

ECON 1001

Microeconomics for Business Decisions

Chapter 1 – Nature and Method of Economics

Improving material wellbeing is the main concern of economics.

Economic system – Organise the production, exchange and consumption of goods and services

Wants are **unlimited**, while resources are **limited**

Economics is important for government, citizenship (voting), business (creating business strategy) and personal (employment, investment)

Economists **derive economic principles** that are useful in the formulations of policies designed to solve economic problems

Inductive method – start with facts to derive a principle/model

Deductive method – Create a theory and verify/reject by application of facts. Similar to a hypothesis in science.

Economics is a social science – many factors – **very complex**

Economic theory is all about creating a **general model**

Ceteris Paribus – assume all variables constant except the one being investigated, therefore economic principles are less precise.

Macroeconomics – concerned with the economy as a whole or with the basic subdivisions that make up the economy. i.e. big picture

Aggregate – a collection of specific economic units treated as one unit

Microeconomics – concerned with specific economic units and detailed consideration of the behaviour of these individual units

Positive economics – deals with facts and theories based on fact

Normative economics – a persons value judgement/opinion

Economic goals:

1. Growth = higher standard of living
2. Full employment
3. Economic efficiency – maximum benefit, minimum cost
4. Price stability – avoid excessive inflation/deflation

5. Economic freedom
6. Equal distribution of income
7. Economic scarcity – i.e. welfare
8. External Balance – international trade/transactions

Some of these goals are complimentary, e.g. 2, 6 and 7

Some are conflicting, e.g. 2 and 4

To formulate economic policy: state goals, policy options, evaluation

Fallacy of composition – what is true/good for the individual is not necessarily true/good for everyone. E.g. higher incomes cause inflation

Post-hoc fallacy – Just because one event precedes another does not necessarily mean the first event caused the second. i.e. cause and effect

Correlation – 2 sets of data are associated in a systematic way

Economic perspective – Scarcity and choice, rational self-interest, marginalism (benefits and costs)

Chapter 2 – The Economising Problem

Economising problem – society's unlimited wants vs limited resources

Unlimited wants – the desires of consumers to obtain and use various goods and services that give utility (satisfaction)

Economic resources – all natural, human and manufactured resources that go into the production of goods and services

Resource categories:

1. Land – arable land, forests, water, oil, minerals
2. Capital – Factory, storage, transport, tools, machinery
3. Labour – all physical and mental human talent
4. Entrepreneurial ability – human resource that combines other resources to make products and take risks

Rental income – income from supplying land or raw materials

Interest income – providing capital

Wages – income from performing labour

Profit – entrepreneurial income

Land intensive commodity – uses lots of land to obtain, e.g. mining

Labour intensive – e.g. hairdressing

Capital intensive – oil refining, power generation

Efficiency – using scarce resources to produce maximum desired goods, therefore fulfilling lots of society's wants

Full employment – all resources are used. E.g. land, people, capital equipment

Full production – maximum amount of goods/services that can be produced by an economy

Allocative efficiency – resources are detailed to developing what society wants. AKA optimum product mix

Productive efficiency – least cost method of production

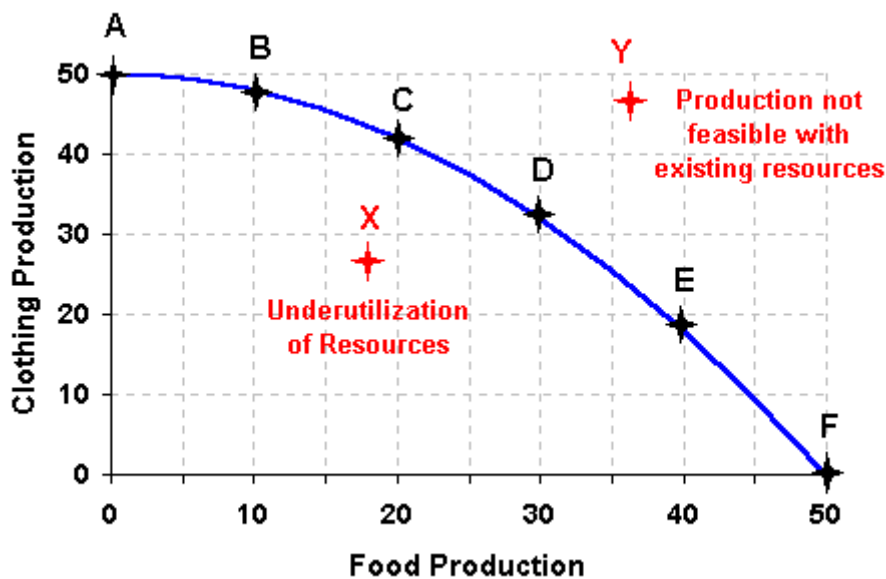
Specialisation – Huge in society – self-sufficiency breeds inefficiency

Division of labour – focus talents, improve over time, no waste of time shifting jobs

Geographic specialisation – e.g. QLD produces sugar, WA produces iron. Specialisation results in greater amounts for both people

Production possibilities table – lots of assumptions. E.g. efficient, fixed resources, fixed tech, two products only

Production Possibilities Curve



If unemployment or productive inefficiency, we would produce less. This is shown by a point inside the curve.

Increase in supplies means the curve moves outward (growth). However, the economy might not necessarily realise this potential.

Tech advance = increase efficiency = growth

Growth is not necessarily proportional. E.g. 100% more chocolate, 40% tractors

Law of increasing opportunity costs – the amount of other products that must be forgone or sacrificed to obtain a unit of any product. This increases as you get closer to one or the other product

The reason for increasing opportunity costs is because economic resources are not completely adaptable to alternative uses. **Lack of flexibility.**