

## CHAPTER 1 - WHAT IS ECONOMICS?

What is economics?	<p>It is the social science that studies the choices that individuals, businesses, governments and entire societies make as they cope with scarcity and the incentives. It involves comparing alternative choices and options in order to make decisions.</p> <p style="text-align: center;">scarcity → choices → incentives (disincentives)</p>
What does an economist do?	Economists are responsible for predicting future trends, in order to try and prevent the economy from sinking into a depression and help businesses to deal with down periods.
What is scarcity?	Our inability to satisfy all our wants. Because we face scarcity, we must make choices. It is universal.
What are incentives?	Is a reward that encourages an action, or a penalty that discourages an action. The choices we make depend on the incentives we face.
What are the two main parts economics is divided into?	<ul style="list-style-type: none"> <li>• Microeconomics — the study of how individuals, households and firms make choices, and the way those choices interact in markets and the influences of governments.</li> <li>• Macroeconomics — the study of the performance of the national and global economies.</li> </ul>
Two big economic questions:	<p>Two big questions (levels) summarise the scope (range) of economics:</p> <ul style="list-style-type: none"> <li>• How do choices end up determining what, how and for whom goods and services get produced?</li> <li>• When do/can choices made in the pursuit of self-interest also promote the social interest?</li> </ul>
What are goods and services?	The objects that people value and produce to satisfy human wants. Goods are physical objects, whereas services are tasks performed for people.
What goods and services get produced?	<p>What goods and services get produced includes the:</p> <ul style="list-style-type: none"> <li>• quantity (how many?)</li> <li>• type (what type?)</li> </ul>
How are goods and services produced?	<p>By using productive resources called <b>factors of production</b> (inputs):</p> <ul style="list-style-type: none"> <li>• Land — natural resources</li> <li>• Labour — work time and work effort that people devote to producing the goods and services. The quality of labour depends on human capital (knowledge and skills that people obtain from education, training and experience).</li> <li>• Capital — the tools, instruments, machinery, buildings and other constructions that businesses use.</li> <li>• Entrepreneurship — the human resource that organises land, labour and capital (managers).</li> </ul>
Who can buy the goods and services?	<p>Who gets the goods and services depends on the incomes that people earn through selling their services of the factors of production they own:</p> <ul style="list-style-type: none"> <li>• Land earns rent</li> <li>• Labour earns wages</li> <li>• Capital earns interest</li> <li>• Entrepreneurship earns profit</li> </ul>
What is self-interest?	<p>Choices an individual makes that they think are best for themselves.</p> <p>eg. You order a home delivery pizza because you're hungry and want to eat, you don't order it thinking that the delivery person needs an income.</p>

