

Chapter One:

Define economics.

Study of scarcity, and the fact that we have to make choices.

What is scarcity?

The idea that we have unlimited wants but limited resources to satisfy those wants

What is opportunity cost?

The highest valued alternative not taken. Decisions are made by comparing incremental marginal benefits and costs

Marginal benefit/cost:

$MB > MC = \text{do more}$

$MB < MC = \text{do less}$

$MB = MC = \text{stop}$

What is microecon?

Study of individual markets

What is macroecon?

Study of economy as a whole

To make a good what must you do?

Combine the factors of production with technology

What are the factors of production?

Land, labor, capital

Product possibilities frontier?

Different maximum possible output combinations of two goods, downward slope

Why are points below the product possibility frontier inefficient?

You can make more product without giving up any of the other, no opportunity cost

When the marginal benefit = the marginal cost what is this called?

Equilibrium

Principle of diminishing marginal benefit?

For each good there is a diminishing willingness to pay

Def. economic growth

Accumulation of factors of production and technological advancement to create more goods i. e. shift the PPF to the right

Chapter 2

How else can the economy grow?

Through specialization and trade

What is absolute advantage?

The ability to make more of a product

What is comparative advantage?

The ability to make more of a product with a lower opportunity cost

Sources of comparative advantage?

Natural ad. (geography or climate), or dynamic comparative advantage (learning by doing)

If a country has absolute advantage in both goods does it mean they have the comparative advantage?

NO. there are still gains to be made through specialization and trade because the country that doesn't have the absolute could still have comparative

What do you need to make gains from trade?

Property rights and a market

Def. market.

A "place, not physical necessarily" where buyers and sellers meet to exchange goods/services

Chapter 3

What is a competitive market?

A market where there are so many buyers or sellers that no individual participant influences price

What is demand and more specifically quantity demanded?

The amount of a good that a consumer plans to purchase in a period of time

What factors determine this?

Price of good, prices relate to the good, expected future prices, income, size of market, preferences

What are substitutes?

A good consumed in place of another

What are complements?

A good consumed with another

What is the law of demand?

Holding constant all other factors, if the price goes up, the quantity demanded goes down

Why does the law of demand hold?

Substitution effect and income effect

What is the substitution effect?

When the price of a good rises, people will seek a substitution for the good (QD will drop)

What is the income effect?

When prices rise, people can't afford the same quantity of a good (QD will drop)

When does the demand curve shift left or right?

When the factors of demand OTHER THAN THE PRICE change

When income rises, does the QD go up or down?

Depends on if it's a normal good or an inferior good

What is a normal good?

A good where when income rises so does the quantity demanded. Ex. Sports car

What is an inferior good?

When income goes up, QD goes down. Ex. Spam or canned meat

Define supply but more importantly quantity supplied.

The amount of a good that firms want to produce/sell in a given period

What are the factors of supply?

Price of good, price of inputs, expected future prices, # of firms, technology

What's the law of supply?

As the price goes up, so does the quantity supplied – supply curve is an upward slope

As the price of inputs rises, what happens to the quantity supplied?

It goes down.

As the number of firms increase, or technology improves, what happens to the supply curve?

Shift right.

What is equilibrium in a competitive market?