

ECONOMICS NOTES

CHAPTER 1

■ WHAT

■ IS

■ ECONOMICS?



I. Economics Defined

- The study of the choices that people make to satisfy their needs and wants

Microeconomics-



- The study of the choices made by a single economic actor
- Ex: (households, companies, & individual markets). It can be a huge company, but is a single actor.

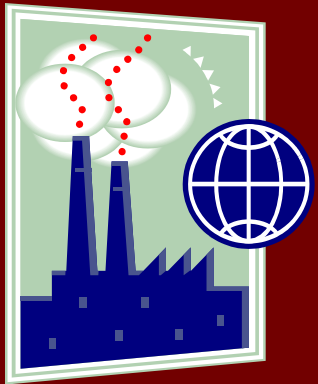
Macroeconomics

- The behavior of entire economies.
- Example—unemployment in U.S.

II. Economic Decisions

A. Who makes decisions?

- **Consumers**—the people who buy things
- **Producers**—the people who make things to satisfy the consumers' needs and wants



B. How do you make decisions?

- Make choices based on needs and wants
- Goods—Tangible: the physical objects that can be purchased (clothing, food, DVDs)
- Services—Intangible: actions and activities that are performed for a fee (lawyers, teachers, taxi drivers)

III. Economic Resources

- **Resource**—anything that people use to make or obtain what they need or want

B. Factors of production —
resources that can be used to
produce goods and services.

There are 4:

1. Natural resources—items provided by nature (farmland, fish, oil, coal) They are only considered A Factor of Production **IF** it is scarce and payment is necessary (air is NOT)

2. Human Resources

Any human effort exerted during production.

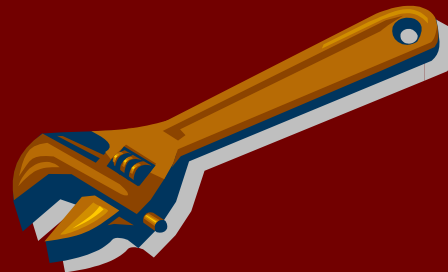
Can be physical or intellectual.

(Assembly-line workers, ministers, clerks)



3. Capital Resources

The manufactured materials used to create products. Includes Capital goods are the manufactured resources that are used in making finished products. Examples are buildings, structures, machinery, tools, stress, factories, dams, computers, hammers.



4. Entrepreneurship

- the organizational ability and risk taking involved in starting a new business or making a new product. An entrepreneur is a person who attempts to start business. They are taking risks.



IV. Scarcity

- ******Most fundamental economics issue******
- **{All resources are limited; People's wants are unlimited}**



I want...

Scarcity

- A condition that results from the combination of limited resources and unlimited wants
- Many factors contribute to scarcity.
(weather, war)
- People decide to **allocate** resources in order to satisfy greatest number of needs and wants.

V. Deciding how to allocate you must ask:

- **Three Basic Questions:**

1. What to produce?

2. How to produce?

3. For whom to produce?

VI. Productivity

- The level of output that results from a given level of input

Productivity con't

- A. Example: Sleep Time hires 100 employees to build 1000 alarm clocks per week ($1,000 \div 100 = 10$)
- B. Suppose they want to improve **efficiency** (use smallest amount of resources to produce greatest amount of output).

To improve efficiency:

- **Division of labor**—assign small number of tasks to each worker. Focus on one activity is called **specialization**. This allows each worker to work faster and produce more clocks
- They may decide to create shortcuts to increase efficiency.
- Use of **mechanization**.
(Replace people)

