1. Intro to Micro
Modern Societies are very specialised.

Model: Simplified representation of reality
  • Originally conceived by Ricardo. Later named "magic Four numbers" due to its simplicity

A first model
  • Only two possible activities
  • Only two individuals
  • No transaction costs when trading (i.e. no negotiation costs, no transportation costs) no other barriers to trade

One Agent Economy

Productive activities: Activites for the individual to undertake

Productivity: Amount of product able to be gathered or produced by an individual based on difficulty of task

Time Constraint: Time within a 24 hour period of which the activity can be undertaken by the individual

Production Possibility Curve (PPC): represents all possible combinations of production. Captures all maximum output possibilities for two (or more) goods, given a set of inputs (or resources e.g. time)
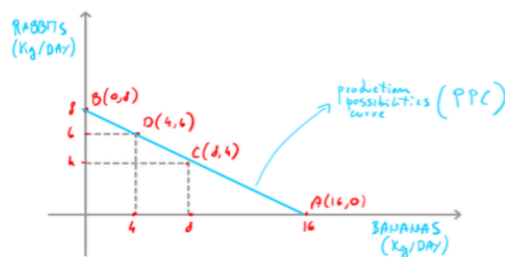

Figure 1.2: A representation of the PPC for one agent.

Figure 1.2 is the graph constructed using the four steps described above. What is each point on the PPC telling you? Each point shows you (on the y-axis) the kg of rabbit you can still catch after spending time collecting a certain amount of bananas (that you can see on the x-axis). If you connect all the points together you get a straight line representing all the combinations of bananas and rabbits that Alberto can produce in one day.

The points plotted on the graph above relate to the *Efficient point*. i.e. if all inputs are used efficiently (in this case, no time wasted in the day)

Efficient Production Point: Represents a combination of goods for which currently available resources do not allow an increase in the production of one good without a reduction in the production of the other. All points on a PPC are efficient.