

Economics  
A tale of doom

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# Contents

## Chapter 1

## Page 2

1.1	Wednesday, August 14	2
1.2	Thursday, August 15	3
	FOP, the Factors of production — 4	
1.3	Friday, August 16h	4

# Chapter 1

## 1.1 Wednesday, August 14

### Definition 1.1.1: Utility

Utility is the economics term for *benefit*. Marginalism is the economic principle that economic decisions are made and economic behavior occurs in terms of incremental units, rather than categorically. The key insight of marginalism is that people make decisions over specific units of economic goods (economists say "at the margin"), rather than in an all-or-none fashion.

### Definition 1.1.2: How society decides how economics work

- What will be produced?
- How will it be produced?
- Who will receive it?

### Definition 1.1.3: Command Economy vs. Traditional Market Economy

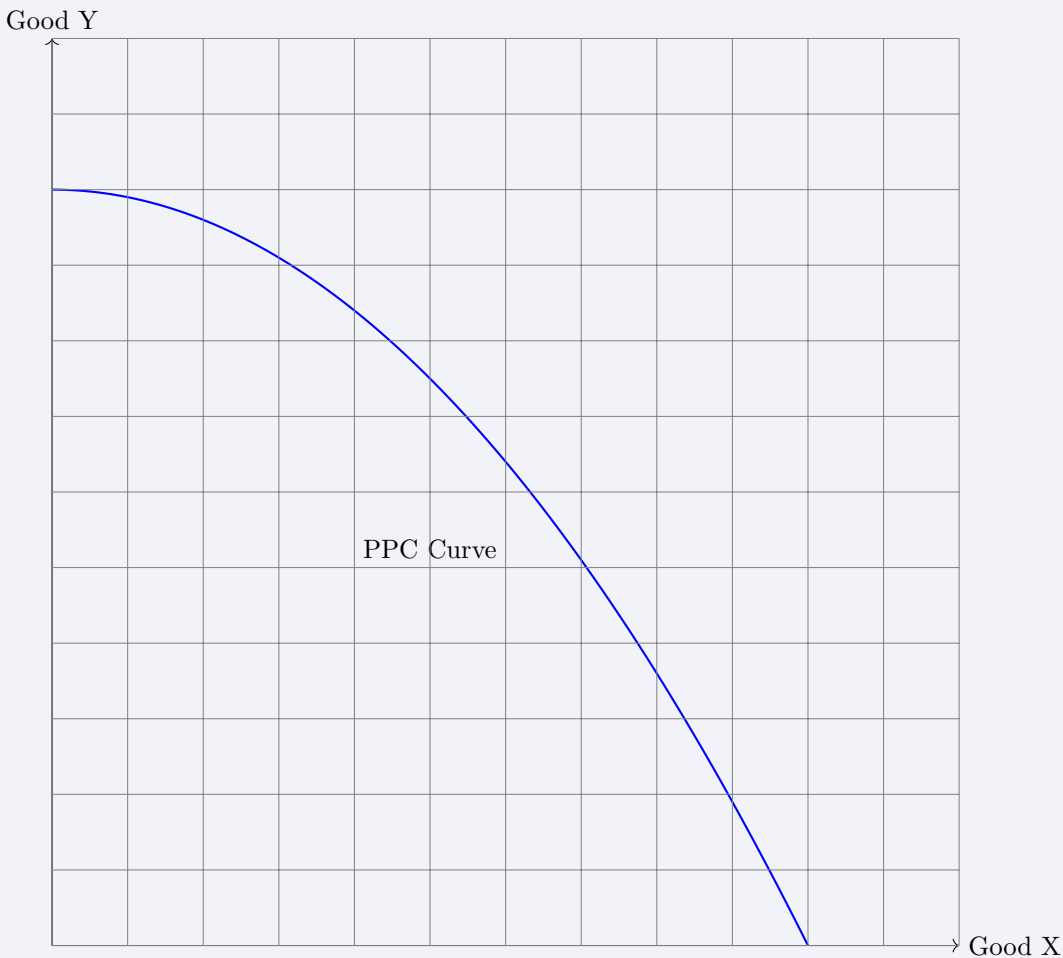
In a command economy the government decides every answer to all of those questions. In a market economy, the people (consumers) have complete control over the first and last answers. Companies have say over the means of production. Here's the stitch: The **Market** decides the reception in reality. There is also a mixed economy, which is somewhere on the spectrum between the two extremes. Pure competition is required to make a Market Economy work.

### Theorem 1.1.1 What does a market Economy create?

- Efficiency
- Quality
- principle
- Innovation

## 1.2 Thursday, August 15

### Theorem 1.2.1 PPC - Product Possibility Curves



That is the curve of 100% efficiency, if a business was working at the capacity of its infrastructure. Each point anywhere in the sample space presented could be the efficient, inefficient, or infeasible. If product production values are beyond the curve, they are infeasible. If inside, inefficient. There is also opportunity cost, where each additional unit of production has a cost in the form of the production of another simply because of the resources used.

