

**ECONOMICS: THE CORE ISSUES**

*The Micro Economy Today*, 11<sup>th</sup> Edition  
By Bradley R. Schiller

Chapter 1

I. The Discipline of Economics

A. What is “The Economy”?

It’s the \_\_\_\_\_ of all decisions made by:

B. Why are you taking this class?

The limited nature of our \_\_\_\_\_ prevents us from:

C. The FOUR broad resource categories are:

1.

2.

3.

4.

D. How the Economist views “Cost”

1.

2.

3. Some Real World Applications

a. What’s the Opportunity Cost of:

b. What's the Opportunity Cost of:

c. What's the Opportunity Cost of:

E. Economics is the discipline that studies:

1. Macroeconomics:

2. Microeconomics:

## II. Production Possibilities

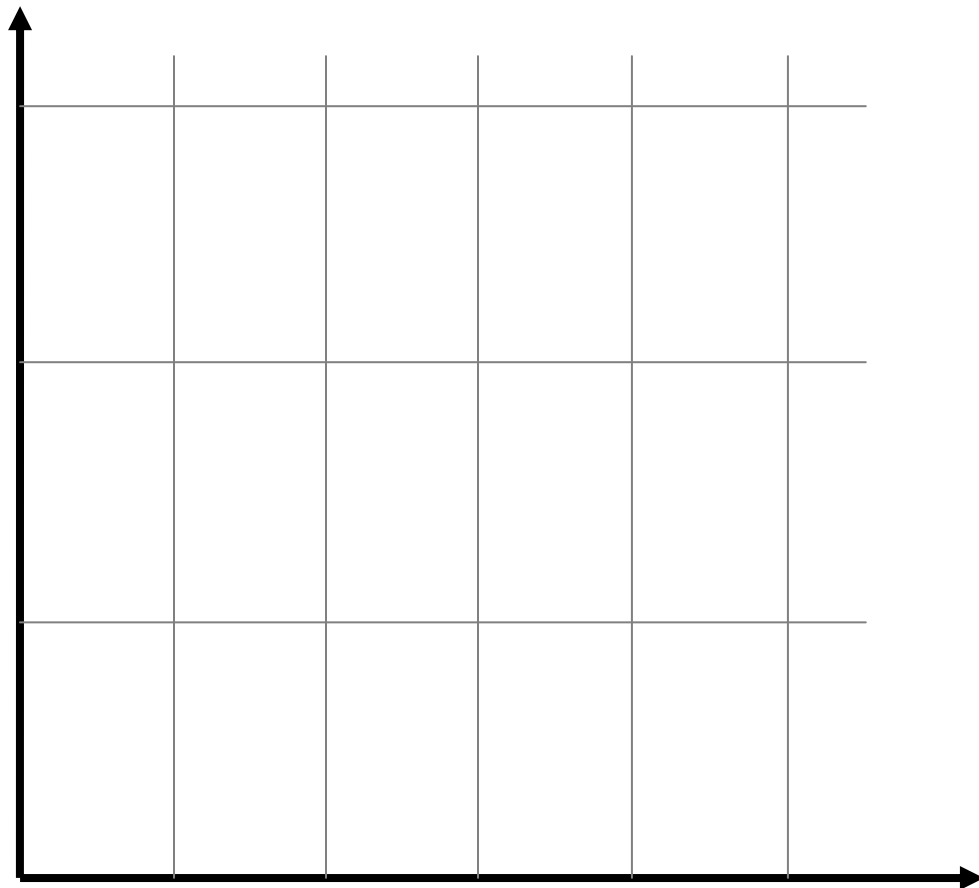
A. The Production Possibilities Curve (PPC):

### B. Extremely Simplified Production Possibilities Schedule

Why am I referring to this table as “extremely simplified”? Well, we know in the REAL WORLD, economies are capable of producing millions of different types of goods and services, not just TWO. Additionally, even if an economy could only produce two different products there would be millions of different combinations of those two products that could be produced, not just SIX. Basically, I’ve reduced the scope of the issue so we can handle it in a classroom setting.

	Point A	Point B	Point C	Point D	Point E	Point F
Consumer Goods						
Military Goods						

### C. Graph



#### D. Analysis of the PPC

1. Any point located ON the PPC is \_\_\_\_\_ .

2. Any point located INSIDE the PPC is \_\_\_\_\_ .

3. Any point located OUTSIDE the PPC is \_\_\_\_\_  
\_\_\_\_\_ .

4. Economic Growth

5. Economic Decline

Illustrating Economic Growth



Illustrating Economic Decline



E. Additional Applications with the PPC (discussion if time permits)

### III. Mechanisms of choice

#### A. Basic Economic Decisions

1.

2.

3.

#### B. Free Market Economies

Basic knowledge on this topic comes courtesy of Adam Smith, generally considered to be the “Father of Economics”. You can learn more about him at: <http://www.econlib.org/library/Enc/bios/Smith.html>

##### 1. The Invisible Hand Principle

The pursuit of \_\_\_\_\_ causes individuals to participate in activities that promote the:

Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (New York: Modern Library, 1937), page 423

*“Every individual is continually exerting himself to find out the most advantageous employment for whatever (income) he can command. It is in his own advantage, indeed, and not that of the society which he has in his view. But the study of his own advantage naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to society . . . . He intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was not part of his intention. By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it.”*

2. Resolving the 3 basic economic decisions

C. Centrally Planned Economies: Karl Marx

D. Mixed Economies

1. FACT:

2. Why?

#### IV. Economics in the Real World

##### A. Theory versus Reality

1. The “real world” is a complicated place, so economists have developed very \_\_\_\_\_ of economic behavior.

2. Economic model of consumer behavior

3. *Ceteris Paribus*:

4. How is this model useful in the real world?

##### B. The Conflict between Politics and Economics

1. Elected officials MIGHT lack the \_\_\_\_\_ to implement necessary economic changes.

2. The state of the economy MIGHT prevent elected officials from fulfilling:

\_\_\_\_\_ .

##### C. Does the discipline of Economics have “all of the answers”?