

# AP Microeconomics

## Unit 1: Basic Economic Concepts

### 1.1: Scarcity

- **Economics:** the study of scarcity and choice with unlimited wants and limited resources
- **Economic choice:** involves the personal choice of choosing one thing over another
- **Scarcity:** unlimited wants but limited resources (ex. time = limited supply)
- **Free goods:** goods with no-cost/unlimited supply (ex. sunlight)
- **Positive statement:** factual statement
- **Normative statement:** opinionated statement

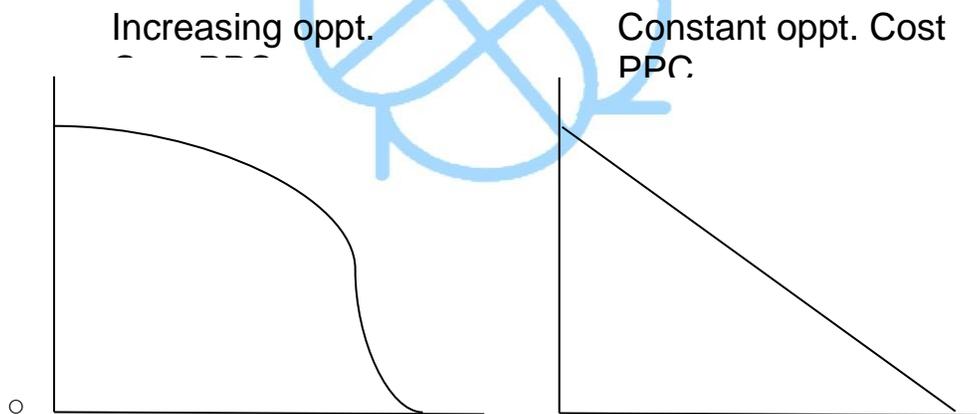
### 1.2: Resource Allocation and Economic Systems

- **Economy:** a system that coordinates choice about the production with choices about consumption and distributes goods and services to the people who want them.
- **Market Economy:** the production and consumption results of decentralized decisions made by many firms and individuals.
- **Command Economy:** industries = publicly-owned and the central authority is making producer and consumer decisions.
- **Property Rights:** establish ownership and grant individuals the right to trade goods and services with each other.
- **Resource:** anything that can be used to produce something else
  - Factors of production (acronym to remember = **CELL**):
    - **C**apital (anything used to make anything else)
    - **E**ntrepreneurship (creating something of value from the prior 3)
    - **L**and (natural resources)
      - Raw materials used to produce finished goods
    - **L**abor (workers)
      - Human effort/work
- **Opportunity Cost:** the next best alternative given up when making a choice
  - Implicit costs - forgone benefits of any single transaction

- ex. time and effort an owner puts into maintaining a company, rather than expanding it
  - Explicit costs - expenses that are paid with cash or equivalent
    - ex. wages to workers, electricity bill
- ★ **Microeconomics:** individuals/firms making decisions and how these interact
  - ex. college vs job, car industry, etc
- ★ **Macroeconomics:** overall ups and downs of the economy (aggregates)
  - ex. employment, inflation, etc

### 1.3: Production Possibilities Curve (PPC)

- **Trade-off:** giving up something for something else
- **PPC:** illustrates trade-offs an economy that compares only two goods faces
  - Show the opportunity cost of producing more of one good
  - Illustrate economic growth or contraction



- **Efficiency:** The point at which there are no missed opportunities; cannot make someone better off without making someone else worse off
- **Productive efficiency:** lowest cost possible on PPC
- **Allocative efficiency:** The economy allocates resources so that consumers are as well off as possible/producing what is demanded.
- **Increasing Opportunity Costs:** concave PPC
- **Economic Growth:** allows sustained rise in aggregate output/expansion of PPC outwards

- Causes:
  - Increase/Development of technology
  - Increase in resources

#### 1.4: Comparative Advantage and Trade

- **Trade:** people divide work and each provides goods in return for other goods
- **Comparative Advantage:** a situation in which an individual, business, or country can produce a good or service at a **lower opportunity cost** than another producer
  - Can't have a comparative advantage in both goods
- **Absolute Advantage:** a situation in which an individual, business, or country can produce more of a good or service than any other producer with the same quantity of resources.

#### 1.5: Cost-Benefit Analysis

- **Terms of Trade:** the rate at which goods can be exchanged
  - Mutually beneficial between opportunity costs of the 2 individuals
  - **Capital goods:** goods that make consumer goods
    - more capital goods = more growth in future
  - **Consumer goods:** goods that are consumed (final goods)

#### 1.6: Marginal Analysis and Consumer Choice

- **Marginal decisions:** trade-off of doing a little more or a little less
  - **Marginal benefit:** benefit of producing one more unit
  - **Marginal cost:** cost of producing one more unit
  - **Marginal analysis:** the study of the additional benefits vs the additional cost of an activity