Scarcity, Choice and Opportunity Cost

Definitions
Rational Choice = The choice that achieves the greatest benefit over cost
Opportunity Cost = The next best alternative that has to been forgone
Actual Economic Growth = An increase in the real output of a country
Potential Economic Growth = An increase in an economy's capacity to produce goods and services

Factors of Production

- Land = Resources supplied by nature
- Labour = Human effort
- (Physical) Capital = Man-made resources (e.g. machines, tools)
- Entrepreneurship = Organise and manage the factors of production, innovation and taking the risks

Production Possibility Curve

- Shows the maximum attainable combinations of output that can be produced in an economy within a specified period of time, when all the available resources are fully and efficiently employed at a given state of technology
- Assumptions
    - Only 2 types of goods produced - capital goods and consumer goods
    - Fixed amount and quality of resources and all resources are fully and efficiently utilised
    - Fixed state of technology within specified time period
- All points on PPC are productively efficient as resources are fully and efficiently employed
- Illustrates
    - Scarcity - Unattainable combinations outside PPC due to limited resources
    - Choice - Society has to choose among combinations of the 2 goods as resources cannot be used to produce all goods at the same time
    - Increasing Opportunity Cost
        - Downward slope of PPC as to have more of 1 good, some of the other good has to be sacrificed
        - Concave to origin as resources in the economy are not perfectly suitable/transferable to the production of both the goods
- Actual economic growth
    - Result of greater and more efficient use of existing resources
    - Movement of a point inside the PPC to a point closer to the PPC
- Potential economic growth
    - Result of an increse in quantity/quality of resources
    - Result of technological improvement
    - Outward shift of PPC
        - Parallel shift - Affects both capital and consumer goods equally

        - Skewed shift - Only affects one of the goods
- Capital goods are for current consumption
- Consumer goods are for future consumption
    - Leads to greater potential economic growth