### Theorem 1.2.2 Models

A model is any simplified version of reality used to better understand a real-life situation. In economics, it's simply applied mathematics. A PPC is also a type of model because the actual datapoints on the curve are discrete values in real life, which more than the two dimensions presented in slice form here.

#### Definition 1.2.1: What it means for an economy to be Growing

An economy now has more production possibilities, as in the feasible sample space where a production possibility can be chosen from is larger. This can either be because of an increase of availability of a factor of production or better technology.

### Definition 1.2.2: 4 factors of production

- labor
- land
- capital
- entrepreneurship

## 1.2.1 FOP, the Factors of production

### Note:-

WRIP is the acronym for the income streams generated off of the factors of production.

- land → Rent
- labor → wages
- capital → interest
- entrepreneurship → owner and stuff, you know

## 1.3 Friday, August 16h

### Definition 1.3.1: Recession

A recession is a contraction of the economy measured by negative growth of the GDP for 3 months.

### Definition 1.3.2: Economic Growth terms

An expansion is a measurable increase of the PPC boundaries through GDP and other things. Peak is the, well the peak of the growth percentages. Trough is the lowest growth percentage of the contraction cycle. During an expansion:

- Inflation ↑
- Unemployment ↓
- GDP ↑
- Inflation ↑

During a contraction:

- Inflation ↓
- Unemployment ↑
- GDP ↓

Think about each one and why.

### Theorem 1.3.1 The Fed causes recessions

Here's why: to control inflation, the fed must increase interest rates, which makes it harder for people to spend money that they don't actually have. Therefore, businesses don't make as much money, and they

fire people and so on in a death spiral.

#### Definition 1.3.3: Inflation vs. Disinflation vs. Deflation

**They're different, be careful.** Inflation is when prices go up. Disinflation is good though, it is the readjustment of the inflation rate to be lower. But when prices go down, disinflation occurs, there's less money on the table for *everyone*.

#### Theorem 1.3.2 This is why Innovation and Competition are so important.

They're important because they are the *secure* way to decrease the prices of goods without causing an economic death spiral. Think on it.

#### Note:-

This is the deal. You can't compete - in terms of prices - with another business because someone else can always outbid you. Therefore, you must act on *quality*.

#### Definition 1.3.4: Comparative Advantage

Comparative advantage is an economy's ability to produce a particular good or service at a lower opportunity cost than its trading partners. Comparative advantage is used to explain why companies, countries, or individuals can benefit from trade.

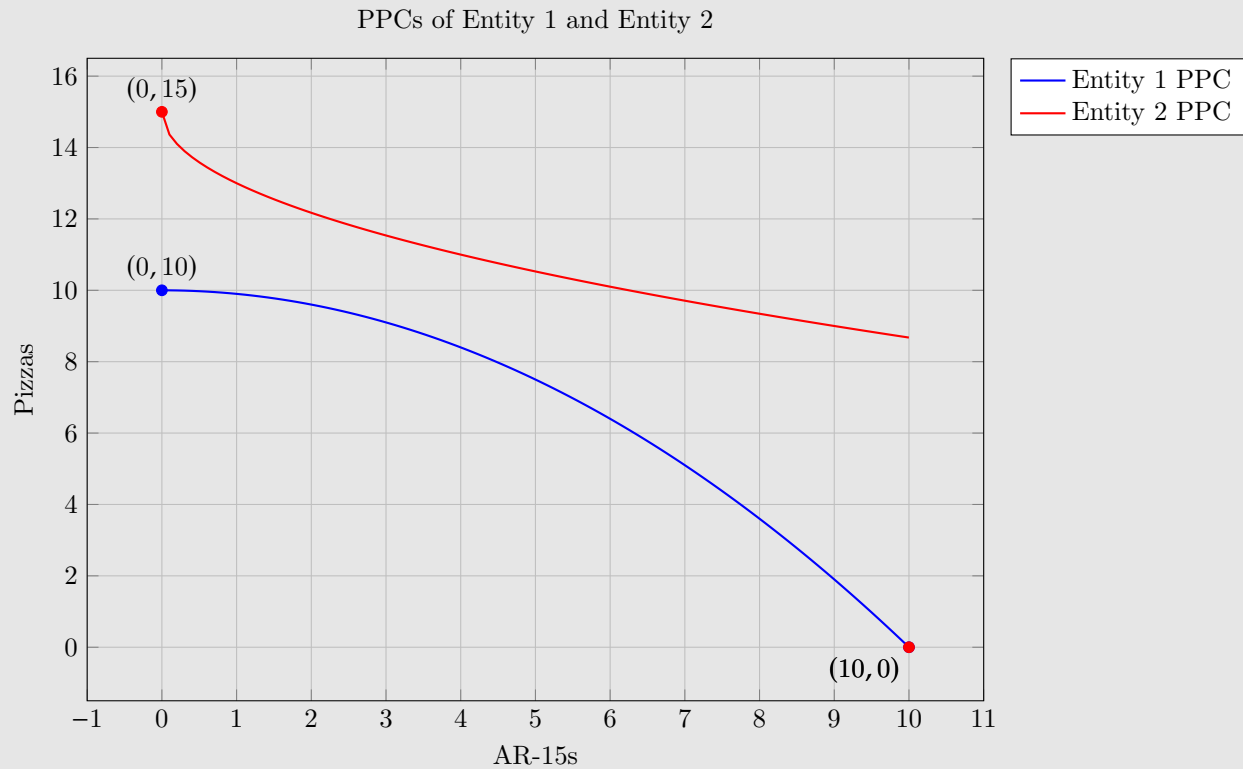
#### Definition 1.3.5: Absolute Advantage

