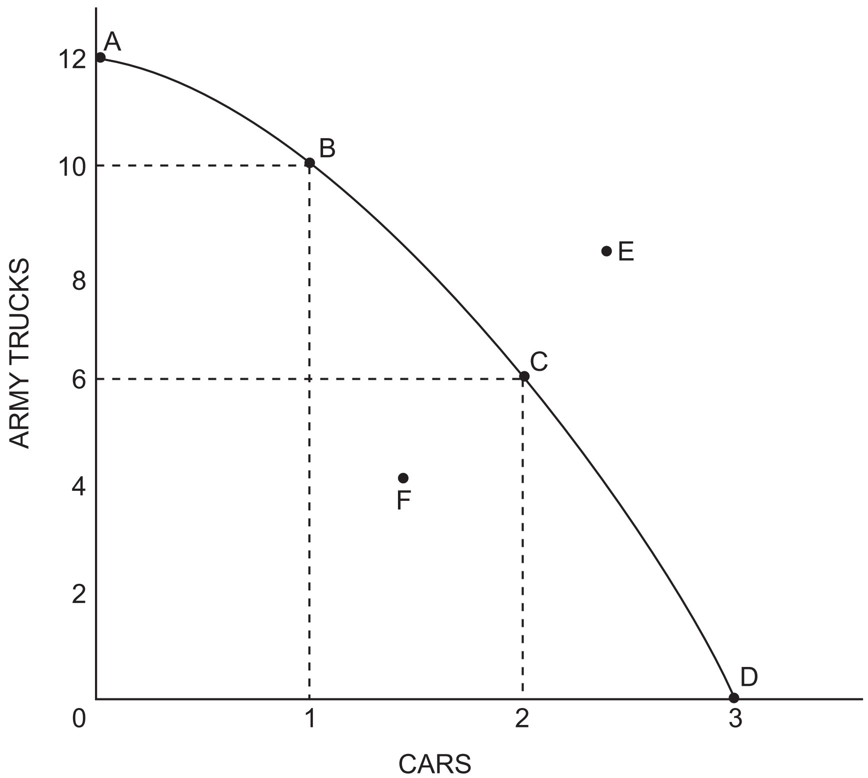
The Economic Way of Thinking

- **Everything has a cost.**
- **People choose for good reasons.**
- **Incentives matter.**
- **People create economic systems to influence choices and incentives.**
- **People gain from voluntary trade.**
- **Economic thinking is marginal thinking.**
- **The value of a good or service is affected by people's choices.**
- **Economic actions create secondary effects.**
- **The test of a theory is its ability to predict correctly.**

Production Possibilities Curve



(1) What trade-offs are involved?

(2) Why is the PPC concave, or bowed out, from the origin?

(3) What does a point inside the PPC illustrate?

(4) What is a historical example of a point inside the PPC?

(5) What is the significance of a point outside the PPC?

(6) Under what conditions can a point outside the PPC be reached?

(7) What would a country's PPC look like if it did not have a scarcity of resources?

Determining Comparative Advantage (output method)

	Output per hour	
	CDs	Pounds of beef
Japan	20	5
Mexico	30	15

(1) **Which country has an absolute advantage in producing CDs?**

(2) **Which country has an absolute advantage in producing beef?**

(3) **Which country has a comparative advantage in producing CDs?**

(4) **Which country has a comparative advantage in producing beef?**

(5) **Which country should specialize in CD production?**

(6) **Which country should specialize in beef production?**

Determining Comparative Advantage (input method)

	Time required for one unit	
	1 CD	**1 pound of beef**
Japan	3 minutes	12 minutes
Mexico	2 minutes	4 minutes

(1) Which country has an absolute advantage in producing CDs?

(2) Which country has an absolute advantage in producing beef?

