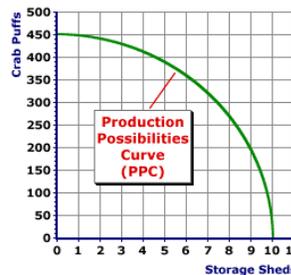
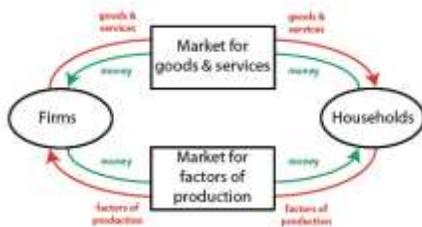


Chapter 2: Thinking like an Economist

The Circular-Flow Diagram

- Economy simplified to only include households and firms
- Firms: produce goods and services using input/factors of production (land, labor, capital)
- Households: own factors of production and consume goods/services of firms
- Factors of production go from households to firms, goods/services go from firms to households



The Production Possibilities Frontier

- Assumes an economy only produces two goods (x Crab puffs and storage sheds)
- Shows all possible production options
 - Points inside curve are possible, means inefficient production of goods (materials wasted)
 - Points outside curve are impossible unless new technology is added
- Can shift to include new technology in society or better production
- Depicts trade-offs; more production of one good means less production of the other good
 - Opportunity cost = slope of production possibilities frontier

Microeconomics and Macroeconomics

- Microeconomics: study of how households and firms make decisions and how they interact in specific markets
- Macroeconomics: study of economy-wide phenomena

The Economist as Policy Advisor

- Positive statements: make a claim about how the world is
- Normative statements: make a claim about how the world should be (can be based off of positive statements and personal values)