

CH. 2

ASSUMPTIONS: SIMPLIFY SO AS
TO UNDERSTAND

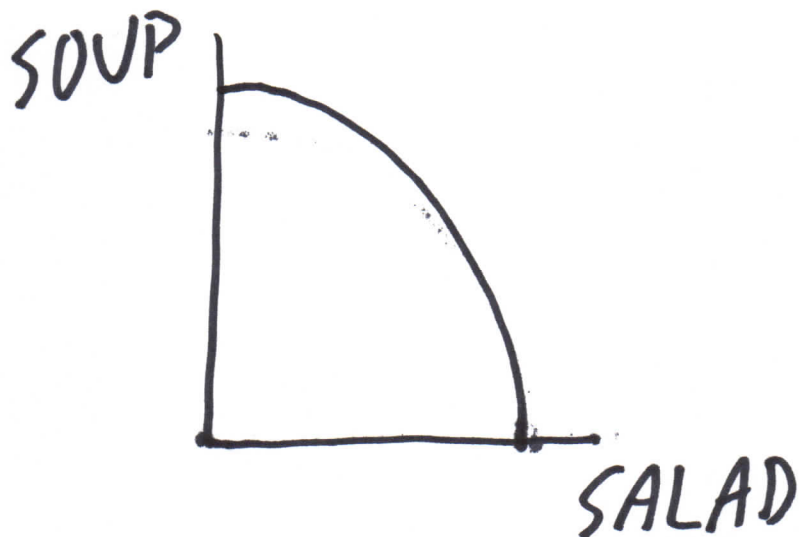
LESS ASSUMPTIONS →

MORE COMPLICATIONS

MODEL: CIRCULAR FLOW

MODEL: PRODUCTION POSSIBILITIES
FRONTIER (PPF)

2 GOODS



CURVY PPFs

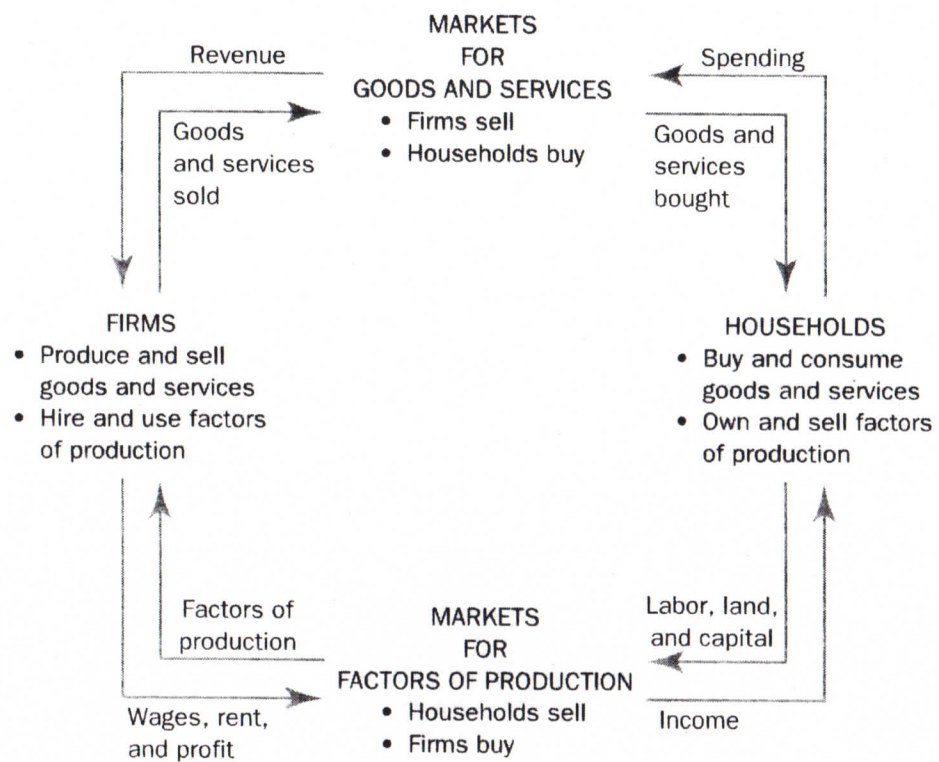
DIFFERENT

GOODS +

DIFFERENT

ABILITIES

Figure 1
The Circular Flow



(H. 2)

