

# UNIT 1 - Fundamental Concepts

- ▶ Economics is

the study of how we can best increase a country's wealth with the resources that we have available to us.



# UNIT 1 - Fundamental Concepts

- ▶ Marginal Benefit

is the additional satisfaction or value one obtains from an activity or product.

- ▶ Marginal Cost

is the additional cost or sacrifice one makes of participating in an activity or purchasing a product.

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- Economic Decision-Making

You decide to participate in an activity (going to college, buying something, etc.) as long as your marginal benefit exceeds your marginal cost.

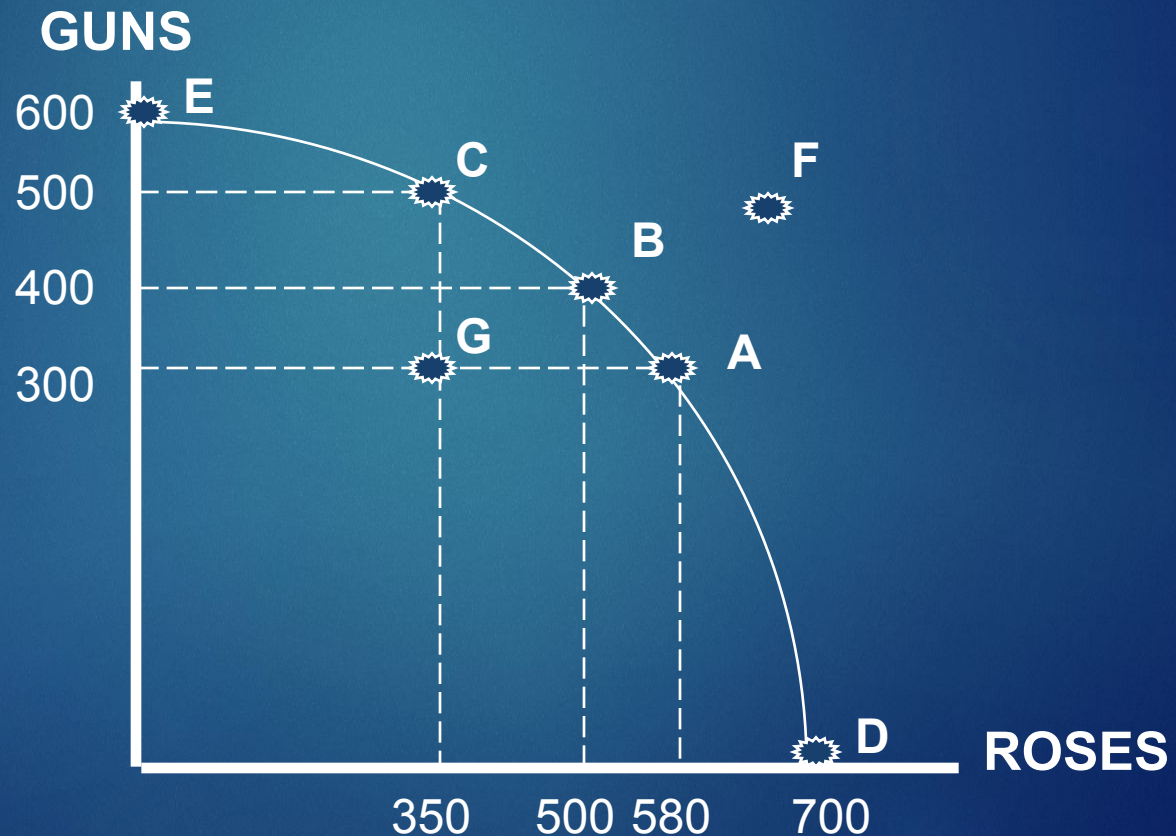
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- ▶ The Production Possibilities Curve

A production possibilities curve represents outcome or production combinations that can be produced with a given amount of resources.

