

AP ECON: THE BASICS!

ECONOMICS THEMES

What are themes?

- ⦿ Broad terms that tie multiple parts of economics together
- ⦿ 4 major themes in this class
 - Scarcity
 - Incentives
 - Interdependence
 - Gain From Trade

SCARCITY

- scarcity of all resources causes parties to make choices, which incur costs

INCENTIVES

- ⦿ parties generally respond predictably to incentives



INTERDEPENDENCE

- a decision made by one party has intended and unintended consequences on others



GAIN FROM TRADE

- parties trade voluntarily when they expect to gain something



Scarcity, Choice, and Opportunity Cost

- ⦿ *Human wants are unlimited, but resources are limited.*
- ⦿ Three basic questions must be answered in order to understand an economic system:
 - What gets produced?
 - How is it produced?
 - Who gets what is produced?

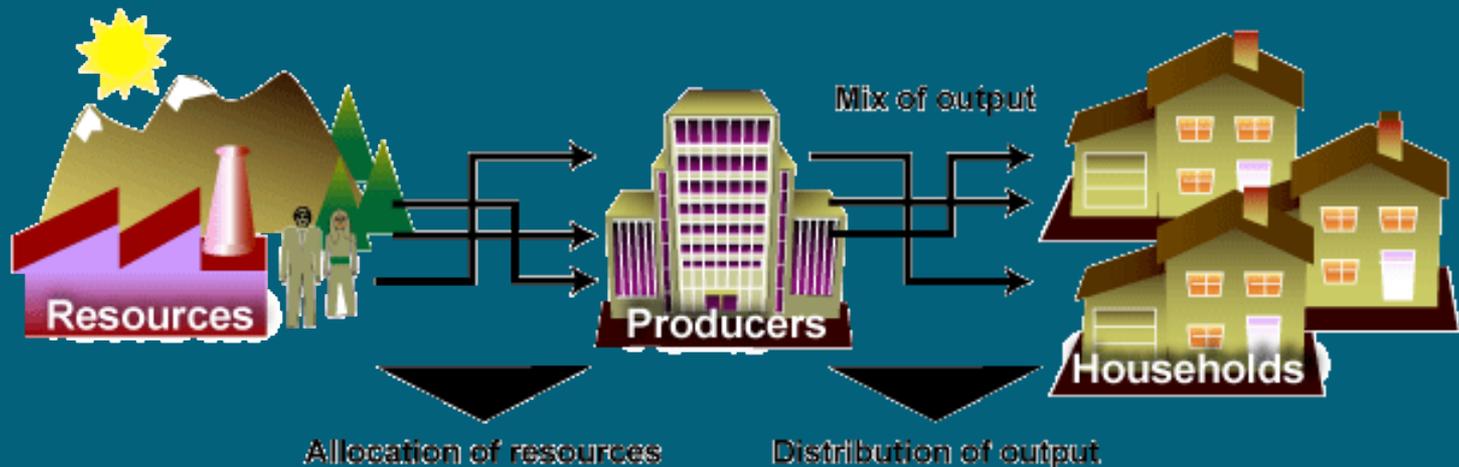
Scarcity, Choice, and Opportunity Cost

The three basic questions:

1. What gets produced?

2. How is it produced?

3. Who gets what is produced?



- Every society has some system or mechanism that transforms that society's scarce resources into useful goods and services.

Scarcity

- ⦿ Basic problem of ALL economics
- ⦿ Unlimited wants/needs, limited resources
- ⦿ Is an item scarce? Ask two questions:
 - Is it limited in quantity?
 - Is it desirable for multiple uses?
 - If yes to both, it's scarce.
- ⦿ Is everything scarce?

Opportunity Cost

- Results from scarcity
- Opp. Cost is the thing GIVEN UP in choice
 - It is the **NEXT BEST** alternative
- Mall food court example
- **NEXT BEST!!!!!!!**



What is economics?

- Study of choices
- How do people deal with scarcity?
- What is given up in the choice?
- What goal is achieved by the choice?
- Who makes the choice?
- Can the choice be more efficient?

Macro vs. Micro

- Scope of the choices
- (see page 8 in book)



- MICRO

- Individuals, firms, small markets



- MACRO

- National/international in scope
- Governments and countries

Micro or Macro?

- ⦿ Income tax rates
- ⦿ Job loss in the steel industry
- ⦿ Setting the price of Barbie Dolls
- ⦿ How much money is in the economy
- ⦿ International exchange rates
- ⦿ Cost to produce automobiles
- ⦿ Stock market

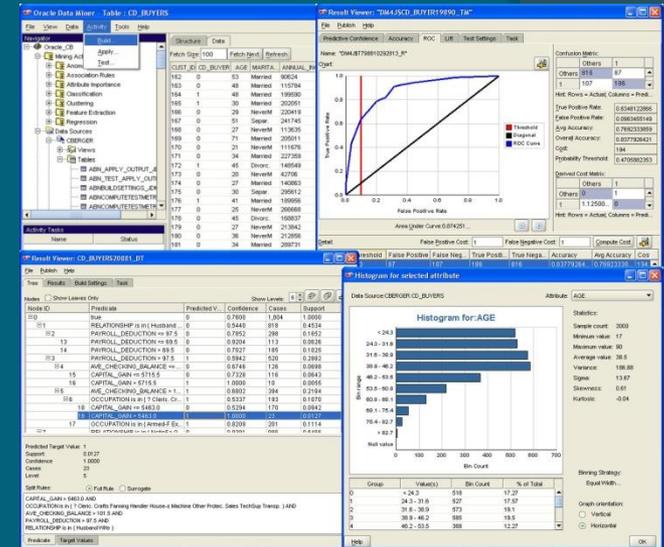
Positive vs. Normative

Positive economics

- Study of what IS
- Uses data to describe current situations or theories

Normative Economics

- Study of what COULD be
- Policies...what SHOULD be done?



