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* Planned/command economy

→ main advantage
- low level of inequality
- less market failure
- low unemployment and high job security

→ main disadvantage
- government intervention is costly
- quality may be affected due to inefficiency

* Transition Economy

→ A transition economy is one in which government intervention is gradually reduced.
→ Economic system which moves away from a command economy to a market economy.
* Methods to reduce government intervention:-
  → Protectionism
  → Deregulation
  → Reduction in taxes (including tariffs) and subsidies
  → Reduction of price controls and quotas.

* Main issue with transition economy

→ Rising inequality
→ Greater exposure to market failure
→ Higher unemployment
→ Larger trade deficits
→ Lack of entrepreneurship skills
→ Higher inflation

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Chapter 1 - The Basic Economic ~~Problem~~ Idea

Economic markets

Free (market) | Mixed | Planned (command)

* Economy

→ Planned economy - controlled by the government

→ Free market - No government intervention, market forces of demand and supply determine allocation of resources and prices.

→ Mixed economy - have both government intervention and private sector firms in the market.

* Market economy
→ Main advantage
- profit incentive encourage efficiency
- wide variety of goods and service
- competition keeps prices down, quality up and it encourages innovation.

→ Main disadvantage
- market failure (when the market does not allocate resource in the best possible way), caused by market power, public goods, imperfect information or externalities caused by higher consumption of demerit goods
- Higher level of inequality as government does not give subsidy so poor can't afford those goods.

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* microeconomics vs macroeconomics

→ microeconomics is that branch of economics that studies the behaviour of individual economic agents

→ macroeconomics is that branch of economics that studies the behaviour and performance of an economy as a whole.

* Positive ~~and~~ vs Normative statements

→ Positive statements are based on Emperical Evidences, they describe facts and are therefore objective.

→ Normative statements are based on beliefs, they express opinions ~~in~~ (or value judgements) and are therefore subjective.

* Marginal Analysis

→ Economic agents make marginal decisions (i.e. decisions at the margin by considering the effect of small changes from an existing situation.

→ In other words, they compare the cost and benefit associated with a slight increase or decrease in the value of an economic variable under their control.

→ Demand curve can also be known as marginal Benefit (MB) curve as consumers (those who demand) receive the benefit.

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→ Supply curve can also be known as Marginal costs (MC) curve as producers (those who supply) pay the cost.

* Time Periods

* In production theory, we distinguish between the very short run, the short run (SR), the long run (LR) and the very long run.

→ Simply put, the longer the time period considered the more flexible the firm.

→ In other words, what is fixed (i.e. cannot be changed) in a shorter period of time becomes variable i.e. can be changed in a longer period of time.

* Ceteris Paribus

→ Ceteris paribus is a latin phrase which means "all else equal".

→ For example:- when taking in consideration price and demand the non-price determinants are kept constant in order for the law of demand to be relevant.

* Specialisation and Division of Labour

→ Specialisation refers to a situation in which individuals, firms or countries focus on the production of a narrow range of goods and services.

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* Obviously, economic agents usually specialise in the good or service they are relatively "good" at producing (i.e. which they have the biggest productivity advantage)

