

CHAPTER 2

CHAPTER 2 - LIMITS, ALTERNATIVES AND CHOICES

Economic Perspective

- **Three Fundamental Questions:**
 - What to produce?
 - How to produce?
 - For whom to produce?
- **There is no free lunch** - Because there is scarcity, there is always an opportunity cost - someone always has to pay.
- **Opportunity cost** - to get more of a product you have to give up some of the other.
- **Utility** - the pleasure, happiness, or satisfaction obtained from consuming a good or service.
- **Marginal analysis** - Marginal benefit vs. marginal cost (Marginal = Extra)

Society's Economizing Problem

Society has limited or scarce **economic resources** - land, labor, capital and entrepreneurial ability

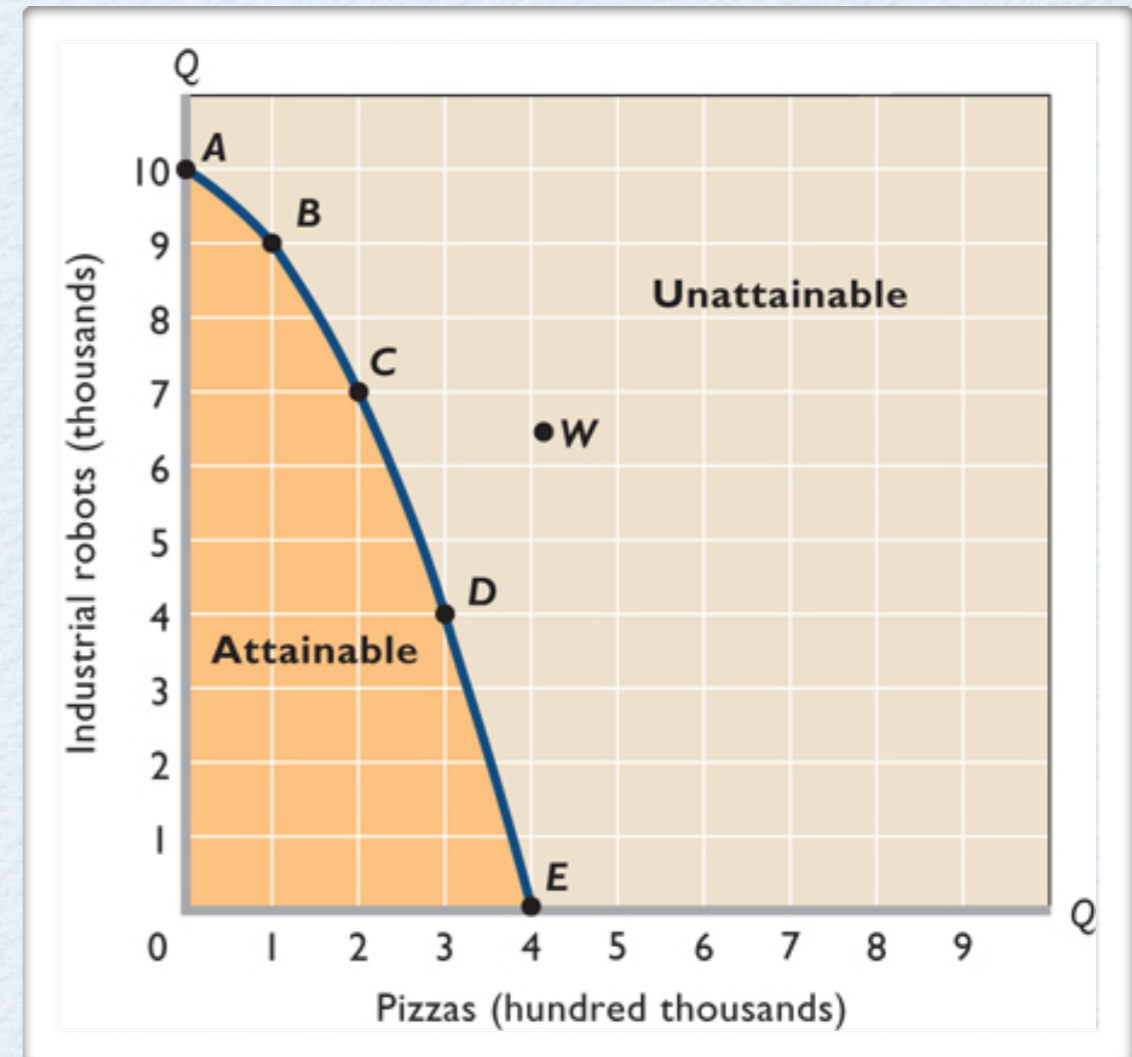
Production Possibilities Model

Assumptions:

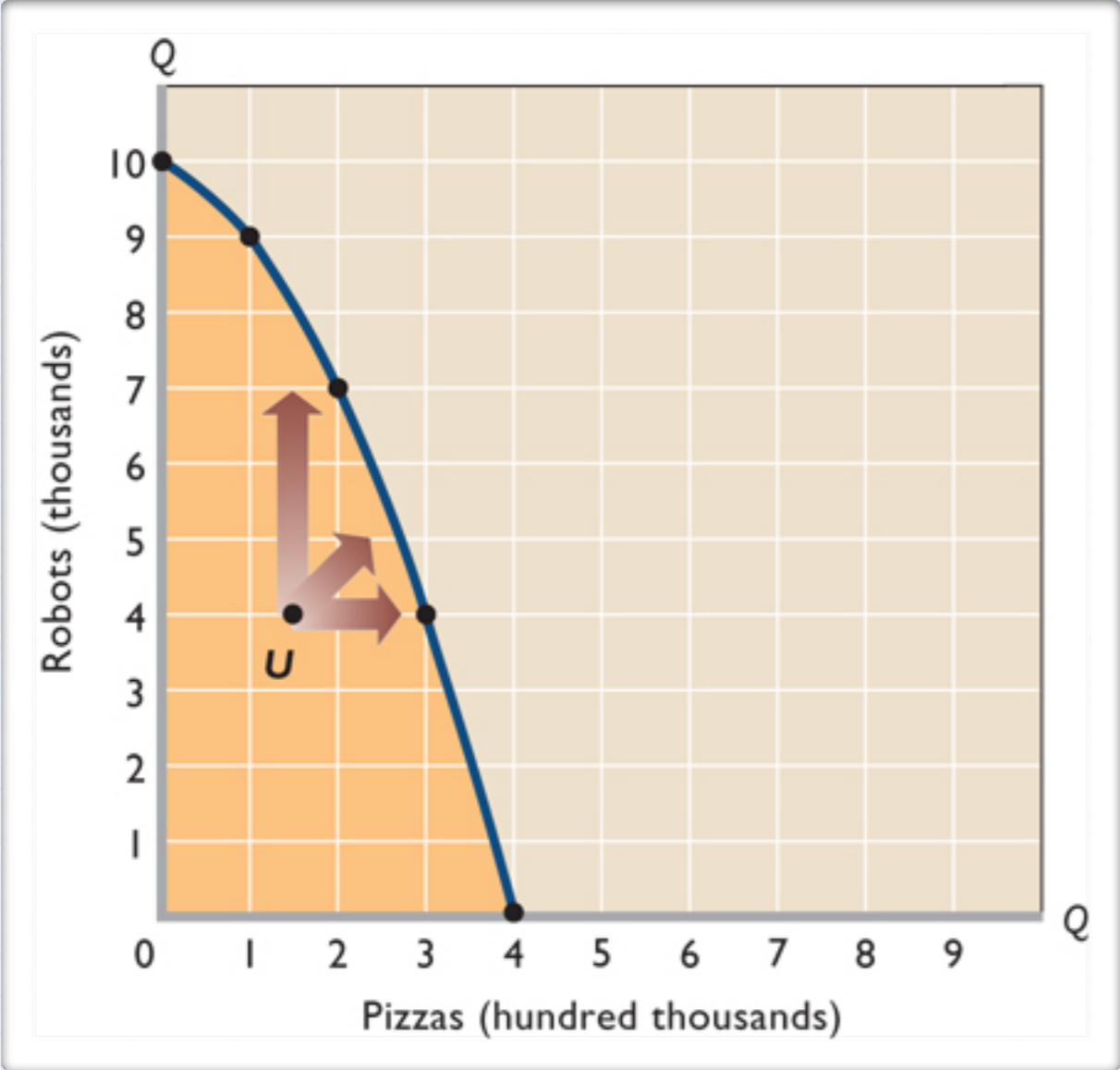
Full employment, fixed resources, fixed technology, two goods - consumer and capital goods

