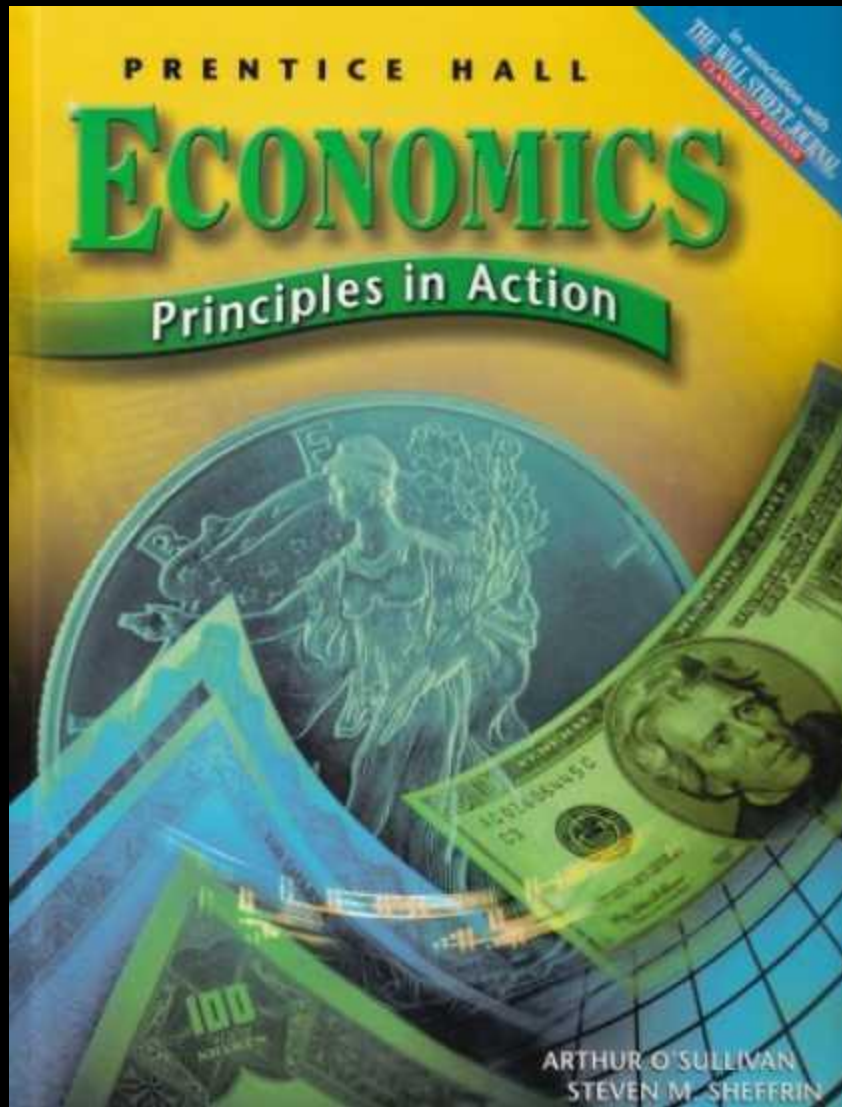


Economics





Course Textbook

Economics: Principles in Action

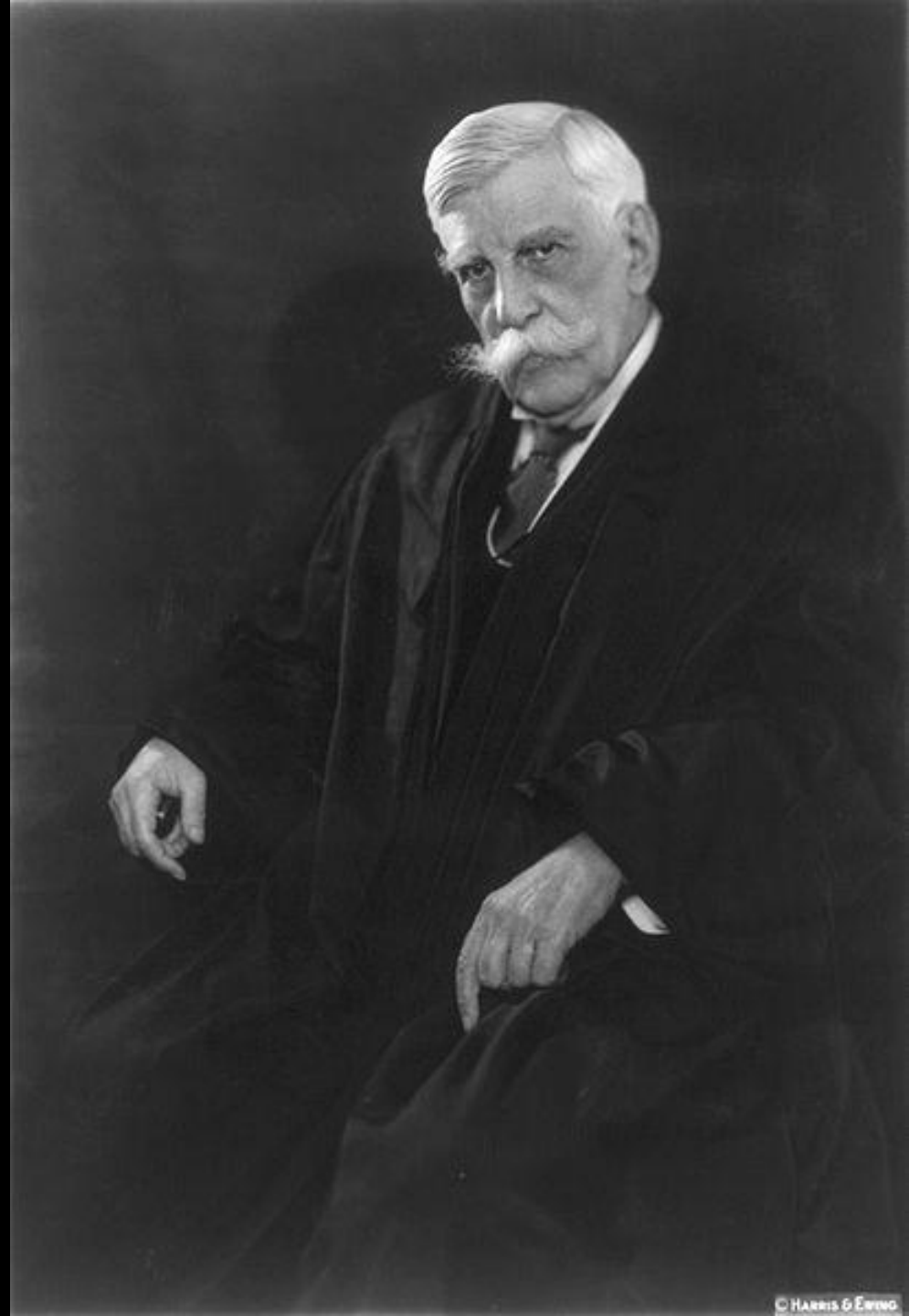
CHAPTER 1

What Is Economics?