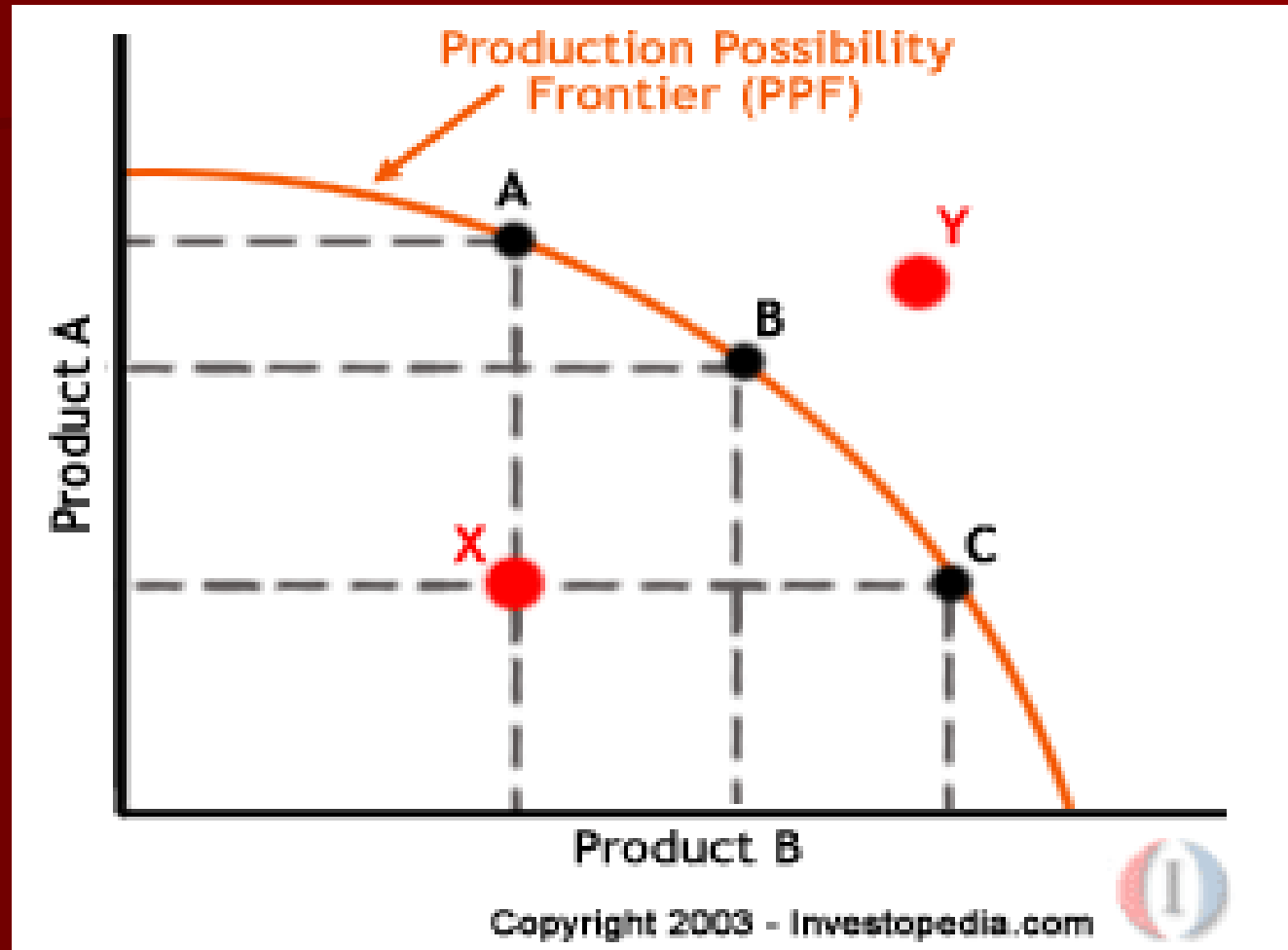
VII. Choices

- **Trade off**—The **sacrifice** made when choosing an alternative use for available resource.
- **Opportunity Cost**—the value of the 2nd choice that you gave up when you chose the 1st

VIII. Production Possibility Curve

- A graph that shows trade-offs and opportunity costs.
- It shows all of the possible combinations of two goods that can be produced within a certain time