Production possibilities curve

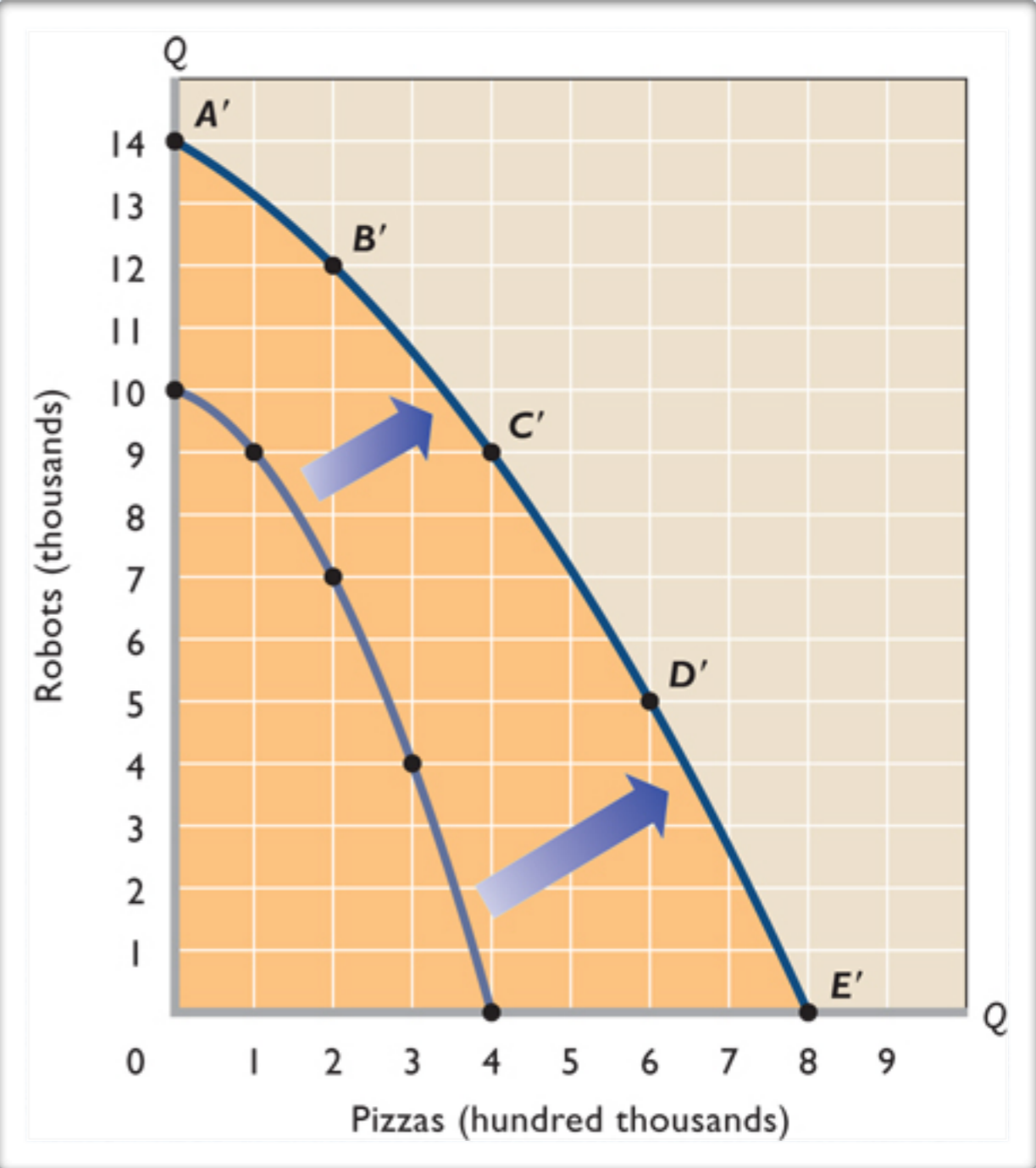
Law of increasing opportunity cost - as the production of a particular good increases, the opportunity cost of producing an additional unit rises.



Unemployment, Growth and the Future



A growing economy



- Changes in resources
- Changes in technology