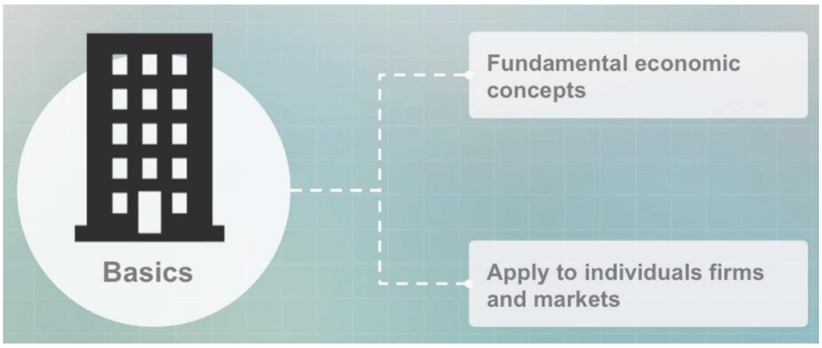
ECF1100

WEEK 1 (Chapters 1,2,3)

Themes

BASICS



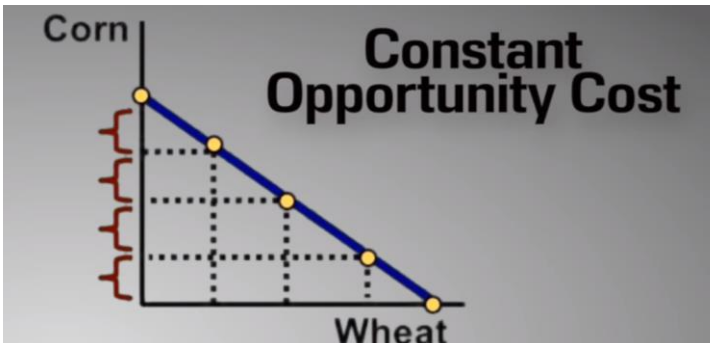
Basics of Graphing

<u>Line graph</u>

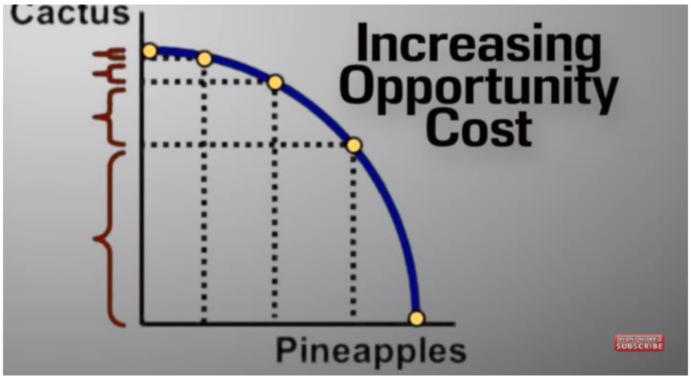
- shows how quantity or amount changes over time
- <u>slope</u>: change in *y* / change in *x*

Production Possibilities Curve / Frontier

- is a **curve** depicting all maximum output **possibilities** for two goods, given a set of inputs consisting of resources and other factors
- demonstrates:
    - scarcity: cannot product anywhere beyond the curve, limiited resources
    - trade-offs: in order to produce item A, you have to give up the other
    - oppurtunity costs: shown by the specific number of item A you give up when you make item B, number of item A lost is oppurtunity cost
    - efficiency: point on line is effiency
- <u>Constant oppurtunity cost</u>
    - Resources to produce item A and item B are similar



- Increasing oppurtunity cost
  - When item A is first produced, there is a little bit of item B
  - Resources to produce item A and B are different
  - The Law of Increasing Oppurtunity Cost: when all resoruces are being used, an increase in the production of one good will lead to greater forgone production of another good



Chapter 1: TEN LESSONS FROM ECONOMICS

Economics is the study of how society manages its scarce resources.

