ECON 202 - MACROECONOMIC PRINCIPLES

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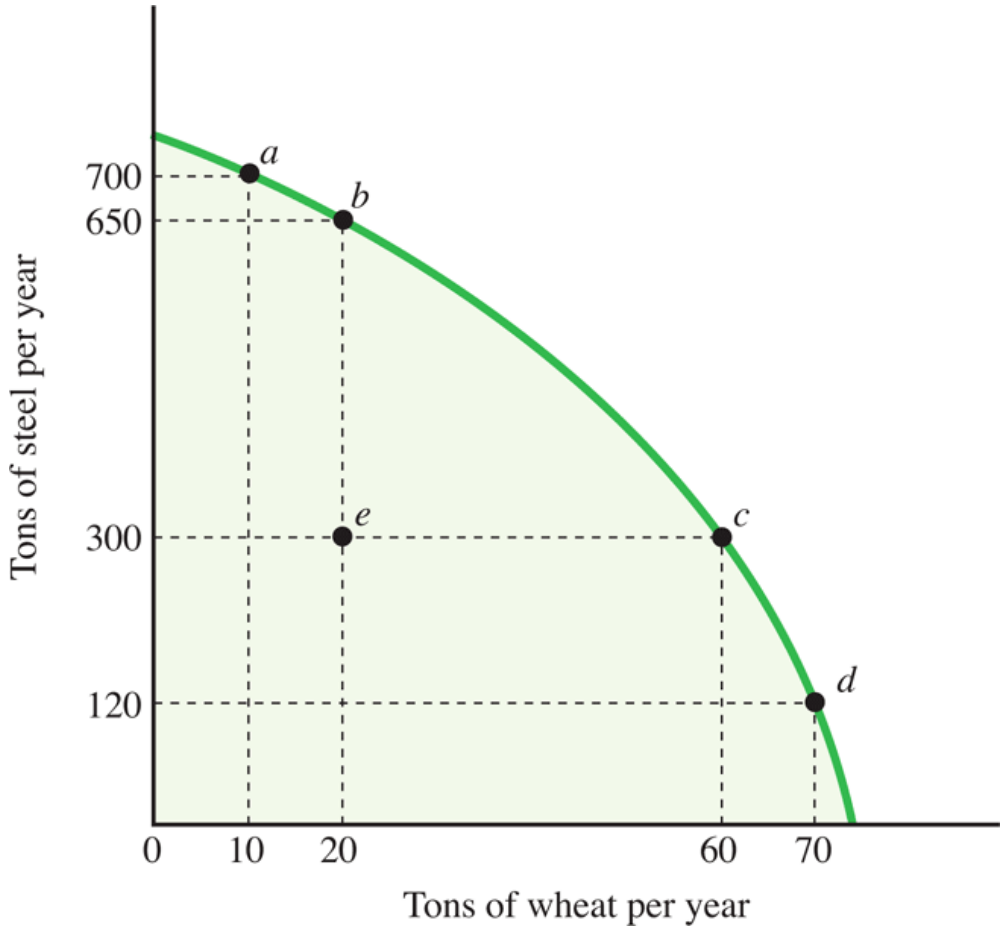
Chapter 1 - Basics for Micro and Macro

