

Week 1 Lectures

What is economics

- A science that helps us understand choices and their consequences at individual and economy-wide level
- Has two branches: microeconomics and macroeconomics
- Almost any social issue or a problem involves choices and therefore has an economic angle!

Microeconomics

- studies individual choices and their impact in specific contexts;
- for e.g. consumer and business choices and their impact in specific markets and industries

Macroeconomics

- examines determinants of overall economic activity, unemployment, growth, inflation; Impact of fiscal and monetary policy choices

Choices as household

- how many children
- purchasing local or overseas
- to go on a holiday

Choices as producers/businesses:

- What to produce?
- How to produce?
- What price to charge?
- What packaging?
- What advertising?

Choices as government

- How much budget to allocate to universities, defence, roads..
- Should we tax emissions? Should we lower the company tax rate?
- Which issues to address in an election

Economic issue

- We must choose because we face constraints/limits - too many wants relative to means
- As individuals, the constraints involve: Limited Income and Limited time
- As an economy – limited resources and knowledge
- Constraints create scarcity

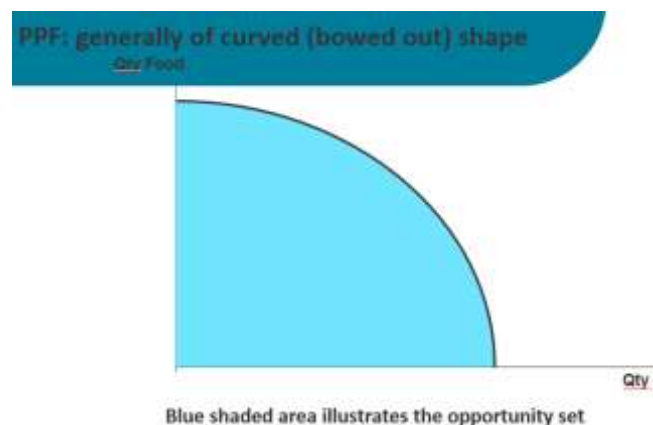
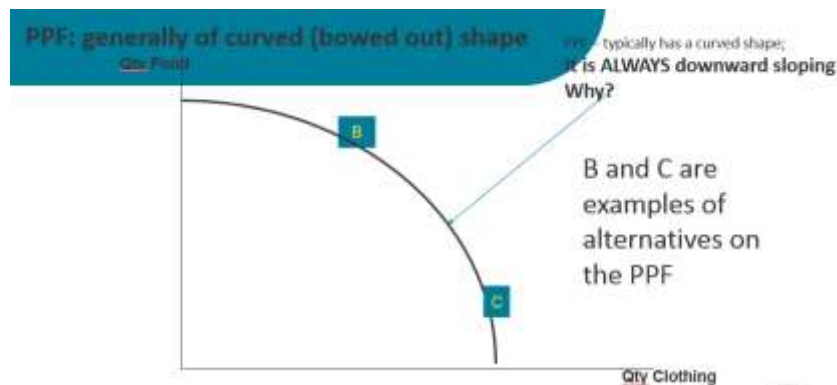
- Scarcity forces us to choose – when we select one option, we automatically have to give up on the other options and therefore we always face opportunity cost

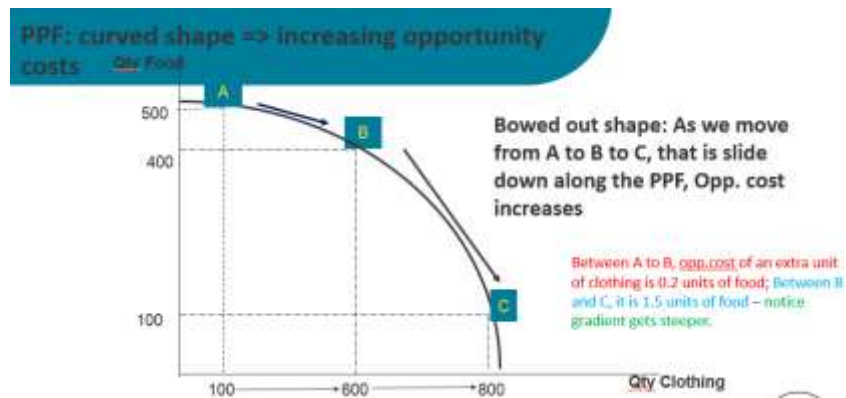
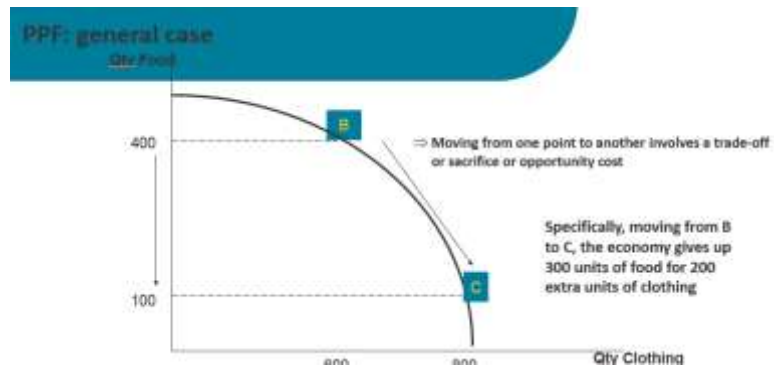
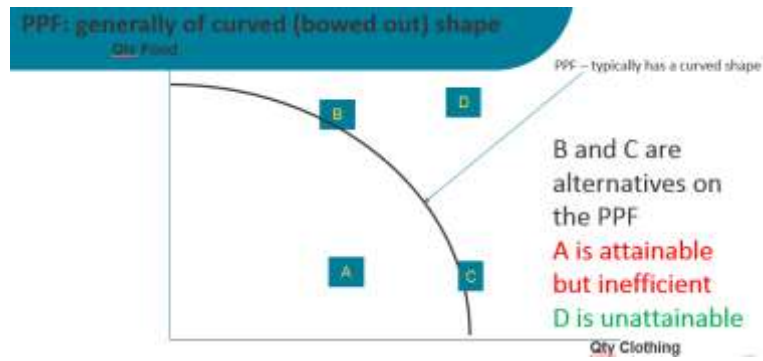
Opportunity Cost

- the value of the best alternative given up when making a choice
- Opportunity cost at the country level:
- Each country's ability to produce goods is limited by:
- the amount of resources (includes land, labour, capital)
- its access to technology

Production Possibility Frontier

- The PPF is a boundary that shows the alternative combinations of the two goods that can be produced:
- when all available resources for production are fully allocated
- And used in the most efficient way given the current state of technology
- PPF allows one to identify the opportunity set – combinations of goods that are attainable
- All points on or below the PPF belong to the opportunity set





Expansion in the opportunity set

- Technological advancement
- Discovery of new resources
- Migration
- Population growth