

UNIT 1

The Basic Economic Problem

AP Microeconomics

What is Economics?

- The social science dealing with the use of scarce resources to obtain the maximum satisfaction of society's virtually unlimited economic wants.
- Microeconomics
- Macroeconomics

Macroeconomic Concepts:

- Do we spend too many of our resources on national defense and not enough on education?
- If households are required to pay fewer taxes, will national savings be affected?
- Will prices rise or fall because of a tax cut?
- Will increasing the money supply increase production levels in the economy?

Microeconomic Concepts:

- Does a particular family save enough to provide for its future needs?
- How will a tax break affect XYZ Corporation's output?
- If the Smith's win the lottery, how will their spending patterns change?

Why Study Economics?

- A basic understanding of economics is essential for well informed citizenship.
- Most of today's political problems have important economic aspects.

Basic Economic Concepts

- **Resources**
 - a.k.a. *Factors of Production*
 - Four Categories of Resources
 - Human
 - Natural
 - Capital
 - Entrepreneur

Basic Economic Concepts

- Economic Wants
 - The desire of consumers to obtain and use various goods and services that provide pleasure of satisfaction (*a.k.a. utility*)
 - Range from necessities to luxuries.

Consequences of Economic Choices

- The foundation of economics is scarcity:
 - Unlimited wants are greater than our limited resources
- Forces us to make choices, because if we use those resources for one purpose, we can't use them for another.
- Opportunity Costs
 - The amount of other products that must be forgone or sacrificed to produce a unit of a product.

The Economic Way of Thinking

1. Everything has a cost.
2. People choose for good reasons.
3. Incentives matter.
4. People create economic systems to influence choices and incentives.
5. People gain from voluntary trade
6. Economic thinking is marginal thinking.
7. The value of a good or service is affected by people's choices.
8. Economic actions create secondary effects.
9. The test of a theory is its ability to predict.

Production Possibilities Frontier

- PPFs; also known as PPCs
- The combination of two goods that can be produced if the economy uses all of its resources fully & efficiently.