

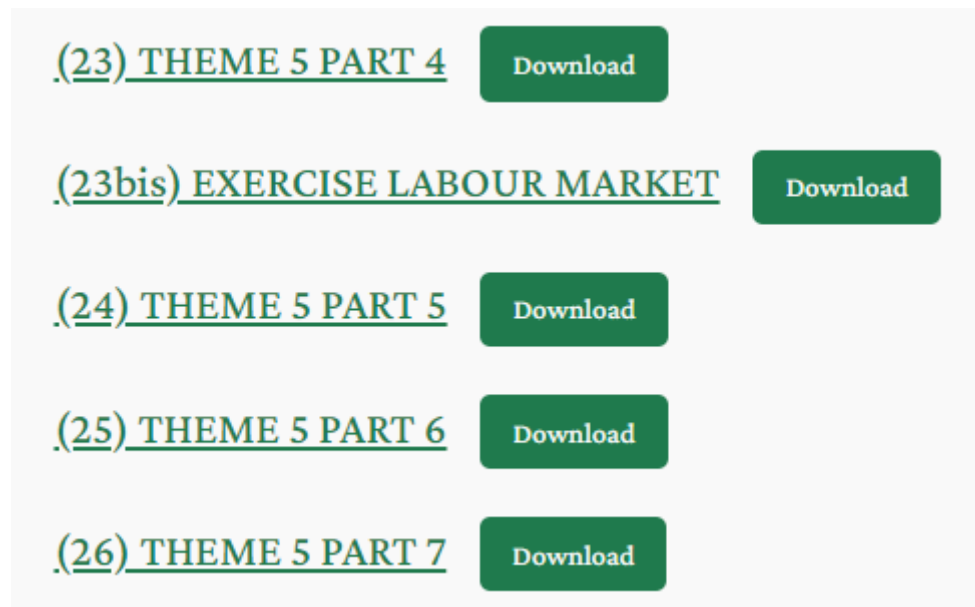
# ORAL EXAM ECONOMICS

## TEXT

This text provides an overview of the material for the oral exam.

One could therefore say that this text is a textual summary of the 5 course bundles that must be known for the oral exam.

These are the five bundles:



The image shows a list of five bundles with corresponding download buttons. Each bundle name is underlined and preceded by a period. The download buttons are green with white text.

- [.\(23\) THEME 5 PART 4](#) Download
- [.\(23bis\) EXERCISE LABOUR MARKET](#) Download
- [.\(24\) THEME 5 PART 5](#) Download
- [.\(25\) THEME 5 PART 6](#) Download
- [.\(26\) THEME 5 PART 7](#) Download

It is, of course, essential to study the bundles themselves, but this text provides a summary. Whenever a \* appears in the text, this means that the concept is included in the questions of the oral exam.

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The overarching theme of the oral exam is ECONOMIC GROWTH.

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We begin with the LABOUR MARKET \*.

It is an important factor in the growth of an economy in both the short and long term. (We will discuss that distinction later.)

The production factor labour is crucial for economic growth, even though we are confronted with increasing automation and digitalization.

We can structure the labour market as a SCHEME \* based on the total population. On that basis, we can calculate a number of RATIOS \*.

One of those ratios is the EMPLOYMENT RATE \*. It expresses how many people of working age are actually employed. For our economy, the target is 80%.

Why is this so important? \* A high employment rate ensures the survival of the welfare state. Working people pay taxes and contribute to social security. In this way, the government can maintain both all public services (education, public infrastructure, defense, etc.) and the social security system. Regarding the latter, this concerns keeping the costs of ageing affordable: higher spending on pensions and healthcare: INSURANCE PRINCIPLE \*.

Finally, we should not forget that working people contribute more to economic growth because they have greater purchasing power than non-working people. This keeps the CONSUMPTION ENGINE \* running!

(Note: there are major differences between Flanders and the rest of the country regarding a number of labour market ratios. \*)

To increase employment rates, emphasis must be placed on ACTIVATION \*.

On the one hand, there is the activation of the UNEMPLOYED.

