

# Unit 1 Economics

“ An Introduction to Economics”

# Basic Concepts

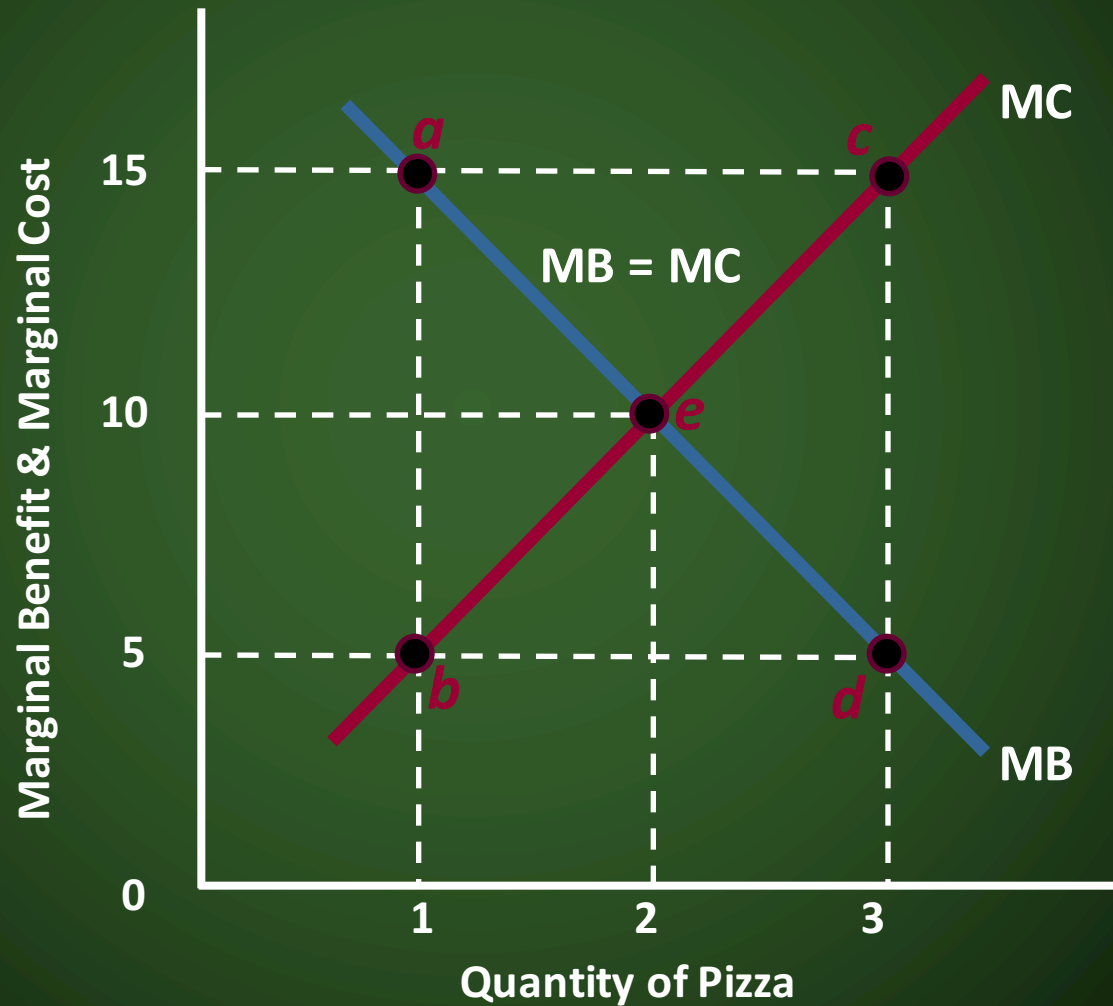
- **Economics Defined** - the social science concerned with the efficient use of scarce resources to achieve the maximum satisfaction of economic wants.
- **Scarce Resources** - since all resources are limited we are forced to make economic choices – how to use our resources to accomplish “maximum satisfaction”.
  - The Economizing Problem
  - Opportunity Cost

# Basic Concepts

- **Purposeful Behavior** - Economics assumes that people act in “rational self-interest” when making economic choices.
  - **Utility** - usefulness, pleasure, or satisfaction from a resource or product.
- **Marginal Analysis** - the comparison of the extra or additional costs or benefits resulting from an economic choice.
  - We will continue to add additional units until the cost exceeds the benefit ( $MC=MB$ )
  - Marginal Benefits
  - Marginal Costs

# Production Possibilities Model

## Optimal Allocation of Resources



# Basic Concepts

- Macroeconomics– examines the decisions of large sectors, government, or the economy as a whole (*aggregate*).
- Microeconomics– deals with economic decision making of individuals, smalls firms, or small units.

