

MACROECONOMICS REVIEW FOR FINAL

Economics

Studies how society distributes and utilizes its scarce resources to its members in order to satisfy unlimited wants

- Resources are anything used to produce goods and services
- Four resources
 - Labor- Human capital
 - Skills and knowledge of labor
 - Land- Natural resources
 - Physical capital
 - Manmade goods and services used to make other goods and services
 - Entrepreneurialship

Resources are scarce when demand is higher than supply

Three basic questions that every society must answer

- 1) What to produce?
 - a. Deals with how resources are used
- 2) How to produce?
 - a. Deals with production process
- 3) For whom to produce?
 - a. Deals with the distribution of goods and services

Economy

- A Mechanism that allocates the scarce resources
 - Goods and services
- Allocates resources through
 - Markets
 - Price and wage adjustments
 - Government allocation
 - Central planner
 - Mixed economy

- Both forms of allocation

Macroeconomics

Three steps of Macroeconomics

- 1) Understand the primary components of measuring the Aggregate economy
 - a. GDP
- 2) Develop models to understand how economy works
- 3) Macro-economic policy- Understand what the government can do (if anything) to reduce fluctuations in the economy (short run) and Growth (long run)

Economics is a social science

Economists use the scientific method to study how society deals with scarcity

- 1) Assumptions
 - a. Economists use assumptions to simplify a very complex reality
 - i. Rationality assumption- People make choices to maximize self-interest
 1. Implies that people respond to incentives and disincentives
 - ii. Ceteris paribus Assumption- Must assume that everything else stays constant
- 2) Models
 - a. Simplified representation of reality
 - i. Used to simplify complex realities
 - ii. Tested by economists with historical data

What do Economists do?

- 1) As scientists, economists make positive statements
 - a. Objective statements that attempt to describe how the economy is
- 2) As policy advisors, economists Normative statements
 - a. Subjective statements that describe how the economy should be

When societies are deciding how to best use their scarce resources they must consider the opportunity cost of using that resource

- **Opportunity cost**- The next best alternative that must be sacrificed to obtain something or satisfy a want

Production possibility Curve

The Production possibility curve shows the different combinations of goods or services an economy can produce at a given time, given the available resources and technology, assuming that resources are fixed and totally utilized.

- **Technology**- Society's pool of knowledge concerning how goods and services can be produced