To solve CYCLICAL UNEMPLOYMENT \* in the short term, measures are taken within the framework of fiscal/budgetary policy and monetary policy. (We will discuss this later.)

STRUCTURAL UNEMPLOYMENT \* (long term) can have both a QUANTITATIVE \* and a QUALITATIVE \* character.

In the first case, jobs are lost because companies choose, for example, offshoring. The VDAB \* then focuses on helping these people find a new job. Often successfully, as seen in the closure of bus manufacturer Van Hool.

In the second case, there is a “MISMATCH” \* between supply and demand on the labour market. In this case, the unemployed are low-skilled or unskilled and lack the knowledge, skills, and competences required by the labour market.

These people are often trapped in the so-called UNEMPLOYMENT TRAP \* and lack incentives to work. Here too, the VDAB plays an important role: education, retraining, additional training, etc. The government can also play a role, for example by reducing the tax burden on low-skilled jobs or allowing people to combine unemployment benefits with part-time work. But this takes time and money.

The labour market shows a PARADOX \*. There are many jobs that remain vacant (BOTTLE-NECK JOBS \*) while there are still unemployed people, albeit relatively few.

(Note: there are three other types of short-term unemployment. \*)

On the other hand, there is the activation of the INACTIVE POPULATION \*. These people belong to the working-age population but do not make themselves available to the labour market: husbands staying home and housewives, long-term sick people, people on welfare, etc.

For both the activation of unemployed and inactive people, the government applies a “CARROT-AND-STICK POLICY” \*.

The carrot refers to stimulating measures such as individual coaching, training, providing adapted work (VDAB), but also expanding childcare facilities so that more women can enter the labour market.

The stick refers to repressive measures such as temporary suspension or permanent withdrawal of unemployment benefits.

The VDAB applies an OUTREACH AND STICK-TO POLICY \*.

The first means reaching out to people who are distant from the labour market, focusing on empathy and well-being in the search for employment solutions.

The second means making every effort not to let go of the person and therefore closely monitoring them. Not an easy challenge.

With activation, it is important to create WORKABLE WORK \*, where people enjoy their jobs, face challenges, and are stimulated to grow and further develop (LIFELONG LEARNING \*), while respecting the work-life balance and paying attention to preventing stress and burnout.

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Closely linked to the labour market is the theme of COMPETITIVENESS \*.

This forms a bridge to the topic of International Trade, which we studied earlier.

How competitive is our economy compared to our main trading partners (Germany, the Netherlands, France) and the world market?

This is primarily related to our high LABOUR COST \*.

The high taxation of labour (for employers: high social contributions) and the mechanism of automatic wage indexation create a WAGE(COST) HANDICAP \* compared to neighbouring countries.

(Note: automatic wage indexation has both advantages and disadvantages. \*)

Secondly, there are the high ENERGY COSTS \*, resulting from our dependence on oil and gas, although this dependence is decreasing. Heavy industry especially requires a lot of energy. Moreover, much of our electricity is generated using gas. Therefore, high energy costs also reduce our competitiveness.

There are also other factors that impact competitiveness, because it is a broad concept.

A particularly important issue is declining LABOUR PRODUCTIVITY \*.

Roughly speaking, this is GDP per working person.

Why is this so important? \* The higher labour productivity, the more we can produce with our working population. Since production equals prosperity, its importance is obvious.

There are many ways to increase labour productivity in our country: education (e.g. digital skills), infrastructure (e.g. faster internet, better traffic flow and fewer traffic jams), innovation and technology (e.g. digitalisation, AI), etc.

Countries also use their CURRENCY \* as a weapon to increase competitiveness. They deliberately keep the value of their currency low compared to others so their goods and services become more attractive to export customers.

Since our country joined the eurozone, this is no longer possible. The euro is now managed by the ECB, which has no exchange rate mandate.

China, however, engages in EXCHANGE RATE MANIPULATION \*. The value of the yuan is artificially kept low compared to the US dollar. China holds the largest reserve of US dollars and creates yuan to buy US dollars. As a result, China is also the largest holder of American government bonds.

