UNIT 1 AP MACROECONOMICS

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UNIT 1: Basic Economic Concepts

WHAT IS ECONOMICS?

- **Economics** can be defined as the **study of how people satisfy their unlimited wants** while there are only **scarce** resources available.
- In an economy, if **resources are limited and wants are limited**, then we have to make **choices** - this leads to **SCARCITY**
- **Scarcity**: There are **limited** goods and services available for an unlimited amount of wants.

People make choices to satisfy the wants that are most important to them.

WHAT IS MACROECONOMICS?

- Macroeconomics studies affects the **whole economy**, such as: inflation, price levels,gross domestic product (GDP) rate of economic growth, national income, and changes in unemployment.

We analyze the economy as a whole, on a macro level

OPPORTUNITY COST

In life and macroeconomics, when we choose to do something (for example watch a movie for 2 hours), we lose 2 hours of time that could be spent on homework. We **chose the alternative best opportunity for ourselves.**

- **Trade offs:** In a trade off, we lose all other options.

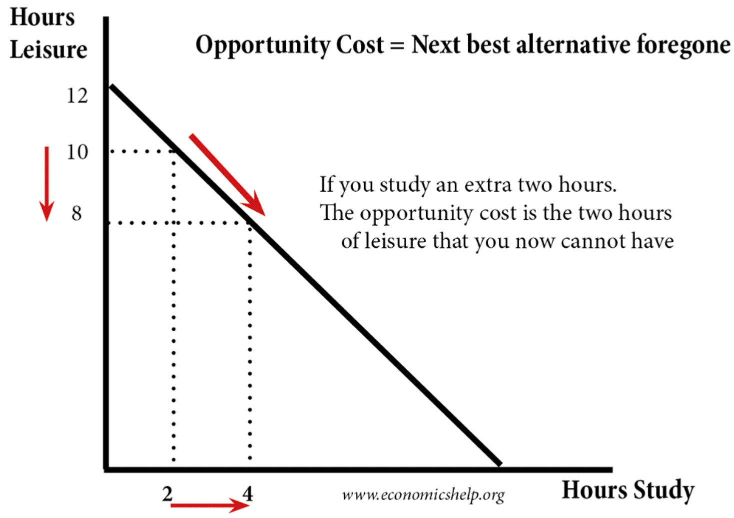


PHOTO: https://www.economicshelp.org/blog/2177/economics/opportunity-cost-definition/

Our choices lead to the loss of some opportunities, but there is sometimes a gain from these choices.

4 FACTORS OF PRODUCTION

- LAND
- LABOR
- CAPITAL
- ENTREPRENEURSHIP
  - **Capital goods:** Goods made **not directly for consumption**; for example, the straw to drink a soda, the oven to bake cookies for sale.
  - **Human goods:** Human skills that **benefit production**; for example, education, companies require workers to have a high school diploma because greater knowledge and skill will increase the level of production.

Production Possibility Frontier (Curve)

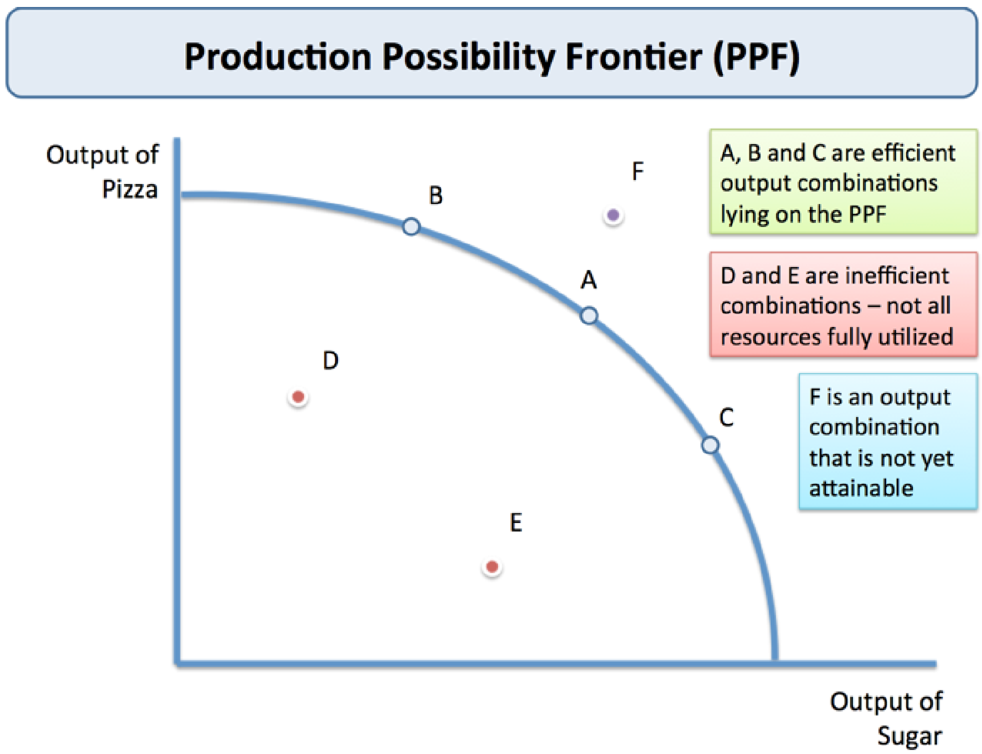
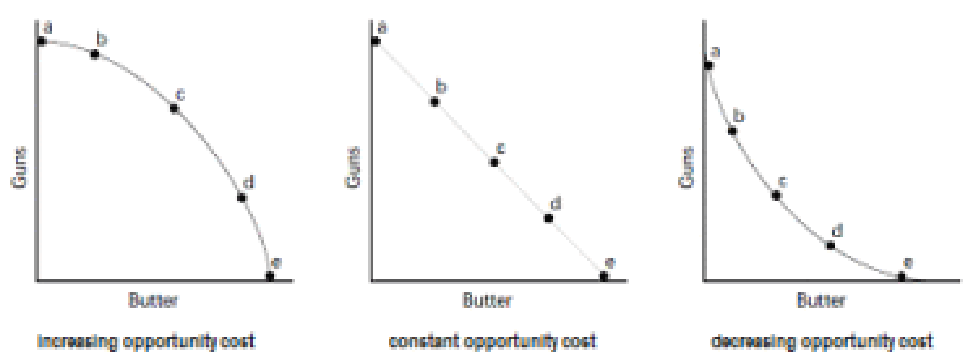


