Basic Economic Concepts

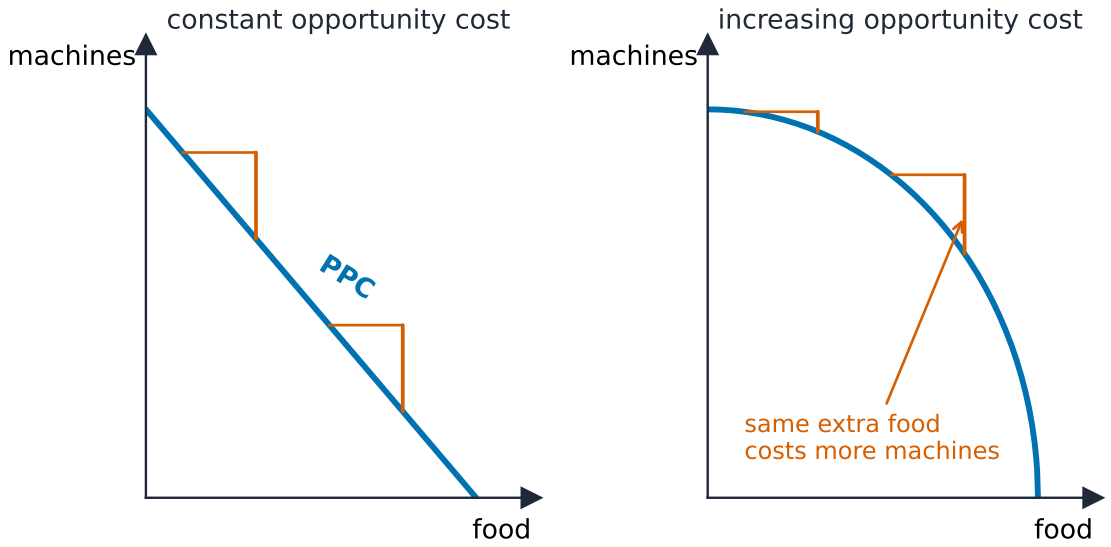
AP Macroeconomics

Scarcity

Economics 经济学 begins with **scarcity** 稀缺性: people's wants are unlimited, but the **resources** 资源 to satisfy them are limited. The resources –the **factors of production** 生产要素–are **land**, **labor** 劳动, **capital** 资本, and **entrepreneurship** 企业家才能. Scarcity forces every society to choose **what**, **how**, and **for whom** to produce, and it makes **trade-offs** 权衡 unavoidable.

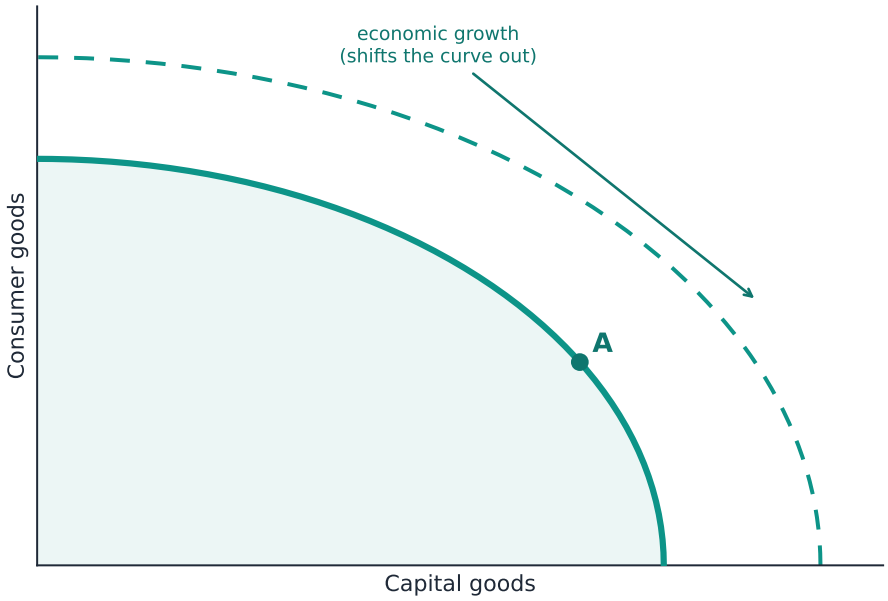
Opportunity Cost and the Production Possibilities Curve (PPC)

Every choice has an **opportunity cost** 机会成本–the value of the next-best alternative given up. The **production possibilities curve (PPC)** 生产可能性曲线 shows the maximum combinations of two goods an economy can make when resources are fully and efficiently used.