Production Possibility Frontier



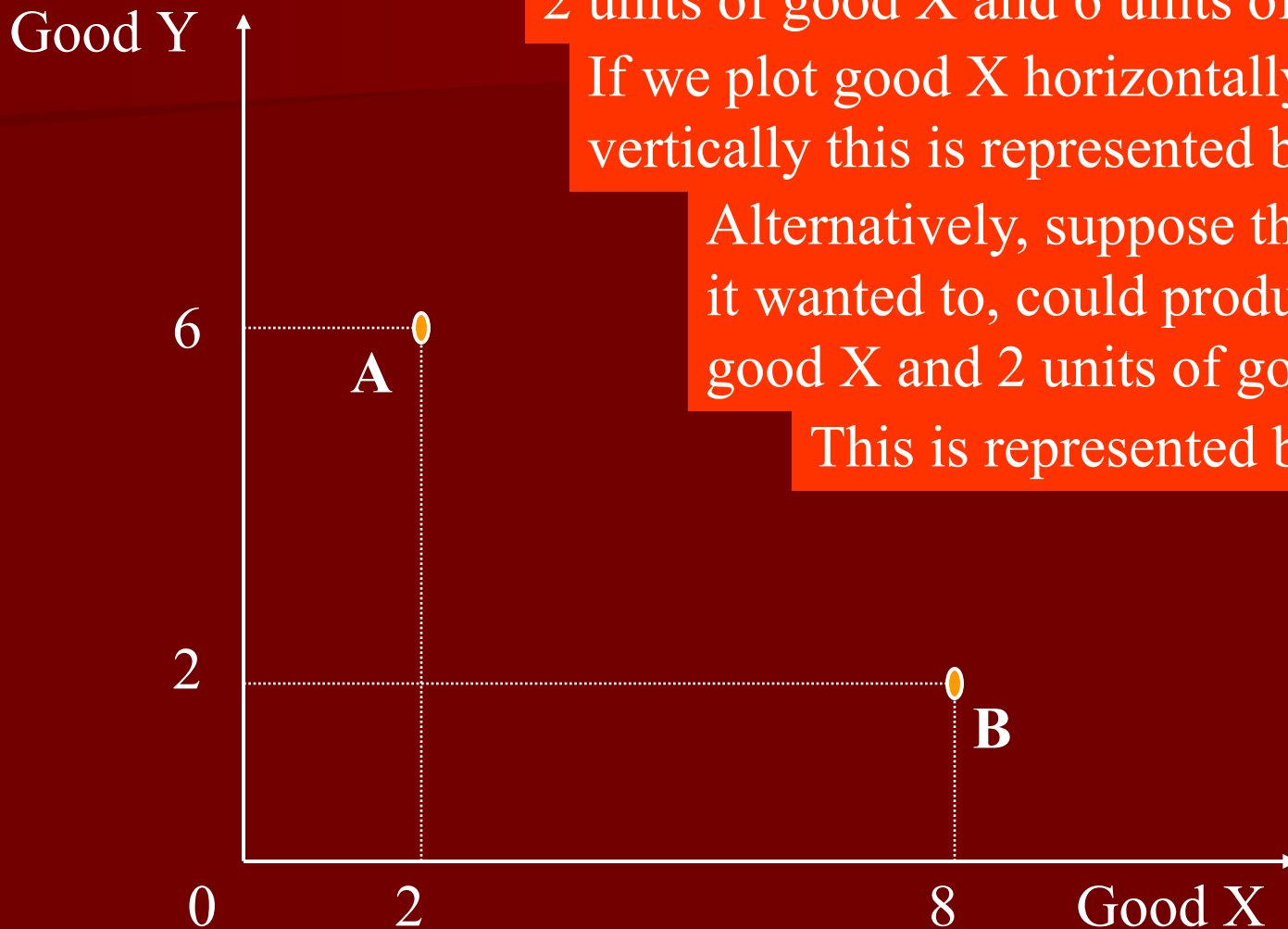
Tool: production possibility frontier; 1

Suppose it is possible for Holland to produce 2 units of good X and 6 units of good Y

If we plot good X horizontally and good Y vertically this is represented by point **A**.

Alternatively, suppose that Holland, if it wanted to, could produce 8 units of good X and 2 units of good Y