China's competitive advantage creates a deficit in the American trade balance. The US has responded for years with import tariffs on Chinese products. China retaliates accordingly, leading to a trade war between the two superpowers.

In any case, the CURRENCY WAR \* between the yuan and the US dollar is a strategy for China to maintain the competitiveness of its economy.

At the EUROPEAN LEVEL \*, the European Commission takes all kinds of initiatives to strengthen competitiveness. It focuses on strengthening SMEs as engines of economic growth, revitalising heavy industry, developing the advantages of digitalisation and creating a "digital union," monitoring innovation through dashboards and scoreboards, etc.

Of course, extensive EU regulations for businesses do not always benefit competitiveness. Yet such regulations are necessary in light of EU climate objectives (GREEN DEAL \*).

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We have seen that the LABOUR MARKET and COMPETITIVENESS are two important links for a prosperous economy.

However, if we look at countries such as Ethiopia and Rwanda (not coincidentally two African countries) and the spectacular growth of their GDP over recent decades, we must ask: how can this be explained?

The explanation is the KAT(O) MODEL \*.

This model contains the four determinants of long-term economic growth: Capital, Labour, Technology and Government.

Capital refers both to a country's PHYSICAL INFRASTRUCTURE \* (transport, energy, internet, etc.) and to the FINANCIAL MARKETS \* within that country. A country needs both in order to grow, both QUANTITATIVELY \* (amount, size) and QUALITATIVELY \* (level of quality).

Countries that focus on expanding and improving their infrastructure and that possess sufficient and well-developed financial markets (banks, stock exchanges, etc.) grow faster than other countries.

A typical characteristic of rapidly growing countries is that the impulse often comes from abroad: other countries invest in the infrastructure of a particular country, meaning money flows into the country (FDI = FOREIGN DIRECT INVESTMENTS \*).

Labour refers to the QUANTITY \* (size of the labour market) and the QUALITY \* (level of education) of this production factor.

Countries with a growing population (e.g. India) therefore have a larger labour supply with which to create prosperity. This often leads to a rising level of education, allowing people to access better-paid jobs and stimulate prosperity through increased purchasing power.

Technology concerns the extent to which an economy embraces INNOVATION \*. Innovation increases productivity (see earlier) and leads to more growth and prosperity.

Government: the government functions as a catalyst for the other three determinants of growth.

For example, the government creates an attractive investment climate for FDI (capital), organizes high-quality education (labour), and subsidises R&D \* (technology).

The course bundle illustrates the economic growth story of RWANDA \*.

This impressive growth story can be observed in the sharply rising trend of both GDP \* and GDP PER CAPITA \* over recent decades.

Only the genocide of the 1990s caused a setback for the economy.

VISION 2050 \* is the economic strategy of the Rwandan government aimed at lifting the country out of the group of low-income countries.

Some examples:

in terms of capital, Rwanda benefits from high FDI, creates an attractive investment climate (FDI!), and invests in, for example, tourism infrastructure.

Regarding labour, there is the remarkable rise of women in the labour market and improved access to education.

In terms of technology, there is the digital leap forward, the modernisation of agriculture, and digitalization.

The government also “facilitates” economic growth by cooperating with the private sector (PPP), concluding trade agreements to stimulate exports, and creating transparent and reliable public institutions (e.g. reducing corruption).

Specifically regarding innovation, Rwanda is active in three areas: SMART CITIES \*, the use of CHATBOTS \* in healthcare, and the deployment of DRONES \* for urgent transport.

Within the KAT(O) model, technology may well be the most important pillar because technological changes usually cause a real acceleration of the economy.

Just think of the introduction of the steam engine (the beginning of the Industrial Revolution) and the arrival of the internet (the emergence of the knowledge economy).

Real innovations are DISRUPTIVE \*; they completely transform the existing economy and broader society.

One such disruptive innovation is AI.

In the debate on employment and job creation, we can already state that the introduction of AI will lead to the disappearance of certain jobs, but on the other hand will also result in the creation of new jobs.

