



INTRODUCTION TO ECONOMICS

The Economic Problem

Opportunity Cost

Production Possibility Frontiers



The Economic Problem

- UNLIMITED WANTS
- SCARCE RESOURCES



CHOICE



LIMITED RESOURCES

LAND

•RENT

LABOUR

•WAGES

CAPITAL

•INTEREST

ENTERPRI
SE

•PROFIT

db





Opportunity Cost

the cost expressed in terms of the next best alternative sacrificed





- WHAT

- What goods and services should an economy produce?** – should the emphasis be on agriculture, manufacturing or services, should it be on sport and leisure or housing?

- HOW

- How should goods and services be produced?** – labour intensive, land intensive, capital intensive? Efficiency?

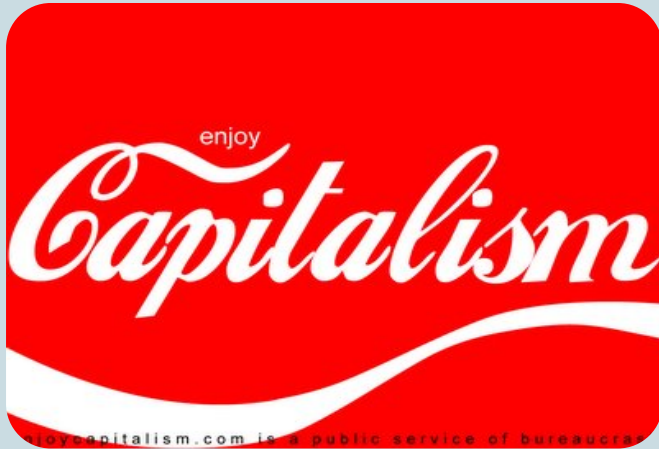
- WHOM

- Who should get the goods and services produced?** – even distribution? more for the rich? for those who work hard?