This is represented by point **B**



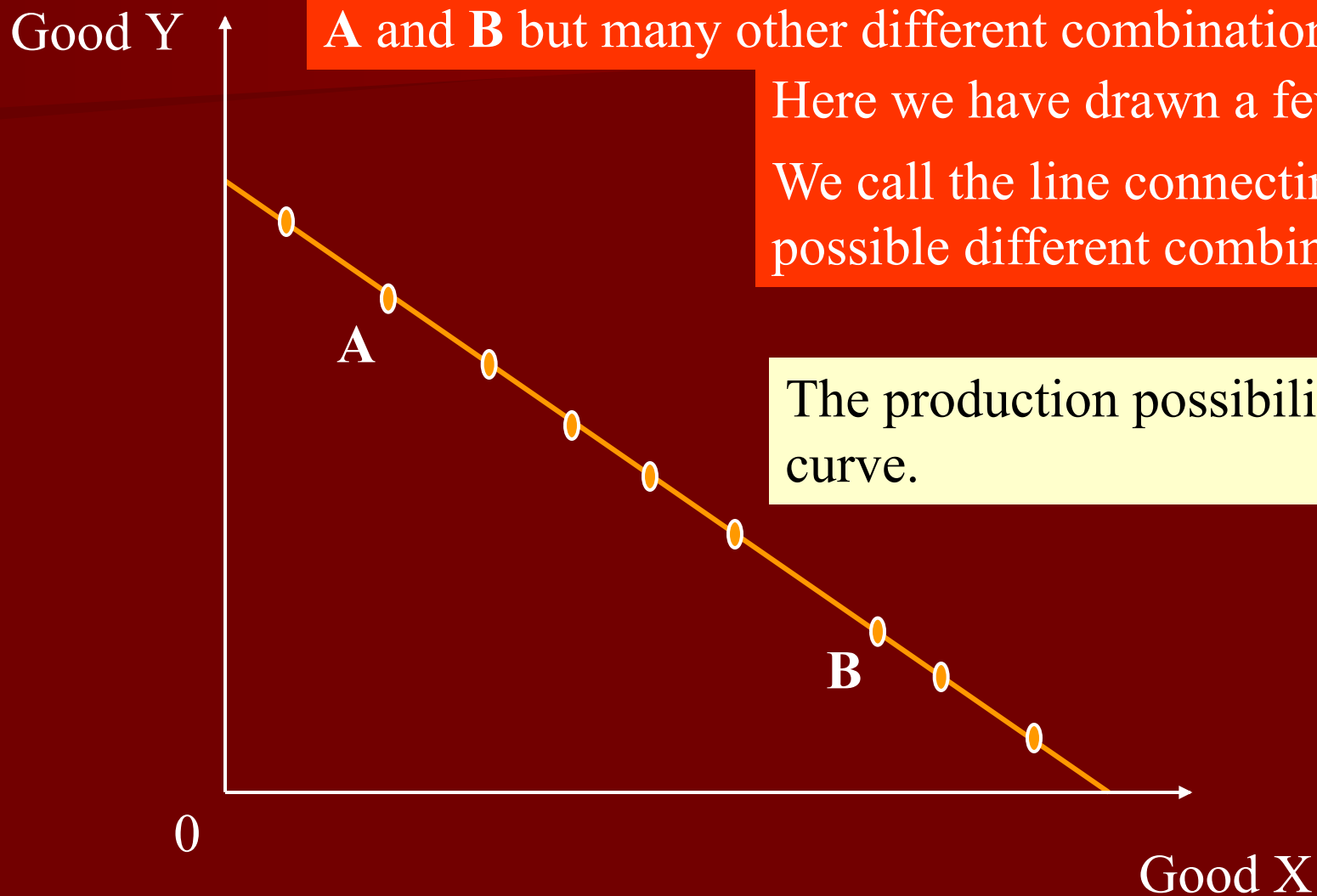
Tool: production possibility frontier; 2

Perhaps, Holland cannot only produce combinations **A** and **B** but many other different combinations also

Here we have drawn a few

We call the line connecting all possible different combinations

The production possibility curve.



