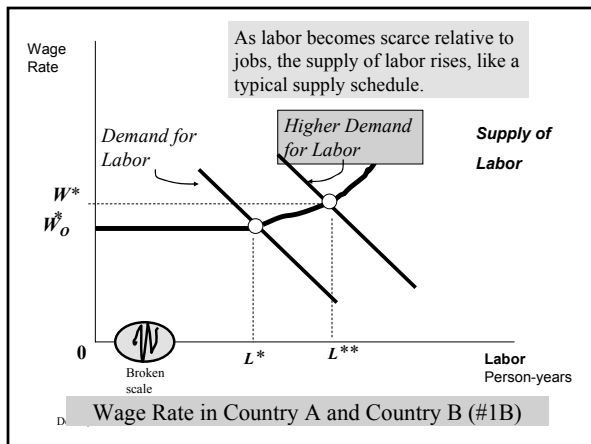
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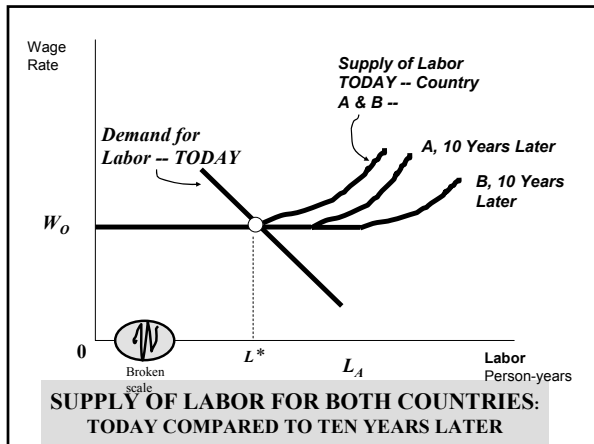
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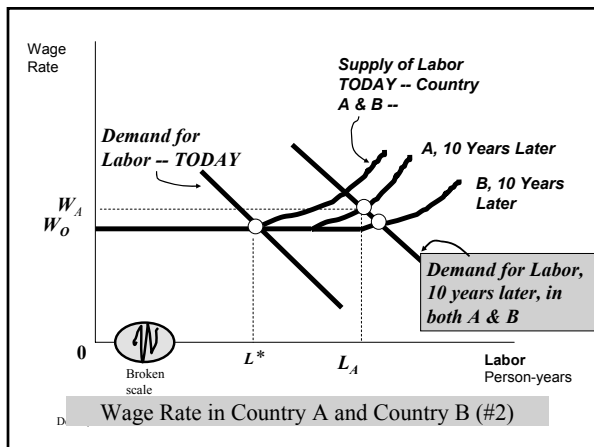
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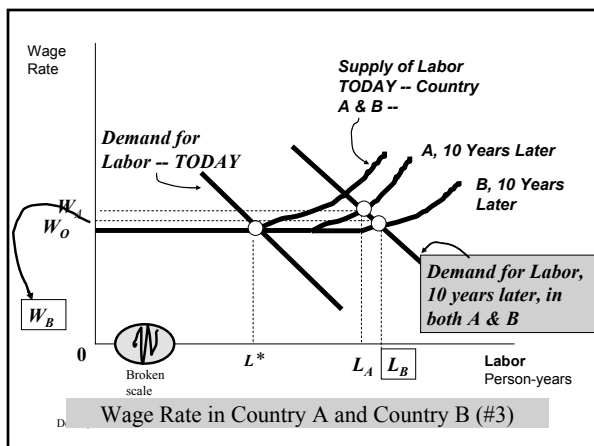
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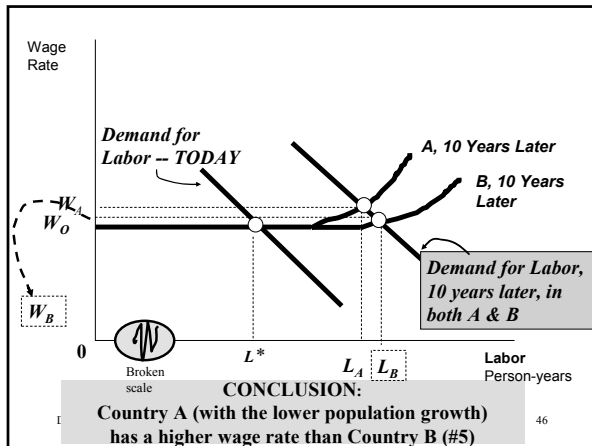
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**EXAMPLE #7:**  
**RATES OF ECONOMIC GROWTH – TWO COUNTRIES:**  
**T (High economic growth)**  
**P (Low economic growth)**

**Question: Which country will become more prosperous after ten years?**

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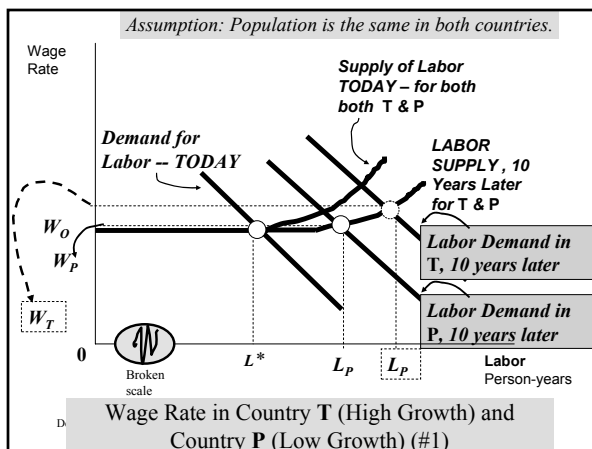
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**End of today's lecture.**

**Good day!**  
**[Lecture 9]**



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