

Economics: Chapter 1

“The Economic Way of Thinking”

Introduction

- Define “economics” in one word.
 - **Scarcity** – Limited quantities of resources to meet unlimited wants

- In your own words, define the following:
 - **Value**
 - **Cost**
 - **Money**
 - **Price**

Definitions

- Value – worth or importance
- Cost – loss or effort, what is given up
- Money – medium of exchange, currency, trade
- Price – the amount of money to buy or sell good or service

Economics

- Economics is...
 - A way of thinking
 - A decision-making process
- Study of how people satisfy their needs and wants by making choices
- **Need**—necessary for survival
- **Wants**—item(s) we desire

Goods vs. Services

- **Goods**—physical objects
(clothes, shoes, iPod)

- **Services**—actions by people
(dentist, haircut, tutoring)





3 Basic Economic Questions

- What will be produced?
- How will it be produced?
- For whom will it be produced?

4 Factors of Production (CELL)

- Land—natural resources (lumber, H²O)
- Labor—effort a person devotes to task (paid)
- Capital—human-made resource used to produce goods/services
 - *Human*—invest in self, knowledge, skills
 - *Physical*—human made object; buildings, machines, & tools
- Entrepreneurship – vision, skills, risk-taking to create businesses

Trade-offs and Opportunity Cost

- Trade-Offs:
 - An alternative that we sacrifice when we make decision
- Opportunity Cost is the value of...
 - The most desirable alternative GIVEN UP
 - Every economic decision has an opportunity cost

Thinking at Margin

- Deciding whether to do or use one additional unit of some resource
 - Not ALL OR NOTHING
 - Look at each added unit and compare it to the benefit
- ***Once opportunity cost outweighs the benefit, no more units should be added***



Production Possibilities Curve (PPC)

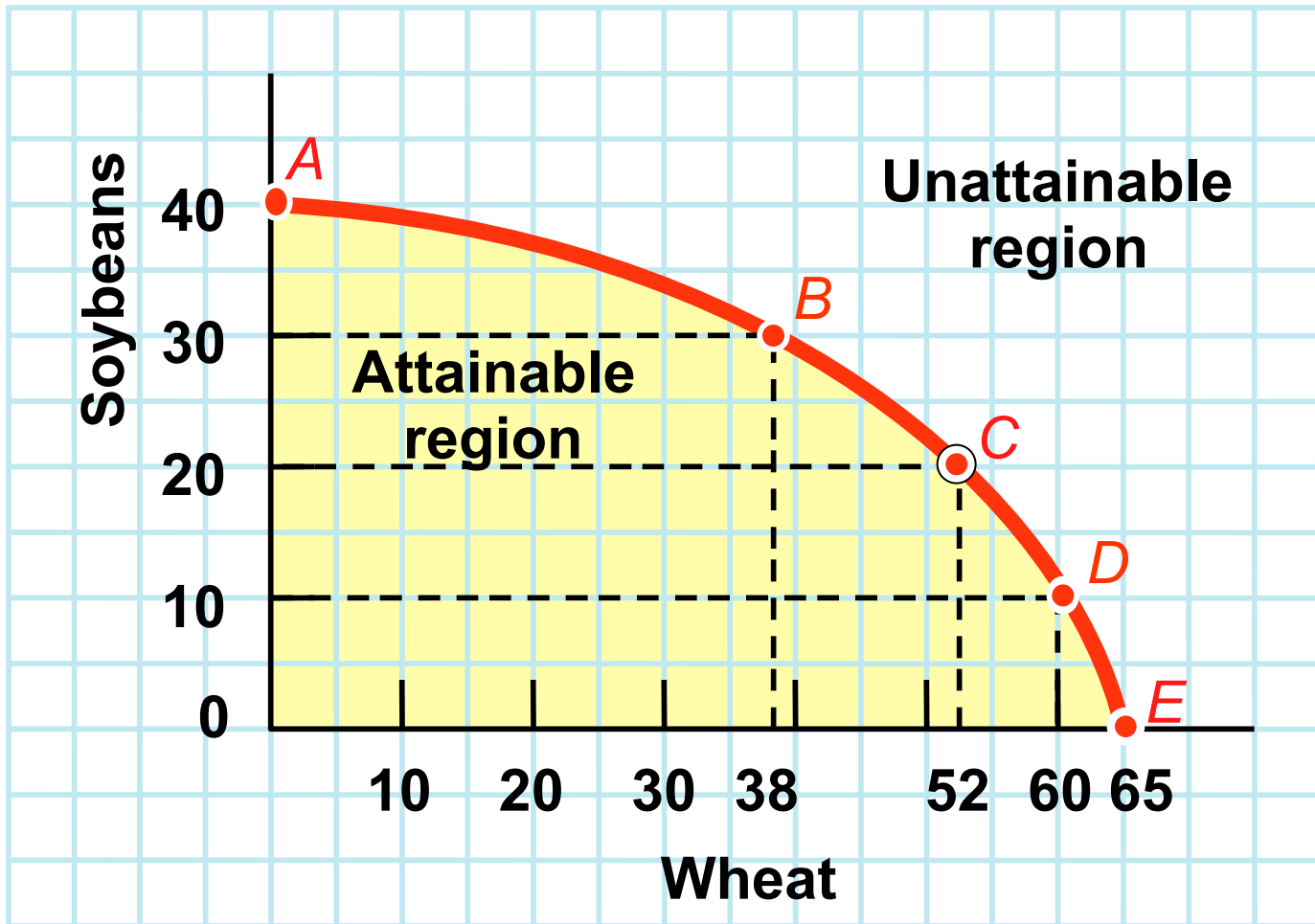
- VISUAL way of showing the opportunity cost of any given decision involving 2 variables
- An illustration of the concept of scarcity
 - We can't have or do everything!

