

TOP TEN ECONOMIC CONCEPTS/TOOLS TO REMEMBER (AND USE)

1. Scarcity means that every activity involves an **opportunity cost** -- what must be given up. Most activities involves **trade-offs** between different things that are valued (leisure vs. money income, a vacation instead of a new car, etc.) **Money** is a means of trade or exchange and a measuring stick that keeps track of many (but not all) opportunity costs. What used to be called “free gifts of nature” don’t cost money but have extremely high value. (Example: without air we would all quickly die).
2. In the current period, **limits on production** are based on availability of productive resources or capital stocks (*natural resources, labor, and manufactured capital—both private and public*). A **sustainable economy** maintains each of these capital stocks along with the intangible capital stock called *social capital*. (If imports > exports a nation can consume more than it produces, but only temporarily)
3. **Total production = total income** in the circular flow of economic activity. Dollars keep circulating (whether taxes → govt spending or spending → demand for new production and new jobs or savings → business investment in capital equipment) unless an imbalance occurs. Recessions (consecutive quarterly declines in real GDP) are caused by imbalances between production and demand.
4. **Economic growth** results from investing in future productive capacity (natural, human, or physical capital) to raise *productivity* or output per hour. **Higher incomes** come only from higher productivity per worker. **Economic development** is a sustainable and widespread increase in the standard of living. Economic growth can occur without there being sustainable economic development.
5. **Gross domestic product** (GDP) measures the dollar value of current production of all goods and services going through the market, but not all aspects of well-being are measured in market activities. **Real GDP** (or wages, income, etc) has been adjusted for price changes (inflation). **Per capita GDP** (or wages, income, etc.) has been divided by the population to give an average per person.
6. **Potential GDP** measures current possibilities. **Unemployment** indicates not using all current resources. **Discrimination** is one example of a cultural barrier causing resources to be underemployed (not used most productively) which prevents reaching potential GDP. In many underdeveloped countries barriers for women are a major factor limiting their economic development.
7. In a market based economy, the forces of **demand and supply set prices** which give signals or **incentives** to pursue or avoid activities/products. **Spillover costs and benefits** (externalities) are ignored by the market and must be dealt with outside the market to maximize the standard of living.
8. Individuals, businesses, governments, and societies must weigh the costs of any activity against the benefits it will bring. Not all **costs and benefits** can be measured in dollars. **Spillover costs or benefits** and costs or benefits which will occur in the future are often ignored in private decisions.
9. Government involvement in pricing or production makes economic sense for
 - **public goods** – those that cannot be privately produced and sold for a profit
 - goods or services which involve substantial **spillover costs or benefits**
 - goods or services for which there is **inadequate information** about costs and benefits
10. The forces of **globalization** have always been with us, but new developments in transportation and communication technologies have increased the pace of interaction and raised awareness of the interrelatedness of all countries and peoples. Both costs and benefits can come from this.