Tool: production possibility frontier; 3

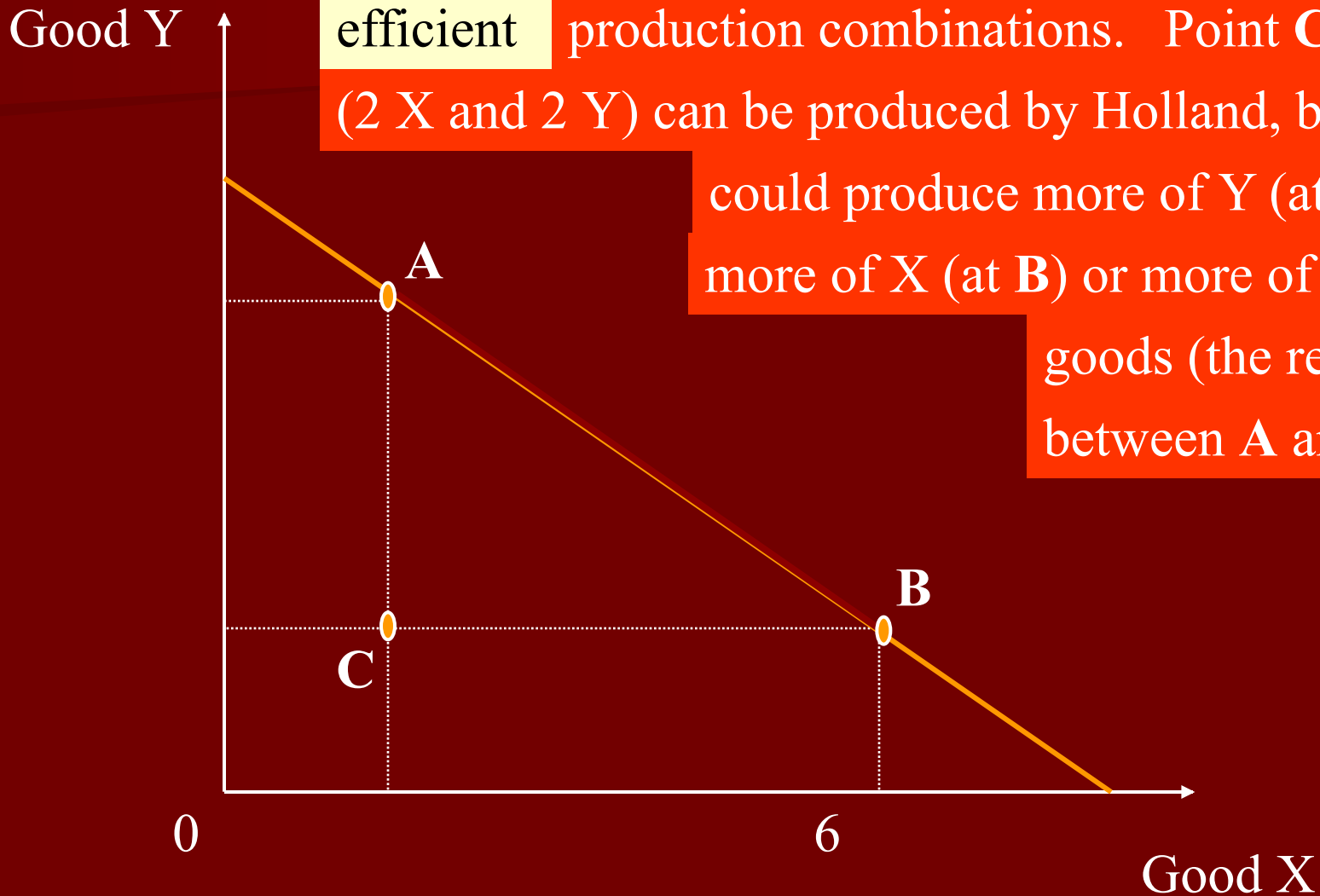
Note that the production possibility curve only connects

efficient production combinations. Point C

(2 X and 2 Y) can be produced by Holland, but it

could produce more of Y (at A) or more of X (at B) or more of both

goods (the red line between A and B)