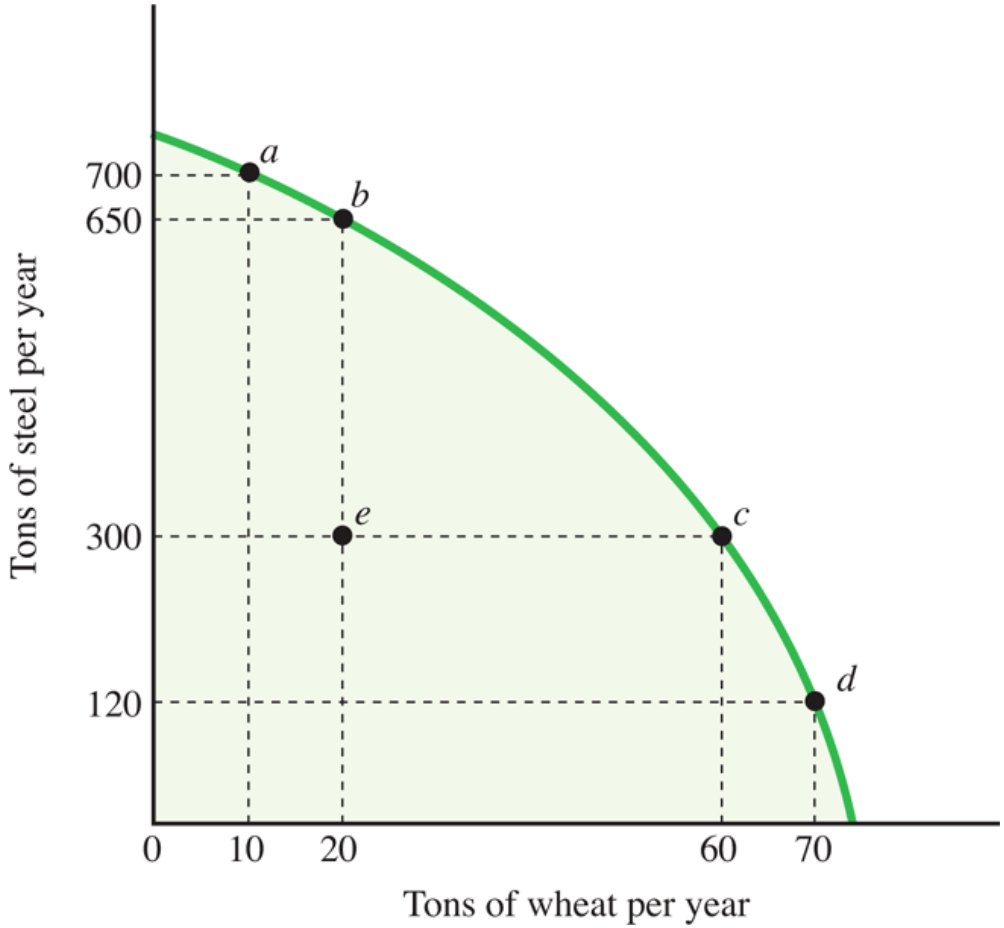
Production Possibility Frontier

PPF



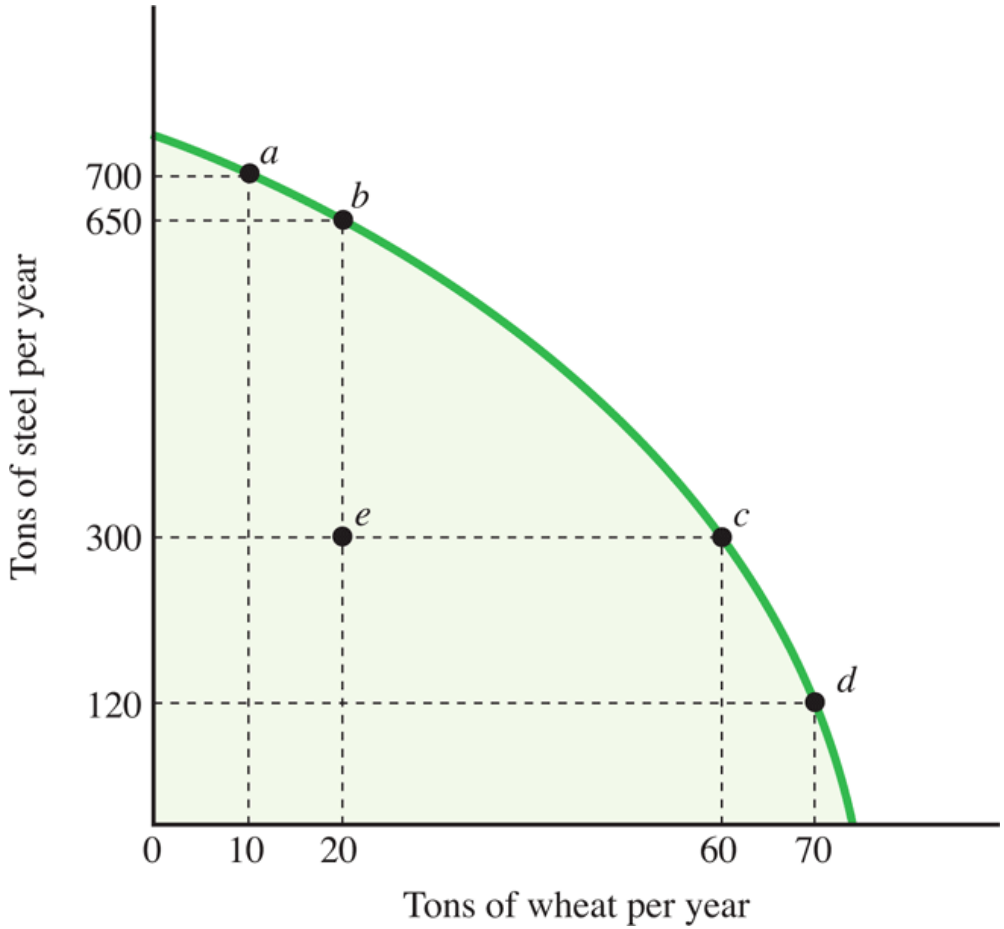
- A curve that shows the possible combinations of products that an economy can produce, given that its productive resources are fully employed and efficiently used