Scarcity means that society has limited resources and therefore cannot produce all the goods and services people wish to have

How people make decisions

1. People face trade-offs
   - Efficiency: the property of society getting the most it can from its scarce resources
   - Equity: the property of distributing economic prosperity fairly among the members of society
2. The cost of something is what you give up to get it
   - Opportunity cost: the best alternative that must be given up to obtain some item
3. Rational people think at the margin
   - Marginal change: a small incremental adjustment to a plan of action
4. People respond to incentives

How people interact

5. Trade can make everyone better off
6. Markets are usually a good way to organise economic activity
   - Market economy: an economy that allocated resources through the decentralised decisions of many firms and households as they interact in markets for goods and services

- Invisible hand: the idea that buyers and sellers freely interacting in a market economy will create an outcome that allocates goods and services to those people who value them most highly and makes the best use of our scarce resources

7. Governments can sometimes improve market outcomes
    - Market failure: situation in which a market left on its own fails to allocate resources efficiently
    - Externality: the uncompensated impact of one person's actions on the wellbeing of a bystander. A positive externality makes the bystander better off. A negative externality makes the bystander worse off
    - Market power: the ability of a single economic actor or small group of actors to have a substantial influence on market prices

How the economy as a whole works

8. A country's standard of living depends on its ability to produce goods and services
    - Productivity: the quantity of goods and services produced from each hour of a worker's time
9. Prices rise when the government prints too much money
    - Inflation: an increase in the overall level of prices in the economy
10. Society faces a short-term trade-off between inflation and unemployment
    - Phillips curve: the short-term trade-off between inflation and unemployment

Table 1.1 Ten lessons from economics

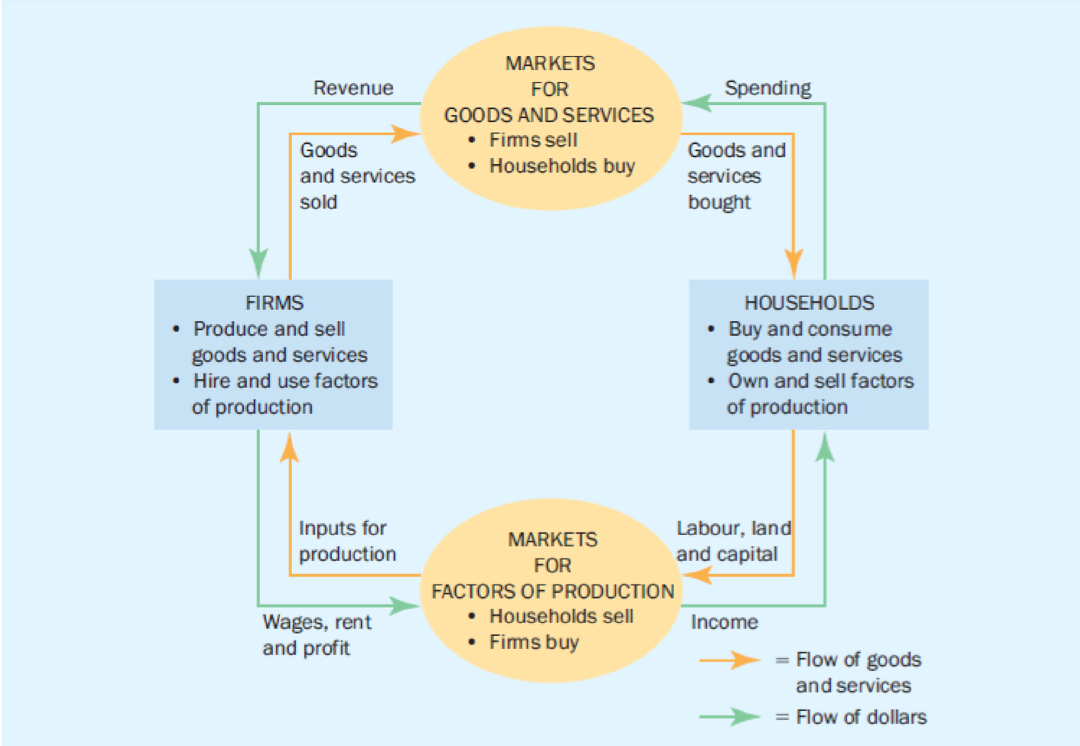
How people make decisions	1: People face trade-offs
	2: The cost of something is what you give up to get it
	3: Rational people think at the margin
	4: People respond to incentives
How people interact	5: Trade can make everyone better off
	6: Markets are usually a good way to organise economic activity
	7: Governments can sometimes improve market outcomes
How the economy as a whole works	8: A country's standard of living depends on its ability to produce goods and services
	9: Prices rise when the government prints too much money
	10: Society faces a short-term trade-off between inflation and unemployment

