Section 1 Economic Methodology and the economic problem

Positive statements - can be tested to see if correct

Normative statements - cannot be tested due to value judgements that are different for everybody (words ought, should)

Value judgements - they influence economic decisions / peoples views concerning the best option

Nature and purpose of economic activity - The key economic decision are:
- what to produce
- how to produce it
- who is to benefit

Free goods - do not use factor input when supplied and have zero opp cost

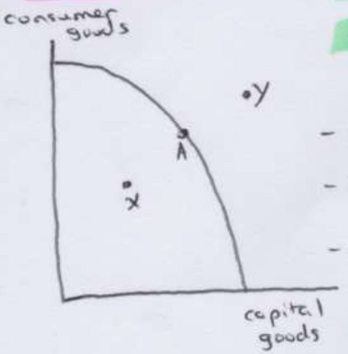
Economic problem - scarcity due to limited resources and unlimited wants

Scarcity - choices have to be made about how resources are allocated

Oppurtunity cost / trade off - a choice given up for an alternative choice

Marginal cost - the cost added by producing an additional unit of good/service

PPF



Allocative efficiency - resources used to

Productive efficiency - max output is produced at cheapest cost

- X = underutilisation / neg output gap
- Y = unsustainable / positive output gap
- A = productivity efficient

Reason for shape: increasing oppurtunity cost / diminishing returns