A straight PPC means constant opportunity cost; a bowed one means increasing cost

- Points **on** the curve are efficient; **inside**, inefficient (unemployed resources); **outside**, unattainable.
- The downward slope shows opportunity cost; a **bowed-out** curve shows **increasing opportunity cost**.
- More resources or better technology cause **economic growth** 经济增长, shifting the PPC **outward**.

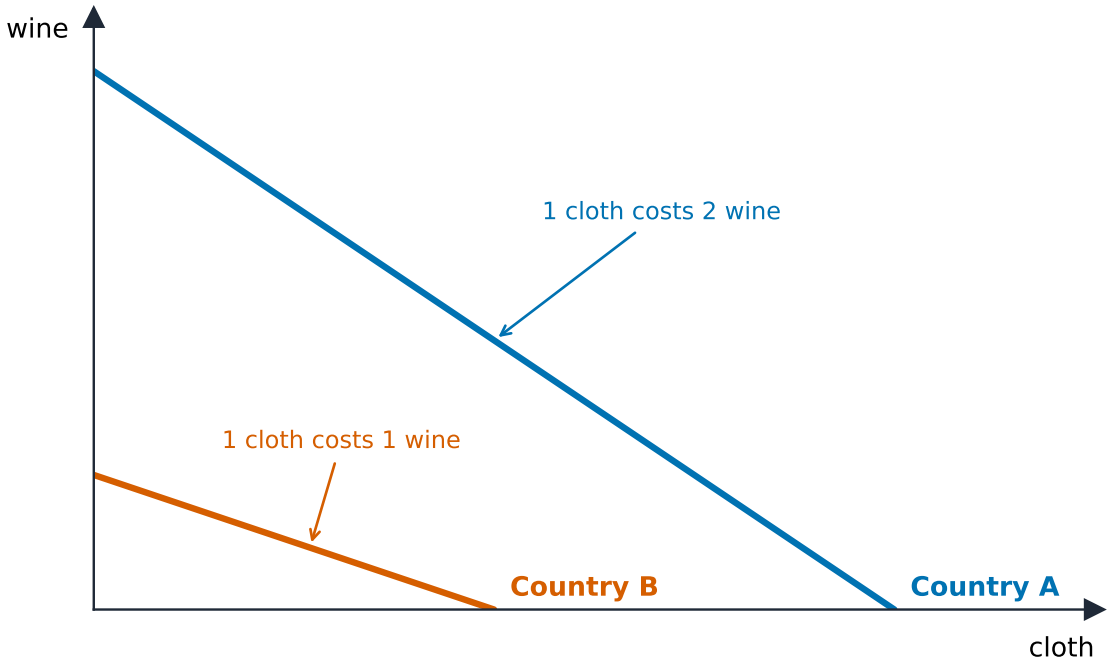


A production possibilities curve; investing in capital goods shifts it outward

Comparative Advantage and Gains from Trade

A producer has an **absolute advantage** 绝对优势 in a good if it can make more of it. It has a **comparative advantage** 比较优势 if it has the **lower opportunity cost**. Nations should specialize in their comparative-advantage goods and trade –both gain if the **terms of trade** 贸易条件 lie between the two opportunity costs. Trade lets a country consume beyond its own PPC.

