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.
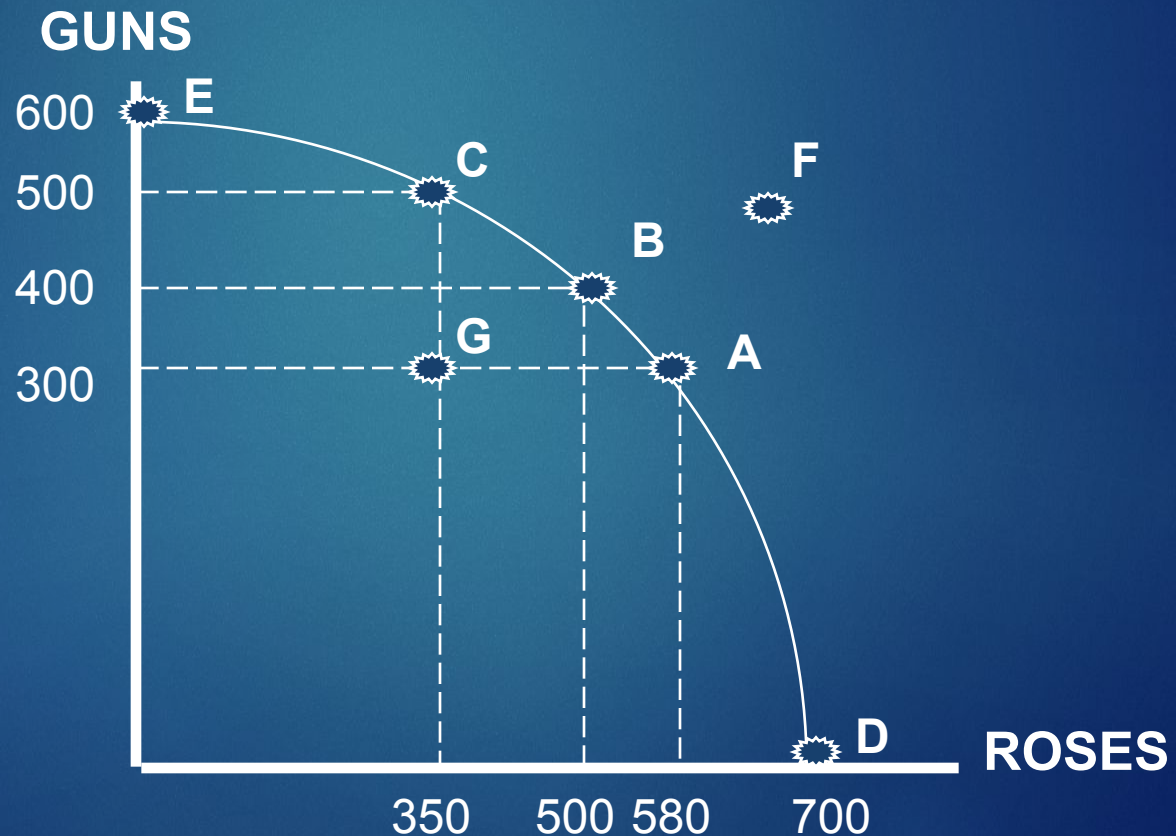
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- ► The Production Possibilities Curve