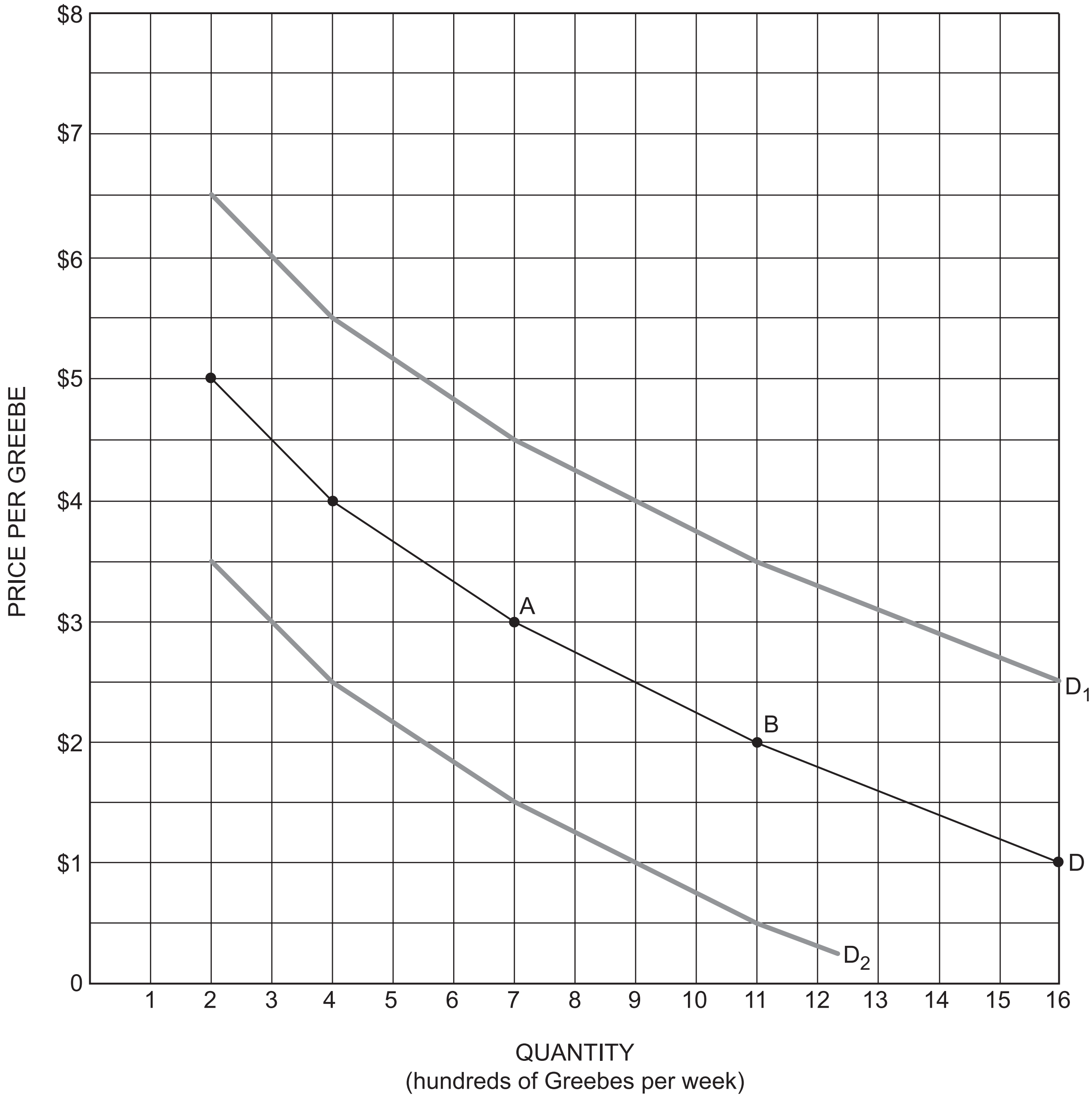
(3) Which country has a comparative advantage in producing CDs?

(4) Which country has a comparative advantage in producing beef?

(5) Which country should specialize in CD production?

(6) Which country should specialize in beef production?

