Need vs. Want

Free vs. Gratuitous

Need = There are no other substitutes
(only basic requirements to survive)

Want –all other things we desire

Free – doesn't cost anything to anyone,
"there's not such thing as a free lunch"

Gratuitous – when someone decides to give an item without charging

Scarcity
(4 requirements to qualify)

Scarcity

The fundamental economic problem that results from the combination of society's unlimited wants & limited resources. To be scarce it must be:

- limited
- desirable
- price (or cost)
- relative, not absolute

Economics
(definition)

Economics is the study of how we deal with scarce resources given that we have unlimited wants and limited resources

For Quiz know the equation

Economics = Scarcity = unlimited wants > limited availability of resources

Micro
vs.
Macro
Economics

Micro focuses on small segments of society like individuals or firms

Macro focuses on the economy as a whole and/or large units like markets, governments, etc.

Memory Trick

You use a microscope to see small things

Factors of Production	FOP'S Inputs/resources that go into the production process or function to produce goods and services **C**apital **E**ntrepreneurial ability **L**and **L**abor **Memory Trick** **CELL**s are the building blocks of life, FOP'S are the building blocks of economics. *because our Unlimited wants > Limited Resources, society has to make choices about factors of production.
Opportunity Cost Vs Accounting Cost Margin	Opportunity cost - The next highest valued alternative to the activity/product you chose Accounting costs--$ cost (money) Margin or Marginal = each additional
Adam Smith Who is he? What Book did he write?	Adam Smith = father or founder of Economics - Wrote "Wealth of Nations" Which was about the benefits of specialization.
Specialization Division of Labor	Specialization: You can increase productivity through division of labor Division of Labor Work is divided so each person does fewer tasks than before

Production Possibility Frontier/Curve

Definition

PP Curve = a diagram representing the maximum amount of goods or services an economy can produce when all of its resources are being used efficiently

Production Possibility Frontier/Curve

5 Shifters

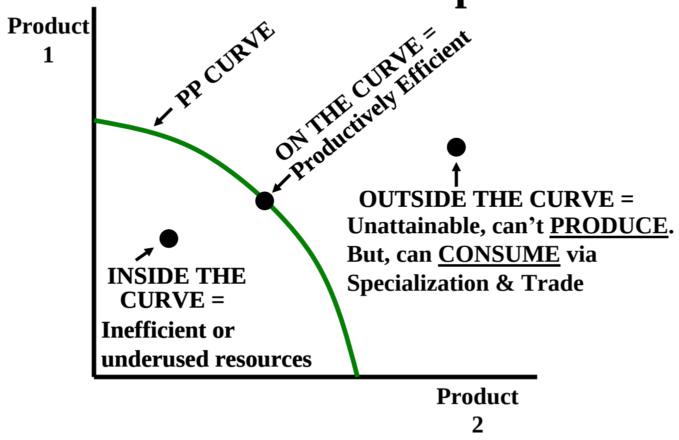
1. Increase the productive labor force (# of people or productivity).
2. Increase the quantity or quality of natural resources.
3. Increase the quantity and quality of capital.
4. Increase health and education.
5. Increase technology.

Production Possibility Frontier/Curve

Parts of the Graph

- On the curve
- Inside the curve
- Outside the curve

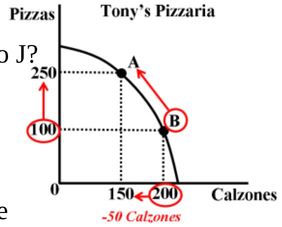
Parts of the Graph



Production Possibility Frontier/Curve

Opportunity Cost Problems

What is the opportunity cost of changing production from point K to J?

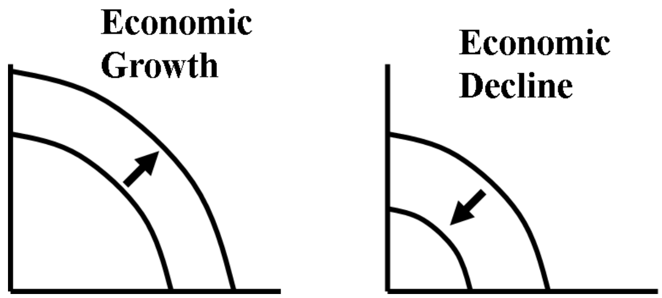


Step 1: draw circles and arrows. Circle original production and point arrow to new one.

Step 2. Look at your arrows, the one that shows a DECREASE (toward zero) is showing the opportunity cost. Subtract the numbers. (200-150 = **50**)

Answer: 50 Calzones. Another way to think of it is if you were producing at K and changed to J, you would make 150 more Pizzas, but you would have to make 50 **less** Calzones.

Econ Growth & Econ Decline On PP Graph



3 Basic Economic Questions

All economies must answer

1. WHAT to produce
2. HOW to produce
3. FOR WHOM to produce

Memory Trick: the letter are WHF
So think of a combination of the texting abbreviations for wth and wtf, combine them w/o the t and you get WHF… what, how, & for whom

Traditional Economy
How are the 3 Q's decided?

Command Economy
How are the 3 Q's decided?

Market Economy
How are the 3 Q's decided?