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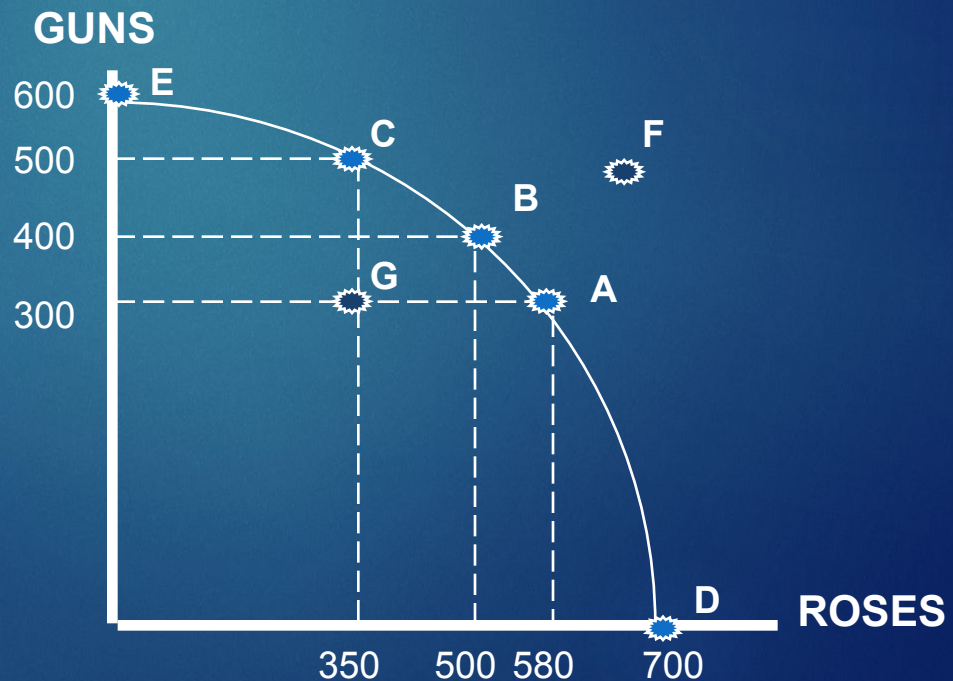
- ▶ The Production Possibilities Curve



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## ▶ Economic Growth

If an economy is operating at **a point on the production possibilities curve**, all resources are used, and they are utilized as efficiently as possible.



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- ▶ Economic Growth Is Caused by:

Increases in Resources

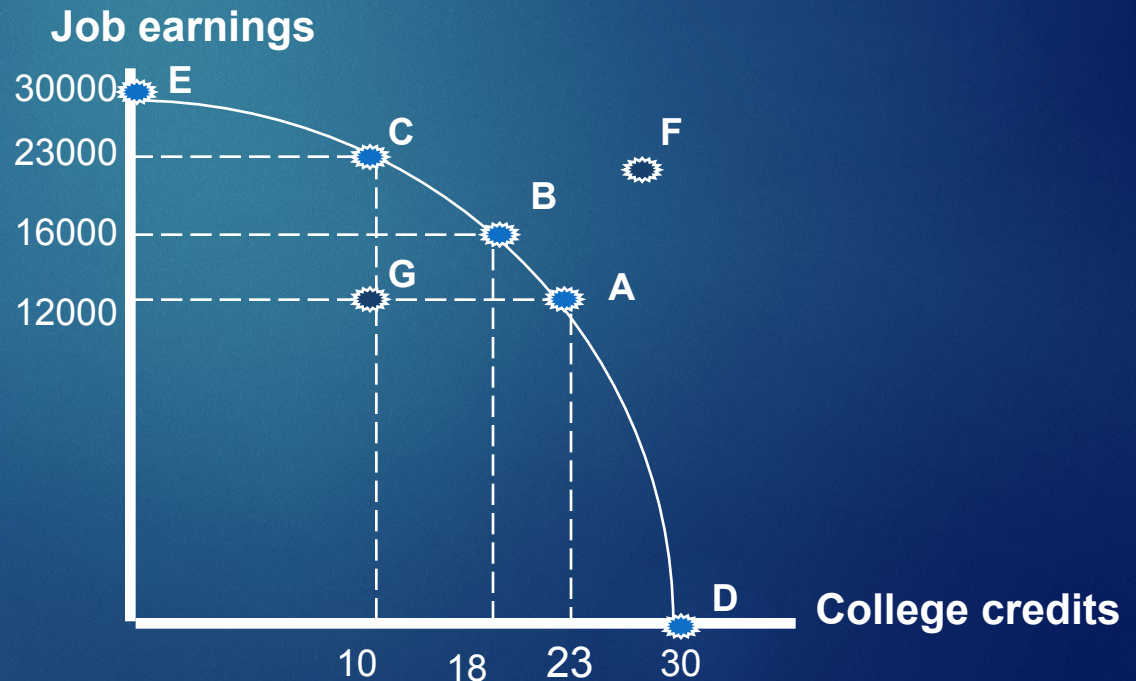


Advances in Technology

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## ▶ Your Own Personal PPC

If two possible outcomes in your own personal life are job earnings and educational credits, then your PPC looks as follows:





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- ▶ Economic Growth and Economic Systems
  - Countries with the highest overall economic standard of living have the freest markets (more elements of capitalism).
  - Examples: Hong Kong, the United States, Japan, Taiwan, Great Britain, Canada, Sweden, South Korea, and Singapore.

# UNIT 1 - Fundamental

## Concepts

- ▶ 2010 Purchasing Power Parity (unless otherwise noted) Gross Domestic Product estimated in billions of dollars, and Per Capita (person) GDP

Country/Area	GDP	Per Cap. GDP
World	\$ 74,540	\$ 11,200
United States	\$ 14,660	\$ 47,200
China	\$ 10,090	\$ 7,600
Hong Kong	\$ 326	\$ 45,900
Korea - North	\$ 40	\$ 1,800
Korea - South	\$ 1,459	\$ 30,000
Luxembourg	\$ 41	\$ 82,600
Qatar	\$ 151	\$ 179,000

For GDP information of other countries around the world, see our CD, Unit 3, Section 2

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- ▶ Economies around the World

Most industrialized countries are mixed economies, but they also have many capitalist elements. Characteristics include

- Substantial activity in the private sector (businesses and households). Prices are determined by demand and supply.
- A significant role by federal and local governments.

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## ▶ The Role of Government

The role of most governments around the world includes:

- ❑ Spending on defense, roads, legal system, public services and education
- ❑ Redistributing incomes through taxes and subsidies
- ❑ Passing laws and imposing regulations
- ❑ Implementing price controls
- ❑ Conducting monetary policy to affect inflation, interest rates, and employment