  A production possibilities curve represents outcome or production combinations that can be produced with a given amount of resources.
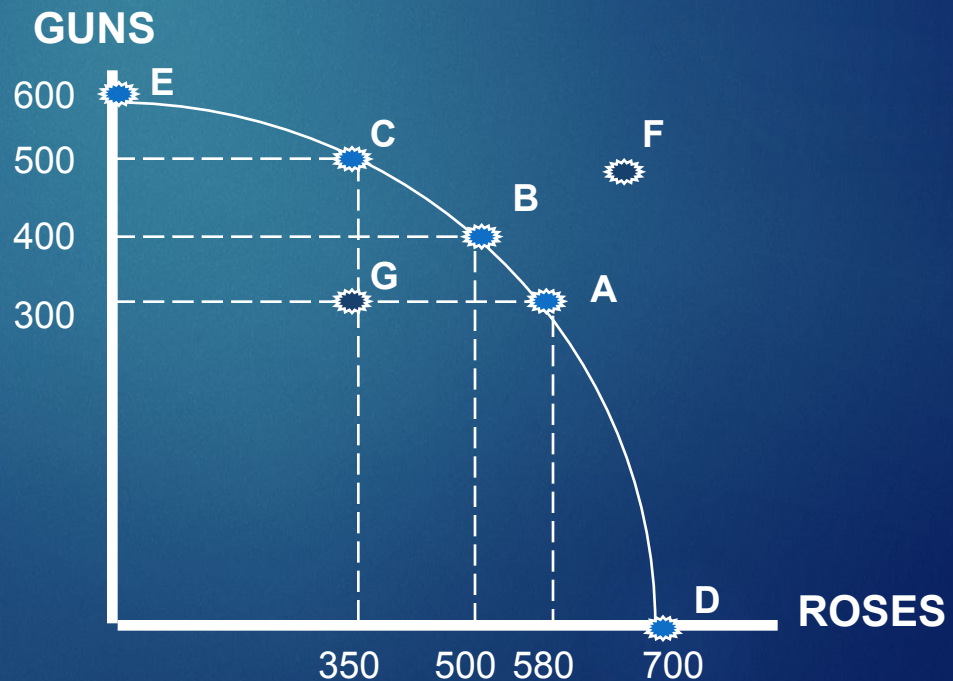
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► The Production Possibilities Curve

UNIT 1 - Fundamental Concepts

- 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.

UNIT 1 - Fundamental Concepts

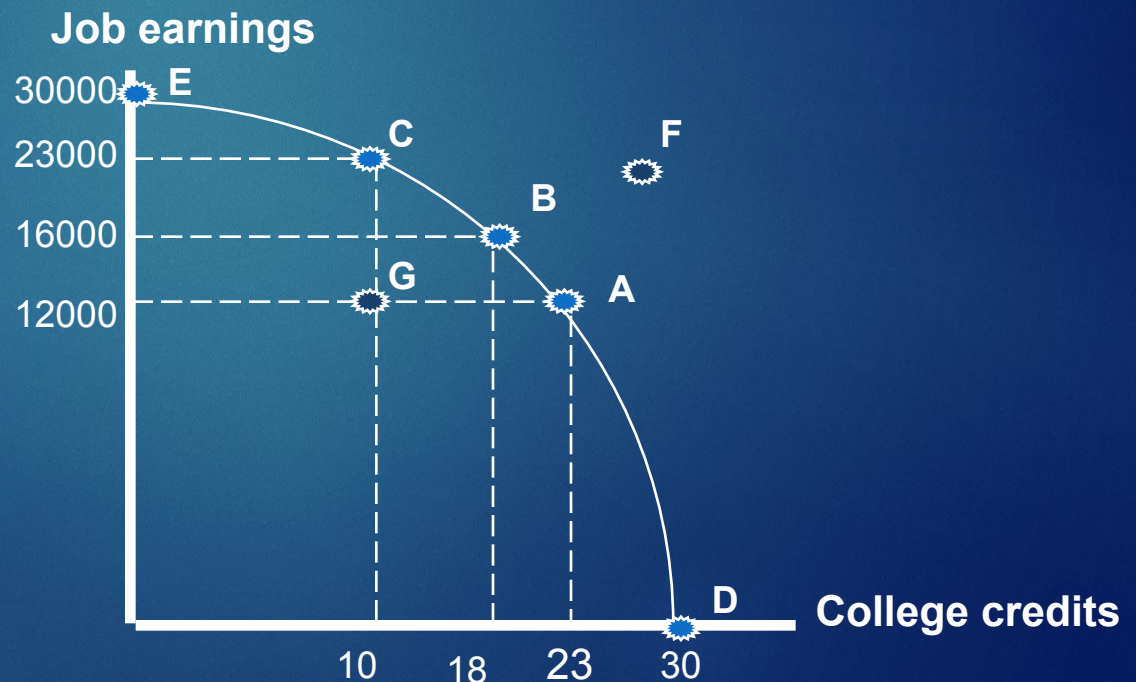► Economic Growth Is Caused by:

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:

Job earnings

Job earnings	Points
30000	E
23000	C
16000	B
12000	G, A

E
C
F
B
G A
D

30000
23000
16000
12000

10   18   23   30

College credits

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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.

