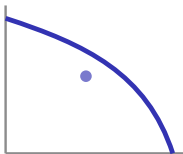


Basic Economic Ideas

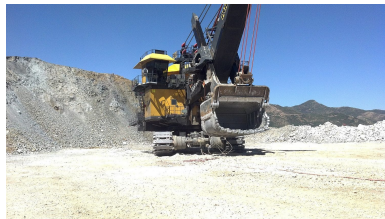
A-Level Economics ■ Topic 1

A-Level Economics



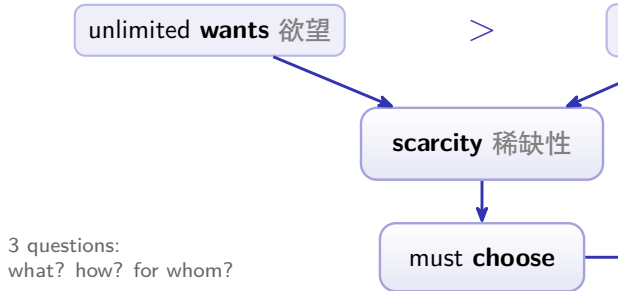
What we will cover

- 1 Scarcity & opportunity cost
- 2 Thinking like an economist
- 3 Factors of production
- 4 Economic systems & prices
- 5 Production possibility curve
- 6 Types of goods



scarce natural resources

The economic problem



merit good education

Thinking like an economist

positive 实证表述

a **fact** – can be
tested true or false

normative 规范表述

an **opinion** – rests
on a value judgement

Ceteris paribus 其他条件不变: change one thing, hold the rest fixed.

Microeconomics 微观经济学 studies one market; **macroeconomics** 宏观经济学 the whole economy.

Factors of production



Each **factor of production** 生产要素 earns a reward; **enterprise** 企业家才能 bears the risk of bringing the other three together.

Specialisation and the division of labour



Specialisation 专业化: make only what you are best at, then trade.

- + faster, better, lower cost per unit
- – boring; one absence can stop the line; narrow skills

Mobility 流动性: how easily a factor moves job (**occupational** 职业流动性) or place (**geographical** 地理流动性).

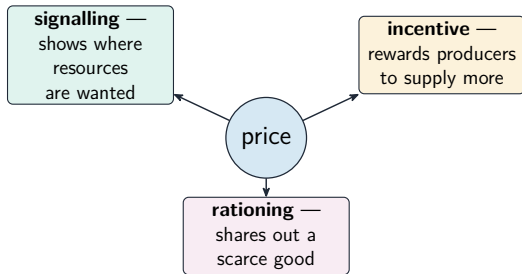
Economic systems



How a country allocates scarce resources:

- **market economy** 市场经济 – prices decide; little government
- **planned economy** 计划经济 – the state decides all
- **mixed economy** 混合经济 – both; almost every real country

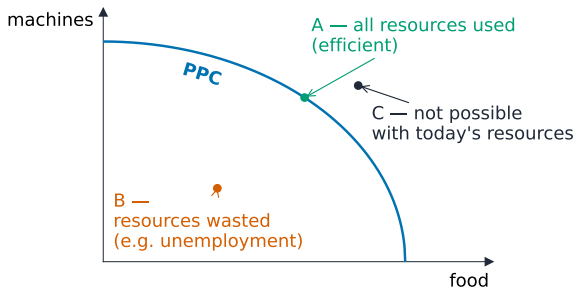
The price mechanism



In a market, the price does three jobs at once:

- **signalling** 信号传递 — shows where resources are wanted
- **incentive** 激励 — rewards producers to supply more
- **rationing** 配给 — shares a scarce good to those who pay

Production possibility curve

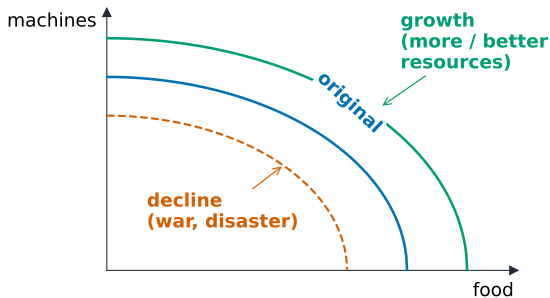


The **PPC** 生产可能性曲线 shows the most of two goods an economy can make.

- **on** – fully **efficient** 效率
- **inside** – waste (e.g. **unemployment** 失业)
- **outside** – impossible today (scarcity)

Moving along it shows the **trade-off** 取舍.

Growth: shifting the curve



More or better resources shift the PPC **outward** – **economic growth** 经济增长; war or disaster shifts it inward. Making more **capital goods** 资本品 now means fewer **consumer goods** 消费品 today, but faster future growth.

Types of goods

		Excludable	Non-excludable
Non-rival	Rival	Private good food, clothes	Common resource ocean fish, air
	Non-rival	Club good cinema, toll road	Public good street light, defence

Split by **rivalry** 竞争性 & **excludability** 排他性:

- **private good** 私人物品 – rival & excludable
- **public good** 公共物品 – neither ⇒ **free-rider problem** 搭便车问题
- **merit good** 优值品 / **demerit good** 劣值品 – misjudged via **information failure** 信息失灵

Worked example – opportunity cost on a PPC

An economy on its PPC moves from 60 tonnes of food + 30 machines to 50 food + 45 machines. What is the opportunity cost?

- Being **on** the curve means all resources are already fully and efficiently used.
- So gaining machines must mean **giving up** food.
- Machines +15, food -10 $\Rightarrow$ the opportunity cost of **15 machines is 10 tonnes of food**.
- Per machine: $10/15 = 0.67$ tonnes of food each.

Opportunity cost = **the next best alternative given up**. It exists only **on** the curve – inside it there are spare resources, so you can gain both.

Topic 1 – key takeaways

1

Scarcity

wants $>$ resources $\Rightarrow$ choice & opportunity cost

2

Factors

land, labour, capital, enterprise

3

Prices

signal, incentivise, ration in a market

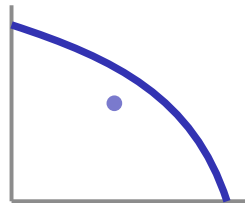
4

PPC

on = efficient; outward shift = growth

Check yourself

- 1 What is the reward to capital?
- 2 “Petrol should be cheaper” – positive or normative?
- 3 A point inside the PPC shows what?
- 4 Why won't firms supply a public good?



Answers 1. interest 2. normative 3. wasted resources (e.g. unemployment)
4. free-rider problem (non-excludable)