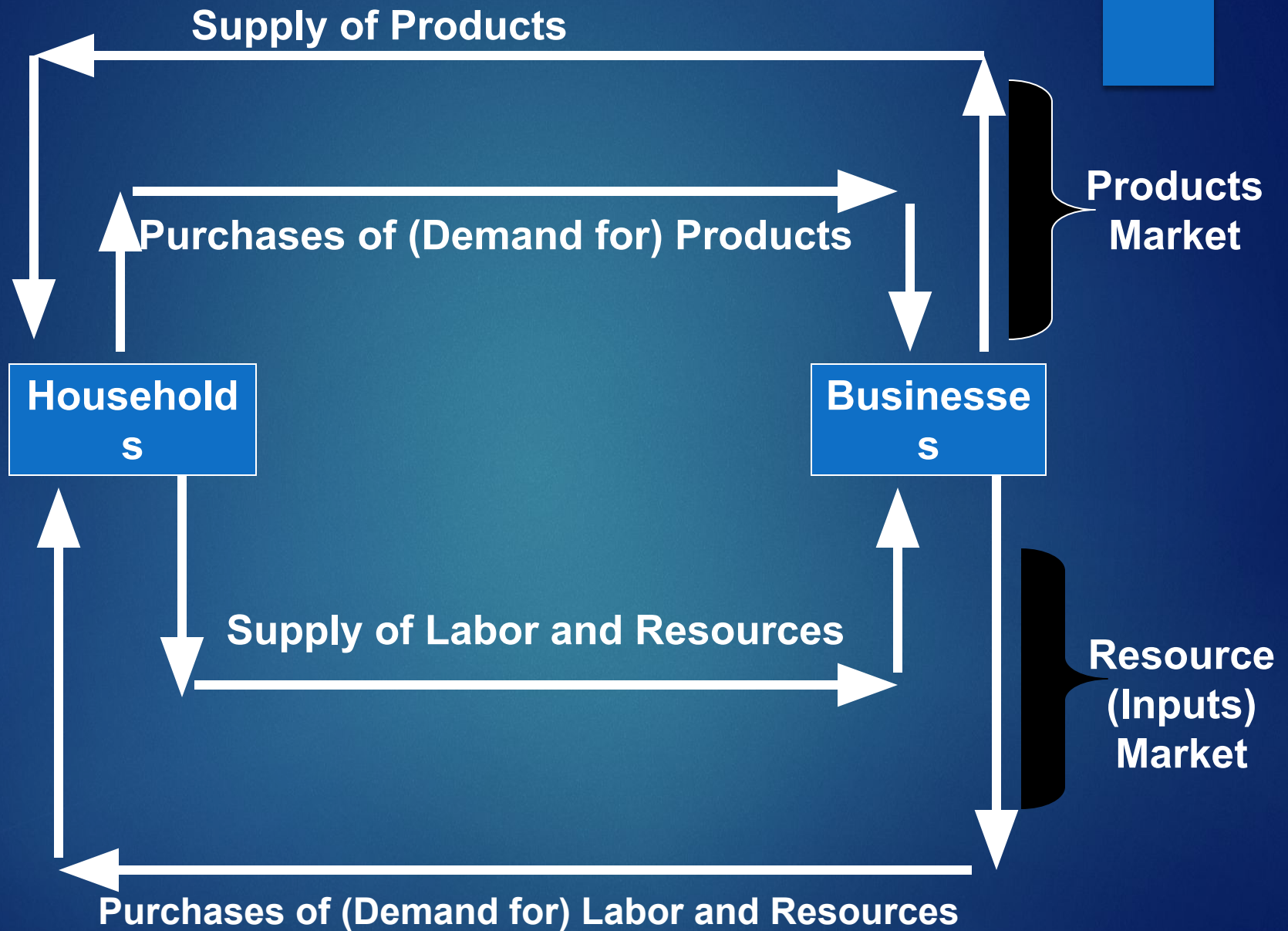
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- ▶ Important Concepts and Definitions

We will discuss the following concepts:

- The simple circular flow
- The circular flow with government and foreign markets
- Nominal and real prices and incomes
- Positive and normative economic statement
- The fallacy of composition
- The fallacy of cause and effect

