

Economics For Business

Chapter 1 – Lessons From Economics

Economics refers to the study of how society manages its scarce resources. Scarcity refers to the limited nature of societies resources

Key terms

1. Efficiency - refers to when society gets the most it can from scarce resources
2. Equity - refers to when the benefits of resources are distributed fairly among society's members
3. Opportunity cost - refers to the next best alternative foregone. It refers to a concept that states that in order to get an item, you need to give up another item
4. Marginal change - refers to a small incremental adjustment to a plan of action. Rational people often make decisions by comparing marginal benefits and marginal cost, and thus "think at the margin". Margin refers to "edge".
5. Incentives – refers to anything that induces a person to act
6. Market Economy – refers to a economy that allocates resources through the decentralized decisions of many businesses and households as they interact in the market for goods and services
7. Market failure – refers to when a market does not allocate resources efficiency, and thus the price mechanism does not represent the true costs of production
8. Externality – an externality refers to the costs and benefits of one person's actions on the wellbeing of a bystander
9. Productivity – refers to the quantity and quality of goods and services produced over a period of time
10. Inflation – refers to a sustained increase in prices
11. Phillips curve – the short term trade off between inflation and unemployment

Ten key lessons from Economists

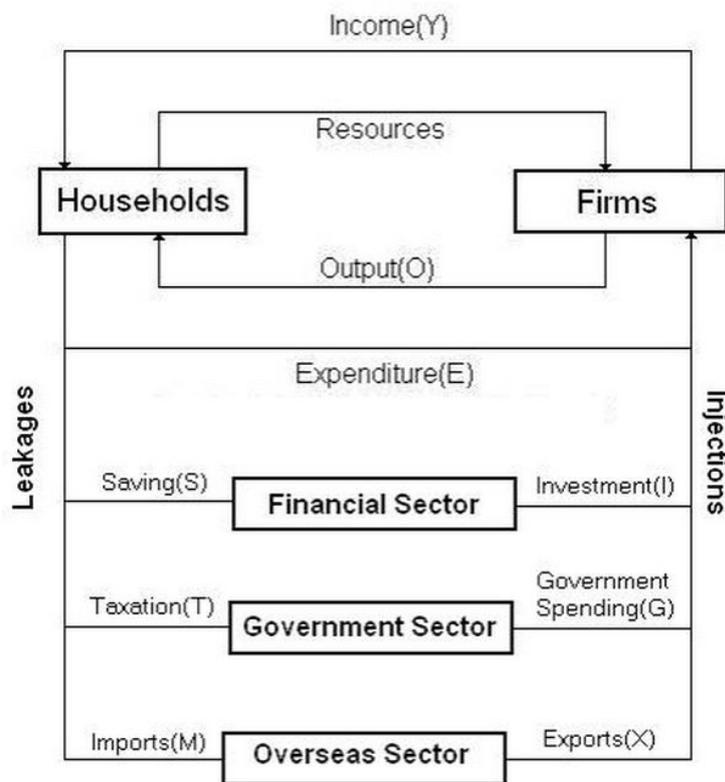
1. People face trade-offs
2. The cost of something is what you give up to get it
3. Rational people think at the margin
4. People respond to incentives
5. Trade can make everyone better off
6. Markets are usually a good way to organize economic activity

7. Governments can sometimes improve market outcomes
8. A country's standard of living depends on its ability to produce goods and services
9. Prices rise when the government prints too much money
10. Society faces a short-term trade-off between **inflation and unemployment**

Chapter 2 – Thinking like an economist

The circular-flow of income

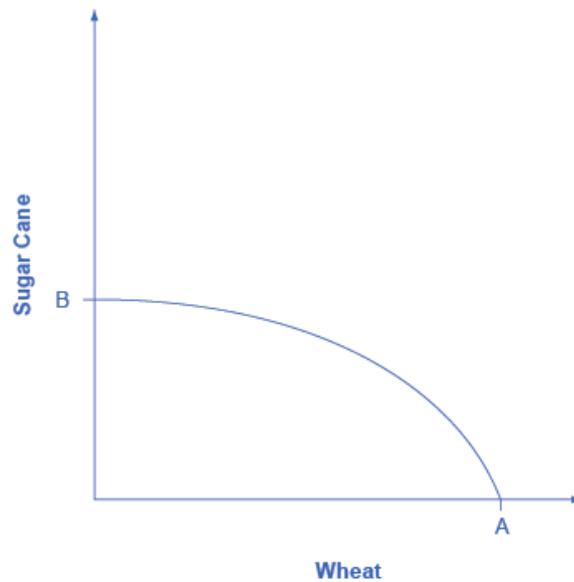
The circular flow of income shows how the economy works, economists have devised a model that shows **how the economy is organized, and how participants in the economy interact with one another**



Product possibility frontier

The PPF is a graph that shows the various combinations of output that the economy can possibly produce given the available factors of production and the available production technology that firms can use to turn these factors into output

The PPF can assist to show the opportunity cost of producing a certain good assuming that there are only two goods that an economy can produce



Points on the line of a PPF represent **efficient and feasible production**, while points inside the line of the PPF represent **inefficient production**.

Certain factors may cause the PPF to shift – for example: an improvement in technology.

Microeconomics and macroeconomics

Economics can be studied on different levels, and two common levels include the macroeconomic and microeconomic levels

1. Microeconomics – refers to the study of how **households and businesses** make decisions, and how they interact in markets
2. Macroeconomics – refers to the study of the **whole economy**

Chapter 3 – Interdependence and the gains from trade

Key terms

1. Absolute advantage – refers to the ability to produce a good **using fewer inputs** than another producer
2. Comparative advantage - refers to the ability to produce a good at a **lower opportunity cost** than another producer
3. Imports – refers to goods and services that are produced overseas, but sold domestically
4. Exports – refers to goods and services that are produced domestically, but sold overseas