Production Possibilities Table

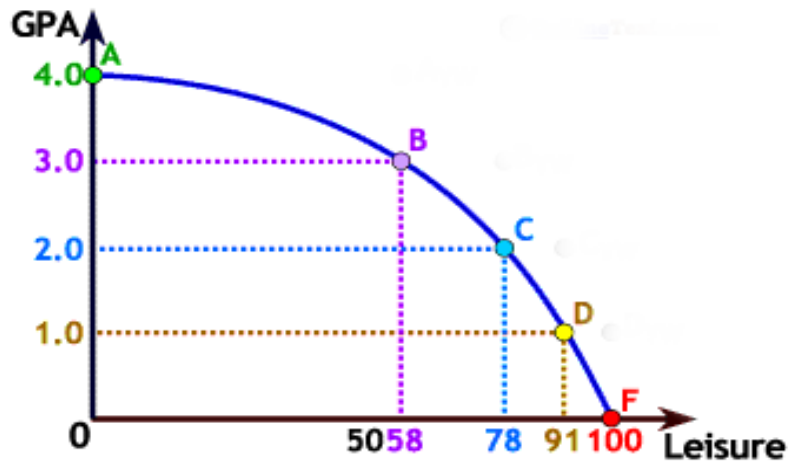
TABLE 2-1 Production Possibilities Open to a Farmer

Bushels of Soybeans	Bushels of Wheat	Label in Figure 2-1
40,000	0	<i>A</i>
30,000	38,000	<i>B</i>
20,000	52,000	<i>C</i>
10,000	60,000	<i>D</i>
0	65,000	<i>E</i>

PPC



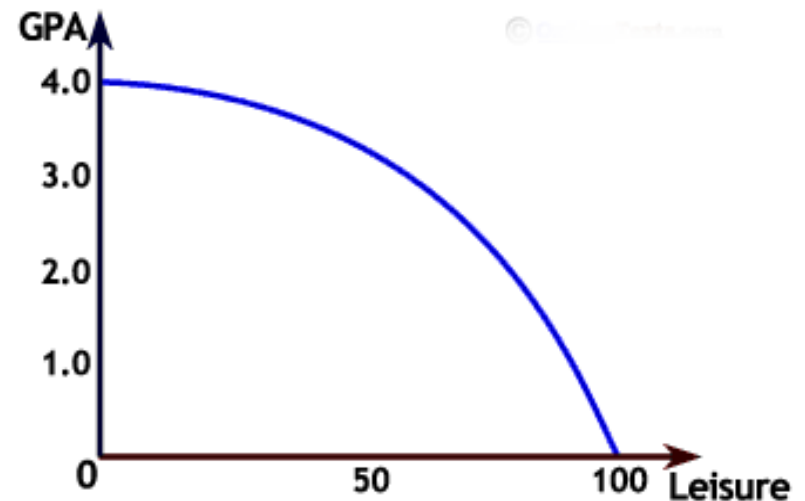
PPC



The Trade-off Between GPA and Leisure

- How much leisure time is indicated by the PPC.

