

Tilahun Ayanou[21:01 ET]: Recap Unit 1: resource scarcity force to make economic choice

Tilahun Ayanou[21:01 ET]: choices are based opportunity cost: tradeoff

Tilahun Ayanou[21:02 ET]: Unit 2: how to deal with resource scarity


trade leads to specialization

2-deals with area of trade or trade model
Tilahun Ayanou[21:06 ET]: comparative is the basis: domestic + international trade

3-flow model or marketing model, flow of goods and money
Tilahun Ayanou[21:07 ET]: economics agents: firm/business and household/individual

4-positive and normative



Tilahun Ayanou[21:10 ET]: USA economy: the most complex economy ever
Tilahun Ayanou[21:11 ET]: flow model: business vs house household + role government


Tilahun Ayanou[21:13 ET]: PPF: capital goods vs consumption goods

Tilahun Ayanou[21:14 ET]: PPF: defense goods vs civilian goods

Tilahun Ayanou[21:16 ET]: economic growth vs equity: distribution

Tilahun Ayanou[21:17 ET]: efficiency vs equity

Tilahun Ayanou[21:22 ET]: specialiation: production (goods + services)


Tilahun Ayanou[21:23 ET]: PPF: applied, it does work



Tilahun Ayanou[21:27 ET]: Combination A (20 oranges, 15 apples)

Tilahun Ayanou[21:28 ET]: B (28 oranges, 9 apples)

Tilahun Ayanou[21:28 ET]: D: outside PPF not possible

Tilahun Ayanou[21:29 ET]: efficient + feasible production: along the PPF (A, B.....)



Tilahun Ayanou[21:30 ET]: Tradeoff: opportunity cost

Tilahun Ayanou[21:31 ET]: assignment graph: increase OC

if it outside the PPF it cannot be produced, they don’t have enough resources



Tilahun Ayanou[21:35 ET]: Anjie: follow this example for the assignment
Tilahun Ayanou[21:38 ET]: if one goods production increases, other goods production decreases


Decrease divided by quantity gained = 200/100 = 2



also called trade model

Tilahun Ayanou[21:46 ET]: trade based on lower OC

Tilahun Ayanou[21:47 ET]: problem: cheating in trade: unfair trade practice (currency manipulation: China vs USA)

Explains social gain






Tilahun Ayanou[21:54 ET]: cost labor is cheap in emerging markets

Anita Bhiro[21:54 ET]: China only allows

Tilahun Ayanou[21:55 ET]: negative trade balance with China



Tilahun Ayanou[21:56 ET]: capital flow is relate to trade balance




government may intervene with taxation


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**From Chapter 2**

A model is a simplified representation of
a real situation that is used to better understand
real-life situations.

The other things equal

assumption means that all other

relevant factors remain unchanged.

The production possibility

frontier illustrates the trade-offs

facing an economy that produces

only two goods. It shows the

maximum quantity of one good

that can be produced for any given

quantity produced of the other.

Factors of production are

resources used to produce goods

and services.

Technology is the technical means

for producing goods and services.

A country has a comparative

advantage in producing a good

or service if its opportunity cost of

producing the good or service is

lower than other countries’. Likewise,

an individual has a comparative

advantage in producing a good or

service if his or her opportunity cost

of producing the good or service is

lower than for other people.

A country has an absolute

advantage in producing a good or

service if the country can produce

more output per worker than other

countries. Likewise, an individual

has an absolute advantage in

producing a good or service if he

or she is better at producing it than

other people. Having an absolute

advantage is not the same thing as

having a comparative advantage.

Trade takes the form of barter when

people directly exchange goods or

services that they have for goods or

services that they want.

The circular-flow diagram

represents the transactions in an

economy by flows around a circle.

A household is a person or a group

of people that share their income.

A firm is an organization that

produces goods and services for sale.

Firms sell goods and services that

they produce to households in

markets for goods and services.

Firms buy the resources they need

to produce goods and services in

factor markets.

An economy’s income distribution

is the way in which total income is

divided among the owners of the

various factors of production.

Most economic models are “thought

experiments” or simplified representations

of reality that rely on the

other things equal assumption.

• The production possibility frontier

model illustrates the concepts of

efficiency, opportunity cost, and

economic growth.

• Every person and every country has

a comparative advantage in something,

giving rise to gains from trade.

Comparative advantage is often confused

with absolute advantage.

• In the simplest economies people

barter rather than transact with

money. The circular-flow diagram

illustrates transactions within the

economy as flows of goods and

services, factors of production, and

money between households and

firms. These transactions occur in

markets for goods and services

and factor markets. Ultimately,

factor markets determine the economy’s

income distribution.

Positive economics is the branch

of economic analysis that describes

the way the economy actually works.

Normative economics makes

prescriptions about the way the

economy should work.

A forecast is a simple prediction of

the future.

Positive economics—the focus

of most economic research—is

the analysis of the way the world

works, in which there are definite

right and wrong answers. If often

involves making forecasts. But

in normative economics, which

makes prescriptions about how

things ought to be, there are often

no right answers and only value

judgments.

• Economists do disagree—though

not as much as legend has it—for

two main reasons. One, they may

disagree about which simplifications

to make in a model. Two,

economists may disagree—like

everyone else—about values.

1. Almost all economics is based on models, “thought

experiments” or simplified versions of reality, many

of which use mathematical tools such as graphs. An

important assumption in economic models is the

other things equal assumption, which allows analysis

of the effect of a change in one factor by holding all

other relevant factors unchanged.

2. One important economic model is the production

possibility frontier. It illustrates opportunity cost

(showing how much less of one good can be produced

if more of the other good is produced); efficiency (an

economy is efficient in production if it produces on the

production possibility frontier and efficient in allocation

if it produces the mix of goods and services that

people want to consume); and economic growth (an

outward shift of the production possibility frontier).

There are two basic sources of growth: an increase in

factors of production—resources such as land, labor,

capital, and human capital, inputs that are not used up

in production—and improved technology.

3. Another important model is comparative advantage,

which explains the source of gains from trade between

individuals and countries. Everyone has a comparative

advantage in something—some good or service in

which that person has a lower opportunity cost than

everyone else. But it is often confused with absolute

advantage, an ability to produce a particular good or

service better than anyone else. This confusion leads

some to erroneously conclude that there are no gains

from trade between people or countries.

4. In the simplest economies people barter—trade goods

and services for one another—rather than trade them

for money, as in a modern economy. The circular flow

diagram represents transactions within the

economy as flows of goods, services, and money

between households and firms. These transactions

occur in markets for goods and services and factor

markets, markets for factors of production—land,

labor, physical capital, and human capital. It is useful

in understanding how spending, production, employment,

income, and growth are related in the economy.

Ultimately, factor markets determine the economy’s

income distribution, how an economy’s total income

is allocated to the owners of the factors of production.

5. Economists use economic models for both positive

economics, which describes how the economy works,

and for normative economics, which prescribes how

the economy should work. Positive economics often

involves making forecasts. Economists can determine

correct answers for positive questions but typically

not for normative questions, which involve value judgments.

The exceptions are when policies designed to

achieve a certain objective can be clearly ranked in

terms of efficiency.

6. There are two main reasons economists disagree. One,

they may disagree about which simplifications to make

in a model. Two, economists may disagree—like everyone

else—about values.