ECON1101 LECTURES

Sample Notes

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Note:

These notes have been compiled from information in tutorials, lecture slides, and the online textbook. They follow the structure of UNSW's ECON1101 course and are comprehensive notes containing answers to common exam questions. Use them to assist in your study of the course after each lecture. I highly recommend watching through videos on UNSW's Playconomics system as they are comprehensive, and will assist in your understanding of these notes.

Part 1 – Opportunity Cost & Comparative Advantage

Lecture 1: Comparative Advantage

Economics: The study of how people make choices under conditions of scarcity and of the results of those choices for society.

- Choice involves compromise between competing interests
- How do economists resolve such competing interests (trade-offs)

Unlimited wants, not enough resources. Choices.

Macroeconomic: The study of the aggregate economy.

- The study of the economy as a whole

Microeconomic: The study of individual consumer, firm, and market behavior.

- The study of small economic units (households, firms, industries)

Economics Definition: The study of choice in a world of unlimited wants and scarce resources.

- Scarcity – a fundamental fact in life
- Scarcity and trade-offs

Opportunity Cost: The value of the next-best alternative in taking a particular action.

- Example: 'Alberto' gets given a free ticket to see Lady Gaga. The 'opportunity cost' of this endeavor is time he would have spent working.

Cost-benefit Principle: An individual (or a firm or a society) should take an action if, and only if, the extra benefits from taking the action are at least as great as the extra costs.

- Assumption: People are rational beings.

The **Economic Surplus** of a certain action is the difference between the marginal benefit and the marginal cost of taking that action.

- Example: How much does Alberto like rabbits and bananas?
- Example: The benefit of a mining super profits tax verses the cost (e.g. in jobs).
- The goal of economic decision makers is to maximise their economic surplus.

Production Possibility Curve (PPC): PPC represents all possible combinations of output that can be produced with the consumption of all inputs, if inputs are used efficiently.

- Limited by time constraint (in this example)

Efficiency: Cannot increase production of one good without a reduction in the production of another good.

- Hence, the PPF represents resources used in the most efficient way.

Inefficiency Production Point: Allow an increase in the production of one good without a reduction in the production of the other.

- Hence, all points to the left of the PPC are inefficient.

Attainable Production Point: Any combination of goods that can be produced with the currently available resources.

- All points within PPC are attainable.

Unattainable Production Point: Any combination of goods that cannot be produced with the currently available resources.

- All points outside PPC are unattainable.

Absolute Advantage: An agent (or economy) has an absolute advantage in a productive activity when he/she can carry on this activity with less resources than another agent.

O.C. Calculation: COST/ BENEFIT will allow you a clearer understanding of a comparative advantage situation.

Comparative Advantage: The agent with the lower opportunity cost in production of a good has a comparative advantage.

- Why we trade.

Low Hanging Fruit (Principle of Increasing OC):

- In process of increasing production of any good, first employ those resources with lowest opportunity cost and only once these are exhausted turn to resources with higher cost.

Economic Growth:

- Shifts PPC to the right.
- Caused by increased infrastructure, population, technology.

Consumption Possibility Curve (CPC): The CPC represents all possible combinations of two goods that the agents in an economy can consume.