The Economic Problem



ECONOMIC SYSTEMS



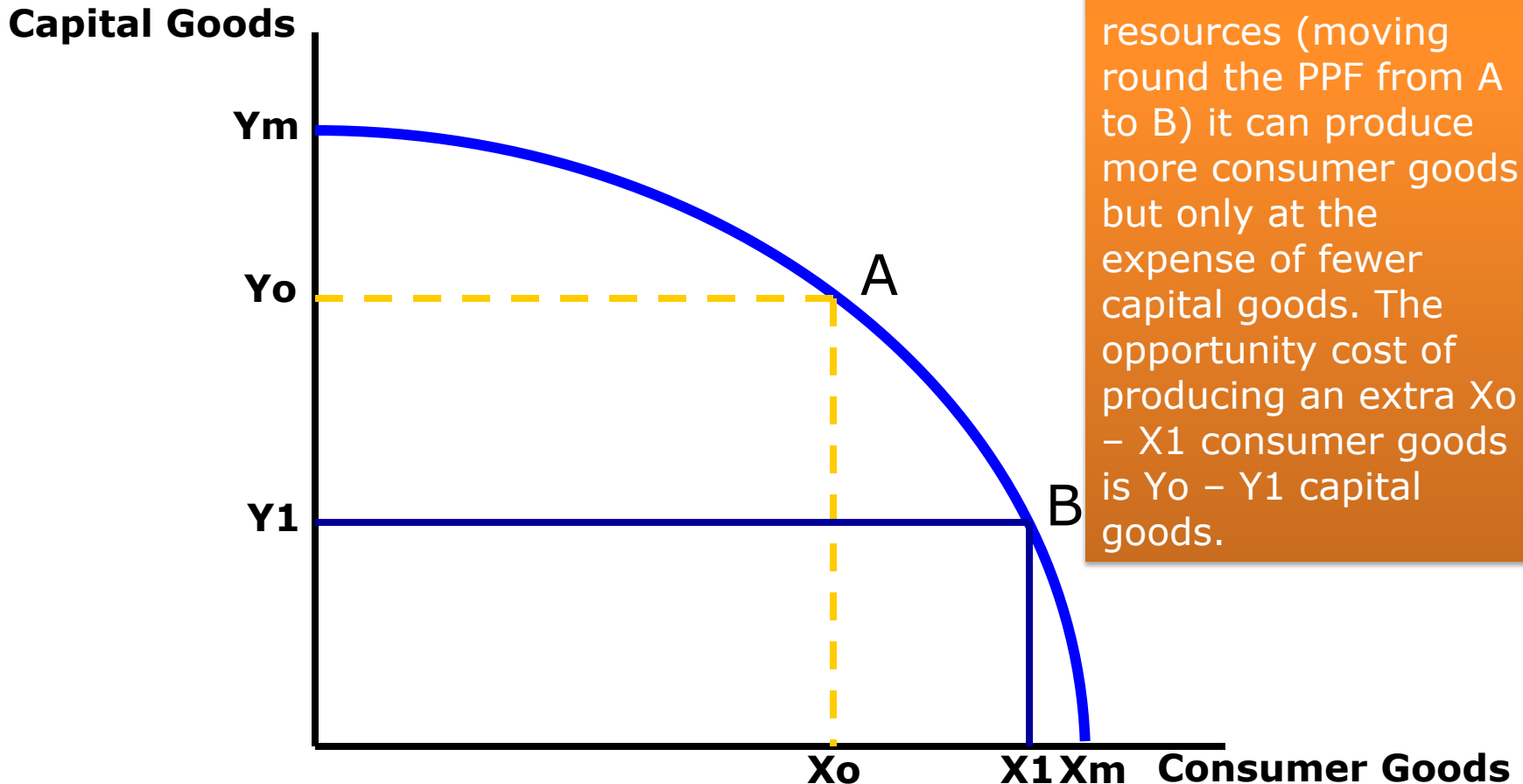
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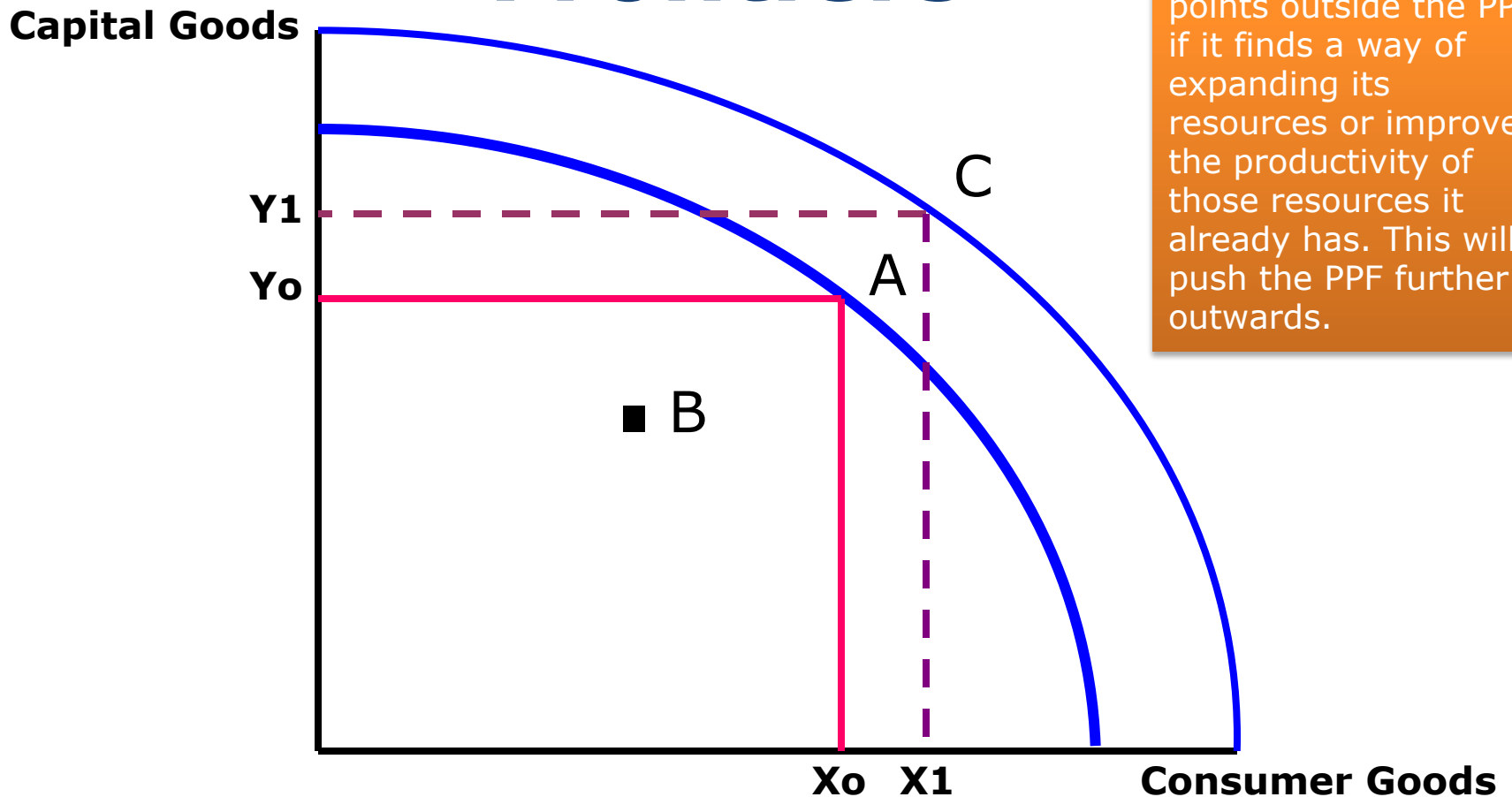
Production Possibility Frontiers



If it reallocates its resources (moving round the PPF from A to B) it can produce more consumer goods but only at the expense of fewer capital goods. The opportunity cost of producing an extra $X_o - X_1$ consumer goods is $Y_o - Y_1$ capital goods.