An example: routine activities such as booking invoices in an accounting system will disappear, but applications will need to be developed to analyse the mass of financial data in accounting systems and, for example, work with banks to find suitable financing.

AI programmers and financial data analysts are therefore examples of new types of jobs.

Finally, “economic growth for the sake of growth” is not optimal. Growth in prosperity should go hand in hand with growth in quality of life.

Unfortunately, GDP has 5 MAJOR DISADVANTAGES \*.

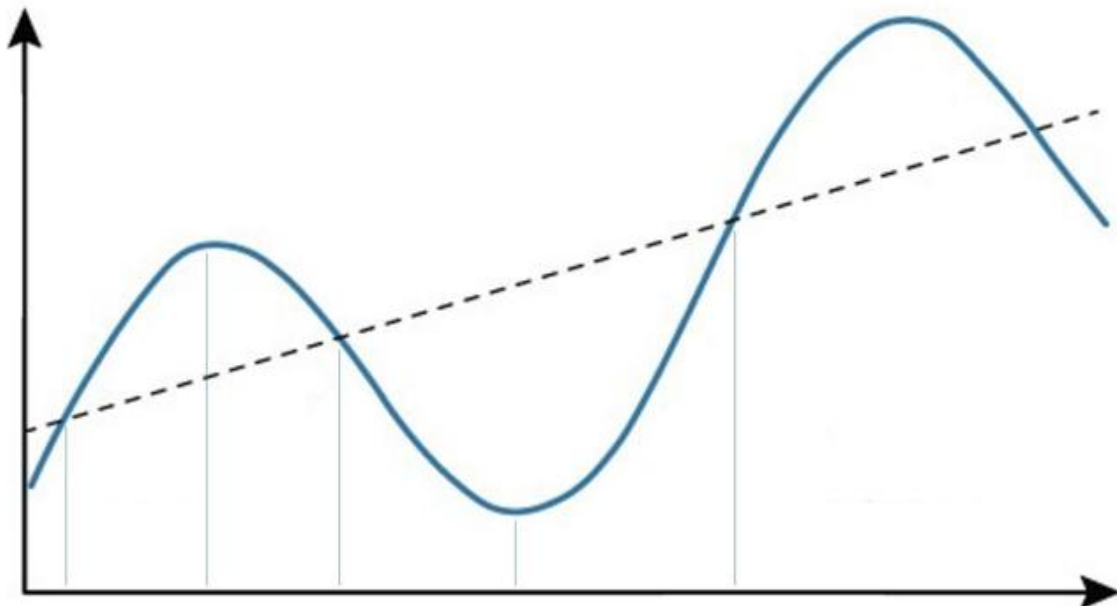
The MEW, HDI, BETTER LIFE INDEX, and GNI \* are alternative indicators used to measure a country’s economic growth.

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The Rwanda case taught us what the determinants of long-term economic growth are.

Usually, however, we do not look at an economy from a helicopter view, but rather through a magnifying glass.

The news is filled every day with concepts such as inflation, budget deficits, consumer confidence, etc. These refer to the BUSINESS CYCLE / ECONOMIC CYCLE \*, economic growth in the short term.



In the graph above, you can see the two types of economic growth together:

the straight line is the TREND LINE \* and represents long-term economic growth.

The wavy line is the BUSINESS CYCLE LINE \*, representing short-term economic growth.

Expressed in GDP terms, we also speak of THEORETICAL GDP \* for the trend line and REAL GDP \* for the wavy line.

The business cycle line fluctuates around the trend line.

These fluctuations are caused by BUSINESS CYCLE SHOCKS \*. These are sudden events in the economy and sometimes broader society that can be EXOGENOUS \* or ENDOGENOUS \*.

Exogenous means “outside the economy.” The Covid pandemic is an example.

Endogenous means “within the economy.” A VAT reduction is an example.

The shocks can be POSITIVE \* or NEGATIVE \*.

A positive shock gives the economy a boost; in this example, the VAT reduction.