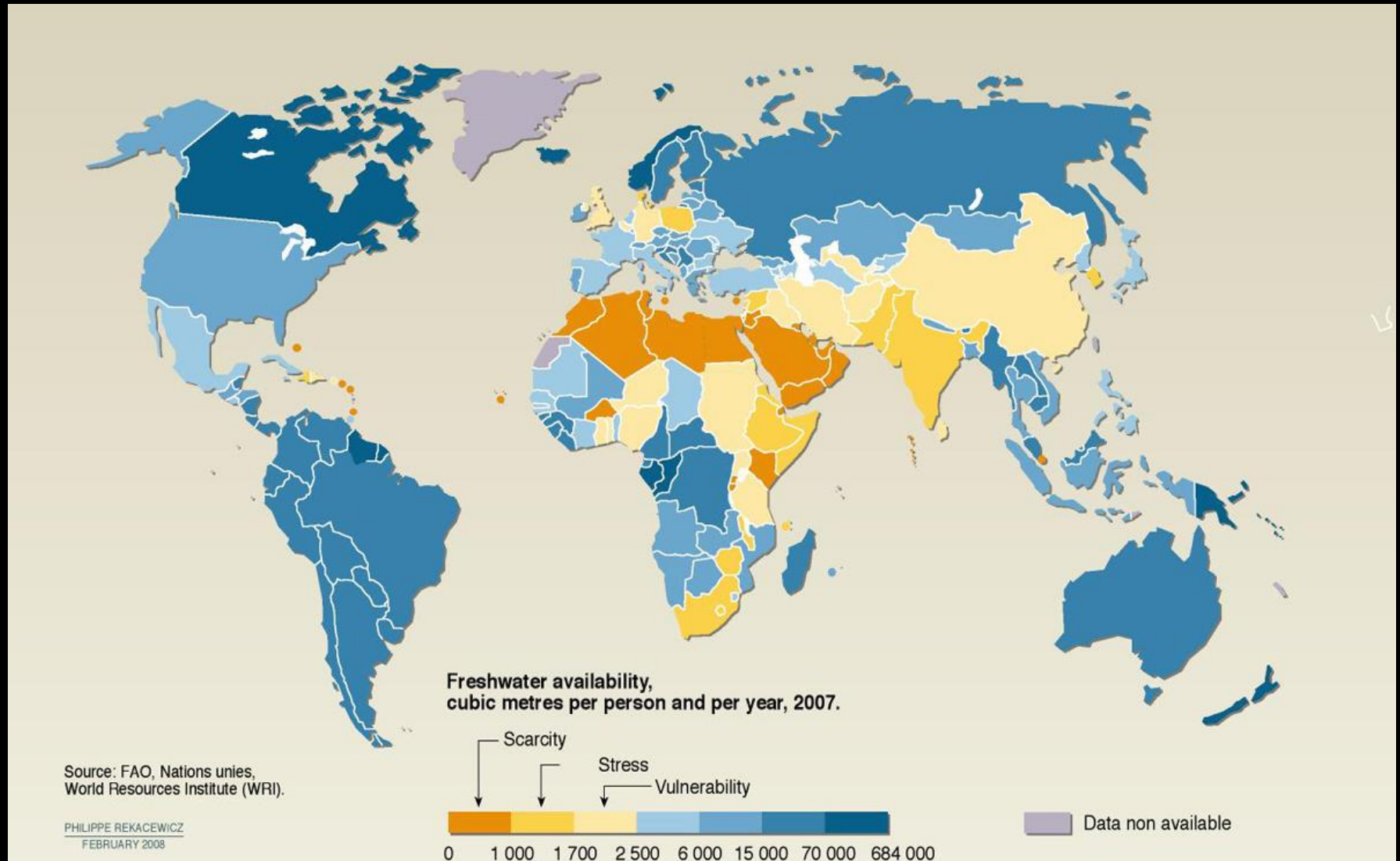


*“None of us can
have as much
as we want of
all the things
we want”.*

- Justice Oliver
Wendell Holmes



Section 1 – Scarcity and the Factors of Production



What Is Economics?



Economics is the study of how people make choices to satisfy their wants.

For example:

- You must choose how to spend your time.
- Businesses must choose how many people to hire.

Scarcity and Shortages

Scarcity - occurs when there are limited quantities of resources to meet unlimited needs or desires.

Shortages - occur when producers will not or cannot offer goods or services at current prices.



The Factors of Production

- **Land** All natural resources that are used to produce goods and services.
- **Labor** Any effort a person devotes to a task for which that person is paid.
- **Capital** Any human-made resource that is used to create other goods and services.