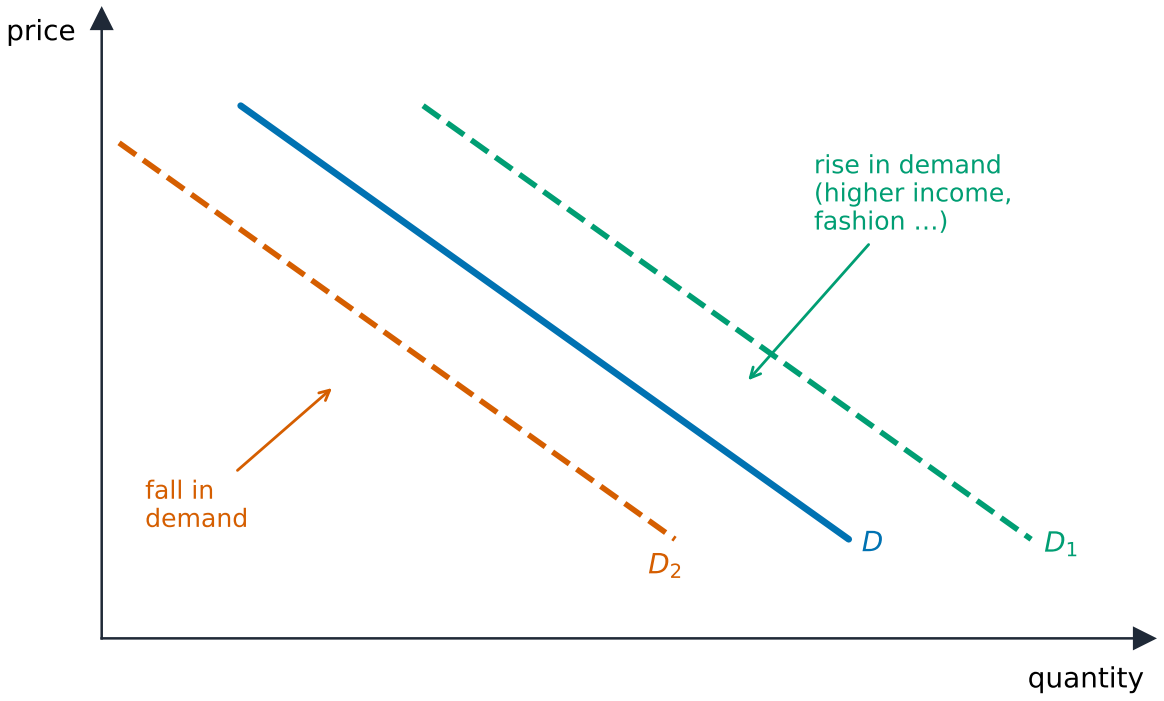
Worked example. Country A can make 10 wheat **or** 5 cloth per day; Country B can make 8 wheat **or** 8 cloth. For A, one cloth costs $\frac{10}{5} = 2$ wheat; for B it costs $\frac{8}{8} = 1$ wheat. B's opportunity cost of cloth is lower, so **B specializes in cloth**. Checking wheat: A gives up 0.5 cloth per wheat and B gives up 1, so **A specializes in wheat**. Trading at any rate between the two costs, both consume beyond their own PPC.



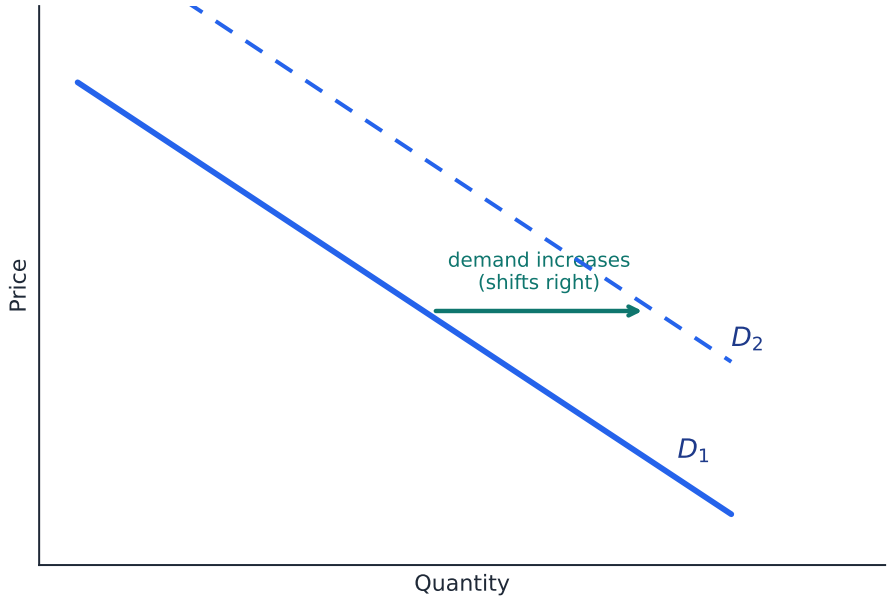
Comparative advantage comes from differently-sloped production possibilities curves

Demand

Demand 需求 relates price to the quantity buyers will buy. The **law of demand** 需求定律 makes the curve slope **downward**. A change in the good's **own price** is a movement along the curve; the **determinants** (income, tastes, prices of **substitutes** 替代品 and **complements** 互补品, number of buyers, expectations) **shift** the whole curve.



