- **Wants are human desires for goods and services.**
- **Needs are necessities and are essential for survival eg. Water, air, clothes, shelter, food.**
- **Demand: There is only a demand for goods and services if those that desire it have the necessary means available to purchase or acquire it.**

- **TANSTAAFL PRINCIPLE – THERE AINT NO SUCH THING AS A FREE LUNCH**

- **Opportunity Cost – This is the value of the best forgone opportunity, meaning that every time a choice is made, opportunity cost is incurred.**

Production Possibilities Curve

- **The PPC curve indicates the combination of any two goods or services that are attainable when the country's or societies resources are fully and efficiently employed.**
- **When the curve bulges outward away from origin we say that that it is Concave.**
- **Opportunity cost is also referred to as the negative slope of the curve, which means that more of one good can only be attained by sacrificing some of the other goods.**
- **Opportunity cost involves a trade off between goods and services.**

Economics as a social science

- **CETERIS PARIBUS – All things being equal**
- **Economics is an empirical science, meaning that actual experiences are studied and measured.**

Macro & Microeconomics

- **Macroeconomics studies the economy as a whole, we develop an overall view of the economic system and study the total or aggregate economic behavior.**
- **Microeconomics studies the individual parts of the economy, studies the decisions of individuals, households and firms in isolation from the rest of the economy.**

Positive and Normative statements

- **A positive statement is an objective statement or fact.**
- **A normative statement involves an opinion or value judgment.**
- **Positive statements can be proved or disproved by comparing them with the facts.**
- **Normative issues can be debated but can never be settled by science or an appeal to the facts.**
  ***NB: Remember to study levels and rates of change!!!!**

Section 2.1 What should be produced
Consumer goods and Capital goods:

- **Consumer goods are goods that are used or consumed by households to satisfy wants.**
- **Capital goods are used in the production of other goods.**
- **Choosing between consumer goods and capital goods therefor means choosing between present and future consumption.**
- **Capital goods have a limited lifespan and are subject to wear and tear and do sometimes become obsolete, meaning that their value depreciates over time.**
- **Capital goods are an important factor of production.**

Categories of Consumer Goods:

- **Non durable goods – Food, drink, petrol, medicine etc.**
- **Semi durable goods – Goods that can be used more than once and usually last for a period of time (Tyre, blankets and shoes)**
- **Durable goods – Goods that last a few years (Houses, cars, Furniture)**

Final goods and Intermediate goods:

- **Final goods are the goods that are used or consumed by individuals and firms.**
- **Intermediate goods are not ready for consumption and are purchased to be used as inputs in the production of other goods. They are thus processed further before they are sold to consumers.**

Private and Public Goods:

- **Private goods are goods that are used or consumed by an individual or household.**
- **Distinguishing feature of private goods is that consumption by others can be excluded.**
- **Public goods are goods that are used by the public and society at large.**
- **Consumption by others cannot be excluded.**

Homogenous and Heterogeneous Goods:

- **Homogenous goods are goods that are all exactly alike.**
- **Heterogeneous goods are goods that have different varieties, qualities and brands.**

Section 2.2 How should it be produced
Factors of production:- Natural Resources

- **Once used they cannot be replaced**
- **They are called non-renewable or exhaustible assets.**
- **Quality and quantity of natural resources is important.**
- **Are in fixed supply.**

Labour:-

- **Is defined as the exercise of human mental and physical effort in the production of goods and services.**
- **Quantity of labour depends on the size of the population and the proportion of the population that is able and willing to work.**
- **Quality of labour is more important than quantity of labour.**
- **Human Capital referres to the knowledge, skill and health of all workers.**
- **Education,training and experience are all important determinants of human capital.**

Capital:-

- **All manufactured resources such as machines, tools and buildings which are used in the production of other goods and services are known as Capital.**
- **Capital goods are produced to produce other goods.**
- **Provision for Depreciation – This is the prevision made for replacement of existing capital goods.**

Entrepreneurship:

- **Factors of production are utilized by them to create products.**
- **They recognize opportunities and are the ones willing to take the risks to develop products with the hope of making a profit once the finished goods are sold.**
- **Is the driving force behind production.**
- **They are initiators and innovators and introduce new products and new techniques on a commercial basis.**
- **They Identify needs and capitalize on this by producing new products.**

Technology:

- **Is also defined as the 5th factor of production.**
- **When new knowledge is discovered and put into practice, more goods and services can be produced with a given amount of natural resources, Labour, Capital and entrepreneurship.**