# Factors of Production

(Scarce Resources)

- Land - natural resources of “gifts of nature”
- Labor - physical and mental talents of workers
- Capital - tools, machinery, manufactured goods used to produce consumer goods
  - Investment
- Entrepreneurial Ability - the idea or “sparkplug”, innovation, risk

# Production Possibilities Curve

- The Production Possibilities Curve (ppc) shows the maximum combination of goods and services that can be produced from a given amount of resources.
- Assumptions
  - Full Employment
  - Fixed Resources
  - Fixed Technology
  - Two Goods
    - Consumer Goods (Pizzas)
    - Capital Goods (Industrial Robots)

# Production Possibilities Table

Robots

10

9

7

4

0

Pizza

0

1

2

3

4



# Production Possibilities Model

## Production Possibilities Curve

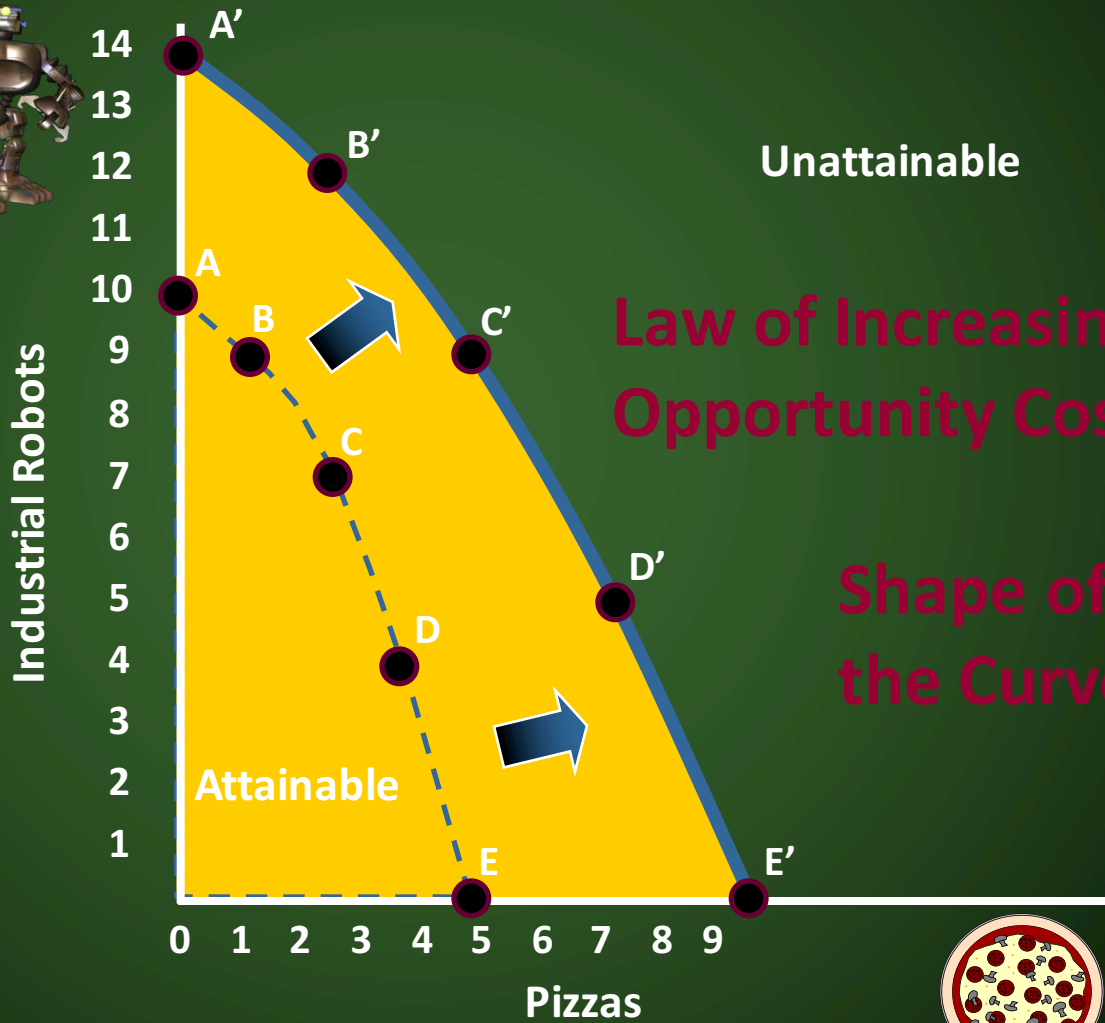


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# Production Possibilities Model