PHOTO: https://www.tutor2u.net/economics/reference/production-possibility-frontier

The PPF displays how there is an unlimited amount of wants for a limited amount of goods

TYPES OF PPF



INCREASING OPPORTUNITY COST, CONSTANT OPPORTUNITY COST & DECREASING OPPORTUNITY COST

COMPARATIVE ADVANTAGE

The ability to produce the same product(s) at a **higher level of efficiency.**

	CARS	BIKES
COUNTRY A	**10**	**5**
COUNTRY B	**8**	**2**

In the table above we compare the production of cars to bikes. We can view this graph as 2 ratios:

- 10 : 5 → 2 : 1
- 8 : 2 → 4 : 1
  - When producing cars county A will give up 1 bike to make 2 cars, and country B will give up 4 cars to make 1 bike. Therefore, Country A has the comparative advantage in producing bikes.
  - In producing bikes, Country A will give up 2 cars to make 1 bike, and country B will give up 4 cars to make 1 bike. Therefore, country B has the comparative advantage in producing cars.

Absolute Advantage: The **greater number of the amount produced** in the production of cars, country A has the absolute advantage

SUPPLY AND DEMAND

LAW OF DEMAND:

The price and quantity demand of goods and services are **inversely related** to each other. When the price of a product **increases**, the demand for the product will **decrease**. For example, when the price of cupcakes triple because of a shortage of flour, the demand for cupcakes will decrease because of the increase in price.

LAW OF SUPPLY:

The price and quantity supplied of a good are **directly related** to each other. When the price of a good **increases**, the suppliers **increase** the supply of that good in the market. When the price of cupcakes rise, the suppliers will produce more of that good because less people may be buying the cupcakes. (meaning there will be more cupcakes left to buy at the store)

SHIFTERS OF SUPPLY

- Cost of inputs
- Change in ***productivity/Technology***
- ***Number of sellers***
- Government Action Taxes
- Government action Subsidies
- ***Government regulations***
- Expectation of ***future profit***

SHIFTERS OF DEMAND

- Number of ***consumers***
- Change in ***tastes & preferences***
- Change in ***income***
- Change in the price of ***substitute*** goods
- Change in the price of ***complementary*** goods
- ***Future expectations***

As price increases, quantity increases.

