

- utility is a measure of usefulness and pleasure—> how much usefulness and pleasure consumers receive when they consume a given product
- there are two ways of measuring utility:
 - total utility—> total satisfaction gained from consuming a certain quantity of a good
 - marginal utility—> a measure of the extra utility gained from consuming one more unit of a good—> this measure tends to fall as the consumption increases

Micro and Macro Economics

- economics, being a very wide and broad topic can be divided into two different sections:
 - Microeconomics—> deals with smaller, discrete economic agents and their reactions to changing events—> single consumers, firms or even industries
 - Macroeconomics—> this takes a wider view and considers such things as measuring all the economic activity in an economy, inflation..
- a positive statement is one that may be proven to be right or wrong by looking at facts. A normative statement is a matter of opinion and cannot be proven to be right or wrong. Both these concepts prevail also in the study of economics
- economics build theoretical models in order to test and illustrate theories—> these can be manipulated in order to see what the outcome will be
- ceteris paribus—> all other things being equal
- firms represent the productive units in the economy that turn the factors of production into goods and services—> private sector—> the sector that is owned by private individuals
- durable goods are goods which are consumed over time
- non durable goods are consumed over a short period of time
- services cannot be defined as durable or non durable due to the fact that they are intangible

The role of government in an economy

- the government has a number of roles inside an economy—> law and order, national defence, adjusting the economy in order to achieve agreed economic aims and providing certain goods and services such as public transport. The government is also the economy's primary employer
- the state owned sector of an economy is known as public sector
- there are two different types of rationing systems for the allocation of scarce resources:
 - Planned economies—> decisions as what to produce, how to produce, and who to produce for are made by the government—> all resources are collectively owned. The government sets production targets, wages and decisions in the interest of the people. This type of rationing system is very hard as the government must allocate a large number of resources and forecast future events at the same time. An example today would be North Korea
 - Free market economies—> this is also called capitalism—> prices are used to ration goods and services. Production is in private hands and demand and supply sets wages and prices. The production and the supply of goods follows the demand and changes in tastes of the consumers, and only if it is profitable. In a market economy there is the problem that if goods are not profitable to produce, they will not be and this will lead to a shortage of certain goods such as light posts and traffic lights which do not give a revenue
 - in reality, all economies are mixed economies