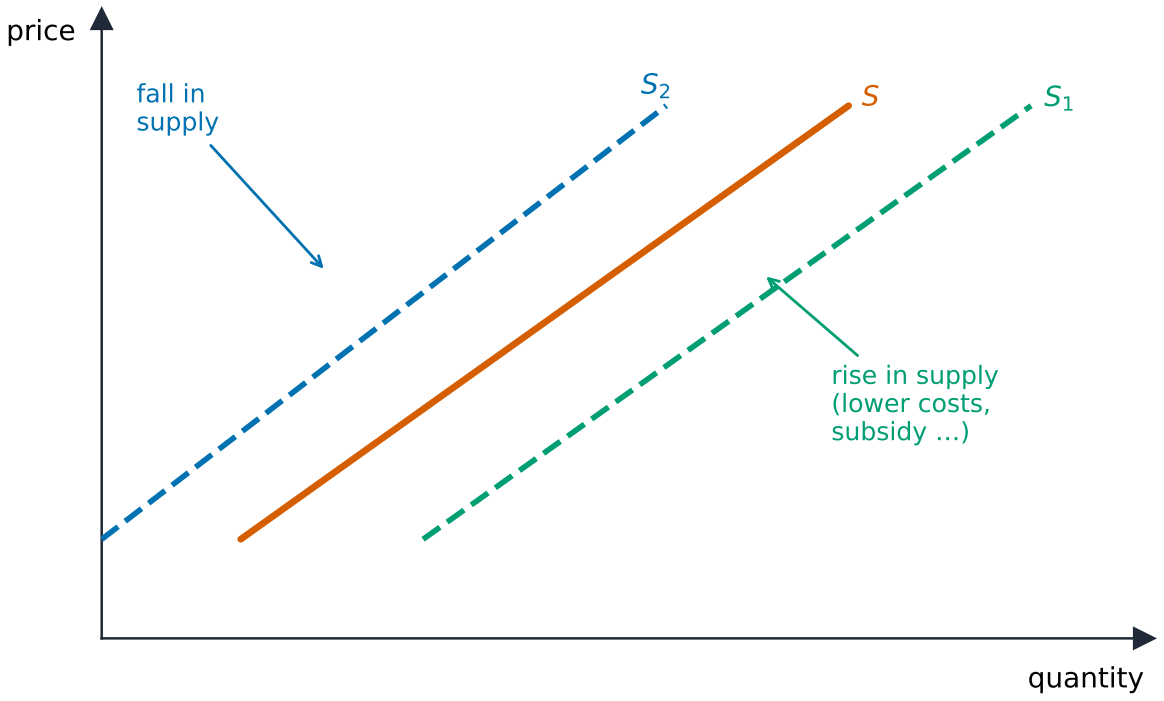
The demand curve slopes down; income, tastes, and related prices shift it



The law of demand slopes the curve downward; a determinant shifts the whole curve

Supply

Supply 供给 relates price to the quantity sellers will offer; the **law of supply** 供给定律 makes it slope **upward**. Its determinants –input prices, technology, taxes and **subsidies** 补贴, number of sellers, expectations –shift the curve, while the good's own price moves along it.

