

OCR Economics A-Level

Microeconomics

Topic 1 - Introduction to Microeconomics

Flashcards

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Economic good



Economic good

Goods which have an opportunity cost and suffer from the problem of scarcity



Free good



Free good

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



Basic economic problem



Basic economic problem

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



Scarcity



Scarcity

The shortage of resources in relation to the quantity of human wants



Needs



Needs

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



Wants



Wants

Something that people desire to have,
but do not necessarily need to survive



Normative statements



Normative statements

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



Positive statements



Positive statements

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



Labour



Labour

One of the four factors of production;
human capital



Land



Land

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



Capital



Capital

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



Enterprise



Enterprise

One of the four factors of production; the willingness and ability to take risks and combine the other three factors of production



Incentives



Incentives

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



Maximisation



Maximisation

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



Resource allocation



Resource allocation

How resources are distributed among producers and how goods and services are distributed among consumer



Market economy



Market economy

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



Planned economy



Planned economy

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



Mixed economy



Mixed economy

Both the free market mechanism and the government allocate resources



Economic efficiency



Economic efficiency

When resources are allocated optimally, so every consumer benefits and waste is minimised



Productive efficiency



Productive efficiency

When resources are used to give the maximum possible output at the lowest possible cost; $MC=AC$



Allocative efficiency



Allocative efficiency

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



Opportunity cost



Opportunity cost

The value of the next best alternative
forgone



Trade off



Trade off

When one thing is lost to gain something else



Production possibility curve/frontier



Production possibility curve/frontier

Depicts the maximum productive potential of an economy, using a combination of two goods and resources, when resources are fully and efficiently employed



Rationalisation



Rationalisation

Decision-making that leads to economic agents maximising their utility

