Economic Problem
- We have unlimited wants but limited resources

Economic Resources
- Natural Resources - land, raw materials, water, etc
- Capital Resources - the means of production, factories, equipment etc
- Human Resources - labour, entrepreneurship (the idea of how to put everything together)

These Resources provide income - Rent, Interest, Wages

Microeconomics - looking at individuals - one person or one company
Macroeconomics - looking at the economy of a country etc

We use economic models to try to explain and understand how the economy works - these models are very simple

Independent variables - causes a change in another variable

Dependent variables - another variable causes it to change
Cause and effect relationship
Direct relationship - a change in the independent variable causes a change in the same direction in the dependent variable

Inverse relationship - a change in the independent variable causes a change in the opposite direction in the dependent variable

Assumptions - ceteris paribus - assumes that all other things remain the same

Positive and Normative statements
Positive Statement - relates to facts - can be proven
Normative Statement - opinion or value

Economic Choice
Utility - the satisfaction you gain from any action
In economics we assume that everyone tries to maximize their own utility - self-interest motivation

Opportunity Cost - the utility you would get from choosing the next best option

Remember utility differs from person to person and this explains why people make different economic choices

Production Possibilities Model
Assume that the economy only produces 2 products
Guns and Roses
Assume that we have fixed resources and fixed technology
Assume that we have full production - all resources are being used

<table>
<thead>
<tr>
<th>Roses</th>
<th>Guns</th>
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<tbody>
<tr>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>90</td>
<td>1</td>
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<tr>
<td>60</td>
<td>2</td>
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<td>0</td>
<td>3</td>
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Production Possibility Schedule
Production Possibility Curve

You can produce within the Production Possibility Curve but not on the outside
Notice the increasing Opportunity Costs
1 gun costs 10 roses
The 2nd gun costs 30 roses
The 3rd gun costs 60 roses

We want to grow this economy
2 ways we can increase resources or we can increase technology
Economic Systems
3 Questions to answer
What to Produce? - Computers or Hamburgers
How to Produce it? - Which resources should be used and how
For Whom to Produce? - who gets the goods/services

Traditional Economy - economic decisions are based on custom - what - what we always have, how - how we always have, who gets it - who ever always got it

Market Economy - based on private ownership and using the markets to make decisions
What to produce - what the markets will buy
How to produce it - what is the most efficient way - (most profit)
Who gets it - who ever can pay for it

Major Benefits
- Consumer Sovereignty - the consumers needs and wants are considered
- Innovation - new ideas - because there is a profit people come up with new ideas
Drawbacks
- Income Distribution is unequal
- Market Failure - private markets do not always benefit society as a whole
- Instability - wide swings in the market

There is no pure market economy in the world

Command Economy (often Communist)
Economic system is based on public ownership and decisions are made by Central Planners

Benefits
Income Distribution is more equal
Economic Growth - central planners can focus on Capital Resources

Drawbacks
Inefficiencies - fewer rewards tends to lead towards inefficiencies
Planning Difficulties - trying to plan an entire economy is almost impossible
Lack of Freedom - people have limited choices

Today most economies are Modern Mixed Economies with some part of both Command and Market Economies
Economic Goals
Economic Efficiency - we want the most benefits from the scarce resources
Income Equity - the country's output should be distributed fairly
Price Stability - prices should not change too quickly - inflation should be kept under control
Full Employment
Viable Balance of Payments
Economic Growth
Environmental Sustainability

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