Chapter 2: THINKING LIKE AN ECONOMIST

Economic models

- The circular-flow diagram
    - A visual model of the economy that shows how dollars flow through markets among households and firms

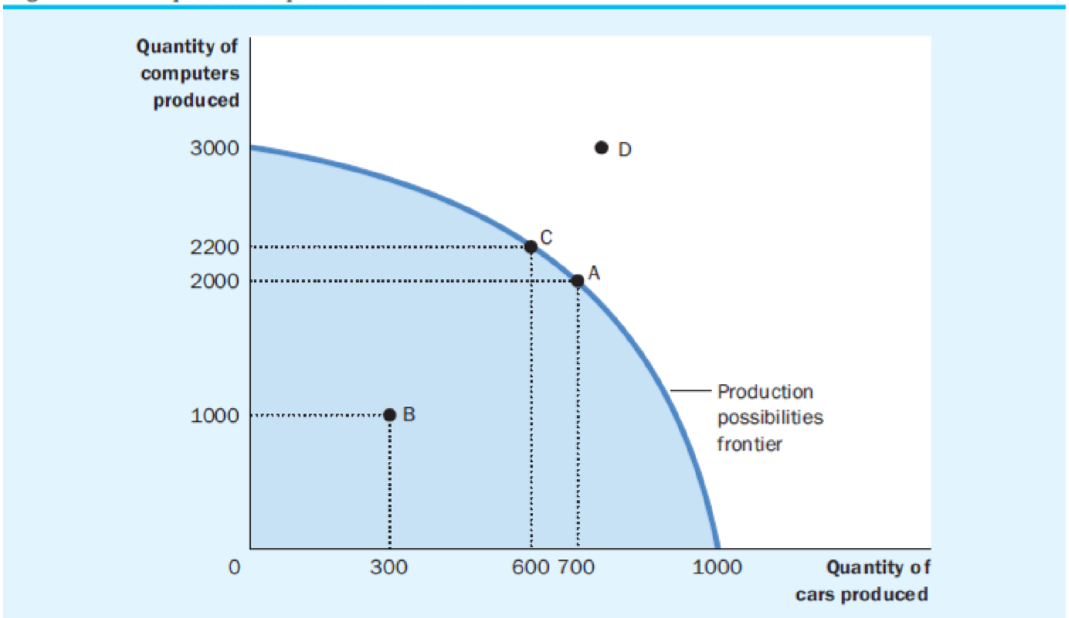
Figure 2.1 The circular flow



This diagram is a schematic representation of the organisation of the economy. Decisions are made by households and firms. Households and firms interact in the markets for goods and services (where households are buyers and firms are sellers) and in the markets for the factors of production (where firms are buyers and households are sellers). The outer set of arrows shows the flow of dollars and the inner set of arrows shows the corresponding flow of goods and services.

- The production possibilities frontier
  - Graph that shoes the various combinations of output that the economy can possibly produce given the available factors of production and the available production technology

Figure 2.2 The production possibilities frontier



The production possibilities frontier shows the combinations of output – in this case, cars and computers – that the economy can possibly produce. The economy can produce any combination on or inside the frontier. Points outside the frontier are not feasible given the economy's resources. The slope of the production possibilities frontier measures the opportunity cost of a car in terms of computers. This opportunity cost varies, depending on how much of the two goods the economy is producing.