

# 26<sup>th</sup> January 2007 (FRI)

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Specialization: Rufus only makes BG and Jane makes both, but spends more of her time on FF.

	BG	FF
Rufus	12	0
Jane	6	54
Total	18	54

Jane spends 3 hours making BG and 9 hours making FF. Total production of FF's has increased by specialization.

## Trades:

- With no specialization, Rufus and Jane have to consume what they produce - Rufus - 6 BG and 12 FF; Jane - 12 BG and 36 FF)

**Trades:** Each gets the same BG as before, and more FF. Who is going to trade away BG? – Rufus.

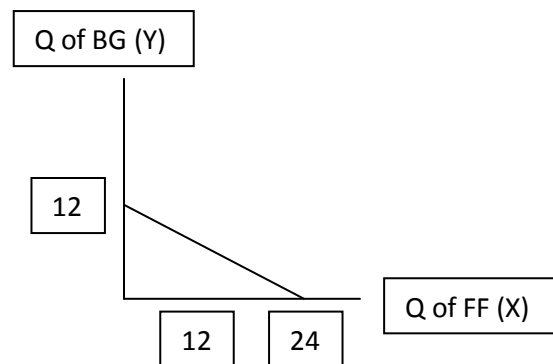
Who is going to trade away FF? – Jane.

**Trades:** Rufus gives 6 BG. Jane only gives him 13 FF (she is a better negotiator).

## New Consumption:

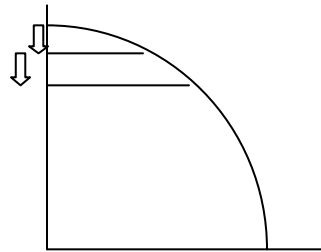
	BG	FF
Rufus	6	13
Jane	12	41

Everyone is better off than producing by themselves and they have produced more than they could have individually.



### *When will the PPF curve out?*

Q Wheat (Y)



Q of Corn (X)

Why? As we move from wheat to corn, the first few 'corn units' produced will be on the most efficient corn land, producing more corn per unit of wheat given up.

### **Economic systems:**

- The way in which goods and services are allocated to people, both in production and consumption.

**Command Economy** – an economy in which a central government either directly or indirectly sets output targets incomes and prices.

**Laissez-faire economy** - an economy in which individual people pursue their own self interests without a central direction or regulation.

### *Prices and Price theory*

In Laissez-faire economies, prices are signals about the scarcity of goods and services and give us information about what we should (or will) choose.

Most economies are mixed

- Some government intervention, some are free markets. (Laissez-faire economies are called free market economies)