

Unit 1: Basic Economic Concepts

Cheatsheet

Scarcity & Opportunity Cost

- Scarcity: Limited resources vs. unlimited wants.
- Opportunity Cost: The next best alternative forgone.

Economic Systems

1. Market Economy: Decisions by individuals; driven by supply & demand.
2. Command Economy: Central government controls resources.
3. Mixed Economy: Combines market and government influence.

Production Possibilities Curve (PPC)

Key Concepts:

- Efficiency: On the curve.
- Inefficiency: Inside the curve.
- Economic Growth: Outward shift (more resources, better technology).
- Opportunity Cost: Slope of the curve.
- Straight line: Constant opportunity cost.
- Bow-shaped: Increasing opportunity cost.

Comparative Advantage & Trade

- Absolute Advantage: Who produces more with the same resources.
- Comparative Advantage: Who has a lower opportunity cost.
- Specialization: Focus on goods with comparative advantage → Gains from trade.

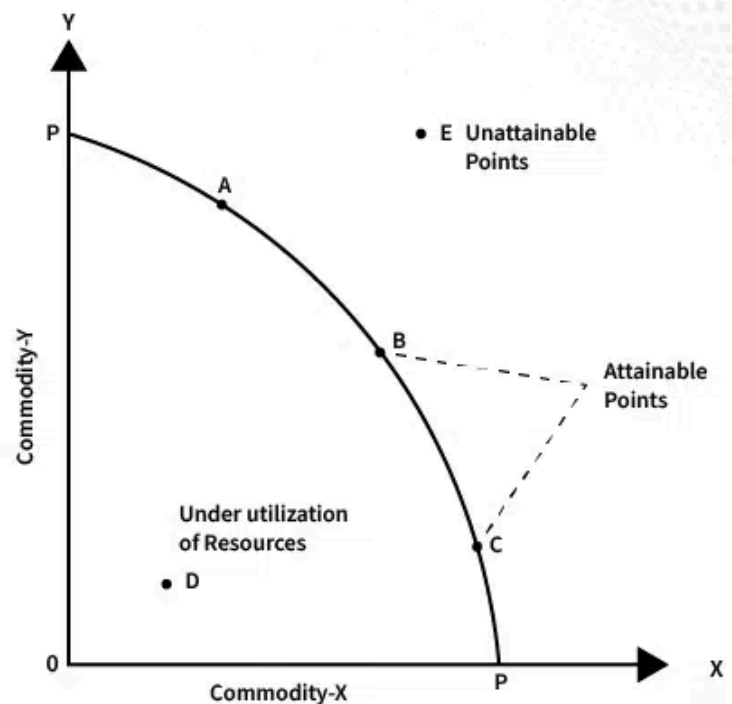


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Supply & Demand Basics

- Law of Demand: Price $\uparrow \rightarrow$ Quantity demanded \downarrow (inverse relationship).
- Law of Supply: Price $\uparrow \rightarrow$ Quantity supplied \uparrow (direct relationship).
- Equilibrium: Where supply = demand.

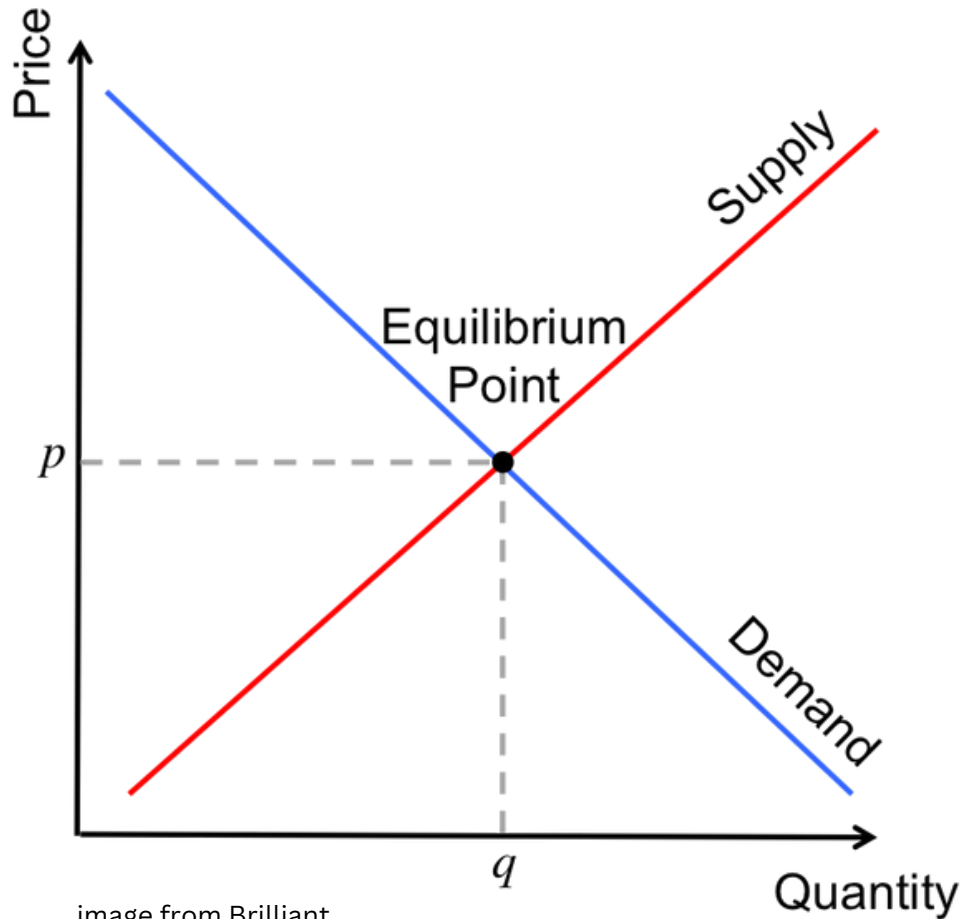


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Shifts vs. Movements

1. Demand Shifters:

- Tastes/preferences
- Income (normal vs. inferior goods)
- Prices of related goods (substitutes & complements)
 - Expectations
- Number of buyers

2. Supply Shifters:

- Input costs
- Technology
- Taxes/subsidies
- Producer expectations
- Number of sellers