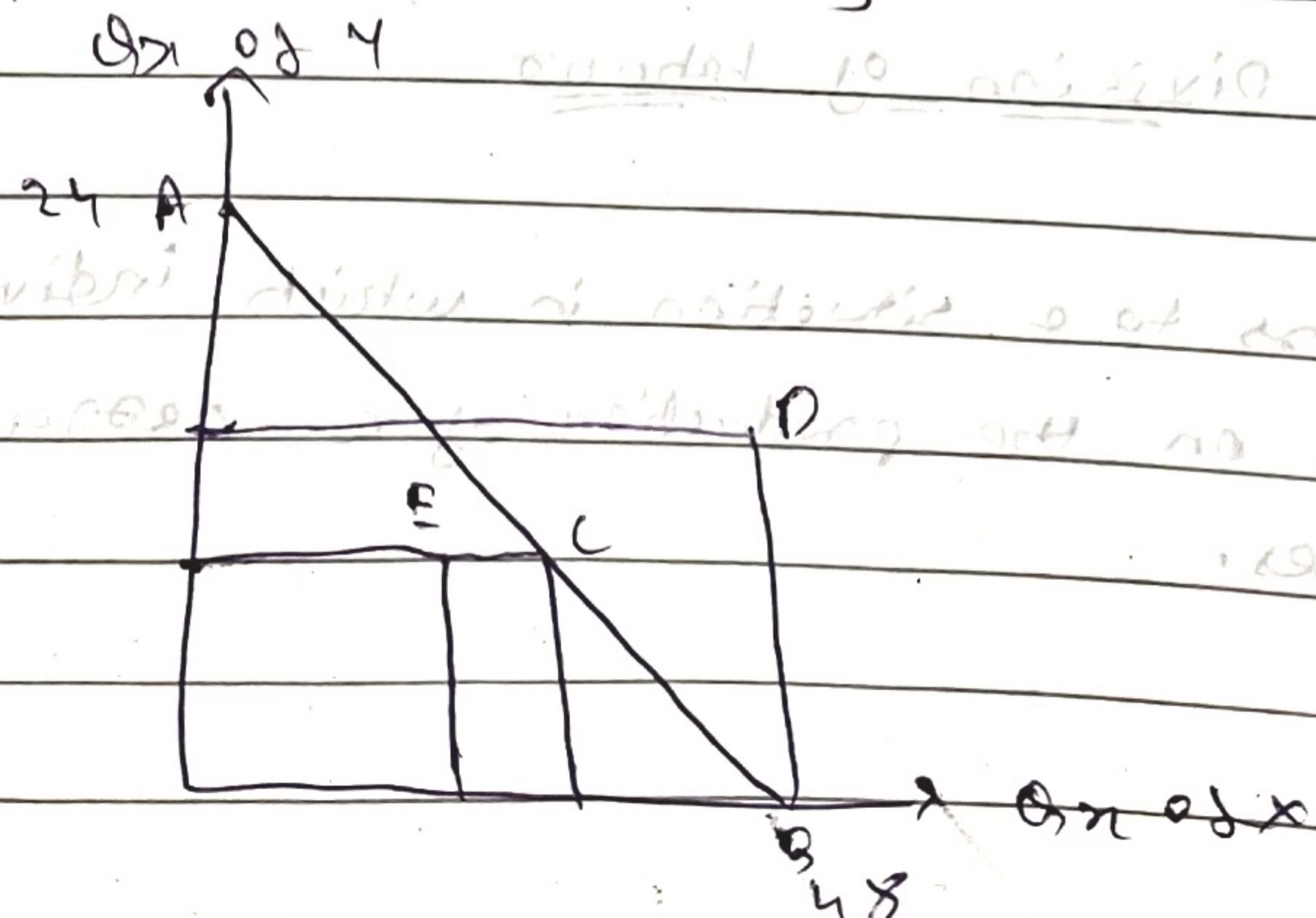
* Specialisation leads to division of labour.

* Division of labour (DoL) is a process of breaking up of a task into smaller, inter-connected sub-tasks.

* ~~Advantages~~ of Division of labour and specialisation
  - It makes workers highly skilled
  - Eliminates time required to move from one task to another
  - Reduces training costs.
  - May improve product quality as less chances of error
  -

* Disadvantages of Division of labour
  - Repitition may lead to boredom which may lead to inefficiency.
  - Dependency on a person may cause a hault on production.
  - Occupational immobility, leads to ~~structural~~ unemployment.

* Production Possibility Frontier (PPF)



A and B - max capacity
C - possible
D - impossible
E - possible but inefficient

* An increase in unemployment would simply be represented by a movement away from the PPC.

