

Basic Economic Concepts

AP Microeconomics • Unit 1

AP Microeconomics



Basic Economic Concepts

What we will cover

- 1 Scarcity & choice
- 2 Economic systems & prices
- 3 Production possibilities curve
- 4 Comparative advantage & trade
- 5 Costs & thinking at the margin
- 6 Consumer choice

1 Scarcity

Basic Economic Concepts

Scarcity

The economic problem

- Unlimited **wants** 欲望 > finite **resources** 资源 $\Rightarrow$ **scarcity** 稀缺
- Scarcity forces choice; every choice has an **opportunity cost** 机会成本
- Three questions: what? how? for whom?

Scarcity is not poverty: even a billionaire has only 24 hours a day, so **everyone** must choose.



Scarce goods force every buyer to choose

Basic Economic Concepts

Scarcity

Factors of production



The four **factors of production** 生产要素 are the scarce resources every economy allocates.

2 Systems & prices

Three economic systems



Three economic systems



- In a **market economy** 市场经济, private buyers and sellers decide through prices; self-interest and competition coordinate them (the "invisible...)
- In a **command economy** 计划经济, the government owns resources and plans production.
- Real economies are **mixed** 混合经济 – mostly markets, with government

Prices coordinate a market

- A high **price** does two jobs at once:
- **signal** 信号: the good is scarce / wanted
 - **incentive** 激励: rewards producers to supply more

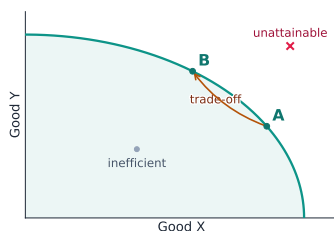
Adam Smith's **invisible hand** 看不见的手: no one is in charge, yet resources flow toward what people value most.



Prices guide goods across markets

3 Production possibilities

The production possibilities curve



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

- **On the curve** – efficient
- **Inside** – wasteful (idle resources)
- **Outside** – unattainable

Economic growth 经济增长 shifts the whole curve **outward**.

Why the curve bows outward

The **law of increasing opportunity cost** 机会成本递增规律: resources are not equally suited to both goods, so each extra unit of one costs ever more of the other.

Worked example – opportunity cost

A country makes wheat and steel. At A: 100 wheat, 0 steel. At B: 80 wheat, 30 steel.

Moving A→B gains 30 steel by giving up 20 wheat, so

$$\text{opp. cost of 1 steel} = \frac{20}{30} = 0.67 \text{ wheat.}$$

4 Comparative advantage

Basic Economic Concepts
└ Comparative advantage

Absolute vs comparative advantage

absolute advantage 绝对优势

makes **more** with the same resources

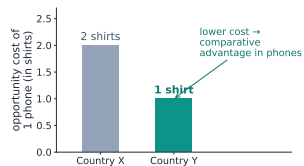
comparative advantage 比较优势

has the **lower opportunity cost**

Specialize where your opportunity cost is lower, then **trade** 贸易 – this gains for both sides **even if one is better at everything**.

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└ Comparative advantage

Comparative advantage – worked example



In a day: X makes 10 phones **or** 20 shirts; Y makes **4 or 4**.

■ X: 1 phone costs $\frac{20}{10} = 2$ shirts

■ Y: 1 phone costs $\frac{4}{4} = 1$ shirt

⇒ **Y** makes phones; **X** makes shirts

X has the absolute advantage in both, yet trade still helps both. The **terms of trade** 贸易条件 lie between the two costs.

5 Costs & the margin

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└ Costs & the margin

Cost-benefit analysis & sunk costs

Cost-benefit analysis 成本收益分析: act only when benefit $\geq$ cost – and the real cost is the **opportunity cost**, not just money spent.

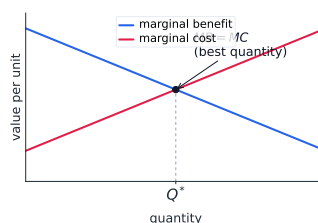
The sunk-cost fallacy

You paid \$50 for a concert ticket (a **sunk cost** 沉没成本). That night you feel ill and would rather stay home.

The \$50 is gone **either way**, so ignore it – choose what you now prefer. Going just "to get your money's worth" is the **sunk-cost fallacy** 沉没成本谬误.

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└ Costs & the margin

Think at the margin



Decide one **margin** 边际 at a time – one more unit.

■ **marginal benefit** 边际收益 (MB): extra gain

■ **marginal cost** 边际成本 (MC): extra cost

Keep going while $MB > MC$; stop at $MB = MC$ – the greatest net benefit.

Consumer choice

The **law of diminishing marginal utility** 边际效用递减规律: each extra unit adds less **utility** 效用 – the fifth slice of pizza satisfies far less than the first. This is why demand curves slope **down**.

The utility-maximizing rule

Spread a fixed budget so the marginal utility **per dollar** is equal across all goods:

$$\frac{MU_x}{P_x} = \frac{MU_y}{P_y}.$$

If one good gives more utility per dollar, shift spending toward it until the ratios balance.

Key points

Scarcity forces choice; every choice has an **opportunity cost**

The **PPC** shows efficient, wasteful & unattainable output

Comparative advantage
+ trade gains for both sides

Choose at the **margin**: act while $MB > MC$, stop at $MB = MC$

Check yourself

- 1 Why does the PPC bow outward?
- 2 Absolute or comparative advantage: which drives trade?
- 3 Should a sunk cost affect your next decision?
- 4 What rule does marginal analysis give?

Answers 1. resources are not equally suited to both goods 2. comparative 3. no – it is already spent 4. do it while $MB > MC$; stop where $MB = MC$