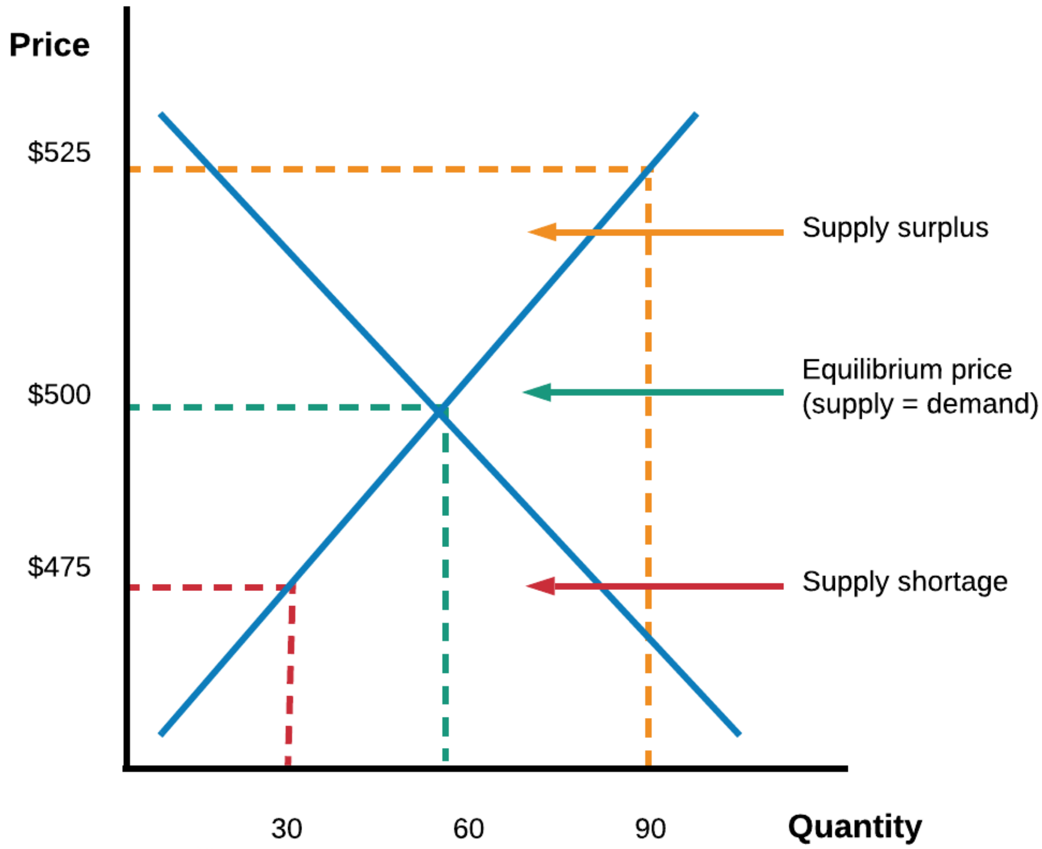
(more expensive cupcakes = more on the shelf and more left to buy)

As price decreases, quantity decreases.

(decrease price on cupcakes = more bought and less supply in store)

PHOTO: https://www.lucidchart.com/blog/overview-of-supply-and-demand%20graphs

- *** ALWAYS LABEL ALL PARTS OF THE GRAPHS - HELPS STAY ORGANIZED AND REQUIRED ON AP TESTS***



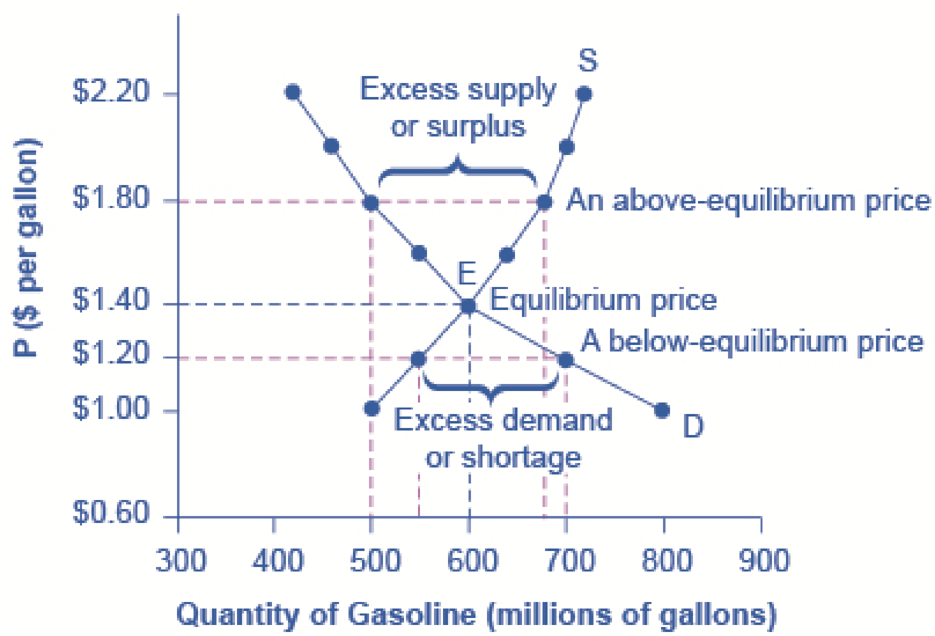


PHOTO: https://www.khanacademy.org/economics-finance-domain/microeconomics/supply-demand-equilibrium/market-equilibrium-tutorial/a/market-equilibrium

EXAMPLE OF SHIFTING

- **Equilibrium:** Market supply and demand **balance** each other and as a result, the **<u>prices become stable.</u>**