PPF



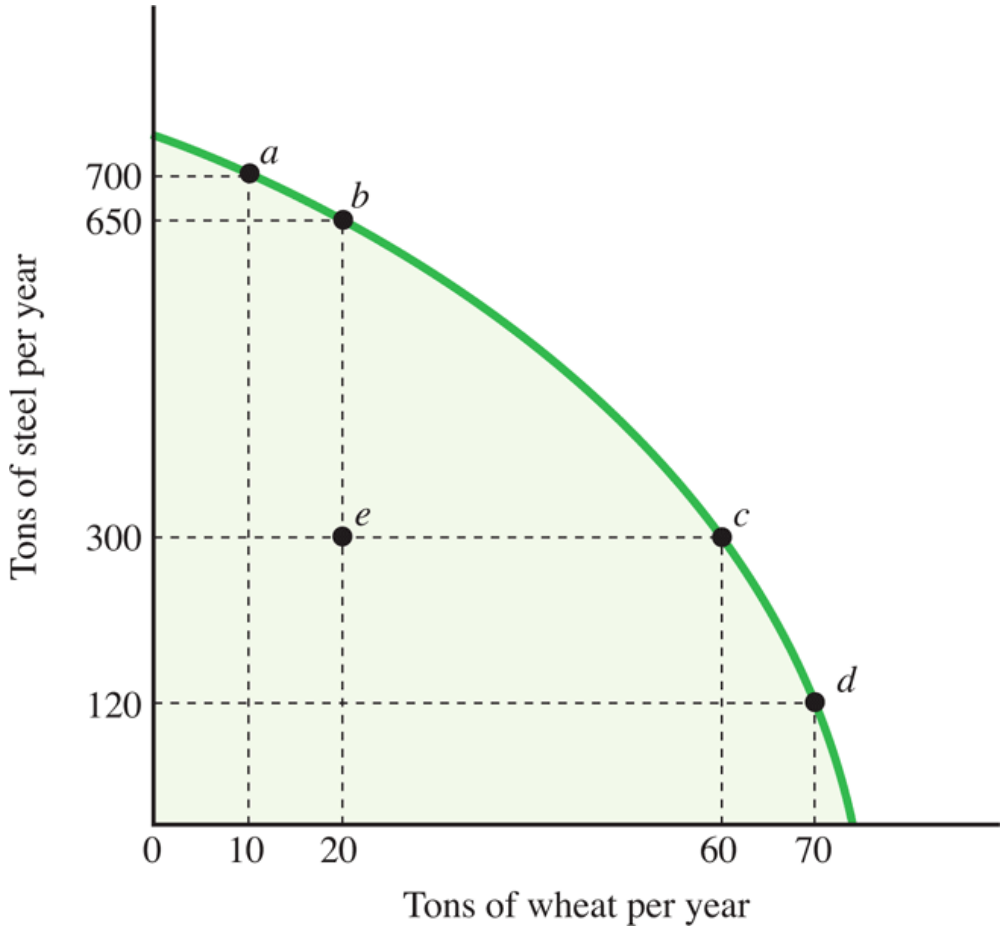
- When the economy is at point e, resources are not fully employed and/or they are not used efficiently

PPF



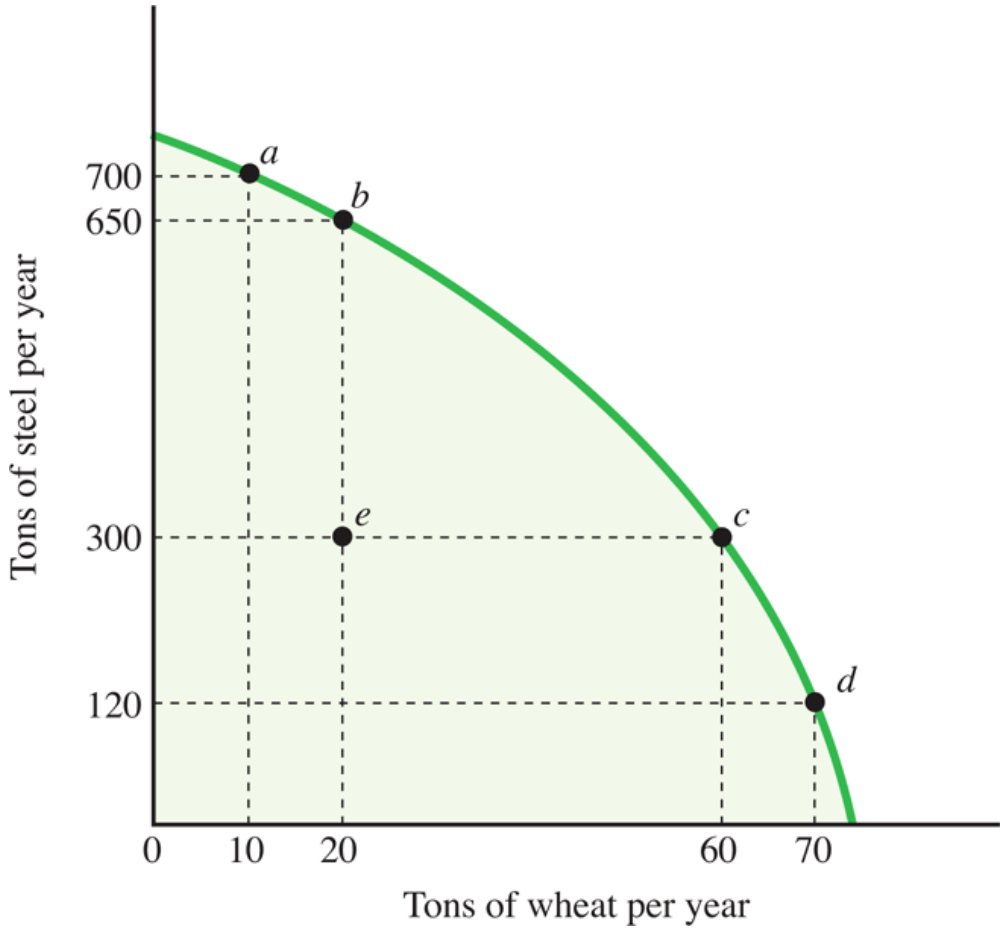
- A Point to the right of the green curve is desirable because it yields more of both goods, but not attainable given the amount of resources available