Production Possibility Frontiers



It can only produce at points outside the PPF if it finds a way of expanding its resources or improves the productivity of those resources it already has. This will push the PPF further outwards.



What makes the PPF move outwards?

- TRAINING THE WORKFORCE
- INVESTMENT IN CAPITAL GOODS
- INCREASE IN POPULATION
- IMPROVEMENT IN TECHNOLOGY



Positive and Normative Economics



- Health care can be improved with more tax funding
- Pollution control is effective through a system of fines
- Society ought to provide homes for all
- Any strategy aimed at reducing factory closures in deprived areas would be helpful
- **Positive Statements:**
 - Capable of being verified or refuted by resorting to fact or further investigation
- **Normative Statements:**
 - Contains a value judgement which cannot be verified by resort to investigation or research

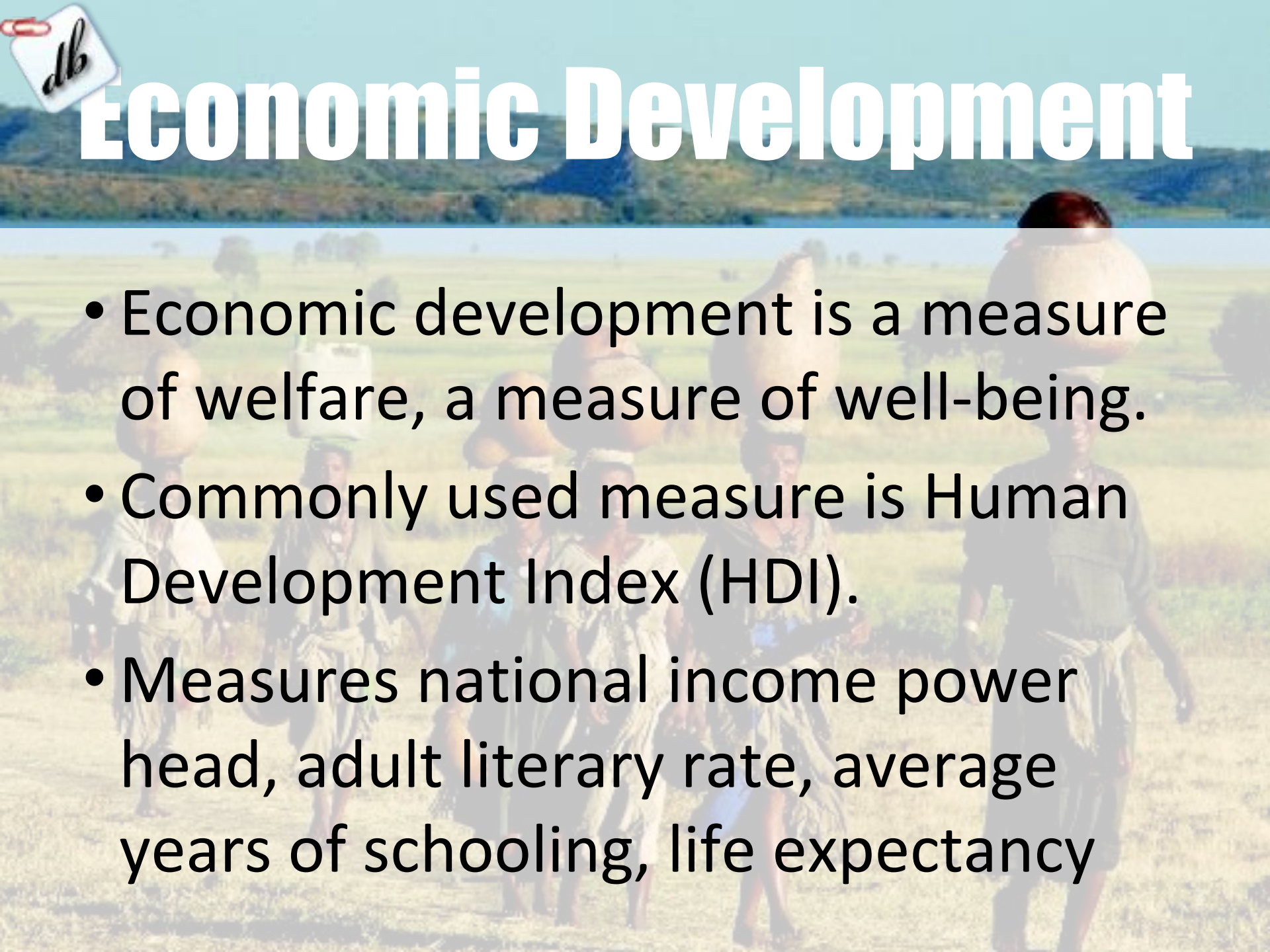


Micro & Macro economics

- The branch of economics that analyzes the market behavior of individual consumers and firms in an attempt to understand the decision-making process of firms and households.

