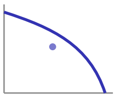
Basic Economic Ideas

A-Level Economics ▪ Topic 1

A-Level Economics



What we will cover

scarce natural resources

1 Foundations

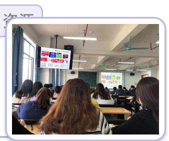
The economic problem

unlimited **wants** 欲望 > finite **resources** 资源

scarcity 稀缺性

must **choose** → **opportunity cost** 机会成本

3 questions:
what? how? for whom?



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.

2 Resources

Factors of production

land	labour	capital	enterprise
土地	劳动	资本	企业家才能
→ rent	→ wages	→ interest	→ profit
地租	工资	利息	利润

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).

3 Systems and prices

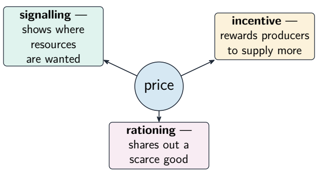
Economic systems

Market	Mixed	Planned
firms own resources; prices decide; little government	private + public sectors both decide; almost every country	government owns and decides what, how and for whom

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

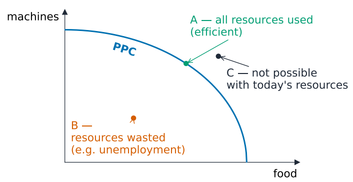


In a market, the price does three jobs at once:

- **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

4 The production possibility curve

Production possibility curve

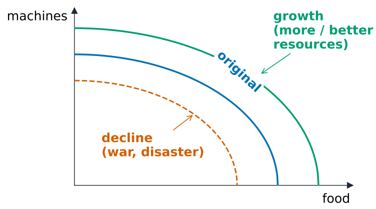


The **PPC** 生产可能性曲线 shows the most of two goods an economy can make.

- **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.

5 Types of goods

Types of goods

	Excludable	Non-excludable
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

6 Recap

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 ⇒ 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 ⇒ choice & opportunity cost

2 Factors

land, labour, capital, enterprise

3 Prices

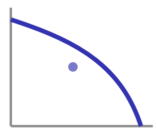
signal, incentivise, ration in a market

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)