PPF



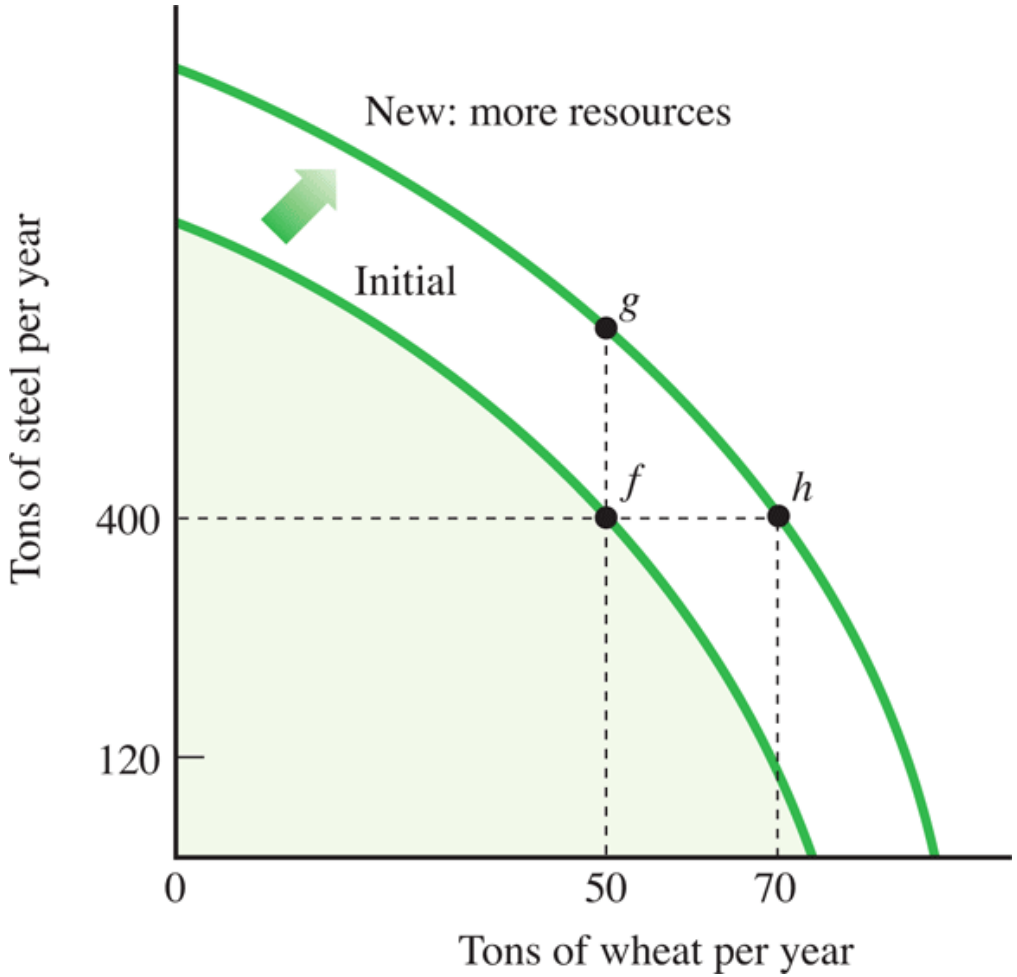
- To increase the amount of farm goods by 40 tons, we must sacrifice 350 tons of factory goods: move from $b \rightarrow c$

PPF



- The PPF curve is bowed out because resources are not perfectly adaptable to the production of the two goods $\rightarrow$As we increase the production of one good, we sacrifice progressively more of the other

