

- Scarcity and its relationship to economics
- Microeconomics & Macroeconomics
- Factors of Production: the resources that are used to produce goods and services
  - **Land** is the gifts of nature or natural resources → earns rent
  - **Labor** is the work time and work effort that people devote to producing goods and services → earns wages
  - **Capital** is the tools, instruments, machines, buildings, and other items that have been produced in the past and that businesses now use to produce goods and services → earns interest
    - **Human Capital** is the knowledge and skill that people obtain from education, on-the-job training, and work experience
  - **Entrepreneurship** is the human resource that organizes labor, land, and capital → earns profit
- Self-interest vs. Social Interest
  - **Self-Interest:** the choices that are best for the individual who makes them
  - **Social Interest:** choices that are the best for society as a whole
- Efficiency vs. Fairness
- **Tradeoff:** is an exchange – giving up one thing to get something else
  - A **For whom** tradeoff tells us that for whom goods and services get produced depends on the distribution of buying power
  - A **What** tradeoff tells us that what goods and services get produced depends on choices made by each one of us, by our gov., and by the businesses that produce the things we buy
- **Opportunity Cost:** the highest-valued alternative that must be given up to get it
  - the decrease in the quantity produced of one good divided by the increase in the quantity of another good as we move along the PPF
  - increasing opportunity cost = bowed-shaped out PPF shape
- Marginal Benefit vs. Marginal Cost
  - **Marginal Benefit** is the benefit that arises from one unit increase in an activity
    - **The benefit of something** is the gain or pleasure it brings
      - Determined by **preferences:** by what a person likes and dislikes and the intensity of those feelings
  - **Marginal Cost** is the opportunity cost that arises from one unit increase in an activity
    - We calculate the marginal cost of producing the good plotted on the y-axis as the change in the value measured on the x-axis as we move down along the PPF, which equals the slope of the PPF
- Positive vs. Normative Statements
  - **Positive Statements** are about what is, they might be right or wrong, and can be tested by checking it against the facts
  - **Normative Statements** are about what ought to be, depend on values, and cannot be tested

- Economic Model
  - An **Economic Model** is a description of some features of the economic world that includes only those features assumed necessary to explain the observed facts-simpler than the reality it describes
    - Example: a roadmap

### Production Possibilities Frontier

- **PPF** is the boundary between the combinations of goods and services that can be produced and the combinations that cannot be produced, given the available factors of production and the state of technology - shows the limits to production
  - Points outside of the frontier cannot be attained
  - Any point inside the PPF and on the PPF can be produced, so they are attainable
  - Illustrates scarcity
- Production Efficiency vs. Allocative Efficiency
  - \*Production is efficient only if the economy uses all of its resources
  - **Production Efficiency** is a situation in which the economy is getting all that it can from its resources and cannot produce more of one good or service without producing less of something else
  - We achieve **Production Efficiency** if we produce goods and services at the lowest possible cost
    - Achieved at points on the PPF
    - As we move along the PPF increasing production of x, we must give up some production of y
  - **Allocative Efficiency** occurs when we are producing at a point on the PPF that we prefer above all other points
  - We achieve **Allocative Efficiency** when goods and services are produced at the lowest possible cost and in the quantities that provide the greatest possible benefit
    - All points on the PPF are points of Production Efficiency. When we produce at the point on the PPF that we prefer above all other points we achieve Allocative Efficiency
- Six Main Factors that Change Demand
  - **The Price of Related Goods**
    - Substitutes → a good that can be used in place of another good
      - If the price for a substitute increases, people buy less of the substitute and more of the original good, so the demand for the original good increases
      - Example: a bus ride is a substitute for a train ride
    - Compliments → a good that is used in conjunction with another good
      - If the price for a good decreases, people will buy more of the good AND the compliment good

- Example: If the price of an hour at the gym falls, people buy more gym time AND more energy bars
- **Expected Future Prices**
  - If the expected future price of a good rises and if the good can be stored, the opportunity cost of obtaining the good for future use is lower today than it will be in the future when people expect the price to be higher
  - So people retime their purchases—they substitute over time
  - They buy more of the good now before its price is expected to rise (and less afterward) so the demand for the good today increases
- **Income**
  - When income increases, consumers buy more of most goods; and when income decreases, consumers buy less of most goods
  - Although an increase in income leads to an increase in the demand for *most* goods, it does not lead to an increase in demand for *all* goods
    - A **Normal Good** is one for which demand increases as income increases
    - An **Inferior Good** is one for which demand decreases as income increases
- **Expected Future Income and Credit**
  - When expected future income increases or credit becomes easier to get, demand for a good might increase now
    - Example: A sales person receives the news that she will be receiving a big bonus at the end of the year, so she goes into debt and buys a new car right now, rather waiting until she receives the bonus
- **Population**
  - The larger the population, the greater is demand for all goods and services; the smaller the population, the smaller is the demand for all goods and services
    - Example: the demand for parking spaces, running shoes, and almost everything else is much greater in NYC than it is in some bum fuck place in Idaho
  - The larger the proportion of the population in a given age group, the greater is the demand for goods and services used by that age group
    - Example: A decrease in the college-age population leads to a decrease in demand for college places
- **Preferences**
  - Determine the value that people place on each good and service
  - Preferences depend on:
    - Weather
    - Information
    - Fashion