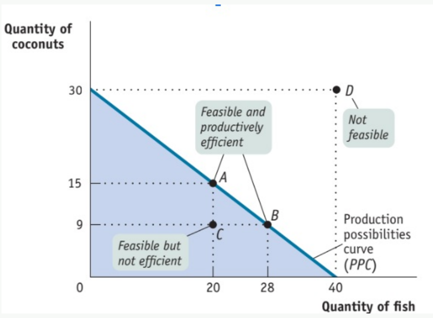
Unit 1 Notes

A **resource** is anything that can be used to produce something else.	A **scarce resource** is not available in sufficient quantities to satisfy all the various ways a society wants to use it.
Also known as **factors of production**; scarce resources are:	**Land**: all natural resources **Labor**: the effort of workers **Capital**: all manufactured resources **Entrepreneurship**: risk-taking, innovation, and organization
Positive economics is the branch of economic analysis that describes the way the economy actually works.	Normative economics makes prescriptions about the way the economy should work.

PPC



Comparative vs. Absolute Advantage

The production possibilities curve model illustrates gains from trade based on comparative advantage.

An individual has a comparative advantage in producing a good or service if they face the lowest opportunity cost of producing it.
An individual has an absolute advantage in production if they can make more of it with a given amount of time and resources.

It is not possible for one person (or country) to have the comparative advantage in both products
Absolute advantage is not the same as comparative advantage.

Demand

The demand curve is downward-sloping due to the law of demand.

The law of demand says that all other things being equal, people demand less of a good or service at higher prices.

A shift of the demand curve is a change in the quantity demanded at any given price.

It is represented by the movement of the original demand curve to a new position.

Factors of demand curve shifts

Five factors are responsible for shifts of the demand curve.	1) Changes in **Tastes** 2) Changes in prices of **Related goods/services** 3) Changes in **Income** 4) Changes in the number of **Buyers** 5) Changes in **Expectations**

Substitutes and Compliments

1.2

The Production Possibilities Curve illustrates the trade-offs between producing two goods.

The production possibilities curve model illustrates the opportunity cost of production. Cost, in this example, is measured in terms of loss of the other product.The curve is concave or bowed-out.

1.2 (copy)

The two main sources of growth in the PPC are increases in available resources and improvements in technology.

If the production possibilities curve shifts inward, the economy has become smaller.This could happen if the economy loses resources or technology.

PPC

Any points along the curve are feasible and productively efficient.
Point A and B reflect an efficient use of resources in production.
Points outside the curve are not feasible.

An economy is efficient if there is no way to make anyone better off without making at least one person worse off.

Gains from Trade

In a market economy, individuals engage in trade: they provide goods and services to others and receive goods and services in return.

The gains from trade come from specialization: each person specializes in the task that they are good at performing.

The concept of specialization allows for the mass production of most of the devices and appliances we use today.

By specializing in the good they have a comparative advantage in and by trading for the other good, both castaways can consume more of each good. In other words, there are gains from trade.

Movement along and Shifts of the Demand curve

Movement along the curve from point A to point B is a change in quantity demanded and is caused by a change in price.

A decrease in demand means a leftward shift of the demand curve. At any given price, consumers demand a smaller quantity than before.

An increase in demand means a rightward shift of the demand curve. At any given price, consumers demand a larger quantity than before.