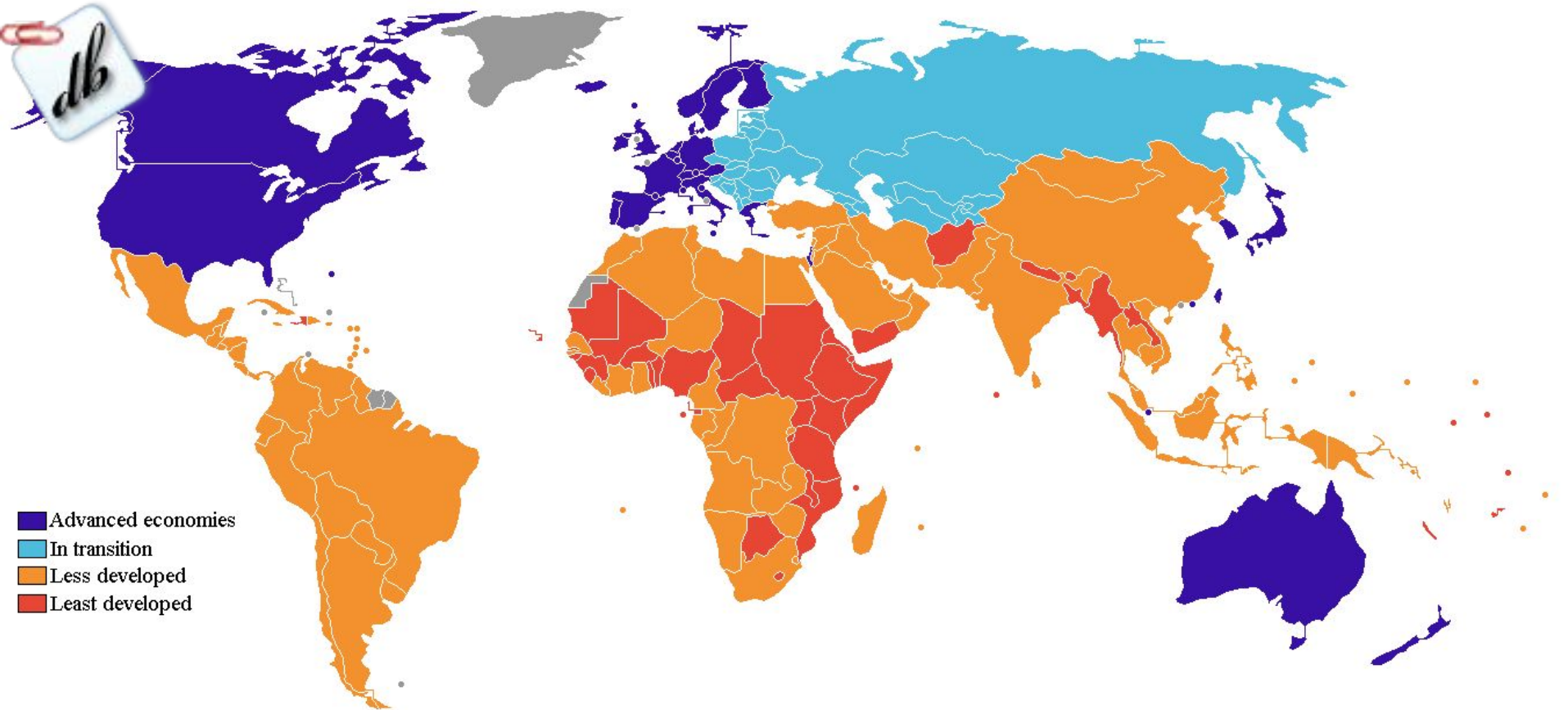
- The field of economics that studies the behavior of the aggregate economy.

Macroeconomics examines economy-wide phenomena such as changes in unemployment, national income, rate of growth, gross domestic product,



Economic Development

- Economic development is a measure of welfare, a measure of well-being.
- Commonly used measure is Human Development Index (HDI).
- Measures national income per head, adult literacy rate, average years of schooling, life expectancy



Category	HDI Value
High Human development	.800 and above
Medium human development	.500 -0.799
Low human development	Less than .500



Sustainable Development

- **Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.**
- **Countries should not use up resources too quickly and should not harm the environment since this will stop growth taking place in the future.**





STAY AHEAD ...

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