

Economics test notes

Economics



Economics Economics is a social study that studies how society allocates its limited resources to satisfy its unlimited needs and wants. We are a capitalist consumer driven society and so businesses or producers are choosing things that will maximize their profit. These things must have a demand from the consumer who chooses things to maximize their utility. Economics is known as a social science. Science: because of all of the scientific methods used (e. g. Tables, graphs and hypothesis) and Social: because it is about people who are ever changing.

Unlike physical and chemical science the nature of a social science makes the establishment of principles harder. Human beings are unpredictable - Iron has constant properties, people don't. For example: The 'Law of Demand': the lower the price the higher the demand. Sometimes it doesn't work this way as consumers equate low prices with poor products or poor service and therefore don't buy it. With unlimited needs and wants and only limited resources we are forced to choose what will give us greater utility.

Because the quality and/or quantity of resources is limited, our capacity to produce is stricter, as is our ability to satisfy the needs and wants of society. Is the satisfaction that someone gets from something (Factors of production) are productive inputs that are required by businesses to make goods or services. Are essential for the sustenance of life I. E. Food, water, clothing, shelter and companionship. Are not essential for the sustenance of life.

They are unlimited because they are recurring (you may want a coke today and also want one tomorrow), they are changeable (subject to fashion, technology, and weather), they are complementary (a car can only UN with

petrol) and also because tastes and preferences change over time as you get older and mature. Economic Problem Utility Resources Needs Wants
 Economics Test Revision! ! Word / Phrase 5 Sectors of the Economy and Their Wants Economics Test Notes By baklava Meaning 1 . House Holds / Consumers - personal wants 2. Businesses - a good market share and skilled labor 3.

Government - want to be seen as running the country/ state well because they want to be re-elected. They want to be seen as providing us with low unemployment, high economic growth, external balance and inflation. .

Trade and Exports - we want other countries to demand our goods and services and we want them to provide us the things that we need. 5.

Finance and Banking - want us to entrust money with them giving us a percentage of interest on the amount that we hold with them in exchange.

They then invest in our money, loaning it out to people who then have to pay a higher percentage of interest to the bank. . Land - We are the owners of

the land (school) 2. Labor - human effort used in the production process (teachers) 3. Capital - anything made by someone to be used as a DOD or a service (student) 4. Enterprise - Organization (principal) Represents the natural or God given gifts, these include; arable(farming), oil, minerals, rivers, climate, forests and oceans. These resources, which are given from the land or are apart of the land, have the potential to support a variety of primary (mining and agriculture), secondary (businesses) and tertiary (service) industries.

Australia is well endowed with natural resources and has an intensive horticulture and agriculture. Land can be increased by re-claiming land or
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combining it with technology to make it productive. New discoveries of iron ore or gold increases our quantity of land. Increase the quality and quantity of land by exploration and research and development. Skilled and unskilled labor provides physical power, mental talents as well as specialized services used in the production process. Males mainly find work in construction and manufacturing as well as retail and trade.

Women mainly find work in health and community services and retail and trade. Labor can be improved via quantity and quality. Quantity can be improved via immigration and quality can be improved via training, education, health etc. Factors of Production Land Labor Economics Test Revision! ! Word / Phrase Capital ! 13/2/2013! Meaning A manufactured item that is made by someone for the purpose of creating another good or service in the production process. The main feature of increased capital resources is that it helps lift the efficiency and productivity of natural and labor resources.

The nation can enjoy higher per capita income and material living standards if the output per worker per hour is greater, and for that you need a higher productivity of resources. The ability to recognize the potential for profit. Entrepreneurs are experts at this and also have qualities of leadership, organization and management. The entrepreneur performs three basic functions: decision-making, innovation and risk-bearing. Decision-making: the entrepreneur controls the firm and makes decisions, which are fundamental to its nature, operation and continued existence. Innovation: the entrepreneur is an innovator.

He or she applies new techniques to the production process, undertakes the production and distribution of new and improved goods and services and introduces new forms of selling and organization to the firm. Risk-bearing: In making decisions, the entrepreneur necessarily takes and accepts risks. Indeed, risk-bearing is generally regarded as the key function of the entrepreneur and one, which clearly distinguishes entrepreneurial ability from labor resources. Enterprise Limits to Production The amount we can produce is limited by the scarce resources at our disposal.

In Australia the quality and/or quantity of resources supplied is insufficient for the nation's output of goods and services to satisfy the unlimited choice of needs and wants. -----The Economic Problem Limited Resources Unlimited wants Domestic Product Is the total value of all the goods and services produced in an economy over a period of time (usually 1 year) Economics Test Revision! ! Word / Phrase Economic Good Free Good abundance compared to the wants and so can not demand a price. Opportunity Cost Only choosing the important material wants of households, firms and government to produce.

The opportunity cost of something is referred to as the real cost. This means literally what has been given up. Opportunity cost can be demonstrated through the use of a simple model called the production possibility frontier. This model is best explained using an example. Let us consider the case of Farmer Jones who has a farm that can grow only two crops; wheat and barley. If Farmer Jones has 5 fields all of which could be used to grow wheat or barley, his production possibilities are as follows: wheat Barley 0 5 1 4 2 3 3 2 4 1 5 0 In order to increase the production of one product, you have to

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decrease the production of the other. Means that only the most important material wants of households, firms and governments can be satisfied. Other lesser priorities must be abandoned, unless there is some way to increase production levels and economic living standards. - Only two goods and services are produced - The quantity of the land, capital and enterprise is fixed - The quality of resources is fixed - The level of technology is fixed Means that it only applies to a particular point in time.