Illustrating the Difference between a Change in Demand and a Change in Quantity Demanded

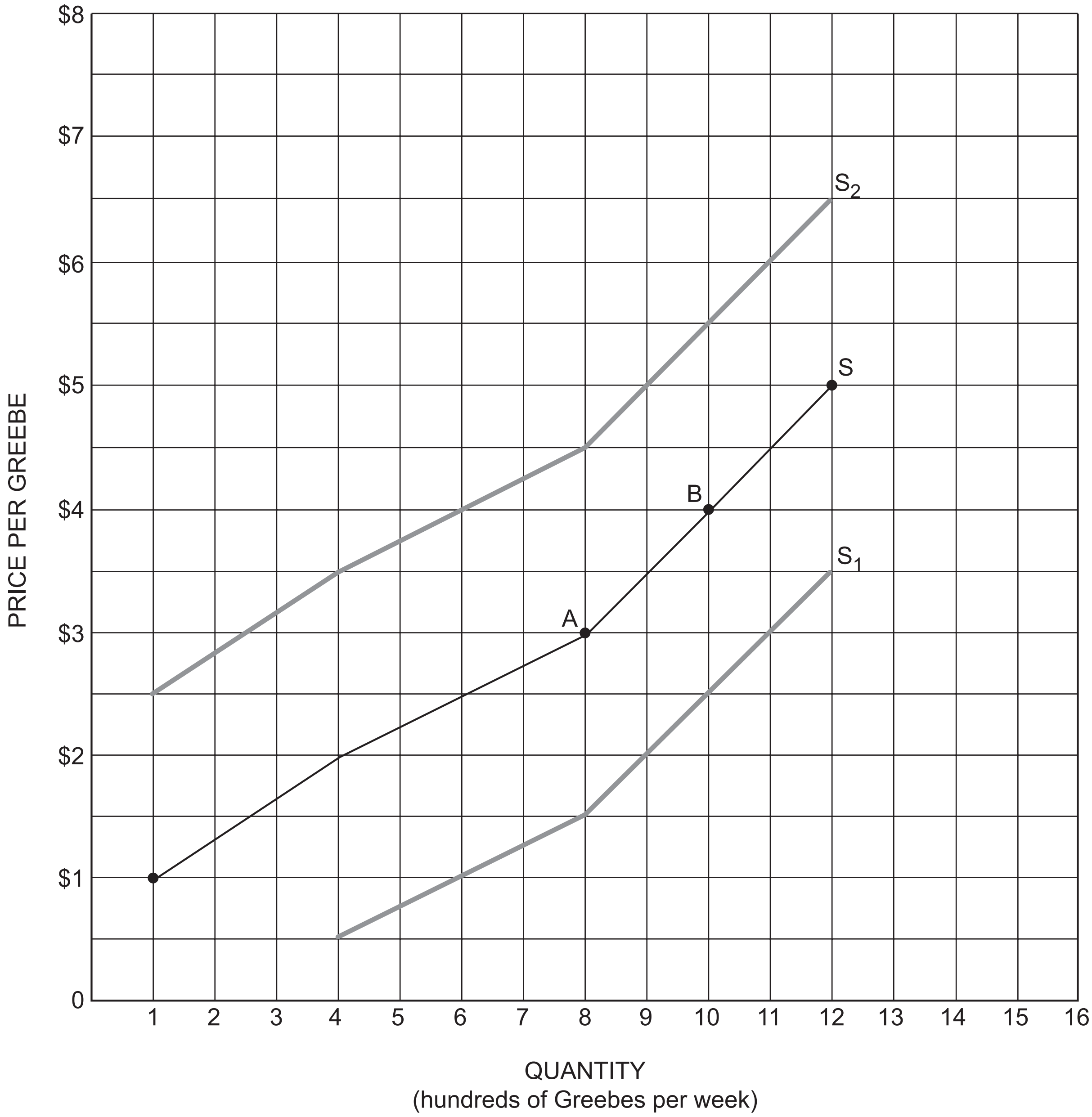


Determinants of Demand

FACTORS THAT SHIFT THE DEMAND CURVE

- Change in consumer tastes
- Change in the number of buyers
- Change in consumer incomes
- Change in the prices of complementary and substitute goods
- Change in consumer expectations