Economic Models

- ⦿ Many theories based on MODELS, NOT real life
- ⦿ CETERIS PARIBUS!!!!!!!
 - All else held constant
 - Limits the “what ifs....”

Rational Decision Making

- Most models assume people are rational
- Rational decision making involves MARGINAL thinking

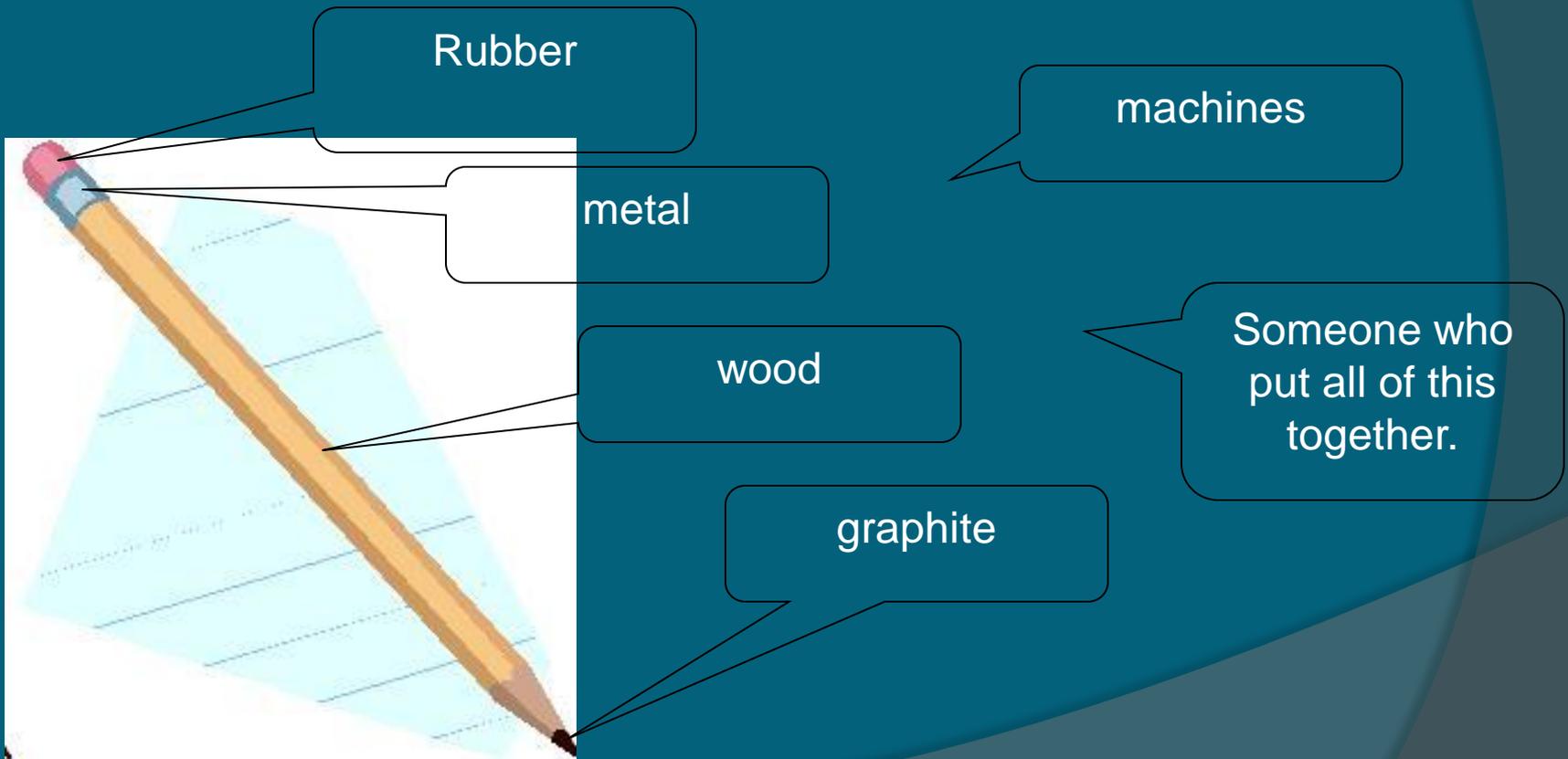
Factors of Production (Productive Resources)

Factors of Production

- What went into making this?



What went into this?



4 Categories of Productive Resources (Factors of Production)

LAND

- Natural, renewable resources
- wood, rubber, graphite, land, animals

CAPITAL

- A produced good used in the production of another good
- Machines, computers, buildings, etc

LABOR

- Human resources, people
- MENTAL and PHYSICAL

ENTREPRENEURSHIP

- The person or group responsible for putting the other 3 together to produce something