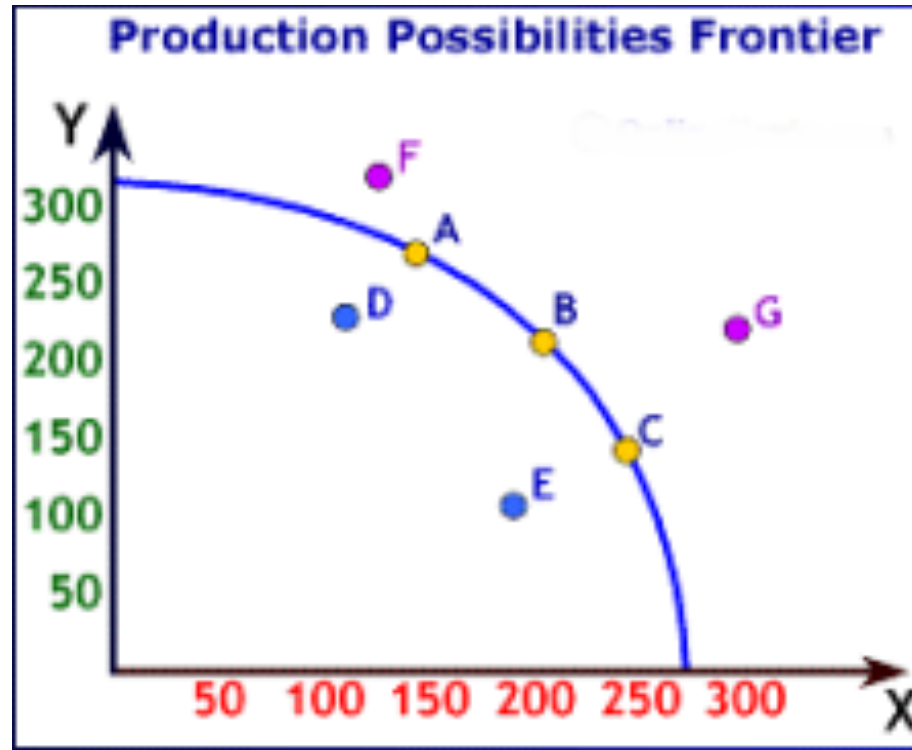
- Each amount of leisure time added takes away from your GPA.



The Trade-off Between GPA and Leisure

PPC

Points A, B, and C are efficient.



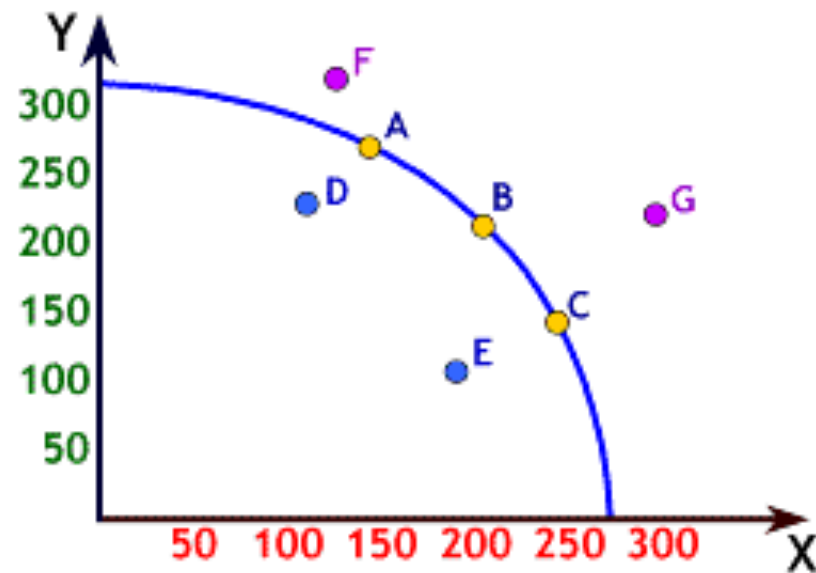
Points F and G are unattainable.

Points D and E are inefficient.

To recap...

- A movement from one point on the curve to another point on the curve, always results in an opportunity cost.

Production Possibilities Frontier



Any given point on the curve is no better than any other point in terms of efficiency; points A, B and C all fully utilize resources.

Needs vs. Wants

- We can't have everything we need & want
- **Pig Principle** = “Generally speaking, people prefer ‘ $n+1$ ’ units of a good to ‘ n ’ units of the same good.”
- **Shortage** - Situation in which good or service is unavailable

