

Economics Exam Notes

Economics Basics

Economics – study of choices people and societies make to attain unlimited wants given scarce resources

Scarcity- unlimited wants exceeds limited resources available

Market- a group of buyers and sellers of a G or S and the institution, that they come together to trade

*****3 important economic concepts**

1. **People are rational** they make decisions that best suit them ie. consumption of a good or service by what's the best choice between items
2. **People respond to economic incentives** – if offered a higher wage might work harder or if taxes are lower people will work longer (money is an incentive)
Businesses make profit for shareholders or owners – most respond to profit incentive (except non profit firms)
3. **Optimal Decisions are made at the margin** - best decision that will maximise satisfaction

Marginal Analysis: Comparing marginal benefits and costs (looks at the extra unit that is consumed and if marginal benefit from consuming good outweighs marginal cost)

I.e. businesses – examine cost and benefits to produce one extra unit comparing sales revenue to the cost of production. (is selling that unit at a fixed price greater or less than the cost of producing it)

Trade Off: Because of scarcity, producing more of one good or service means producing less of another G or S

Three fundamental questions apply

1. what goods or services will be produced? Choosing between options – opportunity cost
2. how will the goods and service be produced? Firms face trade offs between workers and machines
3. who will receive the goods and services produced? Depends on how income is distributed

Opportunity Cost – The highest value alternative that must be given up to engage in the activity under consideration

Different Economic Systems

Centrally Planned Economy- Economy that governments decide how economic resources will be allocated (closest to it north korea/ cuba 5 yrs ago)

Market Economy- a economy decisions are made by households and firms interacting in markets determine resource allocation

Central feature is consumer sovereignty – occurs because firms must produce G+S from wants of consumers

Mixed Economy – most economic decisions result from buyers and sellers interacting with significant government allocation of resources aswell – ie Aus

Unemployment rate – 5.2%

Australia's Production –

Services 84.9%
Mining 69%
Manufacturing 6%
Agriculture – 2.2%

Australian Employment

Services – 87.8%
Manufacturing 7.8%
Agriculture 2.5%
Mining 1.9% - very capital intensive that's why less employment

Australian Exports

Mining 43%
Services 23% services exported tertiary education and tourism
Manufacturing + Agriculture both 14%
Other 6%
From primary sector Australia's main export mining and agriculture

GDP net foreign debt- how much we owe other countries expressed GDP %
GDP – Gross Domestic Product- is the value of total output that a country produces in a year

Economic Growth Rate – 1.7% bit below average required to run growing economy

Atm business profitability is down

Inflation Rate 2.1% - rate of increase in prices

Australians are paying 2.1% more than they were last yr for G+S's

Policy makers aim to have inflation between 2-3% prices need to be increasing so that economy is progressing

Any lower than 2.1% concerns economy not growing

Ue Rate- 5.6%- bit higher than usual because the economy is slow businesses aren't growing as fast as normal and not hiring as many people as normal

Unemployment does not include people discouraged to look for work and part time workers who would like more hours

Economic Models; positive and normative economics and data analysis

Economic Models- a simplified version of real world situations

Steps to Develop a Model-

1. Decide on assumption to be used
2. Formulate testable hypothesis
3. Use economic data to test hypothesis
4. Revise Model if it fails to explain economic data
5. Retain revised model to help answer future economic questions

Hypothesis in a economic model – a statement about a economic variable (something measurable relating to resources that have different values) that is correct or incorrect