* **Types of goods and services**
Economic goods vs Free goods

* An economic good is a good or service using scarce resources during its production.
* Most resources are scarce, and so the vast majority goods and services are economic goods. Economic goods require scarce resources to produce it hence it involves an opportunity cost.

* A resource which is not scarce is sometimes known as a free resource. The use of a free resource does not involve an opportunity cost. It uses only free resources during production.

* **Private vs Public goods**

* A good is rival if consumption by one reduces either its availability for others, or the benefits enjoyed by others, and vice-versa.
* ~~A good is~~
* A good is excludable if suppliers can prevent non-payers from consuming it and vice-versa.

* A good that is both excludable and rival is a private good.
* A good that is both non-excludable and non-rival is a (pure) public good.
* A good that is non-excludable and rival is a common resource

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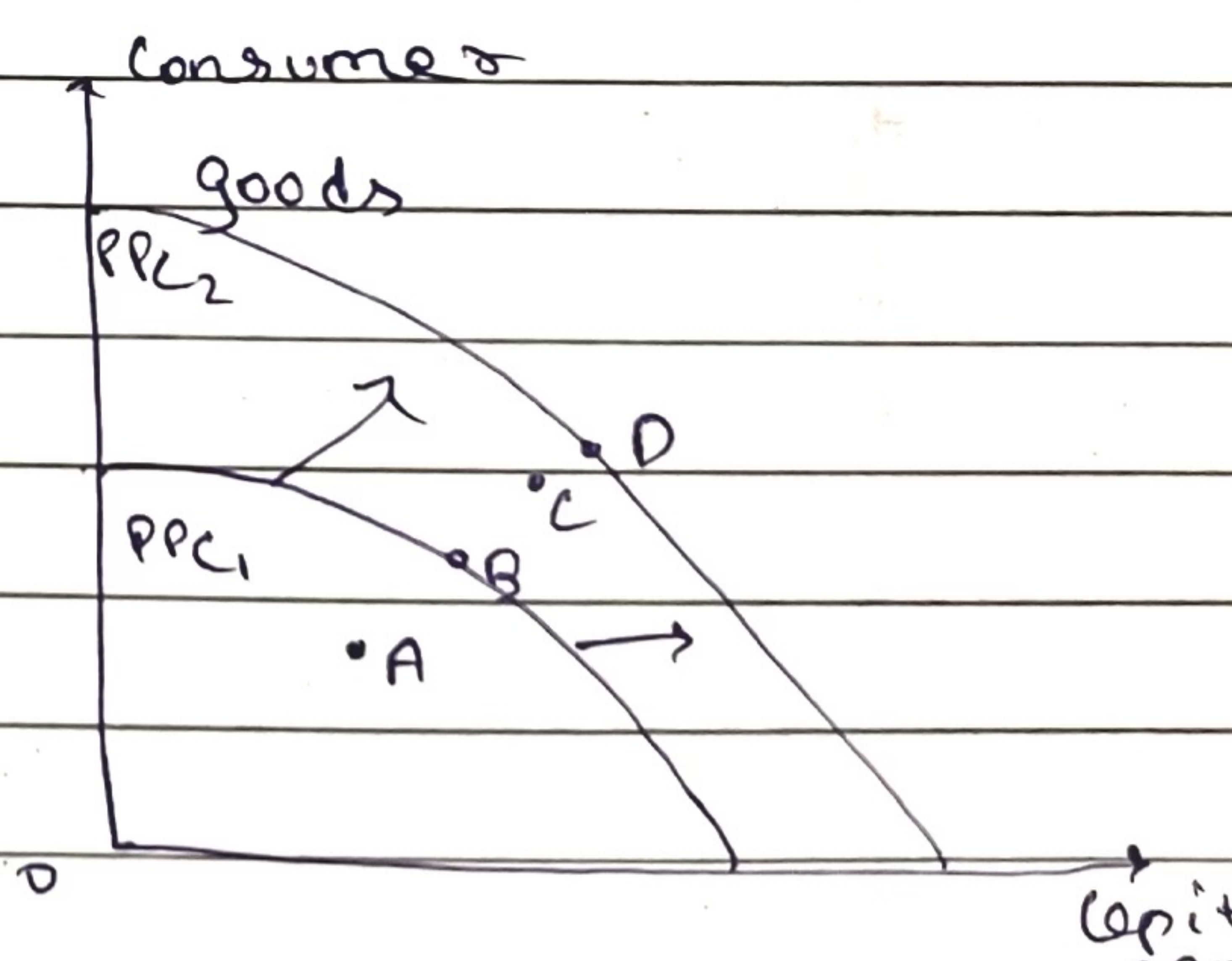
* Production Possibility Curve (PPC)
→ It is a curve showing the maximum output of 2 good which can be produced with a given set of resources.
→ A PPC is always downwards.