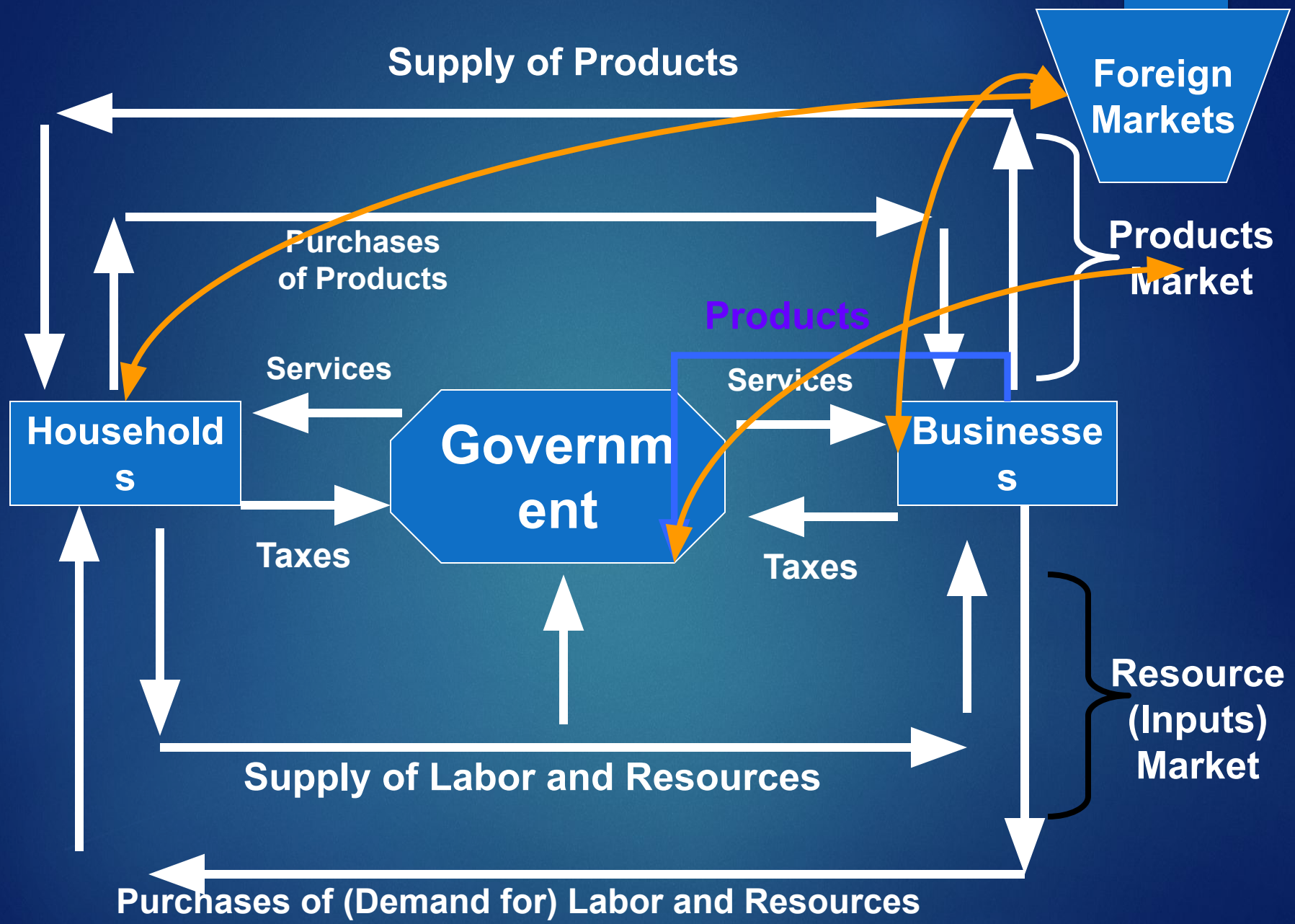
# The Simple Circular Flow



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- ▶ The circular flow with government and foreign markets (see next slide). This is a more complex (more realistic) model.

**Supply of Products**





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- ▶ Nominal and Real Prices
  - Nominal prices are expressed in current dollars.
  - Real prices are adjusted for inflation.



Enough money to purchase 3 gallons of gasoline a few years ago. Not enough to purchase 2 gallons today.

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- ▶ Which is the Normative and Which is the Positive Economic Statement?
  - Statement I: The minimum wage should increase to \$8.50.
  - Statement II: If the minimum wage increases, then firms' cost of production rises.

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- The Fallacy of Composition
  - Fallacy: what is good for one person (or one group) is good for all persons (or all groups).



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- The Fallacy of Cause and Effect

Because A happens before B, A must be automatically the cause of B.



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- ▶ Cause and Effect Fallacy Example

A: The car industry in country X has not done well.

B: The economy of country X has not done well.

Did A cause B?

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## ▶ Critical Thinking Guidelines

- ❑ Question the source.
- ❑ Question the assumptions.
- ❑ Question how the variables are defined.
- ❑ Question the validity of the statement.
- ❑ Question the statistics.
- ❑ Think like an economist.

