



Resources

Definition: the inputs used to produce goods and services wanted by people, it is also known as **factors of production**.

Land

All nature resources:
agricultural/
non-agricultural land

Everything
under/above the land:
minerals, oil reserves,
underground
water, forests, rivers
and lakes.

Gift of nature

Labour

The physical and
mental effort that
people contribute to
the production of
goods and services.

E.g. The effort of a
teacher, businessman,
doctor, taxi driver,
worker, etc.

People

Capital

Man-made factor of
production, it is itself
produced.

E.g. Machinery, tools,
factories, buildings,
road systems, airports,
harbours, electricity
generators, etc.

Physical capital

Entrepreneurship

The ability to innovate
by developing new
ways of doing things,
to take business risks
and to seek new
opportunities for
opening and running a
business.

Management



Three interrelated economic questions:

1. What to produce?

All economics must choose what particular goods and services and what quantities of these they wish to produce.



Three interrelated economic questions:

2. How to produce?

• All economics must make choices on how to use resources in order to produce goods and services.



Three interrelated economic questions:

3. For whom to produce?

All economics must make choices about how the goods and services produced are to be distributed among the population.

CHOICES:

Three interrelated economic questions

Resource Allocation { 1. What to produce?
2. How to produce?

Distribution of output/income ← 3. For whom to produce?

Resource Allocation

- Assigning available resources, of factors of production, to specific uses chosen among many possible alternatives.
- Answering the what to produce & How to produce questions
 - **What to produce:** make choice of allocating some resources to product A and some to product B.
 - **How to produce:** make choice of which particular factors of production and in what quantities assigned to produce A, and which and how many to produce product B.
- ✓ Reallocation of resources.
- ✓ Overallocation
- ✓ Underallocation

Distribution of output/income

- How much output different individuals or different groups in the population receive.
- Answering the **for whom to produce** question.
 - ✓ Redistribution of income

Other meanings of 'capital'

Capital: resources that can produce a future stream of benefits.

1. **Physical capital:** man-made factor of production.
2. **Human capital:** skills, abilities and knowledge acquired by people.
3. **Natural capital** (environmental capital): – expanded meaning of “land” –land +natural resources occur naturally in the environment, like air, biodiversity, soil quality)
4. **Financial capital:** investment in financial instruments, stocks, bonds.

