Economics as a social science

Economics is the study of how resources are allocated to meet the needs and wants of individuals, governments and firms within an economy

Economics is considered a **social science** since it examines the diverse social behaviour of individuals and societies in relation to the allocation of scarce resources

Microeconomics: concerned with the behaviour of individuals and firms

Macroeconomics: examines the operations of the economy as a whole

Scarcity

Scarcity refers to the idea of finite resources of an economy relative to the unlimited needs and wants of individuals and societies. Therefore, scarcity means that there is a shortage of resources in the economy at any moment in time.

Production possibility curves

Diagramatic representations of the maximum combination of two products that an economy can produce when all its resources are used efficiently, per time period

Full employment: all factors of production are fully utilized. There are no unemployed resources

Efficiency: all resources are put to their best use and there is no wastage in the production process

Assumptions of the model: fixed production possibilities, scarcity, constant state of technology, efficiency

Economic methodology

The study of the processes, practices and principles in relation to the discipline of economics as a social science through the use of models, theories and assumptions that underlie economic reasoning

Economic methodology (cont)

positive economics: the study of economics that is provable, that is factual statements about the economy or statements of “what is” rather than “what ought to be”

normative economics: Normative economics considers peoples varying opinions and beliefs about what should be. These claims are subjective and expressed as value judgements

Nine central concepts

Wellbeing

Interdependence

Scarcity

Efficiency

Choice

Intervention

Change

Equity

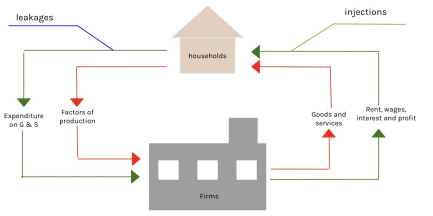
Sustainability

Opportunity cost

The costs of an economic decision measured in terms of the best alternative choice foregone

Example: the opportunity cost of studying ib economics is another's individual and societies subject you could be studying instead

Circular flow of income



macroeconomic tool used to explain how activity and national income are determined

Economic problem (problem of choice)

Basic economic problem: how best to allocate scarce resources to meet the unlimited wants and needs of individuals

Factors of production

Land: The natural resources used in production

Labour: The human resources required for the production process

Capital: Non-natural products used in the production process, such as machinery

Enterprise: The skills, creativity and risk-t-aking ability that a business person requires to successfully combine and manage the other factors of production

Basic economic questions

What to produce?

Why to produce?

For whom to produce?

Circular flow of income

Main economic agents: households, firms and governments

closed economy: part of the circular flow of income comprising only domestic decision makers

open economy: part of the circular flow of income comprising domestic and foreign economic decision makers

injections: put money into the circular flow of income

leakages: take money out of the circular flow of income

By **egomezc**
cheatography.com/egomezc/

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