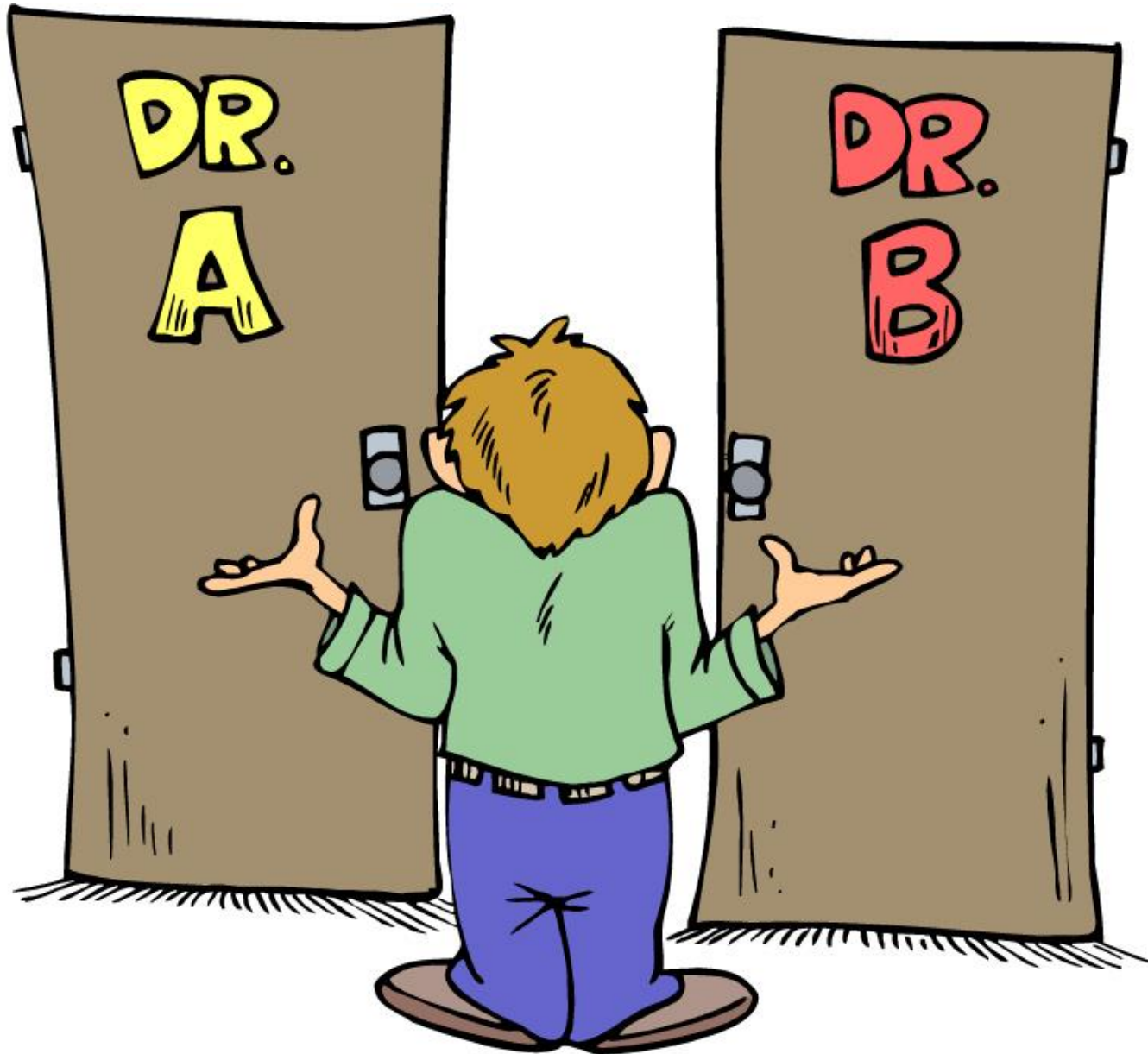
The Factors of Popcorn Production

Land	Labor	Capital
Popping Corn	The human effort needed to pop the corn	Corn-Popping Device
Vegetable Oil		

Section 1 Review Questions

1. What is the difference between a good and a service?
2. Why is the idea of scarcity a starting point for thinking economically?
3. How is scarcity different from shortages?
4. Describe the three factors of production.
5. What advantages does physical capital offer?
6. What role do entrepreneurs play in the economy?