* Constant vs Increasing Opportunity Cost.

→ A linear PPC i.e. represented in a straight line indicates that the opportunity cost of producing each additional unit of either product is constant.

→ That is the quantity of Good X which must be given up in order to produce each additional unit of Good Y is fixed.
→ In practice, however, constant OC is not quite realistic.

* Potential Economic Growth →
→ An economy experiences potential economic growth when it can produce more goods and services over a given period of time.
→ It can be represented by an outward shift of the PPC.



→ Economic growth may happen because of increase in quantity or quality of resources.
→ A to B - Actual economic growth
A to B ~~to~~ C/d = Actual economic growth
PPC1 to PPC2 = Potential economic growth
→ Economic growth may happen unilateral or bilateral. Unilateral may mean a ~~the~~ increase in the productive ~~capital~~ capacity of one type of goods in the PPC. Bilateral may increase in the productive capacity for both the goods in the PPC.

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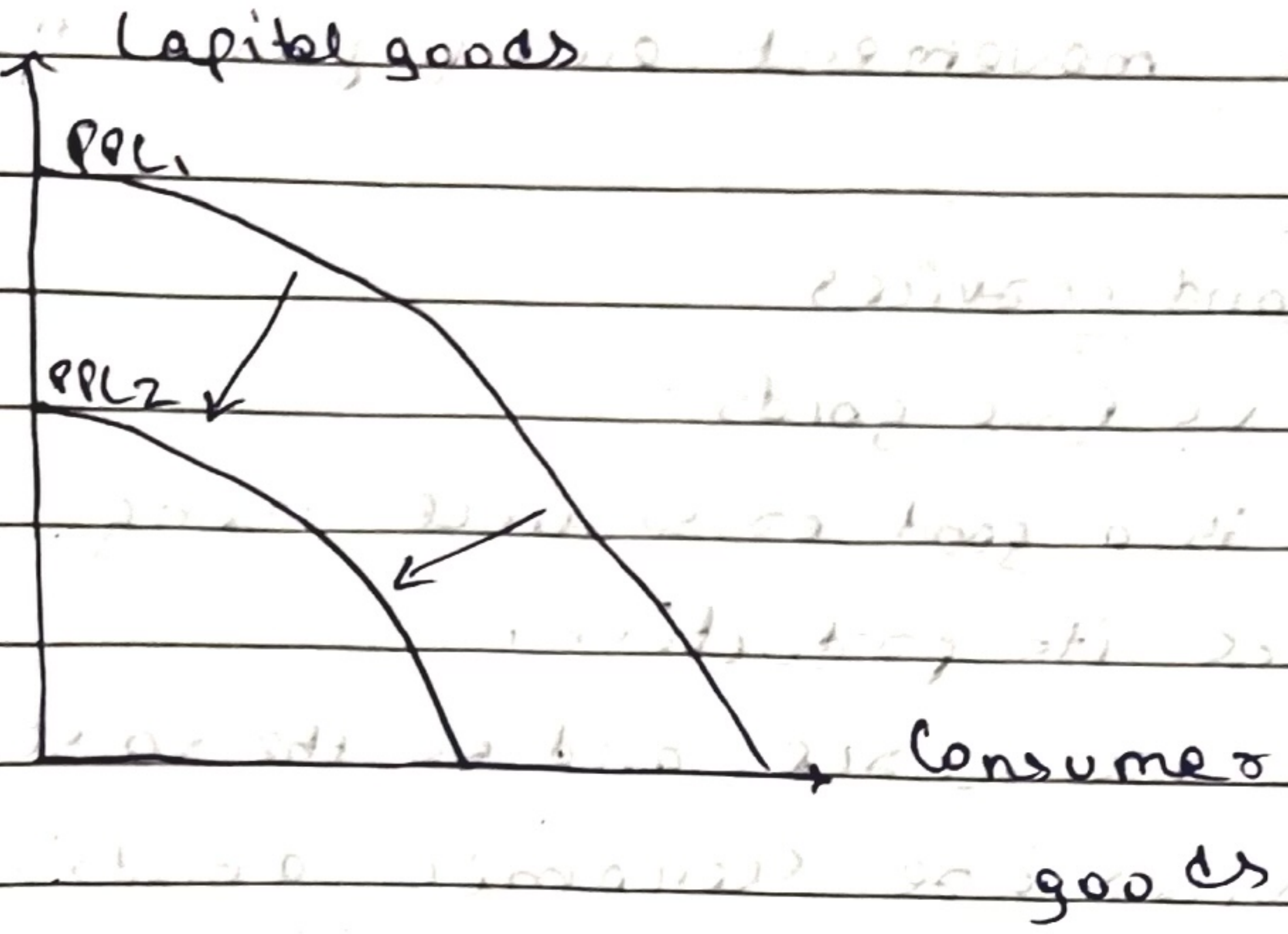
* Economic Decline