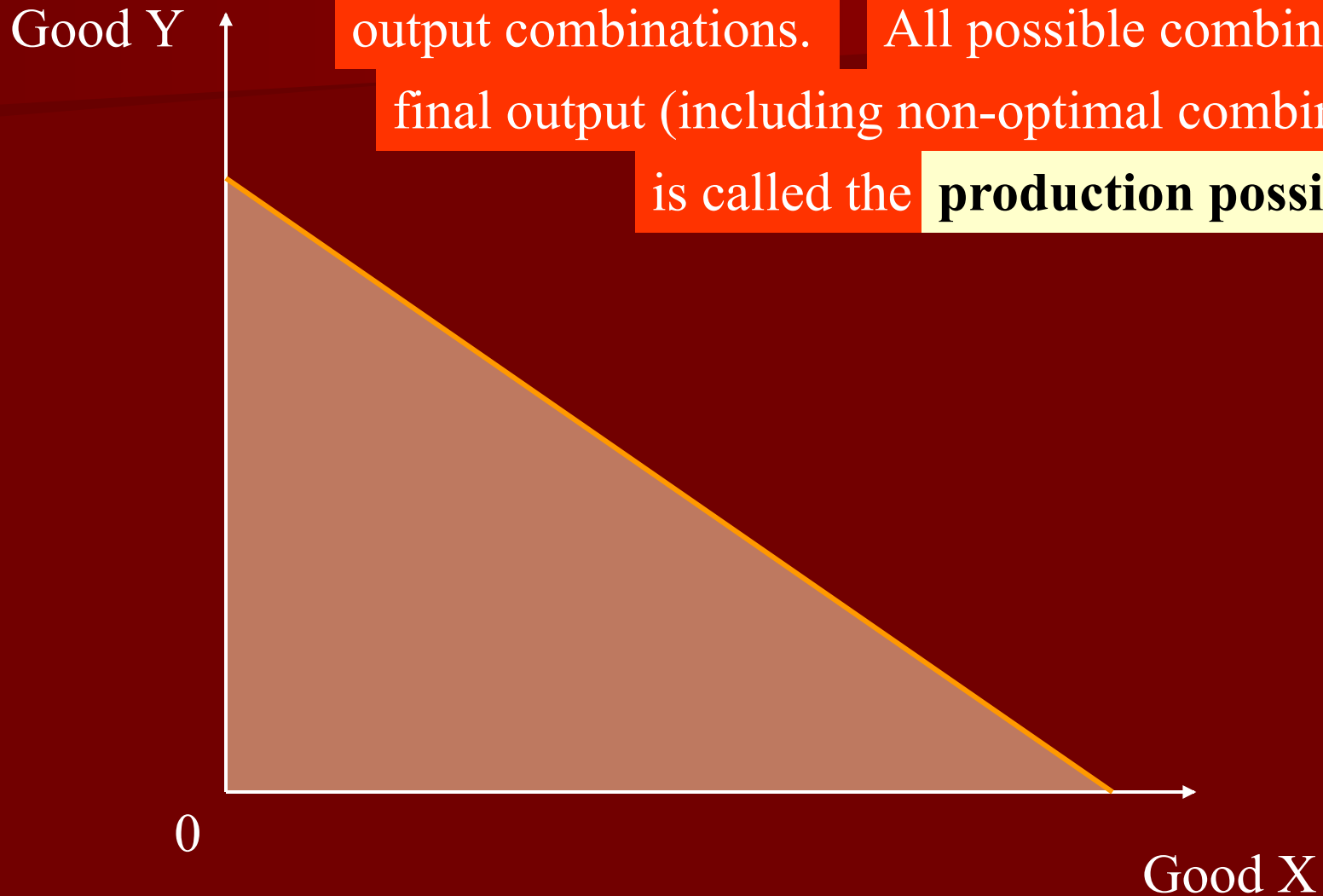


Tool: production possibility frontier; 4

Thus, the production possibility curve represents efficient

output combinations. All possible combinations of final output (including non-optimal combinations)

is called the **production possibility set**



Activity:

On graph paper label these points:

X=Luxury Cars (in millions)

■ 5 4 3 1.5

0

Y=Economy Cars

■ 0 2.8 4.5 6 7

■ Draw the curve

PPF

- Combinations that lie outside (above) the curve represent production impossibilities.
- Each combination shows opportunity costs—more of one good means making less of another.
- When new technology or new resources occur the entire curve should move to the right. Called “shift to the right” See Tran. # 3
- Combinations that fall inside (below) the curve show inefficient use of existing resources.

IX. Exchange—3 forms

- **Barter**—exchange one good for another
A. Money—a standardized means of exchange.
- **Money**- a standardized means of exchange
- **Credit**—items can be used before completing payment for the merchandise.

Value

- The worth of a good or service for exchange. Also look at utility (usefulness to a person).

Self-sufficiency

- when people can fulfill all needs without outside assistance.

Interdependence

- reliance among economic actors (Ex: boom in building in GA may mean more paint production in North)
- Most countries rely on each other for products

The End

Chapter
One