Illustrating the Difference between a Change in Supply and a Change in Quantity Supplied



Determinants of Supply

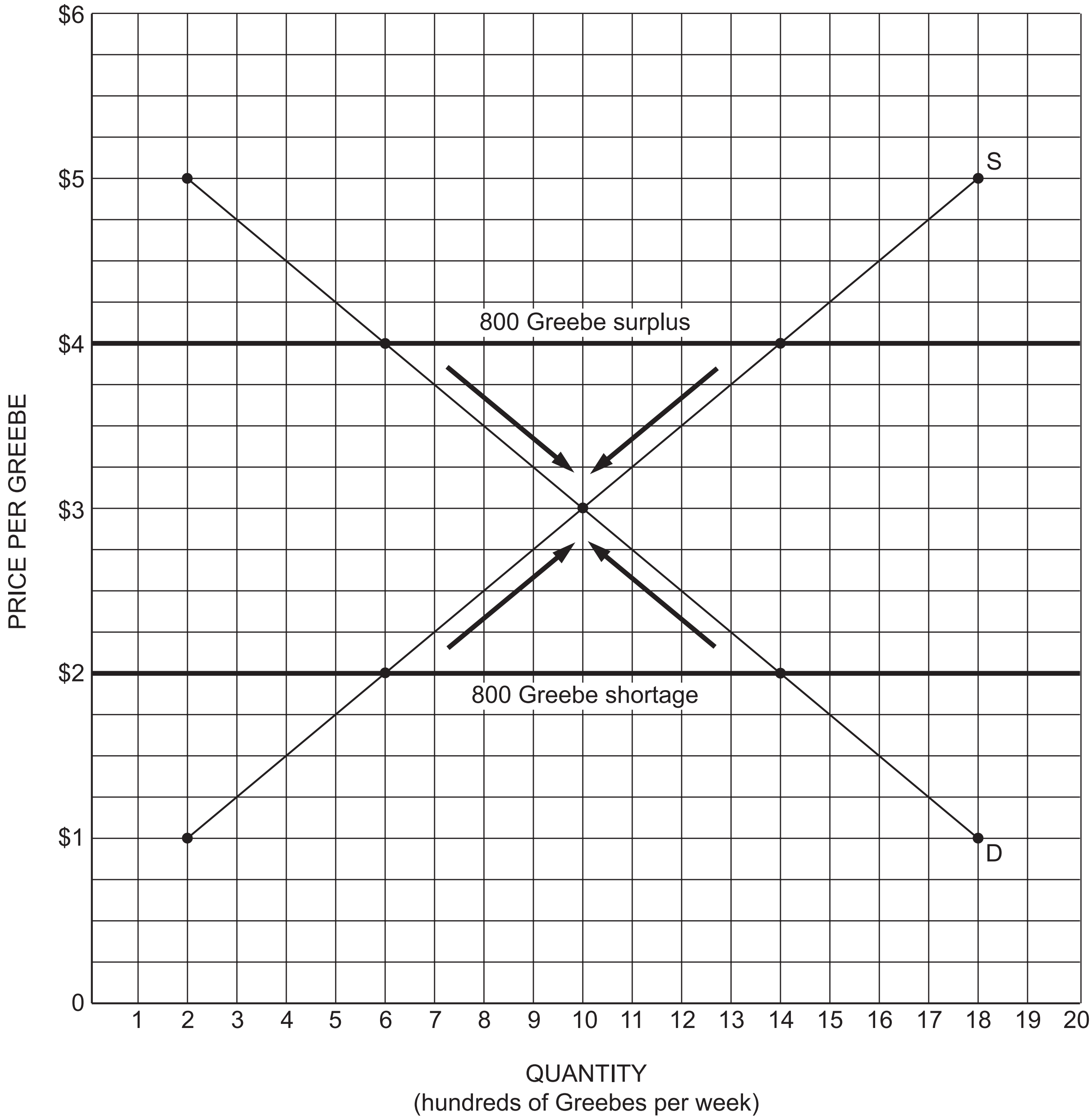
FACTORS THAT SHIFT THE SUPPLY CURVE

- **Change in resource prices or input prices**
- **Change in technology**
- **Change in taxes and subsidies**
- **Change in the prices of other goods**
- **Change in producer expectations**
- **Change in the number of suppliers**