Section 2 – Opportunity Cost



Trade-offs and Opportunity Cost

- All individuals and groups of people make decisions that involve trade-offs.

Trade-offs - are all the alternatives that we give up whenever we choose one course of action over others.

opportunity cost - The most desirable alternative given up as a result of a decision

Opportunity Cost Example

Stu's Views

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I hope you appreciate that each "walk" costs \$175 of my billable time.

I hope you appreciate that I'm your only friend.



The Decision-Making Grid

Economists encourage us to consider the benefits and costs of our decisions.

Karen's Decision-making Grid		
	Alternatives	
	Sleep late	Wake up early to study
Benefits	<ul style="list-style-type: none"> • Enjoy more sleep • Have more energy during the day 	<ul style="list-style-type: none"> • Better grade on test • Teacher and parental approval
Decision	Sleep late	<ul style="list-style-type: none"> • Personal satisfaction Wake up early to study for test
Opportunity cost	Extra study time	Extra sleep time
Benefits forgone	<ul style="list-style-type: none"> • Better grade on test • Teacher and parental approval • Personal satisfaction 	<ul style="list-style-type: none"> • Enjoy more sleep • Have more energy during the day

Thinking at the Margin

Thinking at the Margin- When you decide how much more or less to do

Options	Benefit	Opportunity Cost
1 st hour of extra study time	Grade of C on test	One hour of sleep
2 nd hour of extra study time	Grade of B on test	2 hours of sleep
3 rd hour of extra study time	Grade of B+ on test	3 hours of sleep