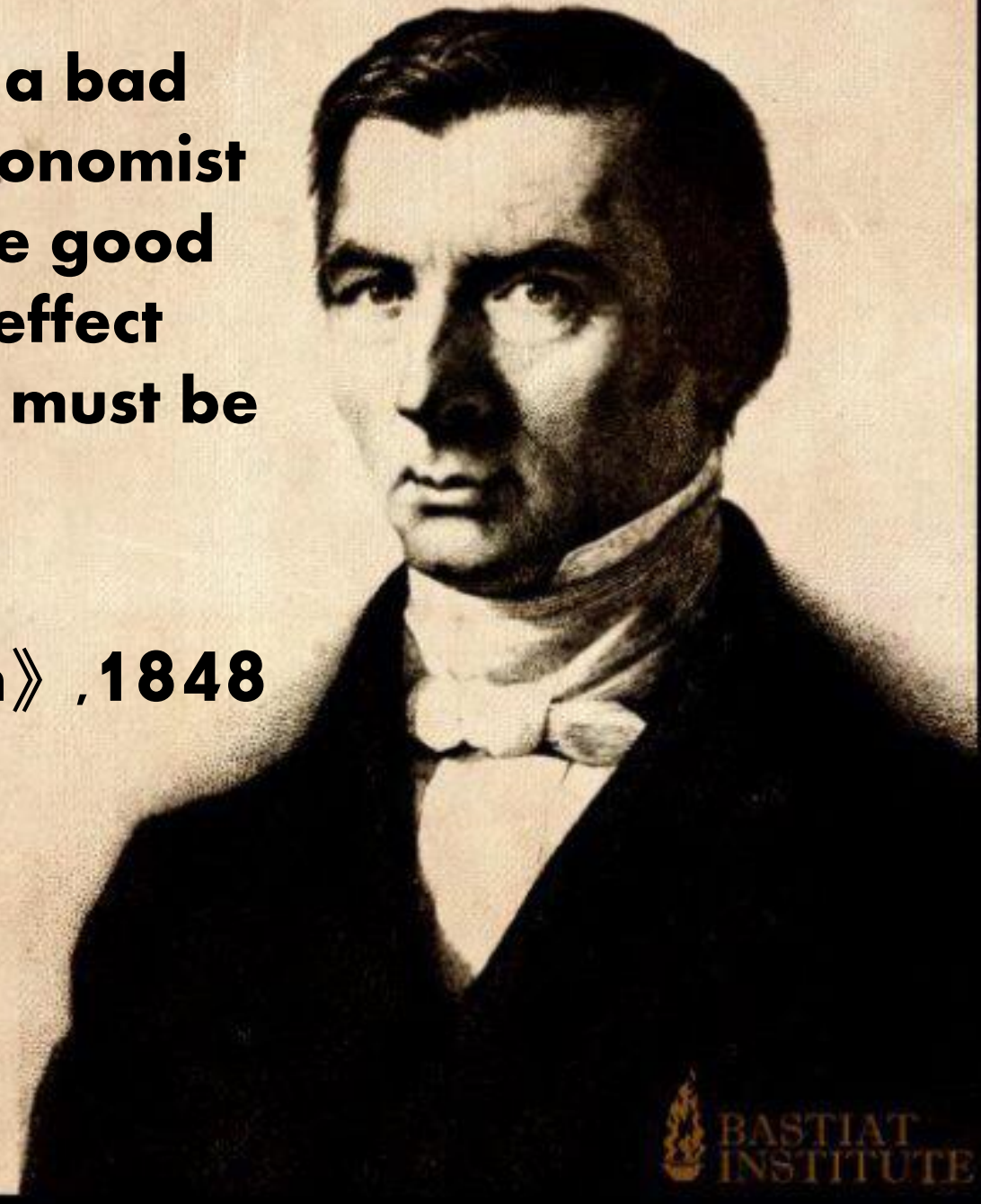


opportunity
cost!

“There is only one difference between a bad economist and a good one: The bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen.”

-- 《What Is Seen and What Is Not Seen》 ,1848

Frederic Bastiat



Sunk cost: the cost that has already been incurred in the past and that cannot be recovered.



Opportunity cost: The value of the next best alternative that must be given up or sacrifices in order to obtain something else.



Everyone face trade-offs

- We have limited money, time, etc., we cannot get everything we want.
- To get one thing that we like, we usually have to give up another thing that we like.
- Making decisions requires **trading off one goal against another**.



Society/Economy face trade-offs

When people are grouped into societies, they face different kinds of trade-offs.

Governments also face trade-offs.

- trade-off between “guns and butter.”
- trade-off between a clean environment and a high rate of economic growth and high level of income.



Economic systems:

- Free market economy: based on the market approach
- Planned economy: based on the command approach.

	Free market economy	Planned economy
Resource ownership	Private sector	Public sector
Economic decision-making (Questions of <i>what/how much, how</i> and <i>for whom</i>)	Private sector	Public sector
Rationing systems (method to make resource allocation and output distribution decisions)	Price rationing	Non-price rationing

*Public sector: the parts of the economy that are under the ownership of the government.

*Private sector: the parts of the economy that are under the ownership of private individuals or groups of individuals. (consumers, firms, resource owners, etc.)

- Mixed economy: Most real world economy positioning itself in somewhere between the free market and planned economy. ➡ Mixed economies are increasingly becoming mixed market economies.

Free and economic goods

Free good: any good that is not scarce, and therefore has zero opportunity cost.

- E.g., Oxygen in the open unpolluted countryside; sand in the Sahara desert

Economic good: Any good that is scarce, it has a opportunity cost greater than zero.

- **Goods provided by the government**, such as the road system, public parks and playgrounds, free education, free health care services; all these are economic goods produced by scarce resources and are paid for out of tax revenues.
- Certain natural resources, such as clean air, forests, rivers, lakes and wildlife, that are not owned by anyone (they are called **common pool resources**; these are also economic goods because they are scarce, and are becoming increasingly scarce due to overuse and depletion