Final Notes

Thursday, 16 February 2017 4:27 PM

- **Define economics and distinguish between microeconomics and macroeconomics**
- Economics Wants limited, desires unlimited created **scarcity**. : unlimited although resources are scares and not freely available and, this therefore makes an economic **choice** using **marginal analysis. (MB/MC)** ration if MB > MC

- **Microeconomics:** study of economic behavior in **particular** markets- The bottom up view, focusing on households and firms. How individuals make decisions. **Macroeconomics:** study of the **economic behavior of entire economies and interaction with the global economy**, in particular behavior of such aggregate measures as the overall rates of unemployment, inflation and economic growth. Macro also looks at behavior in general of prices, interest rates and exchange rates.

- **Explain how economists go about their work as social scientists**
- Studies **social problem of choice from scientific point** of view involves formulation of theories and the examination of data. **Econ predict with theories and using statistical test to measure correlations**
- **theories they use models-**The model might describe a general relationship, quantitative relationship or prediction.

policy advisers
- Economist are called judgment on matter on matters, When predicting and modeling economy they engage in positive economics-> describe how econ behaves and predicts how it might change.
- When they evaluate policies, weighing the various benefits and cost they engage in **normative economics**.---> create frameworks within which judgments can be systematically made, tries to be explicit about values ' if these are your values then this is the best policy'. Weighs various effects, the losses to consumers, the gain to workers and the increased profits to reach a judgment.

- **Inputs / Factors of Production**
  1. **RESOURCES ARE SCARCE- incomes are limited but wants unlimited**
     1. **Labour** - physical and mental effort to produce. The payment of wage.
     2. **Capital** - buildings, equipment and human skills to produce. Physical cap is human creations used. Human capital is knowledge and skill people acquire to increase productivity.. Payment for this is interest.
     3. **Natural resources** - all gifts of nature- Renewable resources can be drawn on indefinitely if used conservatively. Exhaustible resources does not renew, limited amount. Payment is rent.
     4. **Entrepreneurial ability**- imagination to develop product, skill needed to organise production, willingness to take the risk of profit or loss. Payment is profit.
  2. **CHOICE involves trade-offs**
  3. **OPPORTUNITY COSTS represent the opportunity forgone of deciding on one course of action over another action**
  4. **Choices, individuals respond to incentives…eg. Samsung price falls below apple, more are inclined to buy Samsung due to value.**
  5. **When we EXCHANGE with others, our range of choices become larger**
  6. **Information, making intelligent choices**
  7. **Distribution of wealth and income in society.**

- **Economic Decision Makers and Market**

  Households
    ◦ Consumers- Demand goods and services
    ◦ Resource owners- Supply resources

  Firms, Governments, Rest of the World
    ◦ Demand resources
    ◦ Produce goods and service
- Market –Set of arrangements by which buyers and sellers carry out exchange at mutually agreeable terms
- Product markets –Goods and services are bought and sold
- Resource markets –Resources are bought and sold

- **Threshold concept and PPF- Production possibilities frontier* (*limit)**
- **Economic model**- simplification of economic reality, assumptions are made to build the model and the model is used to make predictions.
- **PPF** (a curve showing alternative combinations of goods that can be produced when available resources are used efficiently.) - Production possibilities frontier **assumes**:
  - Two products
  - Given time frame
  - Fixed resources (quantity, quality)
  - Fixed tech
  - Fixed rules of the game
- PPF- a boundary line between inefficient and unattainable combinations… all the possible combinations that could be produce of two good…. Infinite amount of combination.

Efficiency and the PPF

- **Efficiency-** When there is no way resources can be reallocated to increase products of one good without decreasing the production of another….getting the most from accessible resources
- **Productivity Ineffective** combos are **inside**, unattainable coms are out. (unemployment- any resource not used.)
- Any of the line are productively efficient due to use of **ALLLLLLL** resources.

The Shape of the PPF

- Slope- e.g. moving A To B, you move down 1. = rise/run….. Slope of PPF is the same as the opportunity cost of the good on the x axis.
- **Law of increasing op costs**- to produce more of one good, a successively larger amount of the other good must be sacrificed….as we go left to right op increases.

Why concave?

- The pff start of being flat due to losing few to gain a lot, Resources are different and not equally adaptable to all goods.

What can shift the PPF??

- **Increase** in eco ability to produce, and outward shift of the econ means economic growth.
- Changes in resource availability, increase in capital accumulation to produce more in future, tech change, improvements in the rules of the game. **Improvements shift outwards and decreases of resources shift inwards.**
- Capital good is more likely to shift outward due to production in future.
- The choice you make can effect how much you PPF shifts upwards in the future.
- Decrease PPF if war, natural disaster….depleting resource.