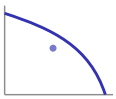
Basic Economic Ideas

A-Level Economics ▪ Topic 1

A-Level Economics



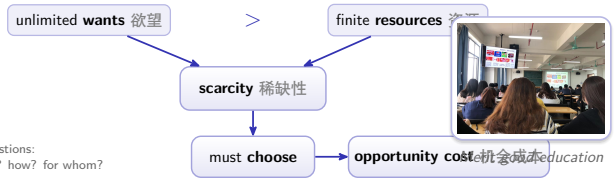
What we will cover

1. Scarcity & opportunity cost
2. Thinking like an economist
3. Factors of production
4. Economic systems & prices
5. Production possibility curve
6. Types of goods

scarce natural resources

1 Foundations

The economic problem



3 questions:
what? how? for whom?

Sheffield education

Scarcity forces a choice on all three agents

scarcity 稀缺性	we never have enough to give everyone everything they want – the one idea the whole subject starts from
consumers 消费者	buy a phone and you give up the holiday that money could have paid for
producers 生产者 and firms 企业	use a factory to make cars and you give up the trucks it could have made
governments 政府	spend tax money on hospitals and you give up the schools that money could have built
the common answer	**opportunity cost** 机会成本 – the next best alternative given up, not the money spent

> Every economic question is one of three: what to produce, how to produce it, and for whom. Scarcity is why all three must be answered.

Thinking like an economist

positive 实证表述
a **fact** – can be tested true or false

normative 规范表述
an **opinion** – rests on a value judgement

Ceteris paribus 其他条件不变: change one thing, hold the rest fixed.
Microeconomics 微观经济学 studies one market; **macroeconomics** 宏观经济学 the whole economy.

Economics as a social science

It studies how people behave when they make choices.

> Like other sciences, it builds **models 模型** (simple pictures of the real world) and tests them with data.

How economists actually reason

ceteris paribus 其他条件不变	change one thing and hold everything else fixed – because the real world is too complex to reason about all at once
models	deliberately simplified, and judged by whether they predict, not by whether they are realistic
positive 实证 statements	claims about what is – testable against evidence
normative 规范 statements	claims about what ought to be – value judgements, which evidence cannot settle
why the split matters	economists disagree far more on normative questions than on positive ones

> "A tax on sugar reduces consumption" is positive. "The government should tax sugar" is normative. The exam asks you to label them.

2 Resources

Factors of production

land	labour	capital	enterprise
土地	劳动	资本	企业家才能
→ **rent**	→ **wages**	→ **interest**	→ **profit**
地租	工资	利息	利润

Each **factor of production** 生产要素 earns a reward; **enterprise** 企业家才能 bears the risk of bringing the other three together.

The four factors, and what each is paid

land 土地	all natural resources – including **non-renewable** 不可再生资源 ones like oil and coal, which can run out. Paid rent
labour 劳动	human work, both physical and mental. Paid **wages** 工资
capital 资本	man-made things used to produce – machines, tools, factories. Paid **interest** 利息
enterprise 企业家才能	supplied by the **entrepreneur** 企业家, who organises the other three and takes the risk. Paid profit

> Each factor earns a different kind of income, and that is how national income is divided. Naming the payment is half of many mark schemes.

Specialisation and the division of labour

Specialisation 专业化: make only what you are best at, then trade.

- + faster, better, lower cost per unit
- − boring; one absence can stop the line; narrow skills

Mobility 流动性: how easily a factor moves job (**occupational** 职业流动性) or place (**geographical** 地理流动性).

Division of labour: both sides of it

what it is	a big job split into small tasks, each **worker** 工人 doing one of them repeatedly
gain	workers get faster and better at one task
gain	output per worker rises, so costs fall
cost	doing one task is boring, so workers may quit
cost	workers learn only one narrow skill, which makes them hard to re-employ
the dependency	if one stage stops, the whole chain stops

Specialisation raises output and lowers **occupational mobility** 职业流动性 at the same time. That tension runs through the whole labour-market topic.

3 Systems and prices

Economic systems

How a country allocates scarce resources:

- **market economy** 市场经济 – prices decide; little government
- **planned economy** 计划经济 – the state decides all
- **mixed economy** 混合经济 – both; almost every real country

Economic systems, in detail

Market	Mixed	Planned
firms own resources; prices decide; little government	private + public sectors both decide; almost every country	government owns and decides what, how and for whom

Exam: real economies are mixed — the question is how far market vs government decides

Economic systems form a spectrum: a pure market at one end, full government planning at the other, mixed economies in between.