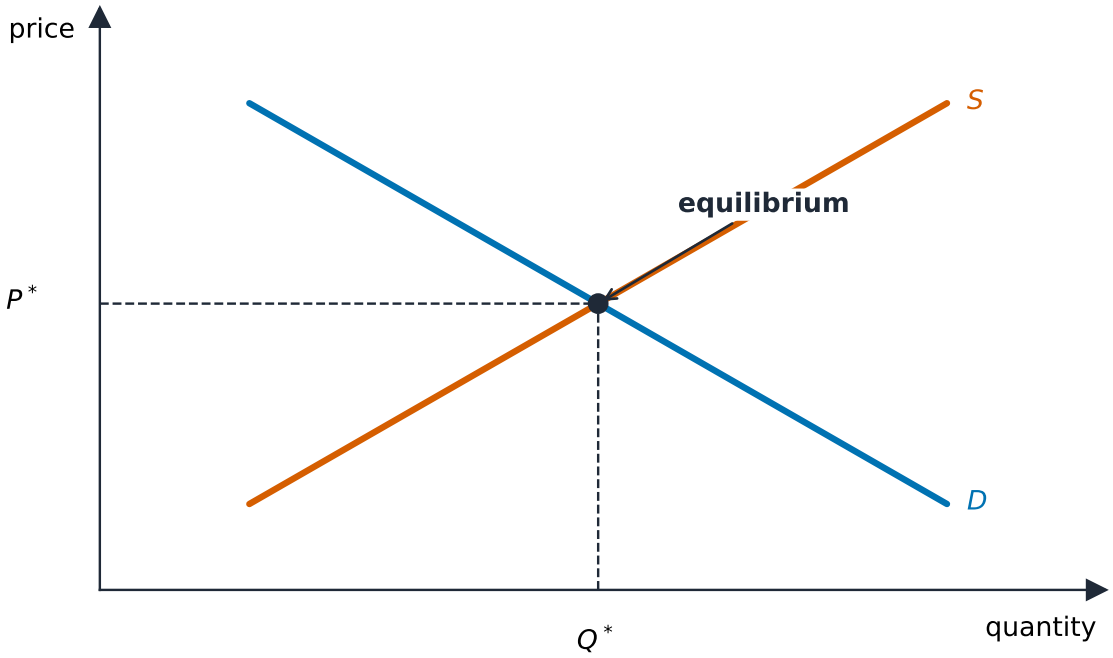


The supply curve slopes up; costs, technology, tax, and subsidy shift it

Market Equilibrium, Disequilibrium, and Changes in Equilibrium

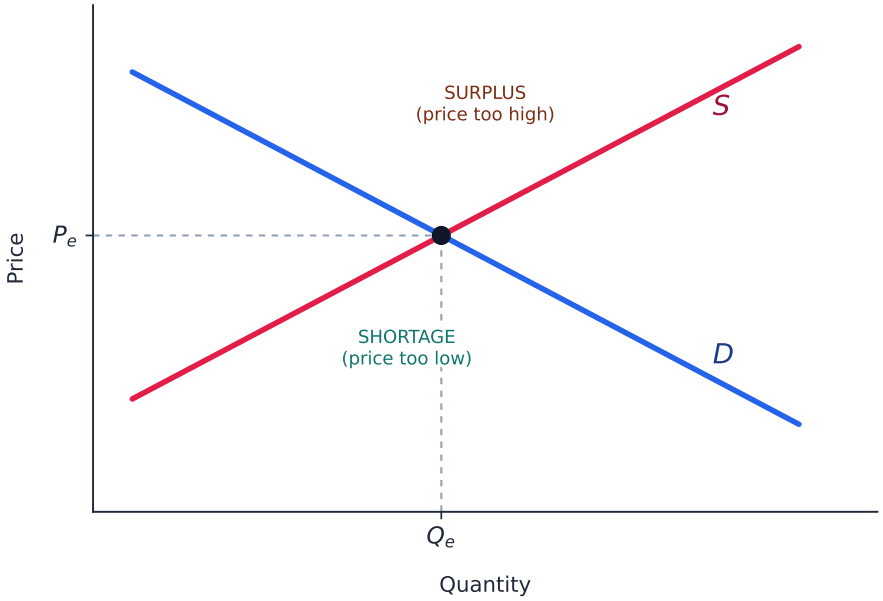
Equilibrium 均衡 is where supply meets demand, clearing the market. Above the equilibrium price a **surplus** 过剩 pushes price down; below it a **shortage** 短缺 pushes price up. When a determinant shifts one curve, price and quantity move predictably; when both shift, one of them is **indeterminate**.

Worked example. A new technology lowers producers' costs, shifting **supply right**. Along the unchanged demand curve, the equilibrium **price falls** and the equilibrium **quantity rises**. If instead a rise in incomes shifts **demand right** at the same time, quantity clearly rises but the effect on price depends on which shift is larger –the "both shift" indeterminate case.



Equilibrium price and quantity where demand meets supply

Exam skill: macro builds on these micro tools –you must draw and shift supply-and-demand and PPC graphs correctly, because the same shift logic drives the aggregate (whole-economy) models later in the course.



Market equilibrium sits where supply meets demand; away from it lie surplus and shortage

Exam tips

- Opportunity cost is what you **give up** —read it off a PPC as the slope; a bowed-out PPC shows increasing opportunity cost.
- **Comparative advantage** (lower opportunity cost), not absolute advantage, decides who should specialise and trade.
- Points inside the PPC are inefficient, outside unattainable; more resources/technology shift it out (growth).
- Distinguish a **movement along** a demand/supply curve (own price) from a **shift** (a determinant).
- These micro tools drive the aggregate models later —draw and shift the correct curve in the correct direction.