Microeconomics – chapter 1

Economics, Microeconomics

scarcitylack of enough resources to satisfy all desired uses of those resourcesfactors of productionresource inputs used to produce goods and services (land, labor, capital, entrepreneurship)landall natural resources (land, crude oil, water, air, and minerals)laborthe skills and abilities to produce goods and services (both the quantity and the quality of human resources)capitalfinal goods produced for use in the production of other goods (ex. equipment, structures, etc)entrepreneurshipthe assembling of resources to produce new or improved products and technologieseconomicsthe study of how best to allocate scarce resources among competing usesopportunity costthe most desired goods or services that are forgone to obtain something else" guns vs. butter" dilemmaan increase in national defenses implies more sacrifices of civilian goods and services (the factors of production devoted to producing military hardware aren't available for producing civilian goods)production possibilitiesthe alternative combinations of final goods and services that could be produced in a given time period with all available resources and technologyproduction possibilities scheduleillustrates the the full range of production choices in a chart or tableproduction possibilities curvea graph that illustrates the full range of production choices; each point depicts an alternative mix of output that could be producedscarce resources and opportunity costs (in relation to the PPC)the PPC illustrates these two essential principles; there is a limit to how much we can produce with available resources and we can obtain additonal quantities of a good only by reducing production of another good)Opportunity costs _____________ as we move along the production possibilities curve. increaselaw of increasing opportunity costLaw that states:

we must give up ever-increasing quantities of other goods and services in order to get more of a particular good. efficiencymaximum output of a good from the resources used in productionIt is impossible to produce at this point with the available resources and technology. What does point y represent? (according to this image: http://edu. uoh. edu. cn/zlgc/sykc/sxy/zyxt/images/xt1_image006. gif)InefficiencyWhat does point B represent? (according to this image: http://edu. uoh. edu. cn/zlgc/sykc/sxy/zyxt/images/xt1_image006. gif)Economic growthAccording to this image (http://www. harpercollege. edu/mhealy/ecogif/ppc/ppceg. gif): What does this graph represent? economic growthan increase in output; an expansion of production possibilitiesThree CORE Economic questionsWHAT to produce, HOW to produce it, FOR WHOM to produceAdam Smith's viewpointThe " invisible hand" determines what gets produced, how, and for whom. He also believed in " laissez faire": price signals and responses of the marketplace were likely to do a better job of allocating resources than any government couldmarket mechanismthe use of market prices and sales to signal desired outputs (or resource allocations)the price signalthe essential feature of the market mechanismlaissez-fairethe doctrine of " leave it alone," of nonintervention by government in the market mechanismKarl Marx's viewpointemphasized how free markets tend to concentrate wealth and power in the hands of the few, at the expense of many. The government had to OWN all the means of production to avoid savage inequalities. John Maynard Keynes's viewpointthe market was pretty efficient in organizing production itself, but the government would intervene when needed. Government should play an active but not all-inclusive role in managing the economy. ConservativesTend to favor Adam Smith's laissez-faire approachLiberalsThink government intervention is needed to improve market outcomes. mixed economyan economy that uses both market signals and government directives to allocate goods and resources. market failurean imperfection in the market mechanism that prevents optimal outcomes. The invisible hand has failed to achieve the best possible outcomes. government failuregovernment intervention that fails to improve economic outcomesmacroeconomicsthe study of aggregate economic behavior, of the economy as a wholemicroeconomicsthe study of individual behavior in the economy, of the components of the larger economyceteris paribusthe assumption of nothing else changing