Microeconomics

- Scarcity (inability to satisfy all wants): (1) limited resources (2) unlimited wants (3) need to make choice to allocate resources efficiently
- A choice is a trade-off – we give up something to get something else (due to the limited resources)
- The highest valued alternative we give up is the opportunity cost of what we choose.
- Market failure occurs when the market doesn't use resources efficiently (net social welfare loss – caused by individuals pursuit of self-interest)

Sunk cost: resources have used, not affect decision-making (not opportunity cost) Eg. Food and rent every year, cost cannot recover

Opportunity cost is a real alternative forgone (value of next best forgone alternative)

- Explicit costs: costs are paid in money (direct payment) (time, funds)
- Implicit costs: the costs forgone a next best alternative action but does not make a payment (interest forgone, depreciation of machinery, value of doing another work)
  - ✓ Not reflected in cash flows
  - ✓ Imply by firm's failure to allocate existing resources

+ The production possibilities frontier is the boundary between those combinations of goods and services that can be produced and those cannot. (given its resources and its current state of technology)
+ It is the frontier between attainable and unattainable production. + Opportunity cost concept
+ PPF is concave because not all resources are equally productive in production of different goods (increasing opportunity cost due to diminishing marginal product) – straight line: resources are equally productive
+ expansion of PPF include technological change, capital accumulation or gains from trade (consume beyond PPE)
+ Opportunity cost is higher for the product which the production point is closed to – more resources are devoted to a product will give less output (scarce resources)
+ Greater the difference between opportunity costs -> greater gains from specialisation

- Production efficiency if we cannot produce more of one good without producing less of some other good. It occurs at points on the PPF. (using all resources efficiently)
- Allocative efficiency is achieved when we cannot produce more of any good without giving up some other good that we value more highly. (reflects consumer preference – MB=MC)
- Dynamic efficiency: occurs when technology and innovation are adopted overtime.

+ The marginal cost of a good is the opportunity cost of producing one more unit of it. (loss of potential gain from other alternatives)
+ The marginal benefit from a good is the maximum amount of another good that a person is willing to forgo to obtain an additional unit of the first good.

- Correlation: action or occurrence which has a direct link (observed to be moving together)
- Causation: action or occurrence that caused from another action. (results are predicted) Eg. Price and Qd, price and Qs …

*PF (production function)
Relationship between quantity of inputs and maximum quantity of output produced (marginal product function)
+ In the short run, diminishing marginal product

*Cost function
Link between the quantity of output and its associated production cost (marginal cost)
+ Limited Fixed inputs caused each output produced to have a higher cost, therefore MC is increasing.

*Comparative advantage: a person can perform the activity at a lower opportunity cost than anyone else. (based on concept of opportunity cost that the country specialises in producing which gives mutual benefit) – a country cannot have all comparative advantage because opportunity cost between two products in one country is always inverse.
+ Trade = economic interaction: allows people to take advantage from specialization, reducing overall costs and increasing output (pareto improving) -> gains from exchange & increase output possibilities
*Absolute advantage: a person who is more productive/efficient than anyone else. (superior production capabilities of one nation versus another)
+ Consumption bundle: the least amounts a party should get

+ Normal profit: the return to firm and the average return for supplying entrepreneurial ability. (the least return the firm should make)
+ Economic profit: total revenue minus its opportunity cost (explicit cost + implicit cost)

Factors of a firm's efficiency