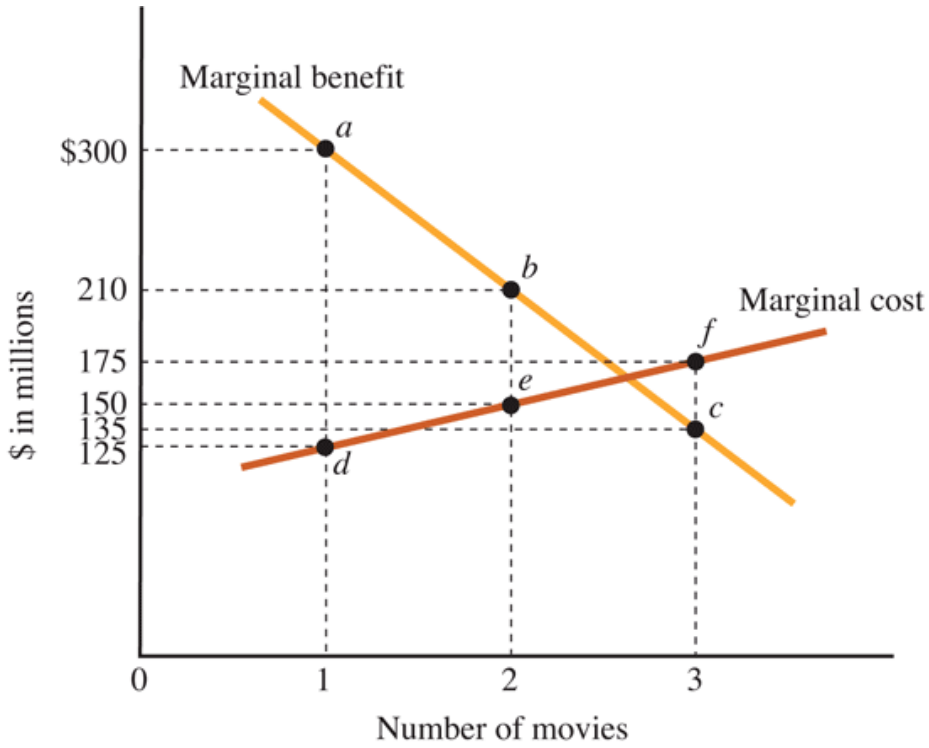
Expansion of PPF



- An increase in the quantity of resources or technological innovation in an economy shifts the production possibilities curve outward.

Basic Principles

Marginal Principle



Number of Movies	Marginal Benefit ($ millions)	Marginal Cost ($ millions)
1	$300	$125
2	210	150
3	135	175

Example of Real vs Nominal

TABLE 2.2 The Real Value of the Minimum Wage, 1974–2011

	1974	2011
Minimum wage per hour	$ 2.00	$ 7.25
Weekly income from minimum wage	80	290
Cost of a standard basket of goods	47	225
Number of baskets per week	1.70	1.29

- Because prices increased faster than the nominal wage, the real value of the minimum wage actually decreased over this period