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► 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
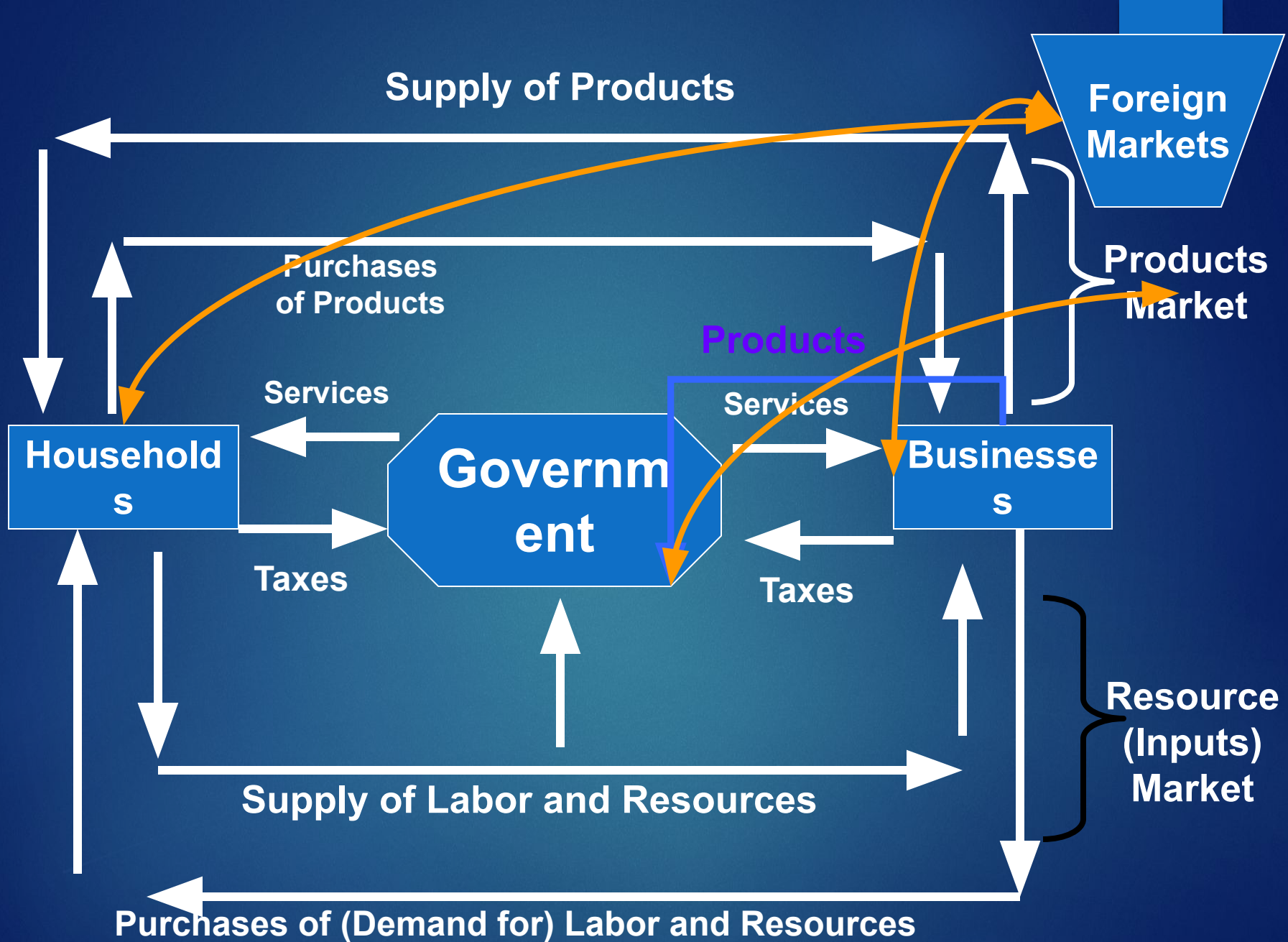- The fallacy of composition
- The fallacy of cause and effect

