Introduction to AP Macro-Economics

Coach Burnett

Key Assumptions, Scarcity, Opportunity Cost, and the Production Possibilities Curve

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Key Assumptions in Economics

- People are rationally self-interested
  - They seek to maximize their utility
- People generally make decisions at the margin
  - They weigh the marginal cost against the marginal benefit of a decision
- Ceteris Paribus
  - Economists hold all factors constant, except for what is being considered

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Basic Economics Vocab

Economics - the study of choices people make to satisfy their wants and needs

Microeconomics - the study of how individuals and firms deal with scarcity

Macroeconomics - the study of how society as a whole deals with scarcity

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Basic Economics Vocab

Needs - necessities for survival

Wants - goods and services consumed beyond what is necessary for survival

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Basic Economics Vocab

Goods - physical objects that can be purchased

Services - actions or activities performed for a fee

Consumers - people who purchase goods and services

Producers - People who supply goods and services

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Resources a.k.a. Factors of Production

- Economists classify resources into 4 categories:

1. Land
   - Natural Resources
   - The payment for Land is RENT

2. Labor
   - Human Resources
   - The payment for Labor is WAGES

3. Capital
   - Tools, machines, factories
   - The payment for Capital is INTEREST

4. Entrepreneurship
   - Combining land, labor, and capital to make PROFIT

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The Fundamental Problem: Scarcity

- People have unlimited wants but the resources to satisfy those wants are scarce.
- Therefore we must make choices about how to use our scarce resources. We face trade-offs when it comes to using available resources.
  - Ex. Our money is a scarce resource. We have been given enough money by Mr. Sibberson to buy either a Playstation 3 or an Xbox 360 for the classroom, but not enough to buy both.

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The Fundamental Problem: Scarcity

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Opportunity Cost

- Once a resource or factor of production has been put to productive use, an *opportunity cost* is incurred
- Opportunity cost is the next best alternative use for a resource
  - Ex. If the money is used to buy an Xbox 360, the opportunity cost is the money could also have been spent on a Playstation 3
- No matter what we do with our time or resources, we always incur opportunity cost.
- TINSTAAFL

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TINSTAAFL

THERE IS NO SUCH THING AS A FREE LUNCH!

(EVERYTHING HAS A COST)

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TINSTAAFL ILLUSTRATED: THE PPC

- The Production Possibilities Curve is a graph showing all of the possible combinations of output for an economy fully employing all of its resources in producing two goods

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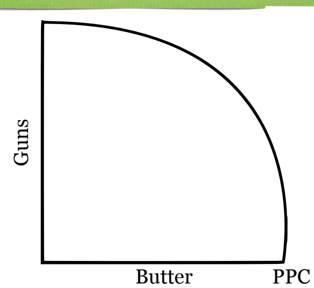
TINSTAAFL ILLUSTRATED: THE PPC



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