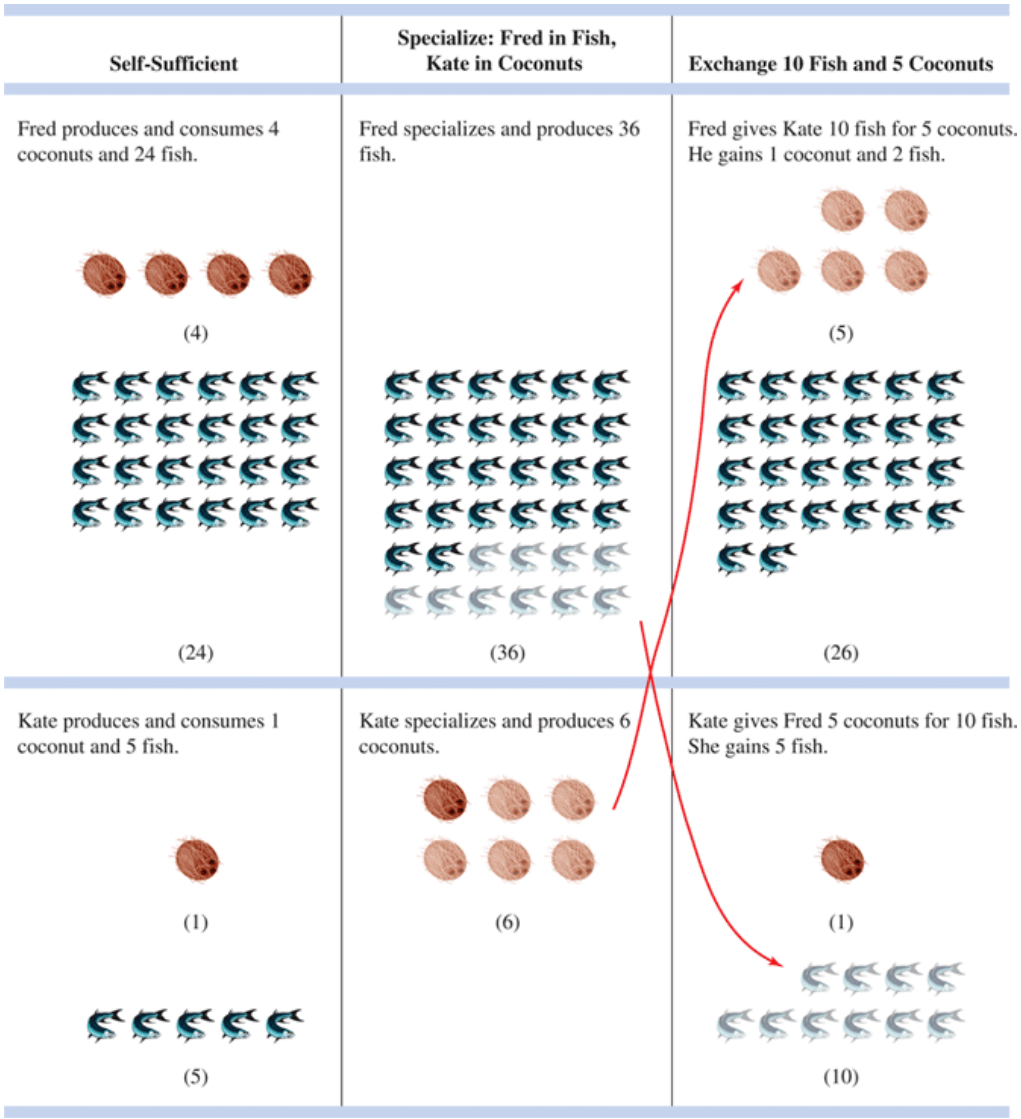
Markets

Specialization and Comparative Advantage

TABLE 3.1 Productivity and Opportunity Costs

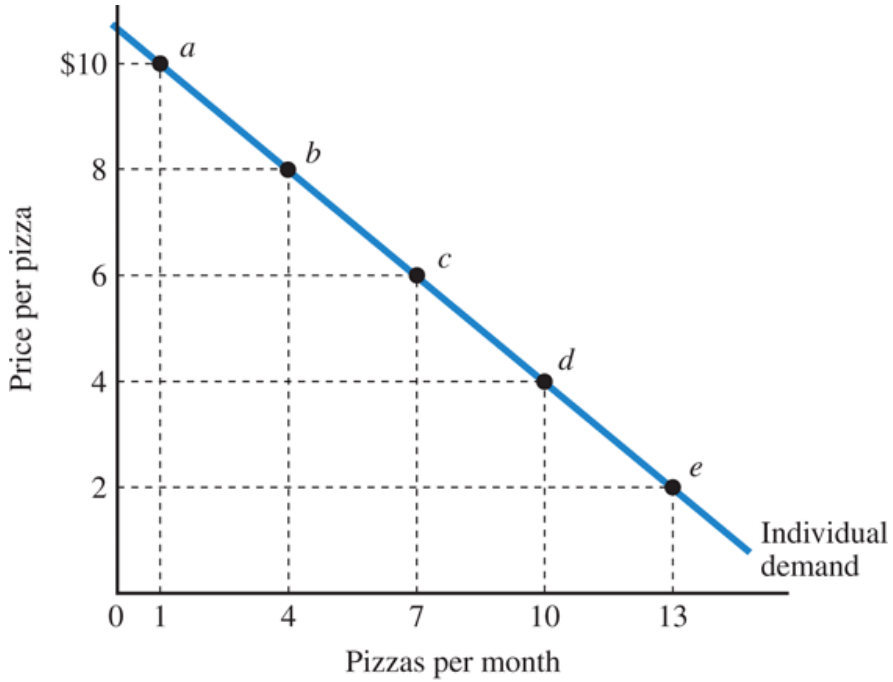
	Fred		Kate	
	Coconuts	*Fish*	*Coconuts*	*Fish*
Output per day	2	6	1	1
Opportunity cost	3 fish	1/3 coconut	1 fish	1 coconut

