

Question #61222, Economics, Other

a. Explain the link between scarcity, choice and the production possibility curve. In your answer use graphs and include a description of the three concepts in your own words (300 words maximum).

b. Outline the major factors that determine the type of economic system existing in a country. Based on the factors you noted above, describe the principal differences between the Australian economy and the Chinese economy (300 words maximum).

Answer:

a. All the economic activity is based on the satisfaction of demand with the limited (scarce) economic resources. This creates a basic economic problem: the gap between scarce resources and theoretically limitless wants.

At the same time, on the condition of the limited financial resources a consumer can't satisfy all his requirements at once. Therefore, he must make a decision: choosing the most important demand, which must be satisfied first of all; choosing a good, which will bring the most benefit with the least economic spending.

Production possibility curve represents a relationship between resource scarcity and choice. Figure 1, shows the two goods as consumption and investment.

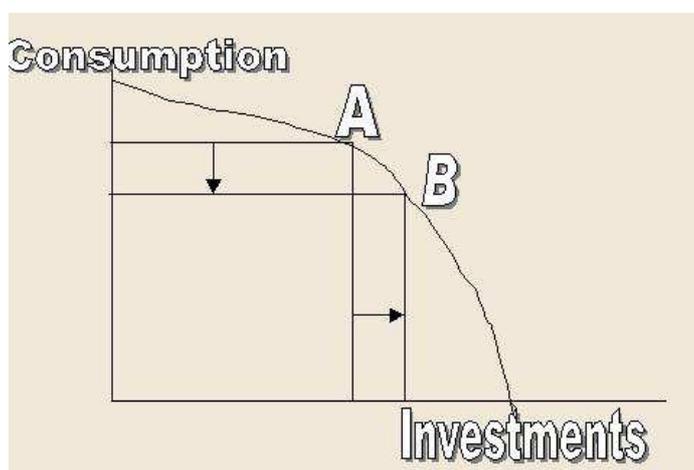


Figure 1 – Production possibility curve

Investment goods are goods that are involved in the production of further consumption goods. They include physical capital such as machines, buildings, roads etc. and human investments such as education and training. The sums of all investments make up the capital stock of a society. To show the point where all resources were used to produce consumption goods, one should move straight up the vertical axes to the curve. To show the point where all resources were used to produce investment goods, one should move straight on the horizontal axes to the curve. Both points are extreme and unrealistic. Both points A and B represented more realistic combinations, with point A showing more consumption and less investment, while point B shows more investment and less consumption.

b. Economic system is a system of production, resource allocation, exchange and distribution of goods and services in the society or a given geographic area. The major economic systems spreaded in the world are: capitalism, mixed economy and socialism. Among the main factors, influencing economic system in a country are:

- Historical background of the people;
- The extent of wealth and natural resources in the economy;
- Political will of the people;
- Instability in the mode of governance.

Australian economy is an example of capitalism. It is characterized by the dominance of private ownership of the means of production and their operation for profit. It also uses market economy for

coordination. Among the central characteristics of this economic system are: private property, capital accumulation, wage labor, voluntary exchange, price system and competitive markets. Chinese economy represents socialism, which is featured by social ownership and democratic control of the means of production. Among others, this economy is characterized by planned economy, classes of society, state responsibility for the basic necessities of life, equal opportunity to all, non-existence of competition and limited choice of consumer products, pricing mechanism.