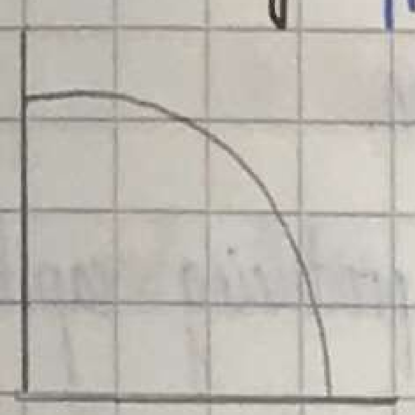
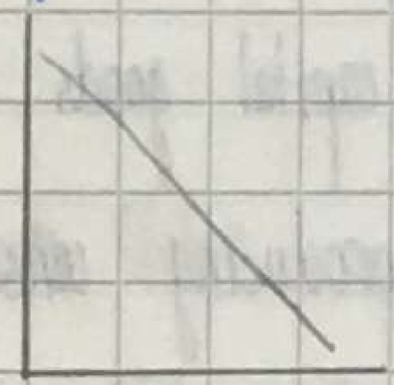
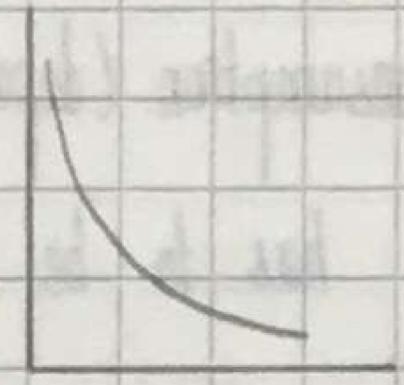
1.4. Production Possibility Curves. (PPC)

- Production possibility curve: a simple representation of the maximum level of output that an economy can achieve when using its existing resources in full.
- Reallocation of resources: Where resources are deliberately moved from one product to another.
- Factor mobility: The ease by which factors of production can be moved around.

* Shapes of PPC vs. Opportunity Cost.

- Increasing opportunity cost: Concave to the origin (Due to Law of increasing opportunity cost.
- Constant opportunity cost: Straight line (Rarely)
- Decreasing opportunity cost: Convex to the origin (Due to specialisation of labor).

* Movement Along the PPC.

The Law of Increasing Opportunity Cost tells us that, as the economy moves along side the production possibilies curve in the direction of more one good, its opportunity cost will increase.

* Shift in PPC.

- Economic growth: Represented by a shift outwards of the production possibility curve.
- Inward shift: Represents a fall in a nation's supply-side or productive capacity.
  - ↳ A major cause is a deep recession will cause a permenant loss of productive potential
  - ↳ A recession causes capital investment to fall.
    - ↳ This will mean that workers are using older, less efficient machinery which causes output per worker to decline.

Ways of causing an outward shift of a country's PPC:

- ↳ Investment in capital
- ↳ Inward migration of younger, skilled workers.
- ↳ Discovery of new natural resources.
- ↳ Improved education, training and healthcare to lift labour productivity.
- ↳ Innovations that increase output per unit output and reduce resource wastage.

* Making use of production possibility curves.

The PPC does not tell us where on the ~~arc.~~ curve a particular economy will operate. Instead, it lays out the possibilities facing the economy. We can use PPC curves to show some of the issues facing economic decision-makers in the real world.

· Current consumption or Future economic growth?

The production possibilities open to an economy are determined by the quantity and quality of resources available.

- Investment: Creation of capital goods in the process of production. Can be defined as 'any production other than for current consumption.
- Capital consumption (depreciation): The using up of capital goods during the process of production.

A choice has to be made therefore between producing consumer goods and services or producing capital goods through the process of investment.

The more consumer goods and services produced, the higher the current standard of living, but it could /might fall in the future if there is a failure to produce sufficient capital goods to replace those worn out in the process of production.

· Hard choices for Developing Economics.

Developing economies are characterized by low standards of living.

- If they are to grow then they need to increase their capital stock.
- Like all economies they need to divert resources from current consumption to investment.

Some resources must be devoted to consumption, however, to keep their expanding populations alive.

- Subsistence level of consumption: The minimum amount of resources needed.
  - The difficulty is that in the poorest developing economies almost all their PP need to be devoted to subsistence.

1.5. Money.

- Money: Anything that is generally acceptable as a means of payment.

Normally this is cash in the form of coins and notes but the definition also includes bank deposits, cheques, debit cards and credit cards.

To be acceptable from a day-to-day practical standpoint, money must also be portable and durable. However, money can also be in the form of a valuable comodity such as gold or platinum.