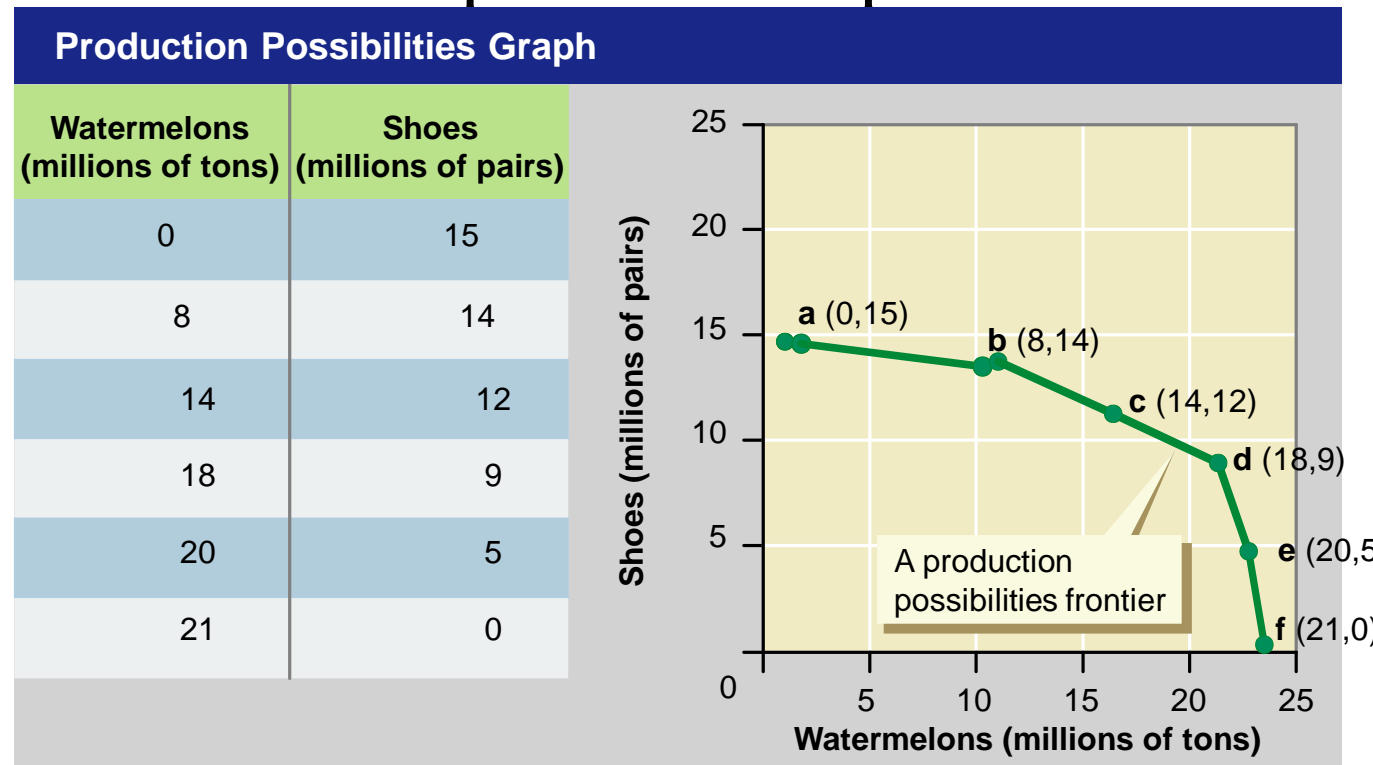
Section 3 -

Production Possibilities

Graph

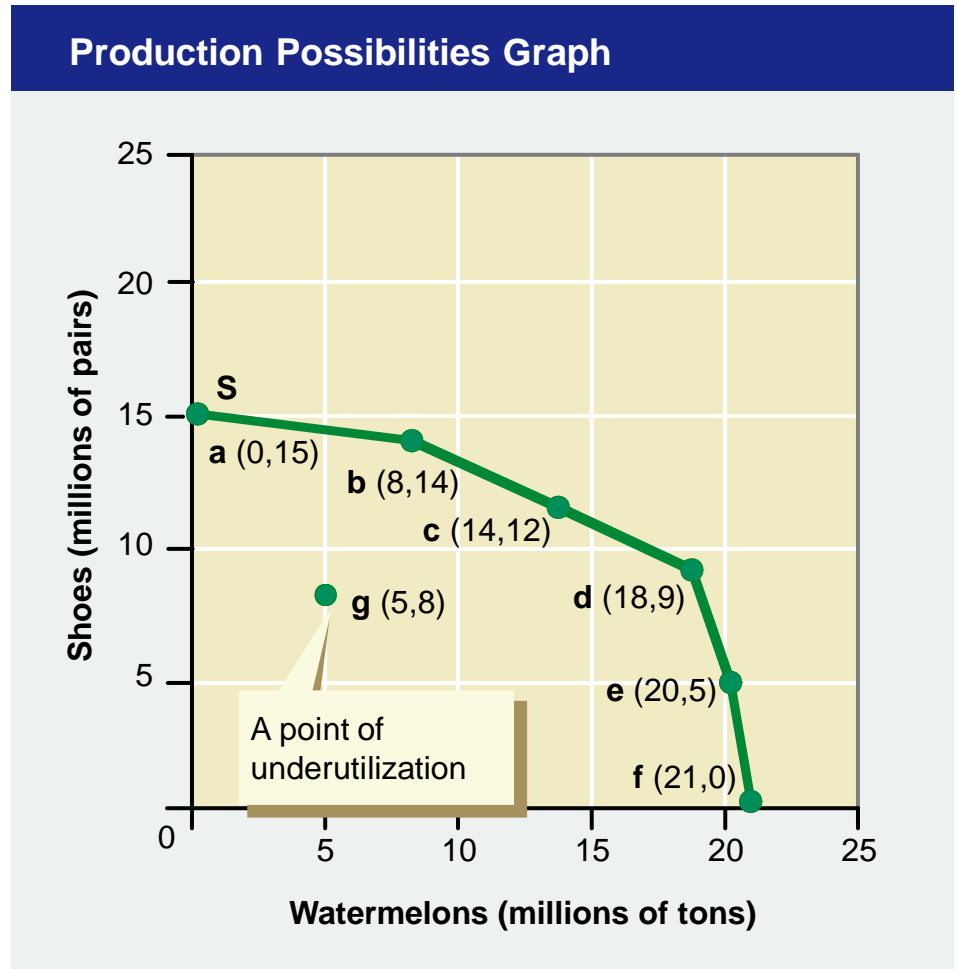
Production Possibilities

- A **production possibilities graph** shows alternative ways that an economy can use its resources.
- The **production possibilities frontier** is the line that shows the maximum possible output for that economy.