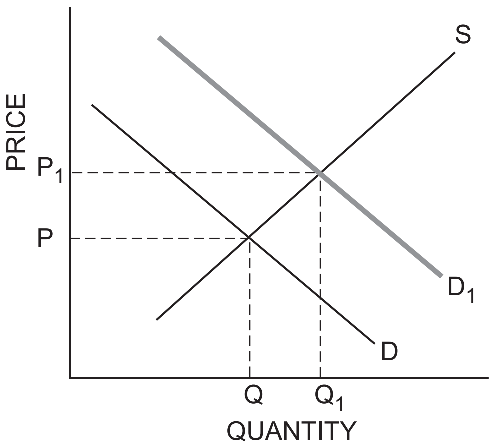
Any factor that *increases* the cost of production *decreases* supply.

Any factor that *decreases* the cost of production *increases* supply.

Equilibrium and Disequilibrium

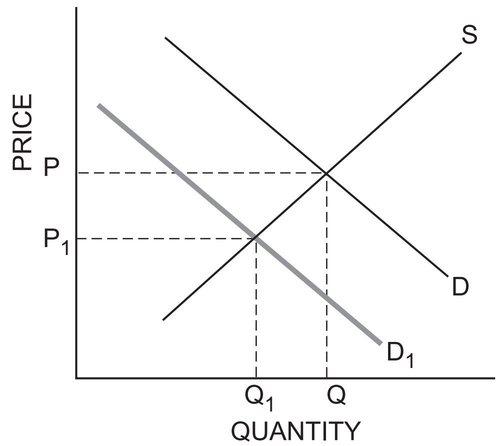


The Effects of Shifts in Demand or Supply



A. INCREASE IN DEMAND

D ↑
P ↑
Q ↑



B. DECREASE IN DEMAND

D ↓
P ↓
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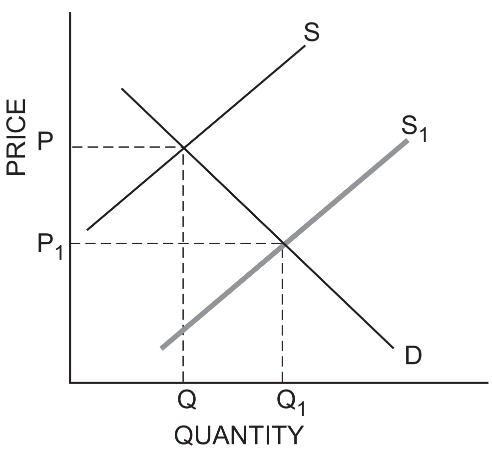
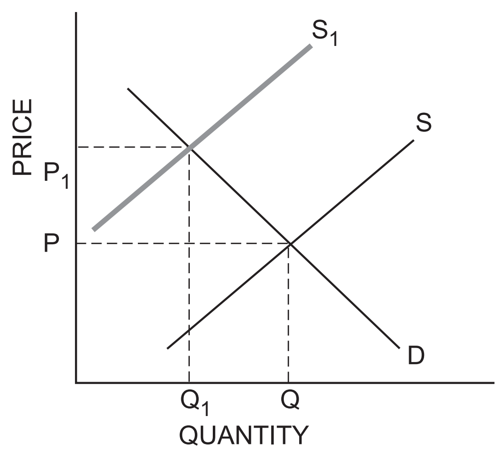


C. INCREASE IN SUPPLY

S ↑
P ↓
Q ↑



D. DECREASE IN SUPPLY

S ↓
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