Other terminology used with money:

- Flat money: is government-issued currency that is not backed by a physical commodity, such as gold and silver, but rather by the government that issued it. The value of flat money is derived from the relationship between supply and demand and the stability of the issuing government.
- Near money: This is a term that is used to denote non-cash assets that can be quickly and easily turned into cash.
  ↳ Such assets include foreign currency, savings accounts, bonds and certificates of deposits.
- Liquidity: The extent to which there is an adequete supply of assets that can be turned into cash.
- Liabilities: Debt obligations.

* Coins and Notes.

Coins and Notes have little or no Intrinsic Value.

Their value directly stems from the fact that sellers have complete confidence in the money given to them that prompts them to exchange th. it for the products we want to buy.

* Key Characteristics of Money.

↳ Durability: It can be used over and over again; hence it must survive wear and tear long periods. Money have achieve greater durability through online transactions.

↳ Portable: Easy to carry around, convenient, easy to use.

↳ Divisible: It can be broken down into smaller denominations.

↳ Uniformity: Calls for a standardization of money so that it looks the same.

↳ Hard to counterfeit: It can't easily be faked or copied.

↳ Generally accepted: The form of currency must be acceptable by a population.

↳ Valuable: Generally holds value over time.

↳ Limited supply: Limited supply states that money is only valuable if it is in a limited supply.

* Functions of Money:

↳ A medium of exchange: Money is the 'medium', or form, that buyers use for purchases; sellers are willing to accept this medium in exchange for these purchases.

↳ A unit of account: Prices are quoted in terms of common monetory units.

↳ A standard for deferred payment: Not all payments we make are immediate. Some household bills are paid monthly, others may be paid annually.

↳ A store of wealth: Money can be held or 'stored' for a period of time, usually with a bank or other financial institution, before it is used. This important function means that money is a measure of value over time. Where this value is ~~accomp.~~ accumlated, then it represents a source of wealth to its owner.

1.6. Classification of goods and services

- Private goods: Consumed by someone and not available to anyone else. (economic good)
  - ↳ Causes fundamental economic problem to arise.
  - ↳ They have important characteristics:
    - ↳ 1) Excludability: Where it is possible to exclude one from consumption.
    - ↳ 2) Rivalry: Where consumption by one person reduces availability for others.
- Free goods: A product which does not require any resources to make it so does not have an opportunity cost.
- Economic goods: A product which requires resources to produce it therefore has an opportunity cost.
- Capital goods: Goods that are used in producing other goods, rather than being bought by consume
- Public goods: One that is non-excludeable and non-rival and for which it is usually difficult to charg a direct price.
  - ↳ There are two specific characteristics: It must be:
    - ↳ 1) Non-excludable: Where it is not possible to stop all benefiting from consumption.
    - ↳ 2) Non-rival: As more consume, the benefit to those already consuming is not diminished.
- Quasi-public goods: Goods that have some but not all of the ~~characterised~~ characteristics of public good
  - ↳ Is available to all those who ~~which~~ whish to use it non-excludable.
  - ↳ Non-rival up to a point. (overcrowding).

* The problem caused by public goods.

The problem with Public goods comes from the principle of the free market.

↳ The market may not produce them.

↳ There may be a consumer demand for such products (consumers are willing and able, in principle, to pay for the product's services), but the free market may not have a mechanism for guaranteering their production.

↳ Free rider issue.

- Free rider: Someone who does not pay to use a public good.

↳ Some consumers attempt to gain a 'free ride' on the back of other consumer's purchasing the public good.

1.7. Merit goods, and demerit goods and information failure.

- Merit good: One that has a positive side effects when consumed.
  - ↳ An inoculation against a contagious desease might be seen as a merit good.
  - ↳ This is because others who may not now catch the disease from the inoculated person also benefit.
- Demerit good: One that has adverse side effects when consumed.
  - ↳ Seen as any product that has adverse side effects associated with it.
- Information failure: Where people do not have full or complete infomation.
  - ↳ Merit goods:
    - ↳ A good that is better than aperson realises. E.g education.
  - ↳ Demerit goods:
    - ↳ If the person is using a demerit good, it is considered that he/she does not possesss all of the concerning harmful effects.

* Merit goods, demerit goods and value judgements.

- Paternalism: A situation where "society knows best" and has some right to make a value judgement. Regardless of what we beleive we follow the paternalism to judge what is good and what is bad.

* Moral hazard and adverse selection.

From information failure many e.g.s arise and in welfare economics 2 types of situation can be recognised:

- Moral hazard: The tendency for people who are insured or otherwise protected to take greater risks.
- Adverse selection: Where information failure results in someone who is insuitable obtaining insurance.