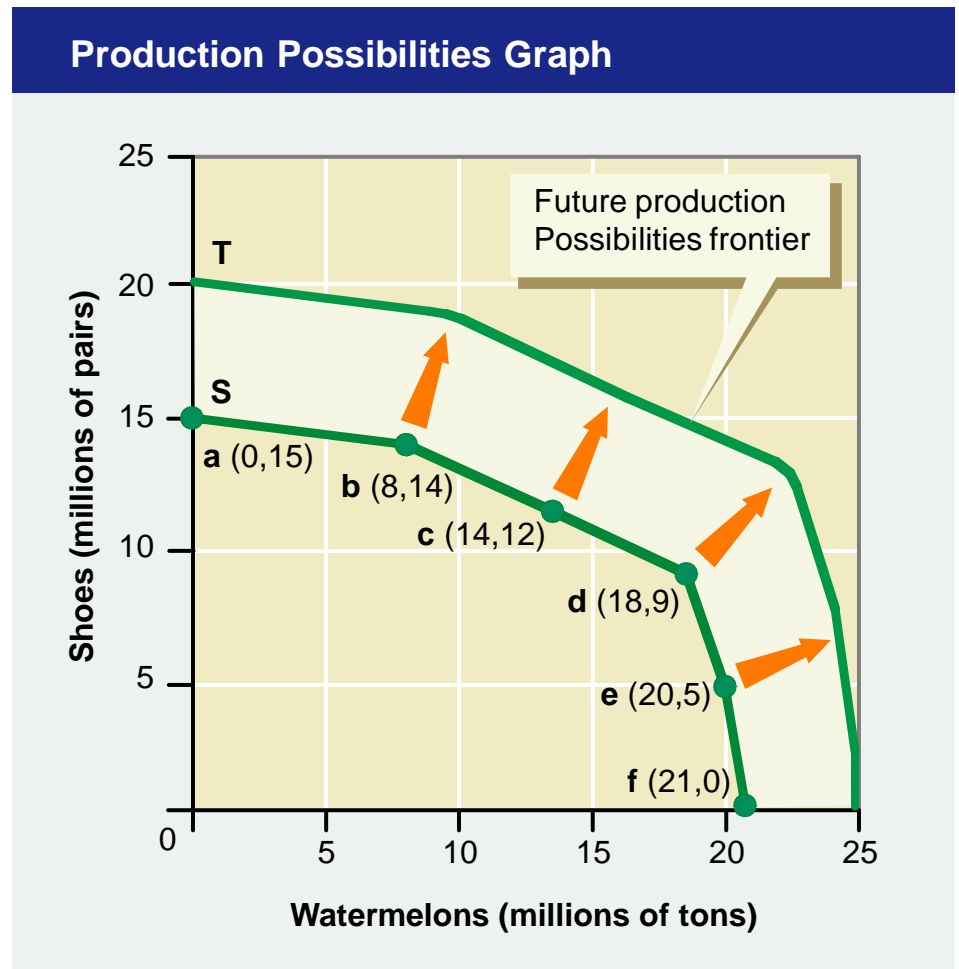
Efficiency

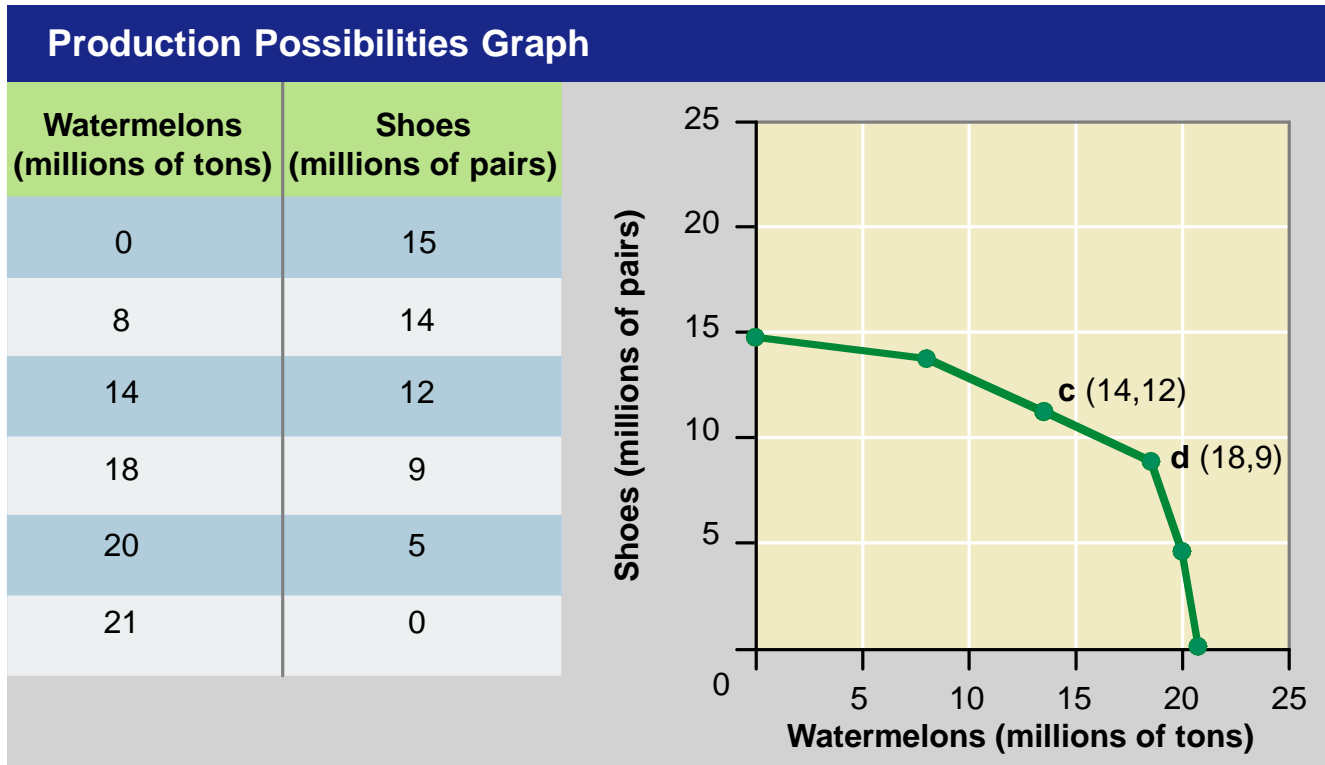
- **Efficiency** means using resources in such a way as to maximize the production of goods and services.
- An economy producing output levels on the production possibilities frontier is operating efficiently.



Growth

Growth If more resources become available, or if technology improves, an economy can increase its level of output and grow. When this happens, the entire production possibilities curve “shifts to the right.”





Cost A production possibilities graph shows the cost of producing more of one item. To move from point **c** to point **d** on this graph has a cost of 3 million pairs of shoes.

- Law of Increasing Costs – states that as production switches from one item to another more and more resources are necessary to increase production of the second item.