Introduction to Economics Cheat Sheet

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Definitions

Economics	the study of how society manages its scarce (limited) resources.
Scarcity	the limited nature of society's resources.

Resources Allocation

Economic systems can be viewed as:

1. Command/Centrally Planned Economy	the government makes all the pricing and allocation decisions.
2. Market Economy/Laissez-faire Economy (free market)	prices and allocation decisions are determined by the market forces.
3. Mixed Economy	an economy that uses both market & non-market signals in allocating goods and resources.

Types of Economics

1. Microeconomics	the study of how households and firms make decisions and how they interact in markets.
2. Macroeconomics	the study of economy-wide phenomena (ex. Inflation, unemployment, and economic growth).

Economic Statements

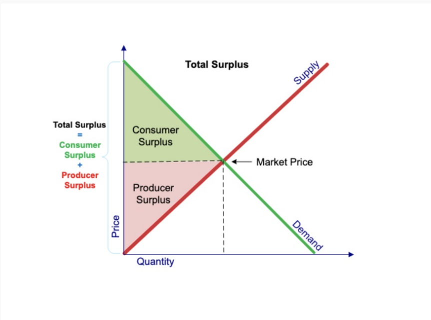
1. Positive Statement (positive economics)	claims that attempt to describe the world as it is; factual.
2. Normative Statement (normative economics)	claims that attempt to prescribe how the world should be; what should be.

*When economists make **normative statements**, they act more as **policy advisors** than as scientists.*

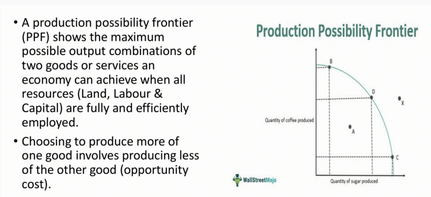
Definitions

Free Good	a good that is not scarce, and is available without a limit.
Economic Surplus	the difference between the benefit of taking an action minus its cost.

Economic Surplus



Production Possibility Frontier



The Scarcity Principle (no-free-lunch principle)

"Having more of one thing means having less of another thing."

- scarcity is not only limited to money.

Cost-benefit Principle

"action should only be taken if the benefits are greater than the costs."

Cost-benefit Analysis

a method for assessing the desirability of a project taking into account the costs and benefits involved.

- a decision is only taken if the benefits exceeds the cost.

Opportunity Cost

the cost expressed in terms of the best alternative foregone.

Opportunity Cost = Explicit cost + Implicit cost

Implicit Costs	what you give up.
Explicit Costs	what you opt for.

Opportunity costs are **unique** to **economists**, financial accountants only recognise **explicit costs**.

Production Possibility Frontier