OCR Economics A-level

Microeconomics

Topic 1 – Introduction to Microeconomics

Definitions and Concepts

1.1 – The economic problem

Basic economic problem - The problem of scarcity; wants are unlimited but resources are finite so choices have to be made.

Capital - One of the four factors of production; goods which can be used in the production process.

Economic good - Goods which have an opportunity cost and suffer from the problem of scarcity.

Free good - Goods with no opportunity cost, since there is no scarcity of the good; they are not traded.

Labour - One of the four factors of production; human capital.

Land - One of the four factors of production; natural resources such as oil, coal, wheat, physical space.

Needs - Requirements necessary for an individual to live and function, such as food and shelter.

Normative statements - Subjective statements based on value judgements and opinions; cannot be proven or disproven.

Positive statements - Objective statements which can be tested with factual evidence to be proven or disproven.

Rationalisation - Decision-making that leads to economic agents maximising their utility.

Scarcity - The shortage of resources in relation to the quantity of human wants.
Wants - Something that people desire to have, but do not necessarily need to survive.

1.2 – The allocation of resources

Allocative efficiency - When resources are allocated to the best interests of society, when there is maximum social welfare and maximum utility; P=MC.

Economic efficiency - When resources are allocated optimally, so every consumer benefits and waste is minimised.

Incentive - Something which motivates an individual to make a decision and behave a certain way

Market economy - An economy where the market mechanism allocates resources so consumers make decisions about what is produced.

Maximisation - Consumers aim to generate the greatest utility possible, firms aim to generate the highest profits possible.

Mixed economy - Both the free market mechanism and the government allocate resources.

Planned economy - All factors of production are allocated by the state, so they decide what, how and for whom to produce goods.

Productive efficiency - When resources are used to give the maximum possible output at the lowest possible cost; MC=AC.

Resource allocation - How resources are distributed among producers and how goods and services are distributed among consumers.

1.3 – Opportunity cost

Opportunity cost - The value of the next best alternative forgone.

Production possibility curve frontier - Depicts the maximum productive potential of an economy, using a combination of two goods or services, when resources are fully and efficiently employed.

Trade off - When one thing is lost to gain something else.