Gains from Voluntary Trade



Demand - Supply

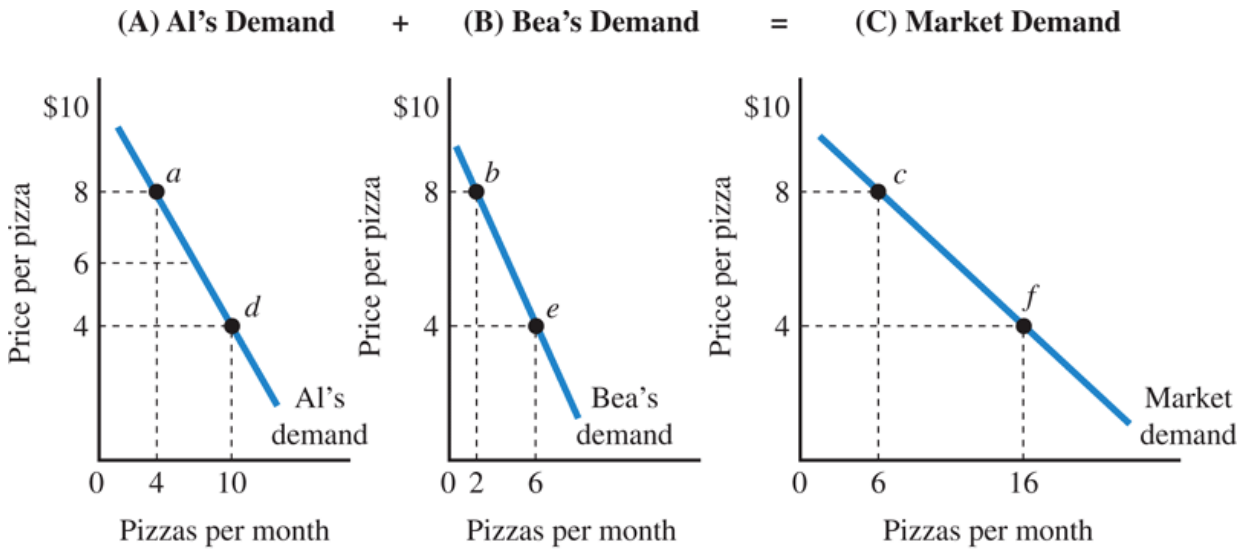
Consumer Demand



AL'S DEMAND SCHEDULE FOR PIZZAS

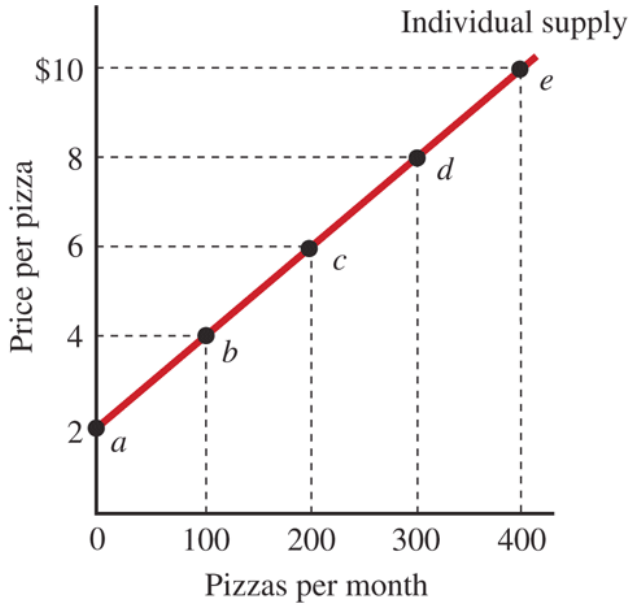
Point	Price	Quantity of Pizzas per Month
a	$10	1
b	8	4
c	6	7
d	4	10
e	2	13

Individual and Aggregate Demand



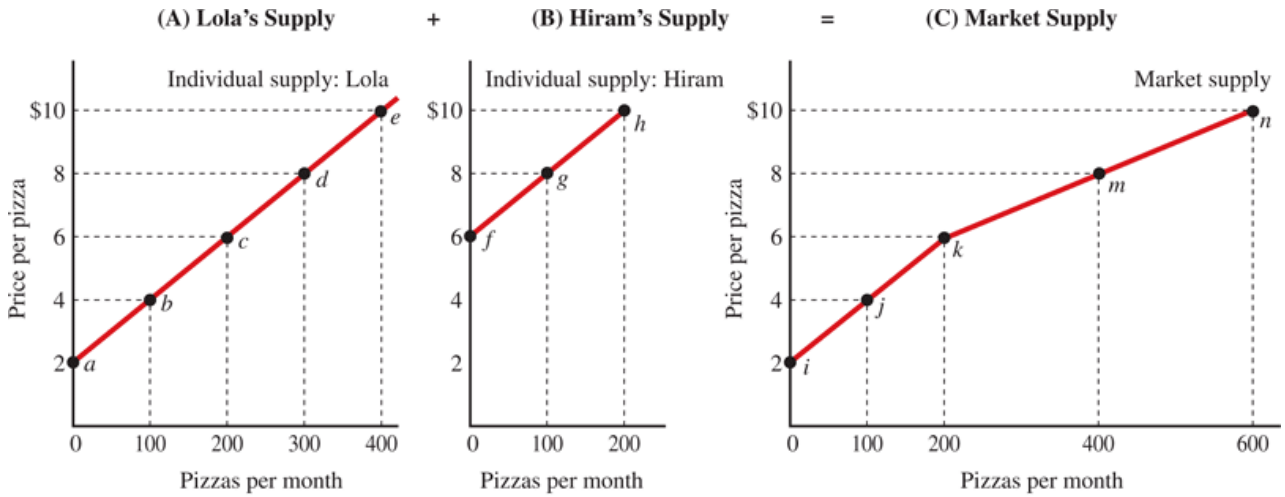
QUANTITY OF PIZZA DEMANDED			
Price	Al +	Bea =	Market Demand
$8	4	2	6
6	7	4	11
4	10	6	16
2	13	8	21

Supply Curve



INDIVIDUAL SUPPLY SCHEDULE FOR PIZZA		
Point	Price	Quantity of Pizzas per Month
a	$2	0
b	4	100
c	6	200
d	8	300
e	10	400

