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Econ 1113

Macro Economics

Introduction

- I. The Basic Economic Problem
- II. Production Possibilities Analysis
- III. An Overview of Market Economy: The Circular Flow of Income

I. The Basic Economic Problem

Two facts

1. Economic Resources
are limited or scarce
2. Desires for material goods and services
are effectively unlimited

Economic Resources

1. Labor - physical and mental resources used to produce material goods and services
2. Capital - goods used to produce other goods
= human made aids to production.

for example:

plant, equipment, tools, etc.

3. Land - all natural resources used to produce material goods and services

4. Entrepreneurship
1. Brings together the other resources
2. motivated by self-interest as expressed in making profit.

3. An idea of how to make profits

Good idea \Rightarrow profit

Bad idea \Rightarrow losses

4. Bear Risk

2. Desires for ^{material} Goods and Services
~~Unlimited~~

2 facts \Rightarrow Choices
incur costs

Example: chose to go to EU for x years
incur costs:

explicit: tuition, books, fees, housing, etc

implicit: opportunity cost

\rightarrow x years of foregone income

III Production Possibilities Analysis

- Example
- Simplifying Assumptions
- Two goods: Capital Goods (K)
Consumer Goods (C)
 - Full Employment
all resources available to be used are employed.
 - Constant Technology

Prod. Possibilities Table

	A	B	C	D	
Consumer	0	1	2	3	Vote with dollars
Capital	9	7	4	0	
Production Possibility Curve					