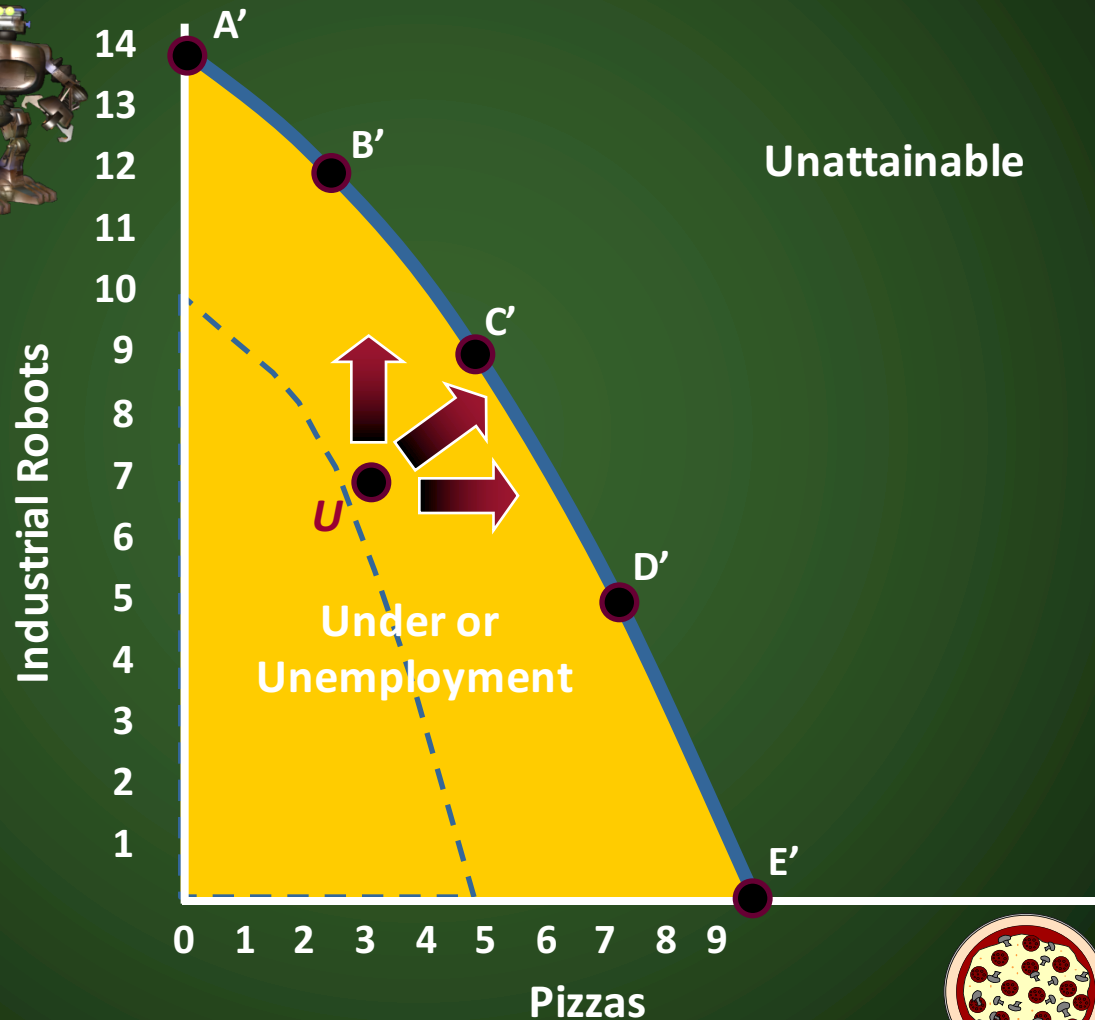
## Production Possibilities Curve



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# Production Possibilities Model

## Production Possibilities Curve



# Economic Systems

- Definition - Societies develop economic systems to solve the economizing problem and answer the 3 Basic economic questions.
  - What to produce? (Consumer Sovereignty, Dollar Votes)
  - How to produce? (Available Technology, Prices of Needed Resources)
  - For whom to produce? (distribution)
    - How will the system accommodate change?
    - How will the system promote progress?

# Economic Systems

- Traditional – the allocation of scarce resources (and nearly all other economic activity) stems from ritual, habit or custom.
  - Strengths – everyone knows their role, relatively stable.
  - Weaknesses – tends to discourage new ideas and innovation, lack of progress, lower standard of living.
    - EX – native or tribal societies.

# Economic Systems

- Command System— government owns the factors of production, makes economic decisions, and allocates resources. Examples include socialism or communism.
  - Strengths – ability to adjust and change quickly.
  - Weaknesses – lack of consideration of individuals, discourages new ideas/innovation, “coordination problem”, “incentive problem”.
    - EX – “old” Soviet Union, Cuba, China, North Korea.

# Economic Systems

- Market System (capitalism) - the factors of production are owned by individuals, people and firms answer the three basic questions, dollars act as votes.
  - Strengths – freedom for producers and consumers, little gov. interference, choice, competition.
  - Weaknesses – creates winners and losers, must have 3 things – competition, access to information and choice, resources must be transferable.
    - EX – no *pure (laissez-faire)* capitalism in the world but Hong Kong is closer than us!

# Economic Systems

- Mixed Market – a combination of command and market economies. Typically the factors of production are still privately owned but there is significant government interference in the economy.
  - The best of both worlds or failure to accomplish one true system?
    - EX – U.S and most other democratic nations.