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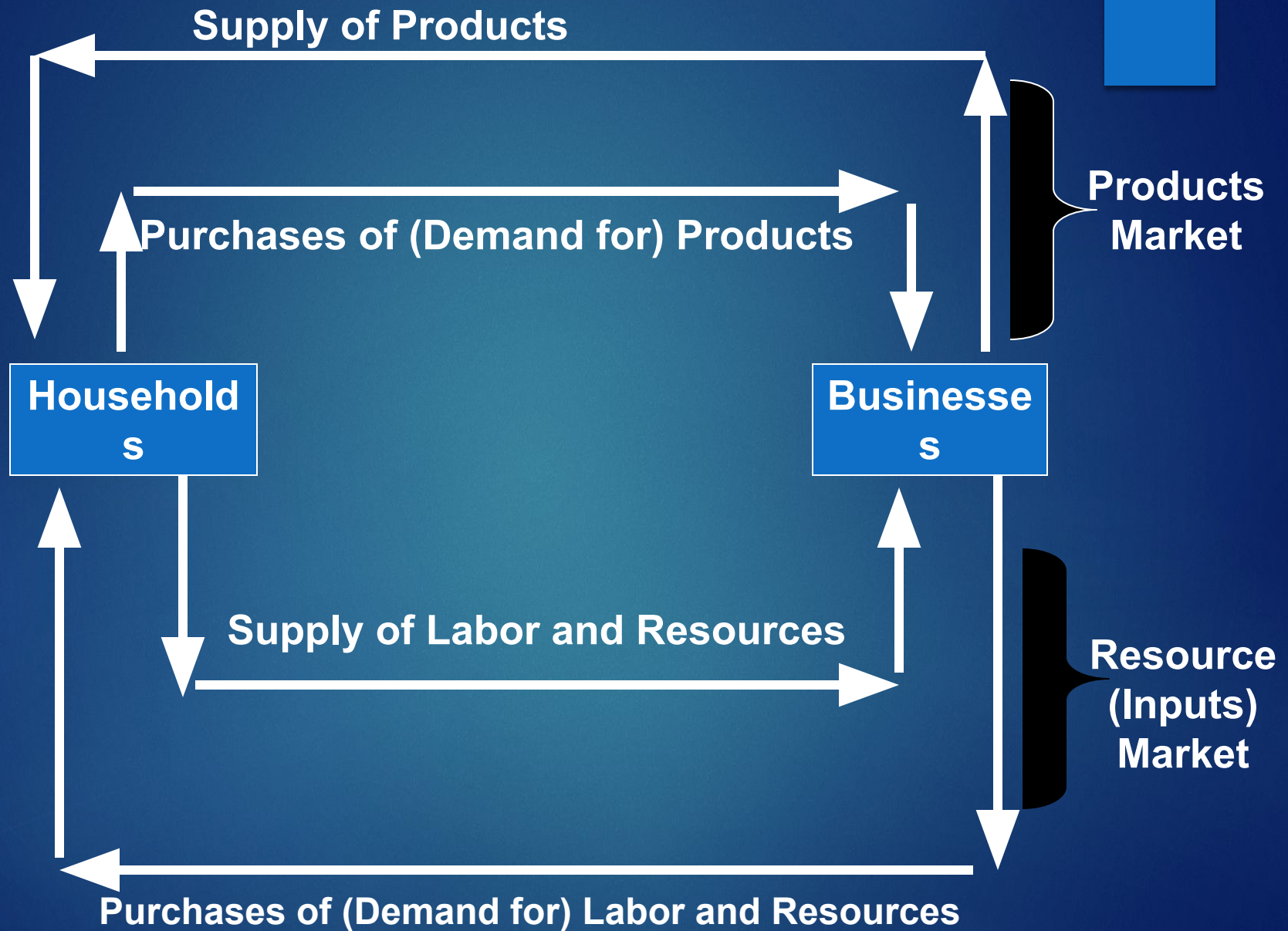
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- ➤ The circular flow with government and foreign markets (see next slide). This is a more complex (more realistic) model.

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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.