- **Invention – The discovery of new knowledge.**
- **Innovation – Incorporation of the acquired knowledge into actual production techniques and products.**
- **For the inventions to be used in actual production , new machines have to be developed, this means that inventions have to be embodied in capital.**

<u>Money is not a factor of production:</u>

- **Money is important but is not a factor of production.**
- **Goods and services cannot be produced with money.**
- **Money can be exchanged for goods and services.**
- **Money therefore facilitates the exchange of goods and services.**
  ***NB: To produce goods and services we need factors of production such as natural resources, labour and capital.**

<u>Choice of technique:</u>

- **Capital intensive – Production process that is dominated by machines.**
- **Labour Intensive – Production process that is dominated by labour.**
- **The appropriate choice of technique will depend on the availability and quality of the various factors of production as well as their relative cost.**

<u>The Primary, Secondary and Tertiary Sectors:</u>

- **<u>The primary sector</u> is the sector in which raw materials such as agricultural, fishing, forestry and mining products are produced.**
- **<u>The secondary sector</u> is the manufacturing part of the economy in which raw materials and other inputs are used to produce goods. This includes the benefication of primary products (eg canning fruit and vegetables and processing minerals into mineral products such as steel) and the manufacturing of consumer goods (like clothing, footwear and furniture) and Capital goods such as machinery, buildings, roads and railways.**
- **<u>The Tertiary sector</u> comprises the services and trade sections of the economy. It is often referred o as the services sector. Activities in the tertiary sector include trade, transport, communication and education as well as financial, personal and government services.**

<u>Solutions to the central economic questions:</u>

- **There are essentially 3 such co-coordinating mechanisms that are used to solve the economic problem: Tradition, Command and the Market. These three mechanisms form the basis of the most economic systems, along with property rights.**
- **Most economies today are mixed systems in which the market plays a central role.**

<u>The Traditional System:</u>

- **This means that the same goods and services are produced and distributed in the same way by each successive generation.**
- **In this system each participants task and methods of production are prescribed by custom.**
- **People use the same techniques of production as their parents did and production is distributed according to long established traditions.**
- **This system tends to be subsistence economies and they tend to be characterised by economic stagnation, ie an absence of economic progress.**

<u>The Command System:</u>

- **In this system, the participants are instructed what to produce and how to produce it by a central authority which also determines how output is distributed.**
- **Because the economy is governed by a central authority, command systems are also called <u>centrally planned systems.</u>**
- **Planners decide what consumer goods to produce, how to produce them and how they should be divided amongst the consumers, How many resources should be allocated to production of Capital goods and how many to Consumer goods; and what types of Capital goods should be produced.**
- **Command systems are also known as Socialist or Communist systems.**
- **Government plays a vital role in any country, therefore all government activity has to be planned and coordinated by some central body or bodies.**

<u>The Market System:</u>

- **A market is any contact or communication between potential buyers and potential sellers of a good or service.**
- **<u>Conditions for a market to exist</u>:**

1. **There must be at least one potential buyer and one potential seller of the good or service.**
2. **The seller must have something to sell.**
3. **The buyer must have the means with which to purchase the goods.**
4. **An exchange ratio – the market price – must be determined.**
5. **The agreement must be guaranteed by law or by tradition.**

- **A market system is one in which individual decisions and preferences are communicated and coordinated through the market mechanism.**
- **Most factors of production in a socialist system are owned by the state or by society at large.**

- **A Capitalist system is characterised by private ownership.**
- **The market system can also be used in a socialist system, this is known as market socialism.**

Market Capitalism:

- **Characterised by individualism, private freedom, private property rights, decentralised decision making and limited government intervention.**
- **Most of the means of productions are owned by individuals who take decisions based on their own self interest.**
- **People are driven by self interest in this economic system.**
- **Consumers want to maximize their satisfaction and business people want to maximize their profits.**
- **Workers want the highest possible income for a given amount of work.**
- **Competition is an important feature of market capitalism.**
- **Negotiation occurs between buyers and sellers across different sides of the market.**
- **Competition amongst sellers protects consumers against exploitation and promotes efficiency and growth.**
- **In a market system, decisions are reflected in market prices which constitute a vast signaling system that directs and controls economic activity.**

The mixed economy:

- **All economic systems are a mixture of traditional behavior, central control and market determination.**
- **The South African economy is a mixed economy in which private property, private initiative, self interest and the market mechanism all play an important role, and is also characterised by a substantial degree of government intervention.**
- **In pure market capitalism all factors of production are privately owned.**
- **Privatization is the selling of state owned assets to the private sector.**
- **Nationalisation is the acquisition of privately owned assets by the state.**