* Economic decline refers to a fall in the productive potential of an economy.
→ Economic decline can be represented by an inward shift of the PPL.
→ Economic decline can be caused by:
  • Natural disasters
  • wars
  • Epidemics
  • Negative net investment
  • Population decline
  • Exhaustion of non-renewable natural resources

* PPL and unemployment

* An increase in unemployment does not lead to economic decline.
→ Indeed, workers who have been recently laid off have the same productive potential as when they were employed.
* Similarly, a machine that has been idle ~~for~~ a few days has the same productive potential as when it was last used.

→ Also, a field that fallow has the same productive potential as a nearby field that is cultivated.

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* Types of goods

	Excludable	Non-excludable
Rival	Private goods eg: shoes, books	Common resources. eg:- clean water, fish stocks
Non-rival	Club goods - eg:- softwares, toll roads	Public goods eg: lighthouse, defense

* Public good
→ Because they are non-excludable, the free rider problem they discourage production of public goods.
→ Because they are non-rival, it is inefficient to charge a price for public goods.

~~→ Free~~

* Free riders

→ Free rider problem occurs when people can enjoy the use of a good without paying for it. This problem arises from non-excludability of pure public goods

→ Public good is a type of market failure because due to the free rider problem the private sector does not produce these goods and the market fails to allocate resources to their production.