Traditional - customs or habit
Example: you're father is a hunter, then you will be a hunter

Command - The **Government** makes all of the decisions

Market - The **people** have the freedom to make all the decisions for themselves, it happens through the **interaction of buyers and sellers.**

Circular Flow Product Market Factor Market

Circular Flow = flow of economic activity in a market economy, the diagram shows the exchange of

- **Resources** (factors of production/CELLS)
- **Products &**
- **Money**

Product Market = where goods & services are bought and sold. Example: supermarket or any store

Factor Market = where the factors of production like labor are bought and sold. Example: factory or any place where people are hired

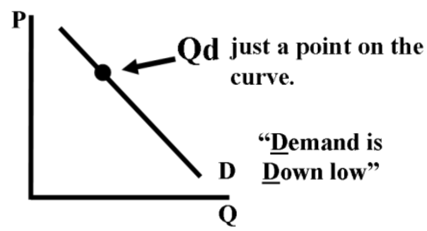
Law of Demand

Holding all else equal, when the price of a good rises, consumers decrease their quantity demanded for that good

Put an easier way: if price is the only factor, people will want to buy more when prices are low and want to buy less when prices are high

Demand Vs Quantity Demanded

Demand is a curve that represents how much of a product people are WILLING & ABLE to purchase at various prices. *it's the whole curve



Quantity demanded is how much they will purchase at ONE price, it's one dot on the curve

Normal Goods vs. Inferior Goods

Normal Good = good for which higher income increases demand
Examples Ipods, TV, anything considered nice or of good quality

Inferior Good = good for which higher income decreases demand
Examples: generic brands, 2nd hand goods, anything considered cheap or of lower quality

Complements vs. Substitutes

Complements = goods that you purchase together.
Example: peanut butter & jelly
Milk & Cereal, Chips & Salsa

Substitutes = goods that you instead of each other
Examples: Coke & Pepsi,
Gatorade & PowerAde

Demand Shifters

1. # of Consumers
2. Income - Normal Goods
3. Income - Inferior Goods
4. Preferences

↑# consumers →D↑
↓# consumers →D↓

↑Y→D↑ Normal Goods
↓Y→D↓ Normal Goods

↑Y→D↓ Inferior Goods
↓Y→D↑ Inferior Goods

↑ Preferences →D↑
↓ Preferences →D↓

Don't have to memorize, just be able to think it through as if you are in the situation as if you are the **customer**

Demand Shifters

5. Price of a substitute
6. Price of a complement
7. Expected Future Price
8. Expected Future Income

↑ P of Sub →D↑
↓ P of Sub →D ↓

↑ P of Comp →D↓
↓ P of Comp →D↑

↑ EFP →D↑
↓ EFP →D↓

↑ EFY →D↑
↓ EFY →D↓

Don't have to memorize, just be able to think it through as if you are in the situation as if you are the **customer**

Law of Supply

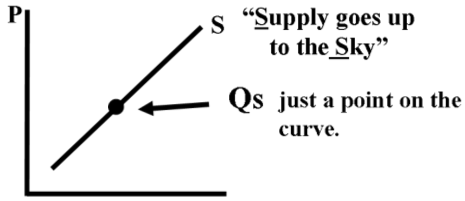
It's why the supply curve slopes upward

Holding all else equal, when the price of a good rises, producers increase their quantity supplied for that good

Put an easier way: if price is the only factor, people will want to make/sell more when prices are high and want to make/sell less when prices are low.

Supply vs. Quantity Supplied

Supply is a curve that represents how much of a product people are WILLING & ABLE to produce at various prices. *it's the whole curve



Quantity supplied is how much they will make at ONE price. It's one dot on the curve

Supply Shifters

1. # of Suppliers
2. Physical Availability of resources

↑# suppliers →S↑
↓# suppliers →S↓

↑Phy Avail Resources →S↑
↓Phy Avail Resources →S↓

Don't have to memorize, just be able to think it through as if you are in the situation as if you are the **PRODUCER**

Supply Shifters

3. Costs
4. Technology
5. Expected Future Price

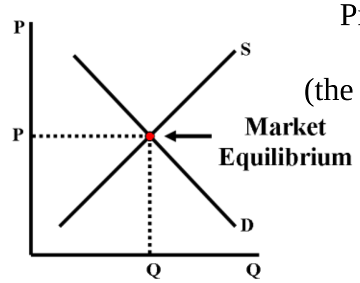
↑Costs →S↓
↓Costs →S↑

↑Technology →S↑
↓Technology →S↓

↑EFP →S↓
↓EFP →S↑

Don't have to memorize, just be able to think it through as if you are in the situation as if you are the **PRODUCER**

Market Equilibrium



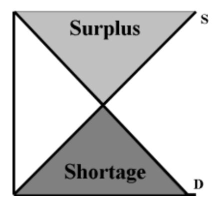
Prices are determined by Supply & Demand (the willingness to buy & sell)

Equilibrium is where quantity supplied equals quantity demanded. (Qd=Qs)

NOT where SUPPLY=DEMAND, that doesn't make since because the entire curves will never be equal

Surplus vs. Shortage

Surplus = Qs>Qd so #made is more than #wanted = extra products left



Memory Trick
Shortages are "short" (on the bottom of graph)

Shortage = Qd>Qs, so #wanted is more than #made = not enough products

Public Goods Vs Private Goods	<u>Public Goods</u> = product that is used collectively because it isn't easy to charge everyone who uses it Example: Parks, street lights, <u>Private Goods</u>: goods that you have to pay for to consume. Example: can of soda (most goods)
Monopoly - Definition - Barriers to Entry - Solution	<u>Monopoly</u> = market structure where there is only one producer of a good or service. <u>Barriers to entry</u> –methods used by monopolies to keep other companies out of the market. Ex: price wars, expensive licenses, copyrights or patents *They are inefficient because there is no competition to keep price low* <u>Solution</u>: **Anti-Trust laws** making it illegal unless the government approves it
Tragedy of the Commons Property Rights	<u>Tragedy of the commons</u> = if there is no clear ownership people will abuse or exploit a resource. <u>Property Rights</u> = the solution to the problem, they are why people work, save and invest
Laissez Faire - who's concept - what does it mean?	Laissez Faire is a French phrase that means "let it be" Adam Smith's idea that the gov't should stay out of the economy.