

Ch. 1 Exploring Economics: Basics

- Economics → scarcity: We have unlimited wants and needs but our resources to get those wants and needs are limited.
 - Economics is the study of how we decide to allocate our limited resources to meet unlimited wants and needs.
 - We study who makes these decisions by assuming people are rational, self-interested, and respond to incentives
- Microeconomics: Studies individual decision making
 - People, businesses, industries, individual sectors of the economy
- Macroeconomics: Studies how economics of a whole works
- Ceteris Paribus: An assumption used in econ models where all relevant factors or variables are held constant so that there is only one changing variable
- Efficiency: How well resources are used and allocated
- Equity: The fairness of various issues and policies
- To increase one (efficiency / equity) sometimes we have to decrease the other
- The opportunity cost is the next best alternative
- Absolute Advantage: When one country can produce more of a good than another country
- Comparative Advantage: When a country's opportunity cost to produce a good is lower than another country's
- Trade is always beneficial, countries should focus their resources on goods in which they have the comparative advantage
- Key ideas
 - Scarcity forces trade-offs
 - Opportunity costs dominate our lives
 - Rational thinking requires thinking at the margin
 - Government must deal with market failure

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