Economics; 18.10.2022

* All actors on a market a interdependent on each other

2.2 the production possibilities frontier

Regarding the model :

* All resources are used in this model 🡪 everything in the blue half-circle can be produced
* Point A = when you produce 2000 computers, you can only produce 700 cars
* B = scenario, where not all potential/resources is used; unused resources
* Dark blue line = scenarios where all resources are used
* E : everyone is working on cars;
  + Full specialisation of economy; monoproduction
* D = outside of the blue circe 🡪 economy does not have the resources to produced the wished amount

How people make decisions:

1. Not possible to get everything 🡪 people make tradeoffs
2. Opportunity cost : what must be given up to obtain an item
3. Comparing marginal benefits and marginal costs 🡪 “is it worth it”
4. Respond to incentives

How people interact

1. Trade can make everybody better off
   * Allows specialisation in what is done best
   * Enjoy greater variety of products
2. Markets are good to organize economic activity
   * Invisible hand = market mechanisms
3. Government can improve market outcomes

PART II : Theory of Consumer Choice

Households/Consumers make two types of optimizing choices

1). How to make an imcome

2.) How to spend the income

1.Utility and Preferences:

1.1 The Concept of Utility

Utility = Nutzen

* What is the objective?
* What do we want to maximize
* Feel best
* Optimize wellbeing
* Maximize the utility
* **Utility is an Index of preferences**

**Laws/Axioms of Preferences:**

Axiom = very strong assumption

1. Axiom of Comparison

* Everyone can compare two products/items
* 2 goods A (Coffee), B (Tea)

A > B, A = B

1. Axiom of transitivity

* Bei mehreren Produkten kann transitive Entscheidung getroffen werden

*If there are more than two products, users can make a transitive decision by comparing two each*

* 2 or more goods : A, B, C  
  A > B  
  B > c
  + A > B > C
* These Axioms lead to proposition of rank ordering of preferences :

**All conceivable products** can be ranked **in order of preference by the individual**