

Econ 111 – Microeconomic Principles

Lecture 1 – Intro to Econ and the PPF

Definitions:

- **Scarcity:** Resources are limited, but our wants are unlimited
- **Choices:** Are needed to be made due to scarcity
- **Marginal Analysis:** Is the tool to make choices. This is by comparing the Marginal Benefit (**MB**) to the Marginal Cost (**MC**)
- **Rational in economics:** if $MB > MC$
- **Marginal Benefit:** is the extra benefit of consumer one extra unit
- **Marginal Cost:** is the extra cost of making one extra unit.
- **Opportunity Cost:** The value of the next best alternative
- **Microeconomics:** Looks at smaller aspects within Australia
- **Macroeconomics:** Looks at the bigger picture where you compare Australia to the global market
- **Model:** Is a 2D representation of an economic phenomenon to help us

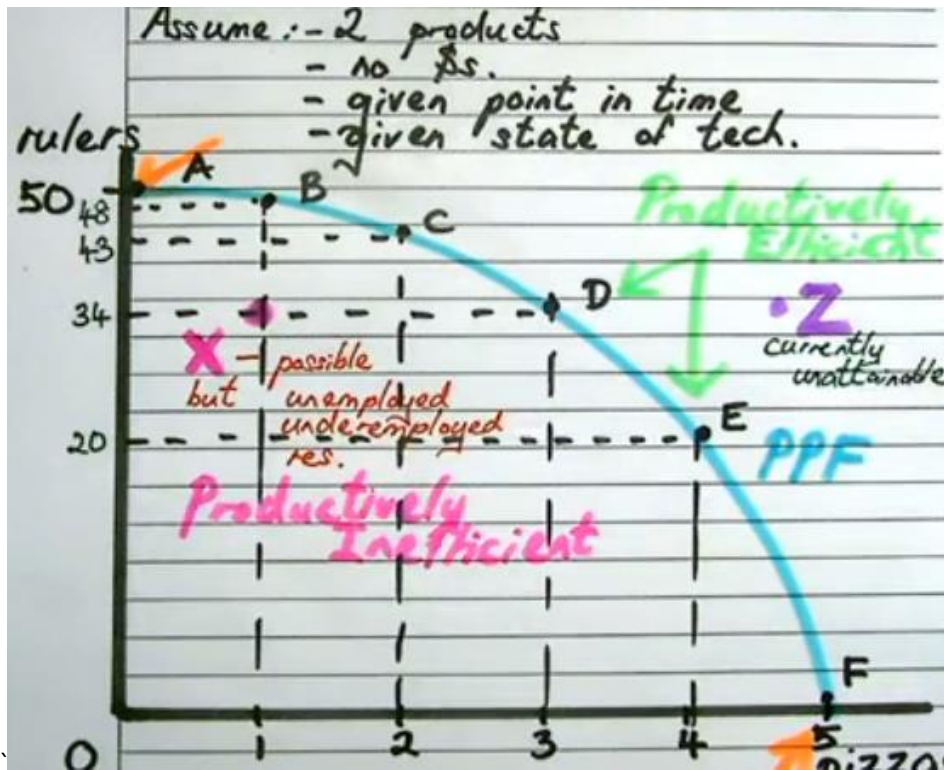
Resources / Inputs / Factors of Production

1. Land / Natural Resources
 - Income: Rent
2. Labour
 - Income: Wages
3. Capital (Used to produce something else)
 - Income: Interest
4. Entrepreneurship (Enterprise) – The ideas and the risk taking of production
 - Income: Profit

All resources are owned by households sold/hired to firms to produce Goods and Services. Firms pay households to produce Income

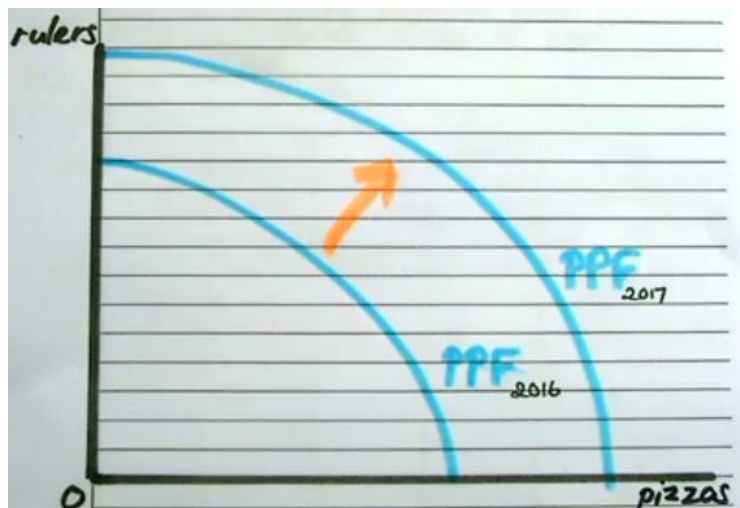
Production Possibilities Frontier (PPF)

- Is a production as what we are able to produce,
- Is a possibility as it is simply about ability – what can we do.
- Is a frontier as there is a limit
- Assume:
 - 2 products
 - No price variable
 - Given point in time
 - Given state of technology



- **Productively Inefficient:** If the option is within the PPF curve it is possible but is unemployed or underemployed resources
- **Productively Efficient:** If the option is sitting on the PPF curve
- **Currently Unattainable:** If the option is outside of the PPF curve

Shifting of the PPF



Why does the PPF shift outwards?

- Technology improves