Who decides, in each system

Market economy	Prices decide. The **private sector** 私营部门 – firms and households – owns the resources and follows the profit signal.
Planned economy	A **planned economy** 计划经济, also called a **command economy** 指令经济: the government owns resources and decides what is made, how, and for whom.
Mixed economy	Both. The private sector and the **public sector** 公共部门 each make decisions, and the argument is about where the line sits.
What is being allocated	**Resources** 资源 are what we use to make goods and **services** 服务 – and land includes **non-renewable resources** 不可再生资源 such as oil and coal, which can run out.

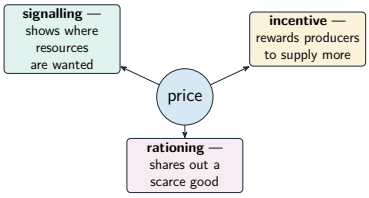
Every system answers the same three questions – what, how, and for whom. They differ only in who answers them.

The three systems, compared

market	strengths: choice, low prices, strong incentive to work and invent
	weaknesses: a large gap between rich and poor, and some goods – **national defence** 国防 – simply not supplied
planned (command 计划经济)	strengths: a smaller gap between rich and poor, and key goods provided for all
	weaknesses: weak incentive, shortages and surpluses, and slow to change
mixed	tries to keep the good points of both – but the right balance is hard to find

No country sits at a pure extreme. China is officially a *socialist market economy*: markets set most prices while the state directs strategic sectors.

The price mechanism



In a market, the price does three jobs at once:

- **signalling** 信号传递 – shows where resources are wanted
- **incentive** 激励 – rewards producers to supply more
- **rationing** 配给 – shares a scarce good to those who pay

4 The production possibility curve

Production possibility curve

The **PPC** 生产可能性曲线 shows the most of two goods an economy can make.

- **on** – fully **efficient** 效率
- **inside** – waste (e.g. **unemployment** 失业)
- **outside** – impossible today (scarcity)

Moving along it shows the **trade-off** 取舍.

Reading a production possibility curve

On the curve	All resources used with full **efficiency** 效率 – and any more of one good now costs some of the other.
Inside it	Unemployment or waste: more of both goods is available at no cost.
Outward shift	Growth. It happens with more resources, or better ones – new **technology** 技术, a bigger or more skilled workforce.
Inward shift	War or disaster can move the curve inward – **economic decline** 经济衰退.

The curve is a picture of opportunity cost: its slope *is* what one more unit of this good costs in units of that one.

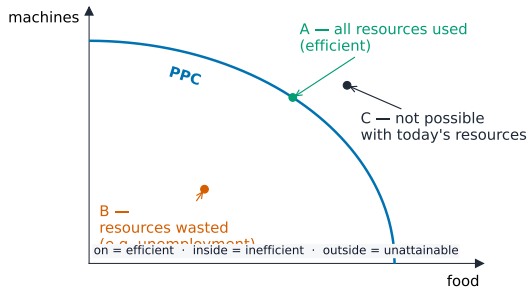
Worked example – why the PPC is bowed outwards

Why is a production possibility curve usually drawn rather than as a straight line?

- a straight line means a constant opportunity cost
- but factors are not equally suited to both uses
- move the best-suited first, so later units cost more
- so the curve steepens: increasing opportunity cost

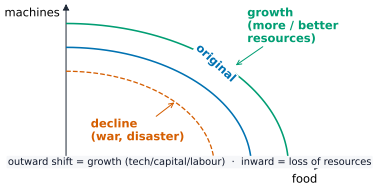
The shape *is* the economics: a straight PPC would say a farmer and a machinist are interchangeable.

Production possibility curve, in detail



The **PPC** 生产可能性曲线 shows the most of two goods an economy can make.

Growth: shifting the curve



More or better resources shift the PPC outward – **economic growth** 经济增长; war or disaster shifts it inward. Making more **capital goods** 资本品 now means fewer **consumer goods** 消费品 today, but faster future growth.

5 Types of goods

Types of goods

Split by **rivalry** 竞争性 & **excludability** 排他性:

- **private good** 私人物品 – rival & excludable
- **public good** 公共物品 – **non-rivalry** 非竞争性 and **non-excludability** 非排他性: since non-payers cannot be shut out, nobody pays, and the **free-rider problem** 搭便车问题 means the market supplies none of it
- **merit good** 优值品 / **demerit good** 劣值品 – misjudged via **information failure** 信息失灵

Types of goods, in detail

	Excludable	Non-excludable
Rival	**Private good** food, clothes	**Common resource** ocean fish, air
Non-rival	**Club good** cinema, toll road	**Public good** street light, defence

Exam: classify by rivalry × excludability — free-rider problem only for non-excludable goods

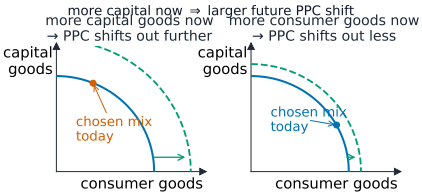
Split by **rivalry** 竞争性 and **excludability** 排他性: a **private good** 私人物品 is both; a **public good** 公共物品 is neither ⇒ the **free-rider problem** 搭便车问题; a **merit good** 优值品 or **demerit good** 劣值品 is misjudged, through **information failure** 信息失灵.

