

### 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

Diagrammatic 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

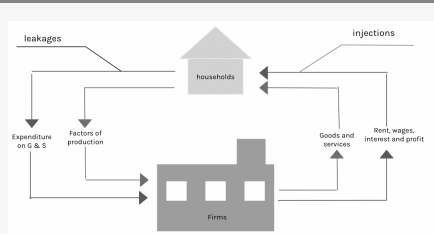
Sustainability

### 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-taking 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



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