

Fundamental of Economics

Date : / /

Mid Term Hand Note

Topic - 01

Economics: is the study of how society manages its scarce resources. → social science.

Scarcity: is the fundamental economic problem of having seemingly unlimited human wants in a world of limited resource.

→ it is limited.

(GDP) → Yearly

Two major Branches

→ Micro economics → individual part of economy
→ small

→ Macro Economics → looks at the economy as a whole
→ large.

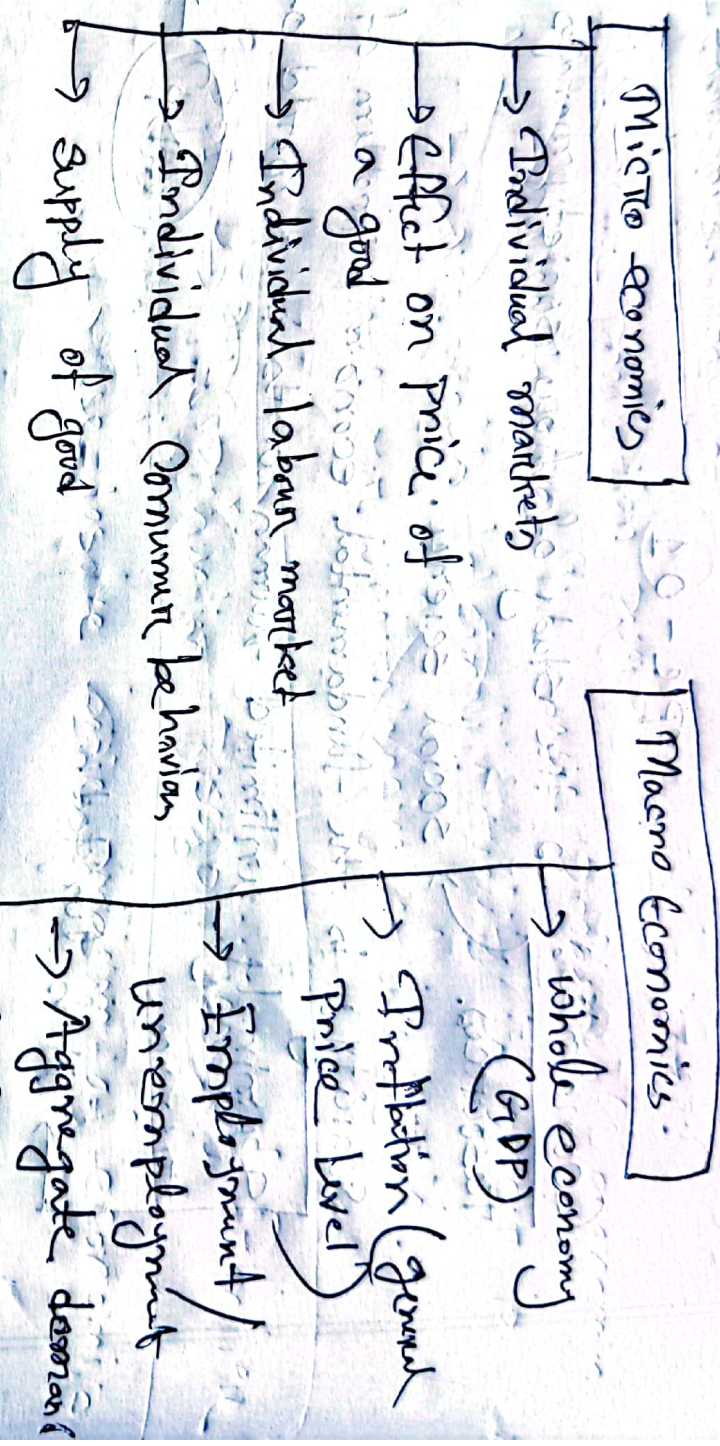
Micro Economics

- 1) explains how and why these units make economic decision
- 2) these economics include consumers, workers, investors, owners, business firm
- 3) focus on individual part of economy