Merit, demerit, public and free goods

merit good 优值品	better for you than you realise, so people buy too little – education, vaccination
demerit good 劣值品	worse for you than you realise, so people buy too much – cigarettes, alcohol
public good 公共物品	non-rival and non-excludable, so the market supplies none of it – street lighting, national defence
free good 自由物品	no scarcity at all, so no opportunity cost – and therefore no price
the link	the first three are all information or excludability failures, which is why each has a different remedy

Merit and demerit goods turn on what the *consumer* misjudges; a public good turns on what the *market* cannot charge for. Do not mix the two arguments.

Shifts and growth



Choosing more capital goods today means fewer consumer goods now, but the future PPC shifts out further.

Free goods and economic goods

free good - air, sunlight

unlimited supply → no opportunity cost → no **price**

nobody gives anything up to use it

economic good - an apple

scarce → opportunity cost → a **price**

rivalry: if I eat it, you cannot

excludability: no payment, no apple

A free good has no opportunity cost and no price; an economic good is scarce, rival and excludable

Factors of production, continued

factor	reward
land	rent
labour	wages
capital	interest
enterprise	profit

The four factors of production and the reward each earns

How mobile is a factor?

occupational mobility 职业流动性	how easily a factor moves from one job or use to another – a teacher who retrains as a nurse
geographical mobility 地域流动性	how easily it moves from one place to another
labour is often immobile	family ties, the cost of housing, and missing skills all make it hard for workers to move
why it matters	immobile labour is why unemployment can be high in one region while vacancies go unfilled in another
land	geographically immobile by definition, though its *use* can often change

Immobility is the reason markets clear slowly. Any policy answer about regional unemployment has to name which kind of mobility is missing.

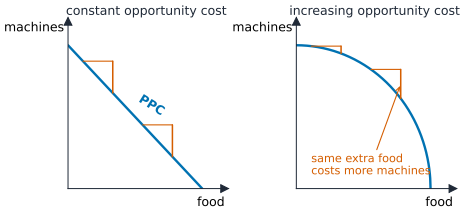
Positive and normative statements

positive - a statement of **fact**
"a higher price of petrol reduces the amount people buy"
can be **tested**: true or false?

normative - an **opinion**
"the government *should* make petrol cheaper"
cannot be tested - a **value judgement** ("should")

A positive statement can be tested; a normative statement is a value judgement

Production possibility curves



opportunity cost = goods forgone · bowed-out PPC ⇒ increasing opportunity cost

A straight PPC means each extra unit of food costs the same; a bowed PPC means each extra unit costs more and more machines.

Exam tips

- Frame answers around **scarcity and choice**: every choice has an **opportunity cost** – the next best alternative given up.
- Read a **PPC**: a point inside means unused resources, on the curve is efficient, outside is unattainable; the slope shows opportunity cost.
- Distinguish **positive** (a testable fact) from **normative** ("should", a value judgement) statements.
- Classify goods: free versus economic, and **public / merit / demerit** goods (non-excludable, non-rival, and so on).

6 Recap

Worked example – opportunity cost on a PPC

An economy on its PPC moves from 60 tonnes of food + 30 machines to 50 food + 45 machines. What is the opportunity cost?

- Being on the curve means all resources are already fully and efficiently used.
- So gaining machines must mean giving up food.
- Machines $+15$, food $-10 \Rightarrow$ the opportunity cost of 15 machines is 10 tonnes of food.
- Per machine: $10/15 = 0.67$ tonnes of food each.

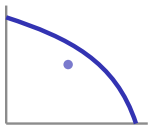
Opportunity cost = the next best alternative given up. It exists only on the curve – inside it there are spare resources, so you can gain both.

Topic 1 – key takeaways

1. **Scarcity** — wants > resources ⇒ choice & opportunity cost
2. **Factors** — land, labour, capital, enterprise
3. **Prices** — signal, incentivise, ration in a market
4. **PPC** — on = efficient; outward shift = growth

Check yourself

1. What is the reward to capital?
2. "Petrol should be cheaper" – positive or normative?
3. A point inside the PPC shows what?
4. Why won't firms supply a public good?



Answers **1.** interest **2.** normative **3.** wasted resources (e.g. unemployment) **4.** free-rider problem (non-excludable)