* Merit vs Demerit goods

* Information Failure

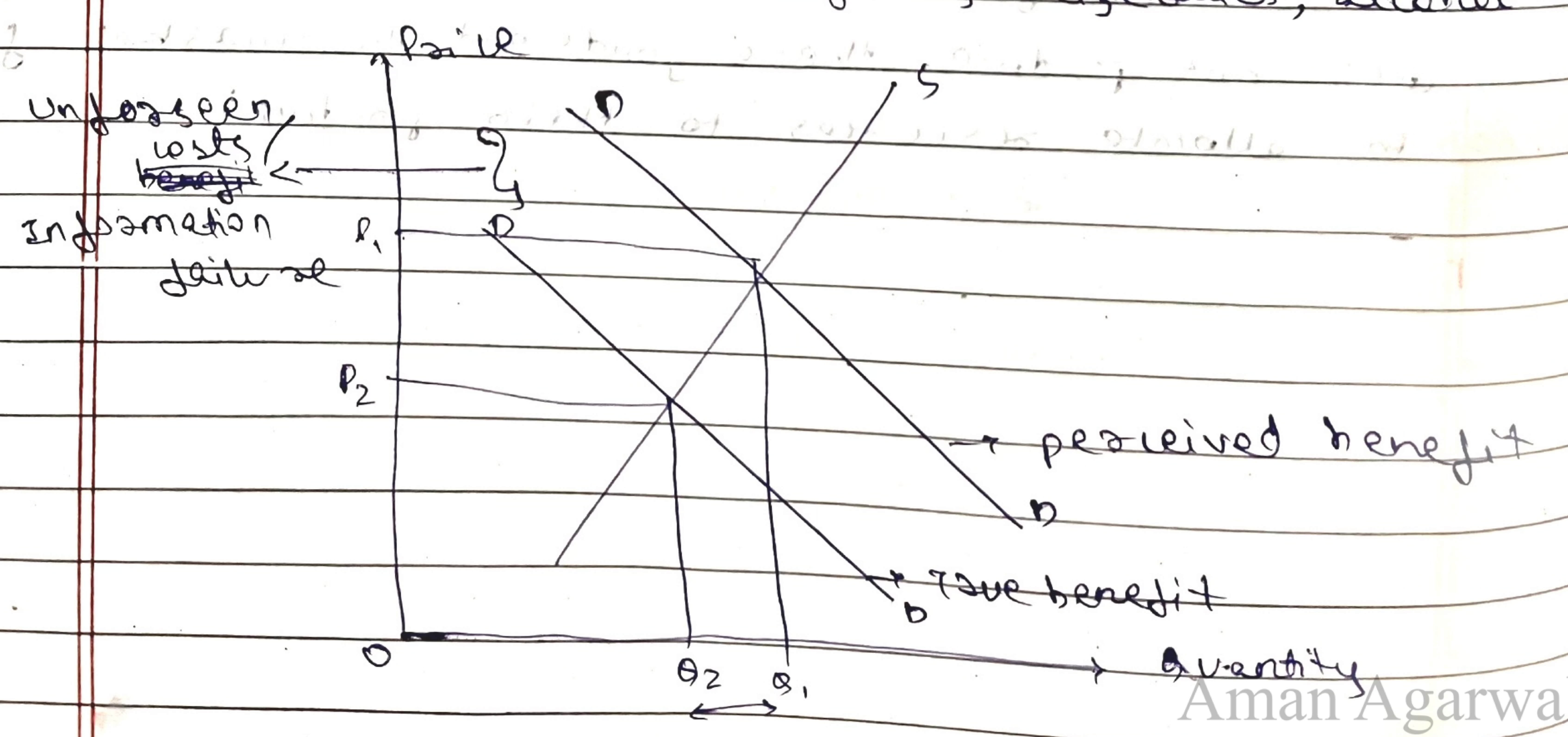
• An information failure is a situation where economic agents lack some relevent information or do not have the right information about the costs and benefits of their actions.

* One type of information failure is economic myopia

• Some decisions that we make today will give rise to costs or benefits in a distant future. Individuals, w... knowingly, do not take into account these long-te... consequences are said to be myopia. We say that they discount the future too much.

* Demerit goods

* A demerit good, is a good which is over-consumed in a free market due to an information failure on the part of consumers. The good is worse than consumers realise so the true benefit is smaller than the perceived benefit. eg:- cigarettes, alcohol.



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* merit goods

+ A merit good is a good which is under-consumed in a free market due to an information failure - on the part of consumers. The good is better than consumers realise so the true benefit is larger than the perceived benefit.