THE ECONOMIC & BUSINESS

Scarcity + ...

- **Scarcity** = limited nature of society's resources
- Businesses allocate scarce resources among competing uses, taking into account a range of stakeholder wants and needs
- **Economics** is the study of how society manages its scarce resources

... + Making Decisions

- The management of the scarce resources is down to people's individual and group decisions
- People want to get the most from scarce resources whether they are buyers, producers or sellers
- There are key principles about how people and business make decisions
**Principle 1**

**Decision making involves trade-offs**

- Getting the most from scarce resources:
  - Technical efficiency
  - Productive efficiency
  - Allocative efficiency
  - Social efficiency
- Equity is about fairness
- Efficiency refers to the size of the economic cake and equity refers to how the cake is divided

**Principle 2**

**The cost of something is what you give up to get it**

- The opportunity cost is whatever is given up to obtain some item
- It measures the value of what is foregone

**Principle 3**

**Rational people and businesses think at the margin**

- Marginal changes describe small incremental adjustments
- Many decisions are made at the margins
- Firms are interested in the marginal costs
**Principle 4**

**People and businesses respond to incentives**

- People compare the costs and benefits when making decisions
- Decisions are made by people as consumers, businesses as suppliers and governments as policy makers

**Principle 5**

**Trade can make everyone better off**

- Trade between two economies can make each economy better off
- Countries as well as businesses benefit from the ability to trade with one another
- Trade allows countries to specialize in what they do best and to enjoy a greater variety of goods and services

**Principle 6**

**Markets are usually a good way to organize economic activity**

- Communist countries adopted central planning, but these have been abandoned in favour of markets
- In a market economy, the decisions of a central planner are replaced by the decisions of millions of firms and households
- In general, markets have promoted economic well-being
- Markets are not without their problems
Principle 7
Governments can sometimes improve market outcomes

- Market failure is when the market on its own fails to produce an efficient allocation of resources
- Externalities are the uncompensated impact of a person or firm's action on the well-being of a third party
- Market power is when an economic agent is able to influence market prices
- Governments can intervene to improve markets

Principle 8
An economy's standard of living depends on its ability to produce goods and services

- The standard of living measures welfare based on the amount of goods and services a person's income can buy
- Gross domestic product per head is one useful indicator of measuring living standards
- Productivity is directly related to living standards
- Boosting productivity raises living standards

Principle 9
Prices rise when the government prints too much money

- Inflation measures the overall increase in prices
- Printing money leads to price rises, because the value of money falls
**Chapter 1**

**The Economic Problem**
- Scarce resources (demand > supply) + Unlimited wants and needs = Economic Problem ➔ which means Decisions have to be made between competing choices

**Value for Money**
- Where satisfaction (utility) > purchase price
- Sellers have to consider value for money propositions
- Buyers make purchase decisions on basis of proposition
- Where buyers and sellers interact a market

**Principle 10**

**Society faces a short-run trade-off between inflation and unemployment**
- In the short-run there is a trade off between unemployment and inflation as shown in the Phillips curve
- Increase the money supply and therefore inflation can lower unemployment in the short-term
- The short-term can last several years
- Economies undergo irregular and largely unpredictable fluctuations or cycles in economic activity