DIMINISHING MARGINAL

RETURNS: BENEFIT FROM AN

P255

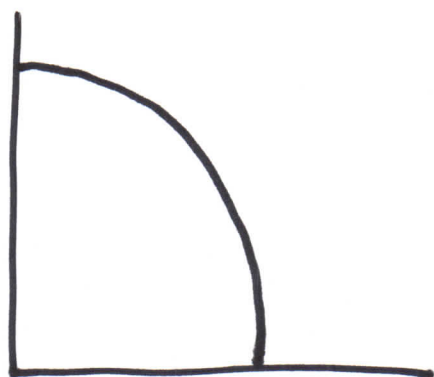
EXTRA INPUT DIMINISHES

AS MORE INPUT

IS ADDED

PPF IS CURVY

GOOD
Y



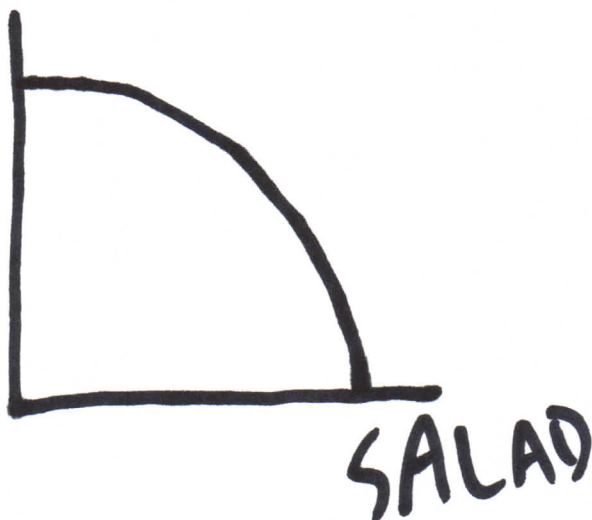
GOOD
X

\$10 per HOUR EMPLOYEES	TIME TO MAKE BED	BEDS per HOUR	COST per BED
1	15 min	4	$\$10/4 = \$2.50$
2	10 min	6	$\$20/6 = \$3.33$
3	5 min	12	$\$30/12 = \$3.33$
4	3 min	20	$\$40/20 = \$2$
5	2.5 min	24	$\$50/24 = \$2.08$
6	2.4 min	25	$\$60/25 = \$2.40$

- MORE BEDS MAY MEAN HIGHER COSTS
- COST IN PPF IS CURVE

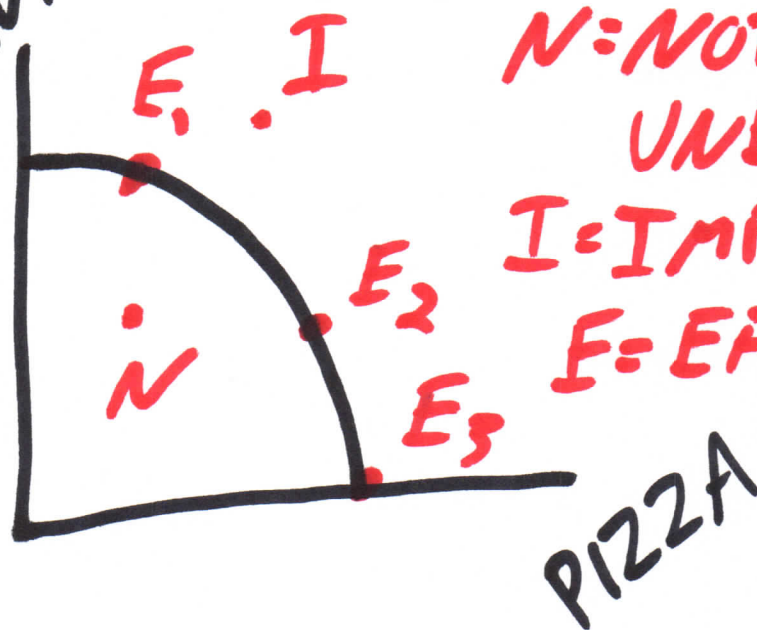
2 GOODS

SOUP



CURVY PPF'S
DIFFERENT GOODS
REQUIRE
DIFFERENT
ABILITIES

OVENS



N = NOT EFFICIENT
UNEMPLOYMENT

I = IMPOSSIBLE

E = EFFICIENT

DEFINITIONS

MACROECONOMICS: SOCIETIES +
COUNTRIES

vs.

MICROECONOMICS: ORGANIZATIONS +
INDIVIDUALS

POSITIVE: DESCRIPTION

vs.

NORMATIVE: OPINIONS

-BASED ON POSITIVE
STATEMENTS?