

- Resources are employed by economic system to produce goods and services to satisfy our economic needs
- Economic wants far exceed productive capacity of limited resources, therefore we are forced to make choices

Truth underlying definition of economics : social science concerned with how individuals, institutions, and society make optimal choices under conditions of scarcity

10 KEY CONCEPTS OF ECONOMICS

3 types:

- a) concepts pertain to individual
- b) concept explain interaction among individuals
- c) concepts deal with economy as whole and standard of living

1. scarcity in relationship to wants means you face **tradeoffs**; so you must make choices.
2. Cost of choice you make is what you give up for it, or **opportunity cost**.
3. Choices are usually made at the margin, we choose a “little” more or a “little” less of something.
4. The choices you make are influenced by incentives.
5. Specialization and trade will improve the well-being of all participants.
6. Markets usually do a good job of coordinating trade among individuals, groups, and nations.
7. Governments can occasionally improve the coordination function of the markets.
8. The standard of living of the average person in a particular country is dependent on its production of goods and services. A rise in the standard of living requires a rise in the output of goods and services.
9. If the monetary authorities of a country annually print money in excess of the growth of output of goods and services it will eventually lead to inflation.
10. In the short run, society faces a short-run **tradeoff** between **inflation** and its level of **unemployment**.

Economic perspective (economic way of thinking): a viewpoint that envisions individuals and institutions making rational decisions by comparing marginal benefits and marginal costs associated with their actions

Opportunity cost: amount of other products that must be forgone/sacrificed to produce a unit of product

Purposeful behaviour:

- we as humans look for opportunities to increase **utility** (pleasure, happiness or satisfaction obtained from consuming a good or service)
- we spend time, energy, and money to obtain/maximize utility
- business firms are purposeful in deciding which products or services to make to maximize income/consumption
- “purposeful behaviour” ISNT ppl immune from faulty logic / being perfect decision makers, it's simply ppl making decisions with some desired outcome in mind
- rational self interest ISNT selfishness

marginal analysis

-comparison of marginal benefits and costs (marginal = extra, additional, a change in)

*marginal cost + marginal benefit

THEORIES, PRINCIPLES, MODELS

models = simplified representations of how parts of economy work

economic principle = statement about economic behaviour or economy that enables prediction of probable effects of certain actions

- generalization
 - economic principles are generalizations of economic behaviour (eg. Consumers buy more when price falls)
 - economic principles are expressed as tendencies of typical consumers/workers/firms
- other-things-equal assumption (*ceteris paribus*)
 - the assumption that factors other than those being considered do not change
 - assume that all variables except those under immediate consideration are held constant for an analysis
- graphical expression

MICRO vs MACRO ECON

Microecon = concerned with individual units (household, firm, industry), concerning details + small segments, looks at decision making by individual customers

Macroecon = examined economy as a whole or basic subdivisions (government, household, business sectors)

Aggregate –collection of specific economic units treated as if they were one unit (so all of consumers in Canadian economy = CONSUMERS)

-seeks to obtain overview, general outline (total output/employment/income)

POSITIVE + NORMATIVE ECONOMICS

Positive economics

–focus on facts and cause and effect relationships, include description, theory development, theory testing

-avoids value judgements, tries to establish scientific facts

normative economics

- incorporates value judgements of what economy should be like or what policy actions should be recommended to achieve desirable goal
- underlies expressions of support for particular economic policy
- looks at desirability of certain aspects of economy

positive economics = WHAT IS

normative economics = subjective feelings of what's ought to / should be

ECONOMIC PROBLEM

-the need to make choices because needs and wants are unlimited while resources to satisfy are scarce

- limited income
- unlimited wants

BUDGET LINE

- a schedule or curve that shows a various combination of 2 products that a consumer can obtain
- all combination beyond budget line = unattainable
- opportunity cost and tradeoffs
- choices
- income change

SCARCE RESOURCES

Resource categories (**FACTORS OF PRODUCTION**)

- land (includes all natural resources used in production process, eg. forests, water resources)
- labour (physical and mental talents of individuals)
- capital (manufactured aids used in producing goods and services, eg. Factory, storage, transportation)
capital goods is different from consumer goods, consumer goods directly satisfy wants and needs while capital goods do so indirectly by aiding production of consumer goods

-assume:

1. **full employment**: economy is using all available resources
2. **fixed resources**: quantity and quality of factors of production are fixed
3. **fixed technology**: state of technology (methods used to make output) is constant
4. **two goods**: economy is producing only 2 goods, consumer goods (directly satisfy wants) and capital goods (satisfy wants indirectly by making possible more efficient production of consumer goods)

-entrepreneurial ability

- entrepreneur takes initiative in combining resources of land, labour, and capital to produce good and service
- makes strategic business decisions that sets course of enterprise
- innovator, commercializes new production/production/forms of business organization
- risk bearer, has no guarantee of profit

***production possibilities curve** -curve showing the diff combinations of goods/services that can be produced in a full-employment, full-production economy where available supplies of resources and technology are fixed