

GRADE 11 STUDY GUIDE | 2024

Basic Economic Concepts

Economics

1. The Economic Problem

Resources are SCARCE but human wants are UNLIMITED. Economics is the study of how societies allocate scarce resources to satisfy unlimited wants.

- Scarcity: fundamental economic problem; not enough resources to satisfy all wants
- Opportunity cost: the value of the NEXT BEST ALTERNATIVE forgone when a choice is made
- Factors of production: Land (natural resources), Labour (human input), Capital (man-made tools/machines), Entrepreneurship
- Basic economic questions: WHAT to produce? HOW to produce? FOR WHOM to produce?

Production Possibility Curve (PPC): shows maximum combinations of two goods an economy can produce with given resources and technology. Points ON the curve = efficient. INSIDE = inefficient. OUTSIDE = currently impossible.

2. Economic Systems

- Free market (capitalist): private ownership; prices determined by supply and demand; profit motive; limited government intervention
- Command (planned/socialist): government owns means of production; central planning; no private property
- Mixed economy: combination of free market and government intervention; most real-world economies (including SA)

3. Demand and Supply

Law of Demand

As price INCREASES, quantity demanded DECREASES (and vice versa) -- ceteris paribus (all else equal).

- Demand schedule: table of price vs quantity demanded
- Demand curve: slopes DOWNWARD (negative relationship)
- Changes in demand (shift of curve): income, prices of related goods, tastes, expectations, number of buyers

Law of Supply

As price INCREASES, quantity supplied INCREASES -- ceteris paribus.

- Supply curve: slopes UPWARD (positive relationship)
- Changes in supply (shift of curve): input costs, technology, number of producers, government policy

4. Market Equilibrium

At equilibrium: Quantity Demanded = Quantity Supplied

Price adjusts until market clears (no shortage or surplus)

- Surplus (excess supply): price is ABOVE equilibrium; suppliers reduce price
- Shortage (excess demand): price is BELOW equilibrium; suppliers raise price
- Price ceiling (max price): set BELOW equilibrium => shortage (e.g. rent control)
- Price floor (min price): set ABOVE equilibrium => surplus (e.g. minimum wage)