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What is social interest?	<p>Choices that people make that are best for society as a whole. Social interest frequently generates discussion, debate and disagreement. Social interest has two dimensions:</p> <ul style="list-style-type: none"> <li>• Efficiency — is achieved when the available resources are used to produce goods and services at the lowest price and in quantities that give the greatest possible benefit.</li> <li>• Equity — is fairness (economists all have different view about what is fair).</li> </ul>
Can choices made in self-interest promote the social interest?	<p>Yes, self interest and social interest can link.</p> <p>eg. I come to university to learn and hopefully gain knowledge to obtain a good job for the future (self-interest), but by doing this I am adding to human resources in the industry (social interest).</p>
What are four topics that generate discussion and illustrate tension between self-interest and social interest?	<ul style="list-style-type: none"> <li>• Globalisation — the expansion of international trade, borrowing and lending, and investment.</li> <li>• The information-age economy — the technological change of the past 40 years has been called the information revolution.</li> <li>• Global warming</li> <li>• Economic instability</li> </ul>
What are six key ideas that define the economic way of thinking?	<ol style="list-style-type: none"> <li>1. A choice is a <i>trade-off</i> (exchange)</li> <li>2. People make <i>rational choices</i> by comparing benefits and costs (weighing up pros and cons).</li> <li>3. <i>Benefit</i> is what you gain.</li> <li>4. <i>Cost</i> is what you must give up.</li> <li>5. Most choices are “how much” choices made <i>at the margin</i>.</li> <li>6. Choices respond to <i>incentives</i>.</li> </ol>
1. A choice is a trade-off:	<p>Because we face scarcity, we must make choices. And when we make a choice, we select from the available alternatives. You can think about these choices as trade-offs (giving up one thing to get something else).</p>
2. Making a rational choice:	<p>A rational (to determine its rationality depends on the person) choice is one that compares costs and benefits. Benefits should be &gt; costs.</p>
3. Benefit is what you gain:	<p>The benefit (physical or emotional) of something is the gain or pleasure that it brings to a person and is determined by their preferences (likes and dislikes).</p>
4. Cost is what you must give up:	<p>The <b>opportunity cost</b> (physical or emotional) of something is the highest valued alternative that must be given up when making a choice (ie. 2nd best alternative).</p> <p>eg. What is your opportunity cost of going to a music concert?</p> <ol style="list-style-type: none"> <li>1. The things you cannot afford to buy if you purchase the concert ticket (money).</li> <li>2. The things you cannot do with your time if you go to the concert (time).</li> </ol>
5. How much? Choosing at the margin:	<p>By comparing the benefits against the costs and evaluating the consequences of making incremental/extra changes in the use of your time, you are making a choice at the margin. The benefit from pursuing an incremental increase in an activity is its <b>marginal benefit (MB)</b>, whereas the opportunity cost of pursuing an incremental increase in an activity is its <b>marginal cost (MC)</b>.</p> <p>If <math>MB &gt; MC</math> your rational choice is to do more of that activity.          If <math>MB &lt; MC</math> your rational choice is to do less of that activity.</p>

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6. Choices respond to incentives:	Changes in marginal benefits and costs change the incentives we face and lead us to change our choice. The central idea of economics is that we can predict how choices will change by looking at changes in incentives. Incentives are also the key to reconciling self-interest and social interest.
What is a marginal analysis?	Comparing the extra benefit or cost of a decision instead of the average benefit or cost.
What two types of statements do economists distinguish between?	<ul style="list-style-type: none"> <li>• What is (positive statements) — tested by checking it against facts.</li> <li>• What ought to be (normative statements) — expresses an opinion and cannot be tested.</li> </ul>
What is an economic model?	A description of some aspects of the economic world that includes only those features that are need for the purpose at hand. A model is tested by comparing its predictions with the facts.
What type of experiments and investigations do economists use?	<ul style="list-style-type: none"> <li>• Natural experiments — observing before and after (only one factor changes).</li> <li>• Statistical investigations — correlation between different factors (links).</li> <li>• Economic experiments — combine different variables to look at their impact on each other.</li> </ul>
Summary/key points:	<ul style="list-style-type: none"> <li>• Why we have to make choices and how?</li> <li>• Opportunity costs</li> </ul>

## CHAPTER 2 - THE ECONOMIC PROBLEM

What is the PPF (production possibilities frontier)?	Is an illustration (line) of the boundary between those combinations of goods and services that can be produced and those that cannot (boundaries of possibilities and factor of production). To illustrate the PPF, we focus on two goods at a time and hold the quantities of all other goods and services constant. (The PPF illustrates scarcity).
An example of the PPF: (If you have the figures 15 and 5, you place one of the x-axis and one on the y-axis. For example in this 15 on the y-axis and 5 on the x-axis and then join with with the other points to create the PPF.)	<p>The graph shows a concave curve representing the Production Possibilities Frontier (PPF). The vertical axis (y-axis) has tick marks at 0, 5, 10, and 15. The horizontal axis (x-axis) has tick marks at 0, 1, 2, 3, 4, and 5. The curve starts at point A on the y-axis at (0, 15) and ends at point F on the x-axis at (5, 0). Points B, C, D, and E are marked along the curve. Point E is specifically at (4, 5), with dotted lines indicating its coordinates on the axes. The curve is labeled 'PPF' at its lower right end.</p>
What are attainable points?	Any point on the PPF or inside the PPF is known as attainable, this is because they can be produced from the available resources.
What are unattainable points?	Any point on the outside of the PPF is known as unattainable, this is because they cannot be produced from the available resources.