Macro Economics

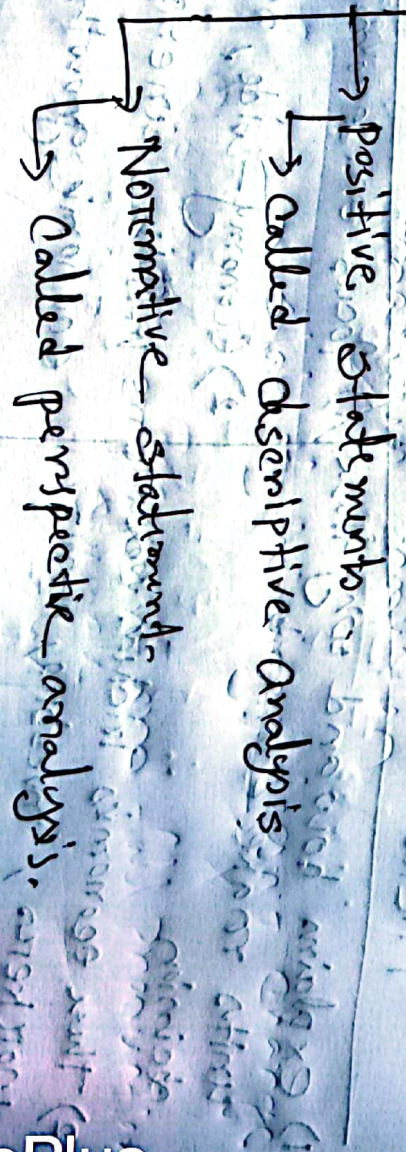
- 1) focus on economics as a whole
- 2) Economy-wide, phenomena, including inflation, unemployment and economic growth.

Difference Between Micro & Macro Economics



Oikonomos → Economics

Two types of economics analysis.



Exemplars of Economic

Date : / /

An increase in the minimum wage will cause a decrease in employment among the least-skilled. (Positive)
 # Higher federal budget deficits will cause interest rates to increase. (Positive)

The income gain from a higher minimum wage are worth more than any slight reduction in employment. (Normative)

Positive Statement

act as a scientist. It decrease fact of economy such as: The sun rising in the east. → Macro Economy

Normative Statement

depend on value / Political statement
 such as: Govt should be normative statement depend on what should be done.
 should
 production of employment

Three types of Basic Problems.

what
 how
 for whom.

Economics model :

- The production possibilities frontier ,
- used to solve the basic problem of economics
- use models to simplify reality in order to improve our understanding of the world .

PPF → The Production Possibilities of Frontier

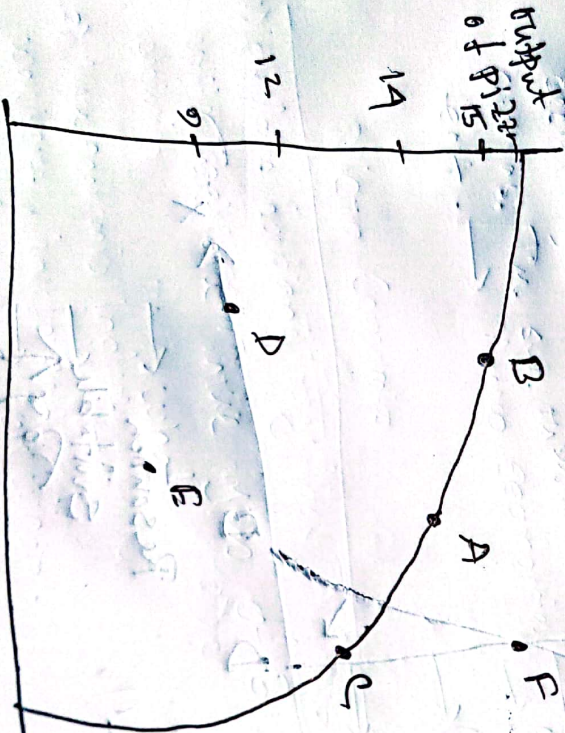
- use to solve basic problem of economics
- PPF represents maximum production of an economy that can be produced by using available resources and technology .
- is a graph ; we can show here maximum production
- state of technology doesn't change .
- full employment and full production

Production possibilities schedule

Possibilities	Combination of rounds	P122 (Gmms)
A	0	14
B	1	12
C	2	9
D	3	5
E	4	0
F	5	

