Week1:

Chapter 1:

<u>What is economics about?</u>

Economics is the study of production and consumption.

The production of goods and services: Accentuates the focus on the level of production for a firm, the techniques it implements and the level of people it employs.

Consumption of goods and services: The aggregate expenditure and consumption. It entails the purchase decisions of specific item. The level of impact of price, advertising, fashion and other factors have on people's consumption.

<u>Central economic problem faced by all individuals and societies</u>?

The main issue is scarcity. The human want is insatiable and that there is limited resources. This revolves around the factors of production.

***Factors of production include*:**

Human resources: **labour**, is limited in numbers and skill. All forms of human input, both physical and mental, into current production.

Natural resources: **Land and raw materials** are limited because of the world's land. Inputs into production that are provided by nature.

Manufactured resources: **Capital** consists of inputs which have been already produced to aid the production phrase. Limited equipment: machines and transportation. Another limiter is the state of technology.

Demand and supply:

Demand is related to wants. If goods and services were free, people would simply demand whatever they wanted.

Supply is limited; it is related to the resources.

Given the problem of scarcity, potential demands will exceed potential supplies. Society therefore has to find some way of dealing with this problem.

This applies at the level of the economy overall: **aggregate demand** will need to be balanced against **aggregate supply.** In other words, total spending in the economy must balance total production.

Macroeconomics and Microeconomics:

Macroeconomics: The branch of economics that studies economic aggregate (grand totals). It is concerned with the economy as a whole. It is concerned with **aggregate demand** and **aggregate supply.**

Aggregate demand: Total spending on goods and services made in the economy. It consists of four elements: **consumer spending (C), Investment (i), Government spending (g), and Expenditure on exports (x), less any expenditure on foreign goods and services (M): AD=C+I+G+X-M.**

Aggregate supply: The total amount of output in the economy.

Microeconomics: The branch of economics that studies individual units. It studies the interrelationships between these units in determining the pattern of production and distribution of goods and services.

Macroeconomics:

Inflation: Refers to a percentage increase in the level o prices over a 12-month period. If aggregate demand rises substantially, firms are likely to respond by raising their prices.

Balance of trade: Exports of goods and services. If exports exceed imports, there is a 'balance of trade surplus'. If imports exceed exports, there is a balance of trade deficit.

Recession: A period where national output falls for two quarters or more. A recession is associated with a low level of consumer spending. If people spend less, shops are likely to find themselves with unsold stock.

Unemployment: The number of people who are actively looking for work but are currently without.

Microeconomics:

What is being produced and the quantity produced?

What are going to be produced? Techniques used? Resources used? Energy used?

Who is it for? National income distributed?

Opportunity cost: The cost of an activity measured in terms of the best alternative forgone.

Rational choices: Choices that involve weighting up the benefit of any activity against its opportunity cost.

Rational choices involve weighing up **marginal costs** and **marginal benefits**.

Marginal costs: The additional cost of doing a little bit more.

Marginal benefits: The additional benefits of doing a little bit more of an activity.

Production possibility curve: A curve showing all the possible combinations of two goods that a country can produce within a specified time period all its resources full and efficiently employed. It illustrates the microeconomic issues of choice and opportunity cost.

The circular flow of goods and incomes:

The process of satisfying human wants involves producers and consumers. The consumers of goods and services are labelled **households.** The producers of goods and services are labelled firms. Firms and households are in a twin 'demand and supply' relationship with each other. In **goods market**, firms supply goods and households demand goods. In the process, money flows from households to firms in return for the goods and services that the firms supply. In **factor markets**, firms demand factors of production and households supply them. In the process, money flows from firms to households in return for the services of the factors that households supply.

EXTRA NOTES:

1) How can people set about making the best of their limited resources?

People and businesses can be efficient with their resources, have proper administration and coordination activities.

2) What is meant by opportunity cost? How is it relevant when people make economic choices?

Opportunity cost: The sacrifice or exchange in making another product. It is crucial because the level of demand and supply determines the favourability of one item or product over the other. More is created for the chosen good and less is made for the other. It is all about decisions and sacrifice.

3) What is the difference between microeconomics and macroeconomics?

Macroeconomics:

Deals on an aggregate level and national level in regards to resources

This includes inflation, balance of trade, recession and unemployment

Aggregate demand higher than aggregate supply

Inflation:

Rice in level of prices; aggregate demand rise dramatically then price would increase.

Sell at higher price than before; more profits for firms

Balance of trades:

Deficits: Excess imports (buying) over exports (selling).

In inflation, more imports but domestic goods become uncompetitive.

Aggregate demand low than aggregate supply

Spending than saving.

Recession:

Negative growth for 2 or more executive quarters.

Buy less, less production and reduction in employment.

Unemployment:

Actively looking for work but does not have a job.

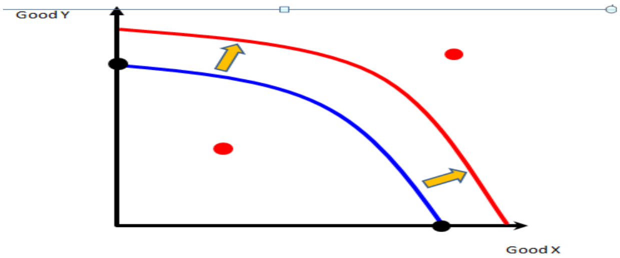
Reduction in employment.

4) How can you represent simple economic relationships in a graph?

The use of economic models. Economic models: relationship between two or more variables. It simply graphs reality and explains complex economic relationship.

Production possibility curve:

Curve showing possibility of two goods being produced within a specified time. Includes resources fully utilised and efficiently used.



5) How do different economic systems tackle the problem of scarcity?

Three types of economy: completely planned or command economy, free market economy and mixed economy.

Market	Command economy	Free market economy:
Assumptions	Associated with socialist and communist economic system	Firm seeks to maximise profits, customer gets best value and maximise wages
system	Allocation of resources between current consumption and investment for the future. Microeconomic levels planned the output of each industry and firm. Use an input-output analysis: division of sectors; users output and suppliers input. The sector has to equal to the total resources available. Government aim impacts the level of distribution of outputs. Fluctuates and	*Price mechanism:* Price reacts to shortages and surpluses Shortage but high demand= More supplying at a higher price. Surplus but low demand= Less supply and reduction in costs. Both the price will fall or rise until the shortage or surplus is eradicated.

	base on governments aim. Division based on people's needs or incentive for more work.	Equilibrium price: Demand equals quantity supplied. Change in demand Increase price means increase production. Visa versa Change in supply Rise in supply equals a fall in price Visa versa.
Advantages		Self-operating. No complex economic decisions Based on supply and demand. Reactant based on consumers' needs and wants Increase in efficiency= increase profits. Self-interest= increase efficiency and profits, reduces scarcity.
Disadvantage	Difficulties in collecting, planning and analysing data from larger structures. No system of price, price set by state; inefficient use of resources because there is no relative efficiency of two variables. Incentives will increase productivity but reduce quality. Loss of individual liberty Unpopular plans implemented by government Consumer's change in spending patterns impact the planned production.	Competition limited because of major firms Lack of competition creates high profits; removes incentives to be efficient. Power and property unfairly distributed. Practices may be unsociably undesirable. Ethical issues: self-interest or egotism increases materialism and greed.

Mixed economy:

All economies are imbued with government intervention.

Government;

Allocative role: Impact the allocation of resources in consumption and production.

Distributive role: Impact resources/ income

Regulatory role: Regulate economic activity

Macroeconomic role: Stabilise the economy in the shorter term or promote longer-term economic growth.