Absolute advantage is the ability of an individual, company, region, or country to produce a greater quantity of a good or service with the same quantity of inputs per unit of time, or to produce the same quantity of a good or service per unit of time using a lesser quantity of inputs, than its competitors.

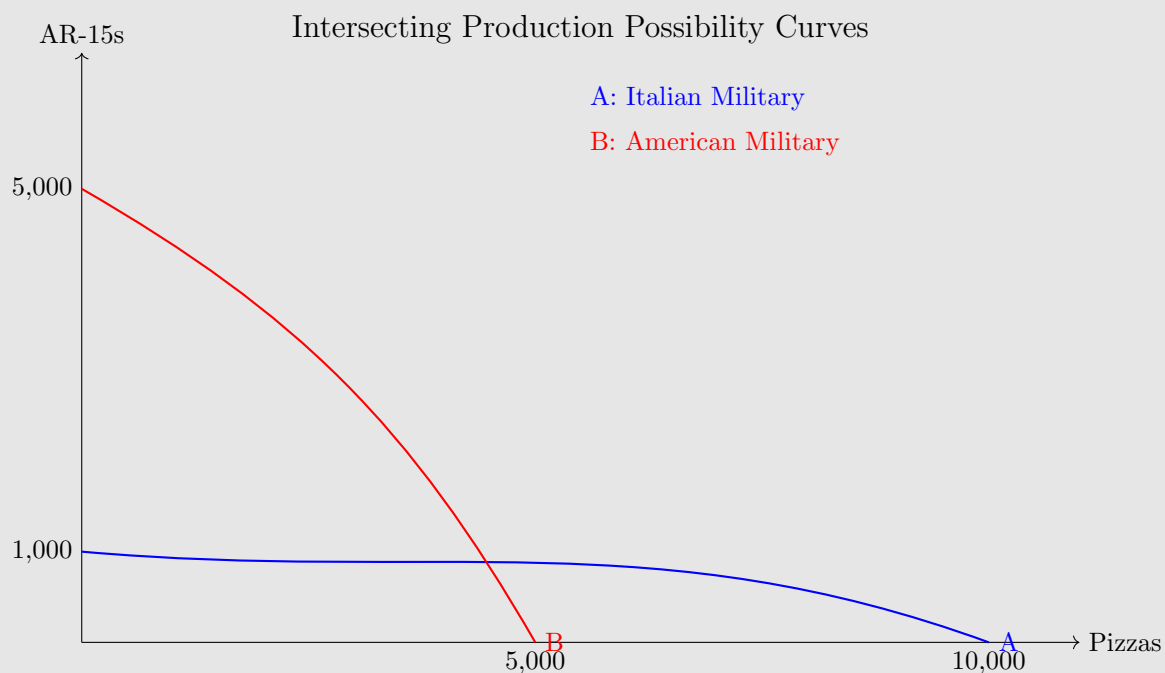
#### Note:-

Absolute advantage only covers that Entity A can make more than Entity B. Comparative advantage is more complicated:

$$\begin{array}{r} \frac{\text{Entity B's import of Good Y}}{\text{Entity A's Good X}} \\ \frac{\text{Entity B's import of Good X}}{\text{Entity A's Good Y}} \\ \frac{\text{Entity A's import of Good Y}}{\text{Entity B's Good X}} \\ \frac{\text{Entity A's import of Good X}}{\text{Entity B's Good Y}} \end{array}$$



This is such a graph where there exists no comparative advantage because the opportunity cost to produce AR-15s vs. That of Pizzas is always cheaper than the **terms of trade** if Entity 1 were to trade with Entity 2. Entity A has the complete Absolute advantage, and has no need to work with Entity 2. However, it is important to note that Absolute advantage does not mean that there does not exist a comparative advantage.



**Definition 1.3.6: GDP**

Dollar value of all goods and services produced in the U.S. in one year.

**Definition 1.3.7: Leakage**

Leakage is the removing of funds from the the circulation in the circular flow model done by consumers otherwise known as "spending."

**Definition 1.3.8: Injection**

It's when those same consumers spend the money that they save during leakage.