Prof. A. Samuelson

PPF was introduced by



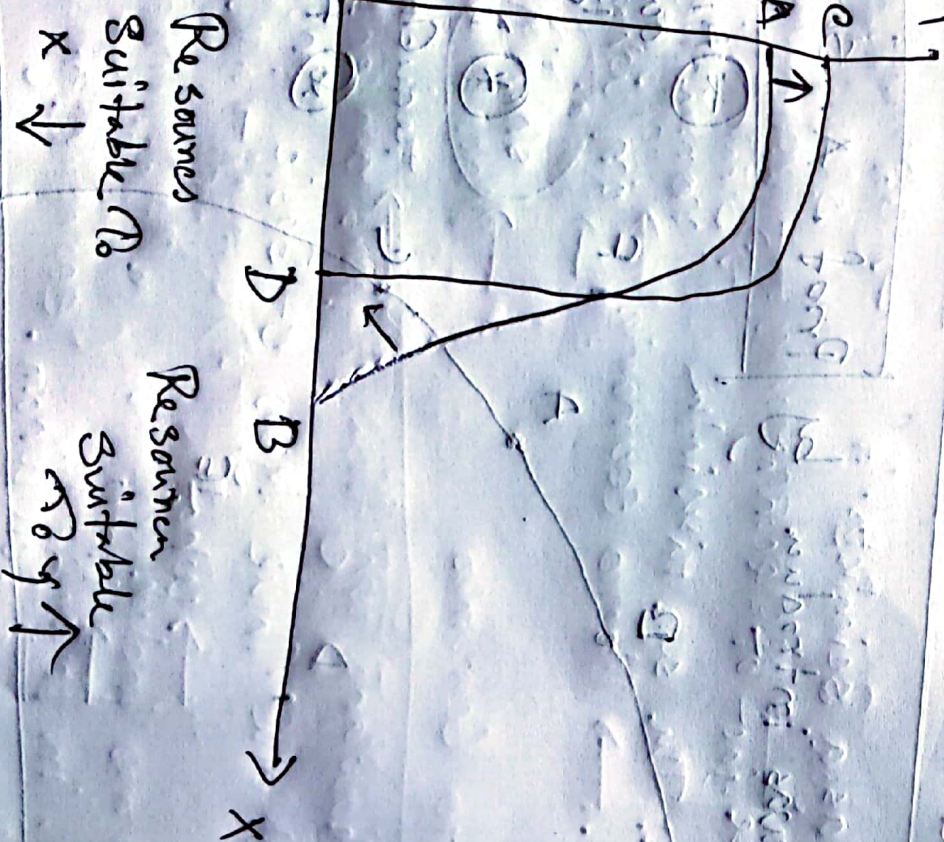
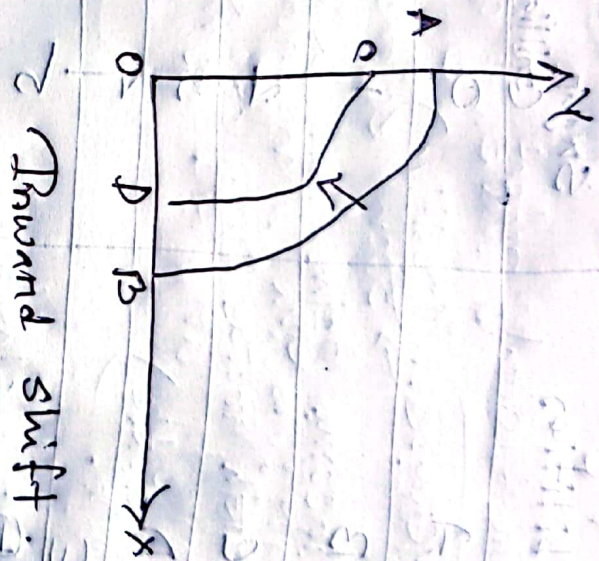
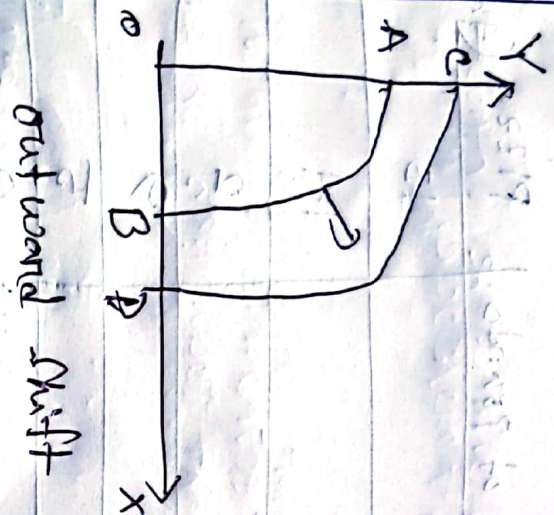
* A, B, C are efficient combinations lying on the PPF

* D, E are inefficient combinations

* F is an impossible combination

Every point along the curve is efficient. Points outside the curve are inefficient, infeasible, and impossible.

Shifts in the PPF?



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Cause of shifts in the PPF :-

- Advance in technology
- Changes in resources
- More education or training
- changes in the labour force

PPF illustrated

- Efficiency
- Trade offs
- Opportunity Cost
- Economic growth.