So the Production Possibilities Curve (PC) is only for a particular point in time because other factors like natural disasters or economic downfall can affect and change the variables and the total quantities that can be produced.

Relative scarcity Assumptions Static Economics Test Revision! Word / Phrase Production Possibilities Curve can be produced by an economy given the available resources and level of technology. The curve line in the graph outlines the maximum production possibilities which is the infinite amount of those products that can be produced.

The line is curved because as it moves away from one axis (y) towards the other (x) it decreases the amount of production of (Y) and increases the amount of production of (x). Some people or businesses/land is good at producing (x) and some are good at producing (Y) and so there is a diminishing return from resources when producers re moved from one production to the other where it isn't as good. E. G. Ateacheris good at teaching and not so good at bricklaying, however builder is good at bricklaying but not so much teaching. Point C in the graph is impossible to achieve with the technology and resources available.

We aim to move the curve outwards (shift the economy to the right) in the economy which means a more equal ability to make both. The reason why the line is straight in some instances is that the graph was drawn on the assumption that you could change between variables without any extra cost. Most PC's, however, will consist of a curved line. This is because some material, businesses, equipment or people are more suitable for the production of one variable but not the other. Most BPCS would have this shape as it would be rare that production could be changed from the production of one good or type of good to another at no cost.

Economic Growth When a country is able to improve its TERM and shift its economy to the right, it is said that the nation has experienced economic growth. Economics Test Revision! ! Income (Y) Resources Households Leakages - Money leaves the economy - Makes the Economy decrease or contract Firms Consumption Expenditure (C) Savings (S) Financial Market Investments (I) Government Government Expenditure (G) Imports (M) Overseas Sector Exports (X) Injections - injecting money into the flow of the economy - It expands the economy and its flow Economics Test Revision! Word / Phrase TERM Meaning When you improve TERM you can get better economic growth, but only if the improved TERM affects both variables/resources equally. If it affects one but not the other the outcome would leave the one it did not affect having a continued Maximum production margin as before but will increase the maximum production margin of the product that it did affect (positively) Technology - e. G. The application of developments in biotechnology has allowed farmers to

produce more output in crops such as wheat and rice with the same amount of farmland.

This will only increase the productivity of butter. Efficiency - The deregulation of government controlled businesses such as Tellers in theory will lead to greater economic efficiency and increase economic efficiency as private communications firms will seek to reduce stage in order to maximize profit.

This will affect the production of both the variables. Resources - Minerals and energy exploration has lead to the discovery of previously unknown resources in Australia.

This example will only affect the productivity of guns (out of guns and butter)

Management - The development of mass production as a management technique lead to strong economic growth in countries such as America during the asses. This will affect both businesses and the alternative. What to produce? (consumer decides) How to produce? (enterprise) How much to produce? Consumer chooses from the demand they place on the item) and fro whom to produce? (consumers choose in their willingness to pay) (a)! (b)! Reach (c)! Process (d)!

Usefulness - useful in satisfying wants Capacity - capable of being used in the production Known - society must be aware of its existence Accessible - presently and realistically within society Choice Economists require Circular Flow of Income / Assumptions - Only two sectors (consumers and producers) - All production is sold to the consumers - Producers provide all the goods and services - Consumers spend all of heir income on goods and services - Consumers are the owners of the productive resource - Land, Labor, Capital

and Enterprise. Economics Test Revision! Word / Phrase Meaning $Y = \text{Income}$
 $C = \text{Consumption Expenditure}$ $S = \text{Savings}$ $I = \text{Investment}$ $T = \text{Taxation}$ $G = \text{Government Expenditure}$ $M = \text{Imports}$ $X = \text{Exports}$ $O = \text{Outputs}$ $E = \text{Expenditure}$
 $0 = Y = E$ Savings and investment Government $S + T = I + G$ level of income will fall if $S + T > I + G$ and the level of income will rise if $S + T < I + G$
 Equilibrium is achieved when the total leakages = Injections $S + T + M = I + G + X$ Impacts of Current Events The impacts of current events will affect the whole of Australia's economy because it upsets the flow through the circular flow of income.

The floods in Queensland will affect WA because the supply of leafy vegetables and fruits will decrease. This means a loss of production and productivity of flood affected parts of Queensland which will However the money that is needed to clean up and reconstruct is minimal compared to the total value of the economy and so will be absorbed. Choose an industry. Give two Land, Labor, Capital and management resources that could be used within the chosen industry. Teaching: Economics Test Revision! Land Labor Capital Enterprise Clay to make bricks to build the buildings, water inswimmingpool, oval for physical education, sand to make glass, trees to make desks Writing on the board (physical) content knowledge shared (mental) Computers, whiteboards Managerial leadership, curriculum council directives Factors of Production Land Labor Capital Enterprise Income Rent Wages / Salaries Interest Profit Examples Farm paddocks Builders building a wall Computer, robotics Manager Expanded Circular Flow of Income