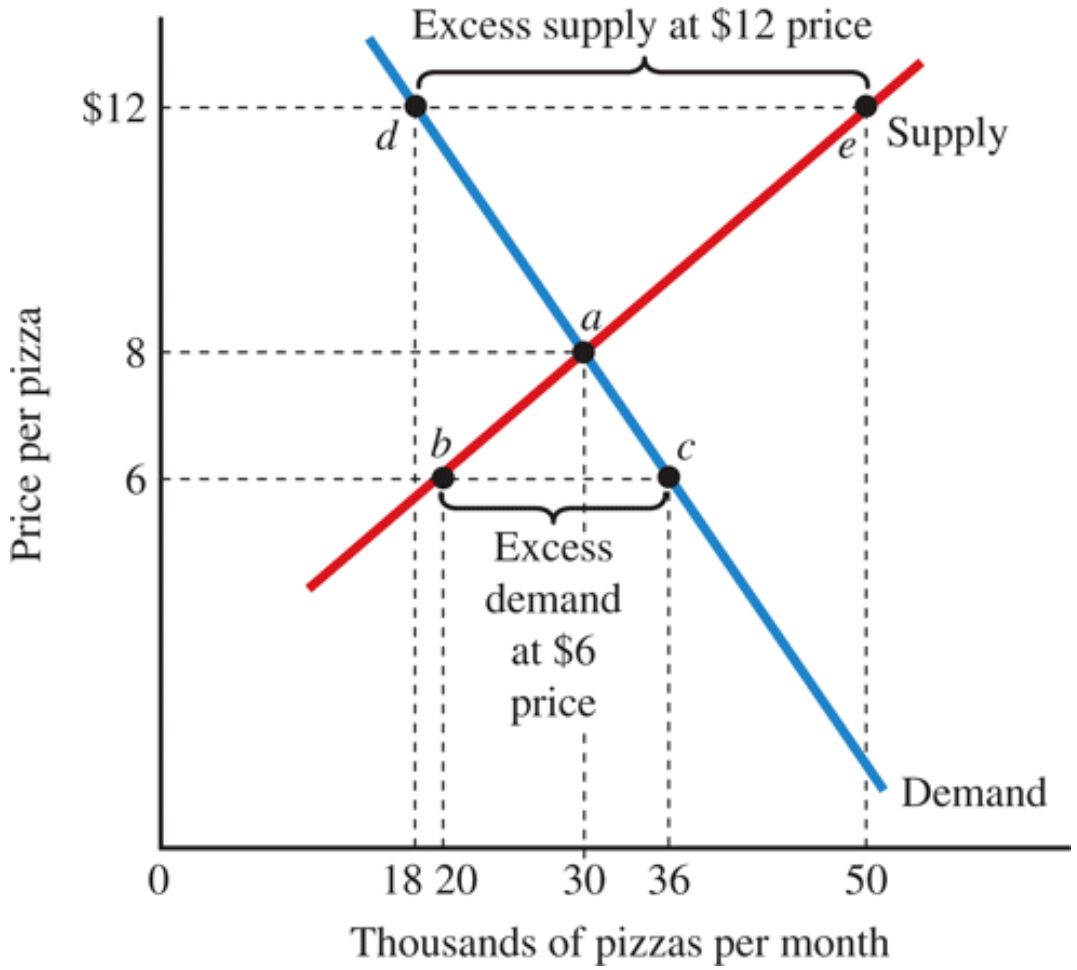
Aggregate Supply



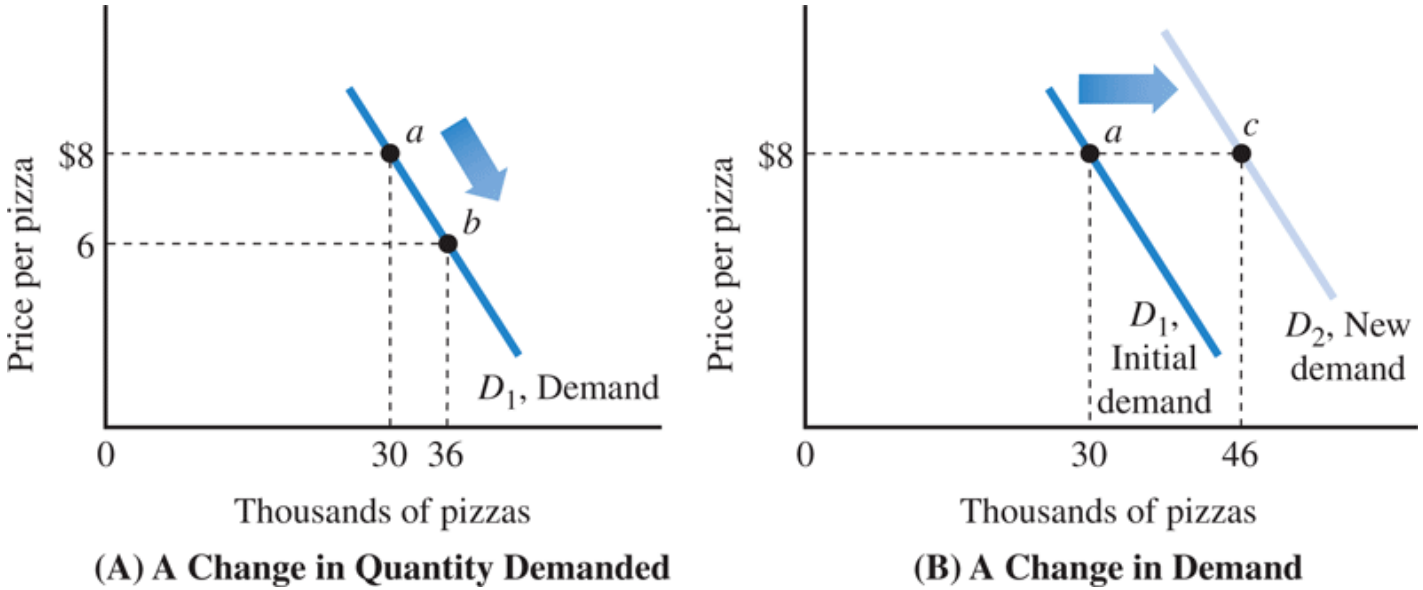
QUANTITY OF PIZZA SUPPLIED			
Price	Lola +	Hiram =	Market Supply
2	0	0	0
4	100	0	100
6	200	0	200
8	300	100	400
10	400	200	600

Market Equilibrium

Market Equilibrium



Change in Price vs Change in Demand



(A) A Change in Quantity Demanded **(B) A Change in Demand**

Demand and Supply Shifts