A negative shock pushes the economy into decline; in this example, the Covid pandemic.

Finally, we can also speak of DEMAND SHOCKS \*, SUPPLY SHOCKS \*, and PRICE SHOCKS \*.

An economy experiencing a boost can be recognized by the business cycle line rising above the trend line: the economy is experiencing a period of ECONOMIC BOOM \*.

An economy experiencing a downturn can be recognized by the business cycle line falling below the trend line: the economy is experiencing a period of ECONOMIC DOWNTURN \*.

When the business cycle line and the trend line coincide, the economy is in equilibrium.

Let us take a closer look at the fluctuations of the business cycle line: there are four BUSINESS CYCLE PHASES \* in a BUSINESS CYCLE \*.

The first phase is EXPANSION \*.

Due to a positive economic shock, the business cycle line rises above the trend line. The economy receives a boost and enters a boom period. This reduces unemployment but increases inflation.

Rising inflation is not good for the economy. The economy can overheat, and therefore political authorities (governments) and monetary authorities (central banks) will try to combat this overheating.

Governments can raise taxes, and central banks can increase interest rates.

When the business cycle line starts to decline again, we speak of a RECESSION \*.

The economy is still in a boom period, but the growth rate slows down. Consequently, inflation and job growth also decrease.

The closer the business cycle line is to the trend line, the better. The economy then grows in a stable way.

If the business cycle line continues to fall and drops below the trend line, we enter a DEPRESSION \*.

The economy collapses and enters a downturn. This increases unemployment but lowers inflation.

Falling inflation is not good for the economy. The economy may enter deflation, and therefore governments and central banks will try to combat this cooling-down of the economy.

Governments can lower taxes, and central banks can reduce interest rates.

When the business cycle line starts rising again, we speak of a RECOVERY \*.

The economy is still in a downturn, but the growth rate increases again. Consequently, inflation and job growth also increase.

The closer the business cycle line is to the trend line, the better. The economy then grows in a stable way.

The above-mentioned business cycle phases repeat themselves over time. That is why we speak of a “cycle.”

Shocks are timeless and will always cause short-term fluctuations in economic activity.

Crucially, economic growth that remains close to or on the trend line is optimal in all areas, especially inflation and unemployment.

This is called a STABLE BUSINESS CYCLE \*.

Strong upward or downward “bulges” in the business cycle line should be avoided.

In economics, there are two visions on achieving a stable business cycle or equilibrium: the CLASSICAL VIEW \* and the KEYNESIAN VIEW \*.

It is mainly the latter that dominates business cycle policy around the world.

Essentially, this means that the government must actively intervene to bring the economy into equilibrium.

According to Keynes, it is the task of governments and central banks to keep the business cycle stable. This is called ANTI-CYCLICAL ECONOMIC POLICY \*.

Governments implement this through FISCAL OR BUDGETARY POLICY \*, namely increasing or decreasing government revenues and expenditures.

We can represent this graphically using the AD-AS MODEL \* and the PHILLIPS CURVE \*.

EXPANSIONARY FISCAL POLICY \* means stimulating economic growth by reducing government revenues and increasing government expenditures.

This is also called DEFICIT SPENDING \*, the creation of budget deficits.

RESTRICTIVE FISCAL POLICY \* means slowing down economic growth by increasing government revenues and reducing government expenditures.

This is also called an AUSTERITY POLICY \*.

Central banks implement MONETARY POLICY \*, namely increasing or decreasing interest rates.

EXPANSIONARY MONETARY POLICY \* means stimulating economic growth by lowering interest rates or possibly through QE.

RESTRICTIVE MONETARY POLICY \* means slowing down economic growth by increasing interest rates or reducing QE.

Both forms of economic policy have ADVANTAGES and DISADVANTAGES \*.

It is important to note that fiscal policy is naturally “politically coloured.” Governments make choices based on political and ideological motives.

Central banks, on the other hand, operate autonomously.

Finally, it can be stated that the business cycle can be “read” using a macroeconomic DASHBOARD \* that measures variables in both the real economy and the monetary economy.

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