Basic economic idea

History of Economics

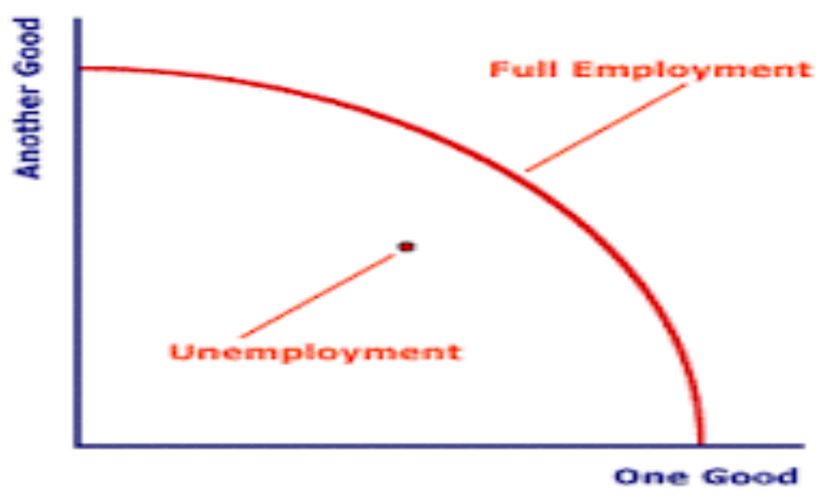
- Economics originated from the Greeks, it was first known as "OIKONOMIA" (OIKONOMICOS) which means household management.

Production possibility curve

- It shows the maximum combination of consumer and capital goods an economy can produce by using their available resources.
- It is also called production possibility frontier
- Production possibility boundary
- Production transformation curve

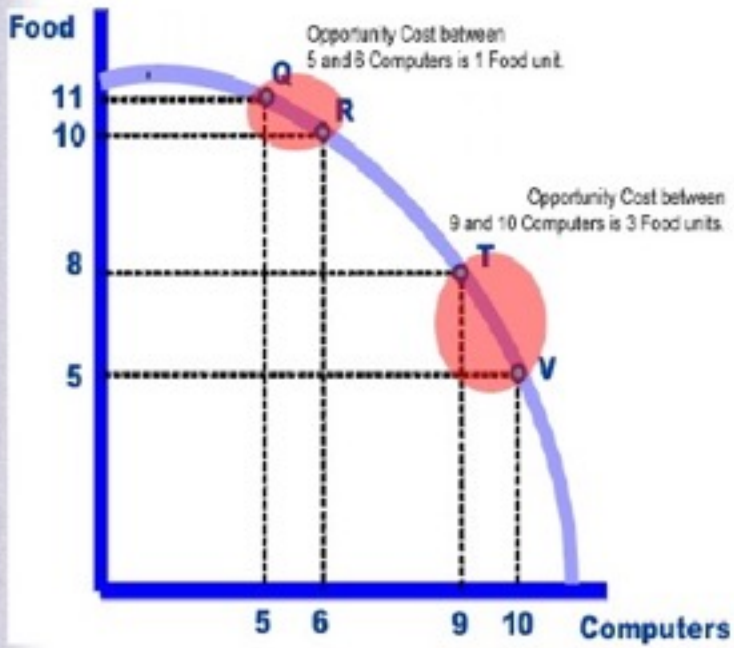
Concave

- The opportunity cost of producing that product will increases, because using more and more resources that are less efficient in producing it.



Increasing Opportunity Cost

(PPF is concave)



- As we move along the production possibility curve with increasing computer, more and more food must be forgone

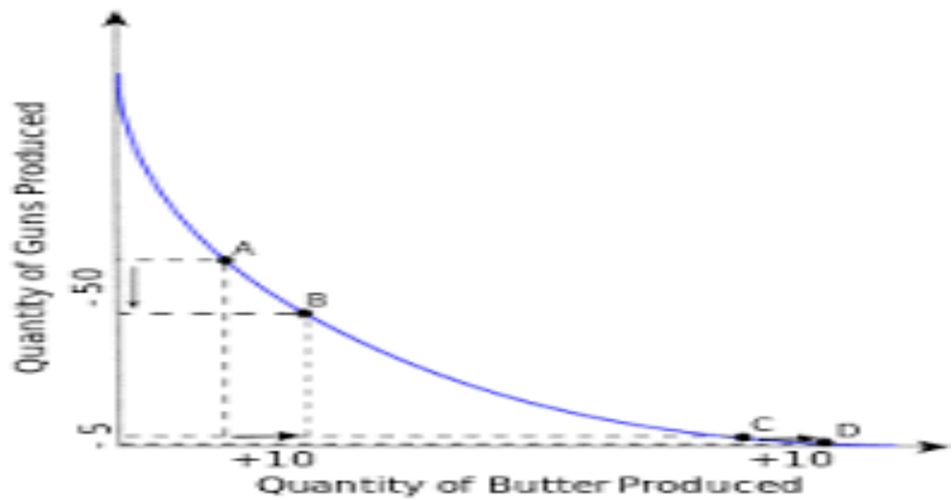
INCREASING OPPORTUNITY COST:

Q to R = [(11 – 10)/(6 – 5)] = 1

T to V = [(8 – 5) /(10 – 9)] = 3

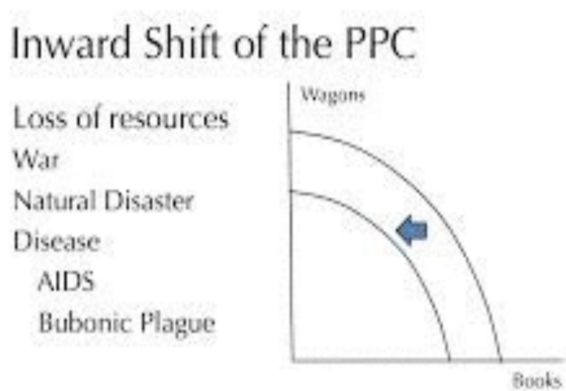
Convex

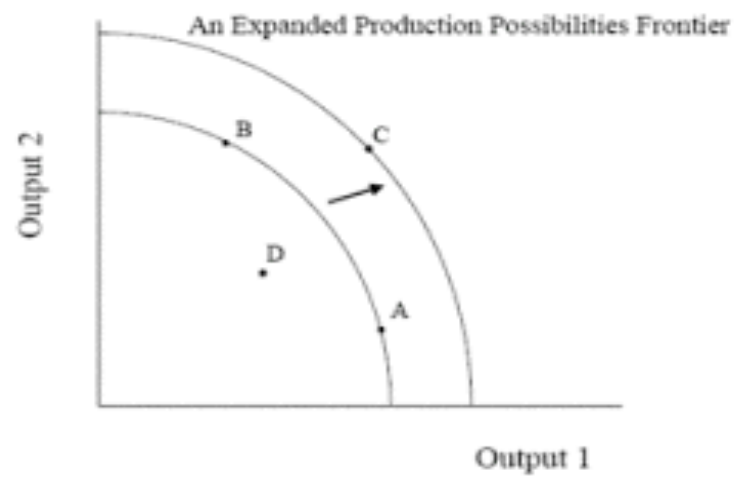
- With economies of scale the PPF curve will inward. The opportunity cost of one good falling as more of it is produced.



Shift in production possibility curve

- Outwards means economic growth
- Inwards recession.





The margin

- What does it mean to think at the margin? It means to think about your next step forward. The word "marginal" means "additional.
- " The first glass of lemonade on a hot day quenches your thirst, but the next glass, maybe not so much. If you think at the margin, you are thinking about what the next or additional action means for you.

Positive and normative statement

- Positive statements are objective explanation and the testing and rejection of theories
- Facts which have already experienced

Disadvantages of command economy

- 1.Loss of consumer sovereignty,
  2. There is no competition in a command economy as everything is produced by the state; this reduces the quality of products.
- 3.In a command economy mostly shortage of goods arises
- High degree of government influence lead to larger bureaucracy and this may lead to corruption and bribery…etc

MARKET ECONOMIES	COMMAND ECONOMIES
Freedom of choice	No freedom of choice
Free market economy	Planned economy
Profit motive	Welfare motive
Prices are determined by the market forces of demand and supply	Prices are fixed by the government
Limited role for the government	Major role for the government

Features of mixed economy

- **Co-existence of private and public sector**
- **Centralized planning**
- **Co-existence of the features of market and command economy**

Barter system

- Needs for presence of double coincidence of wants
- Absence of common measure of value
- Indivisibility of certain goods
- Lack of standards for deferred payments
- Difficulty in storing weal

The functions of money

- A medium of exchange
- A measure of value
- A store of value
- A standard for deferred payments
- Unit of account

Free rider

- In economics, the free rider problem refers to a situation where some individuals in a population either consume more than their fair share of a common resource, or pay less than their fair share of the cost of a common resource.

Questions

- With the use of a diagram, explain how prices allocate scarce resources in a market economy. [8]
- Discuss whether prices are less important in allocating scarce resources in a mixed economy compared with a market economy. [12]

- (a) Explain, with the help of a production possibility diagram, how the opportunity cost of producing different combinations of goods can be measured. [8]
- (b) Discuss the ease with which a planned economy may be changed into a market economy. [12]