

Chapter 3

Producing the Right Stuff the Right Way to Maximize Human Happiness

Technology now makes it possible to produce far more goods and services than we ever thought possible....yet scarcity still lurks about....

So what are the steps?

1. Figure out all the possible combinations of good and services that it could produce given its limited resources and the currently available technology.
2. Choose one of these output combinations - presumably, the combination to maximizes happiness

Success in is shown through Productive efficiency (don't use too many resources) and Allocative efficiency (make the exact amount that make people happy)

Figuring out what is possible to produce

Consider:

1. Limited resources
2. Diminishing returns (at some point each unit produce costs more and more)

Classifying resources

Factors of production:

1. Land
2. Labor
3. Capital (not \$ but machines, tools and structures that help produce what we consume)
4. Human Capital (brains not brawn)

Human capital is good but expensive. Should everyone get a college degree?

Diminishing returns: Getting less of a good thing

Diminishing returns or the low hanging fruit principle

Your productivity - your output for a given amount of input - diminishes with each additional hour you work 6 hour work day in Sweden anyone?

<i>Hour Worked</i>	<i>Apples Picked</i>	<i>Labor Cost per Apple</i>
First	300	2 cents
Second	200	3 cents
Third	120	5 cents

A little here, a little there: Allocating resources

Optimal allocation Every new worker might be working a bit less Ever seen one person working and everyone else standing around?!

Graphing your production possibilities

Production possibility frontier (or curve) (PPF) a graph representing production tradeoffs of an economy given fixed resources

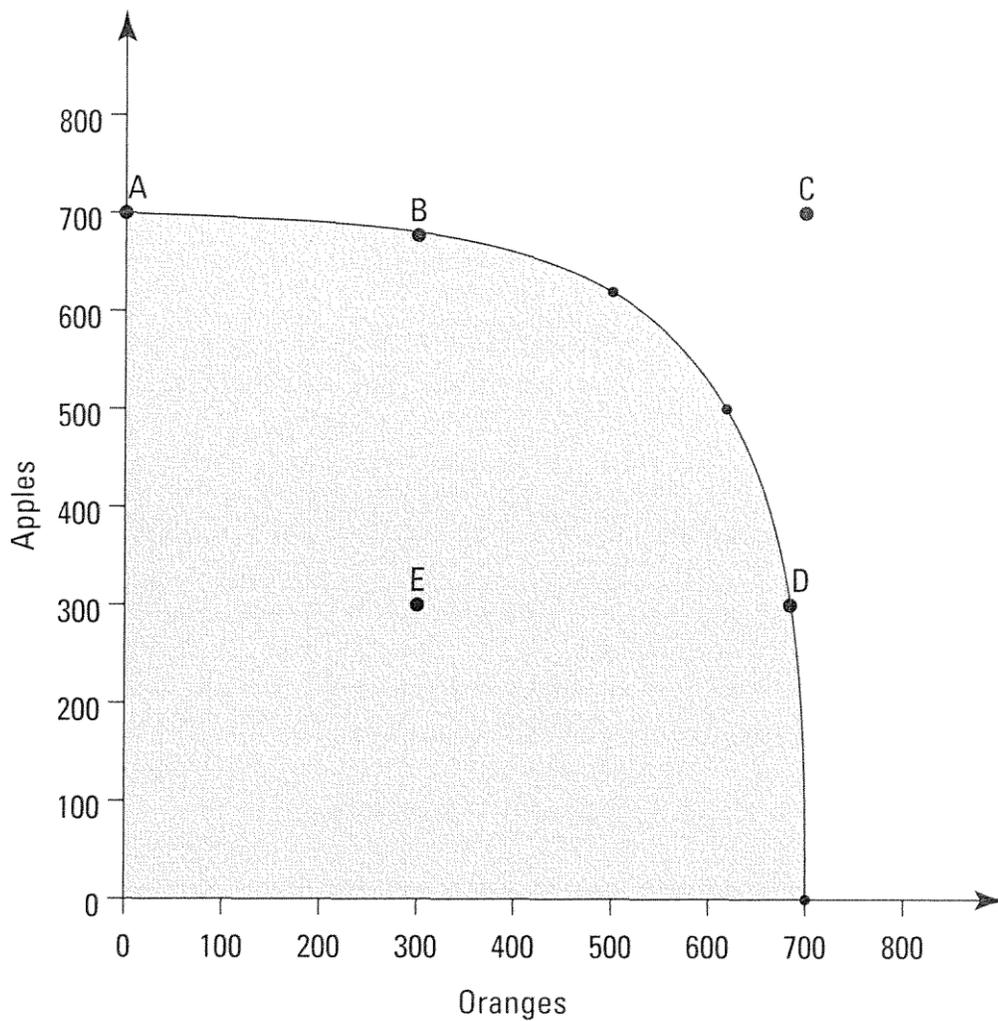
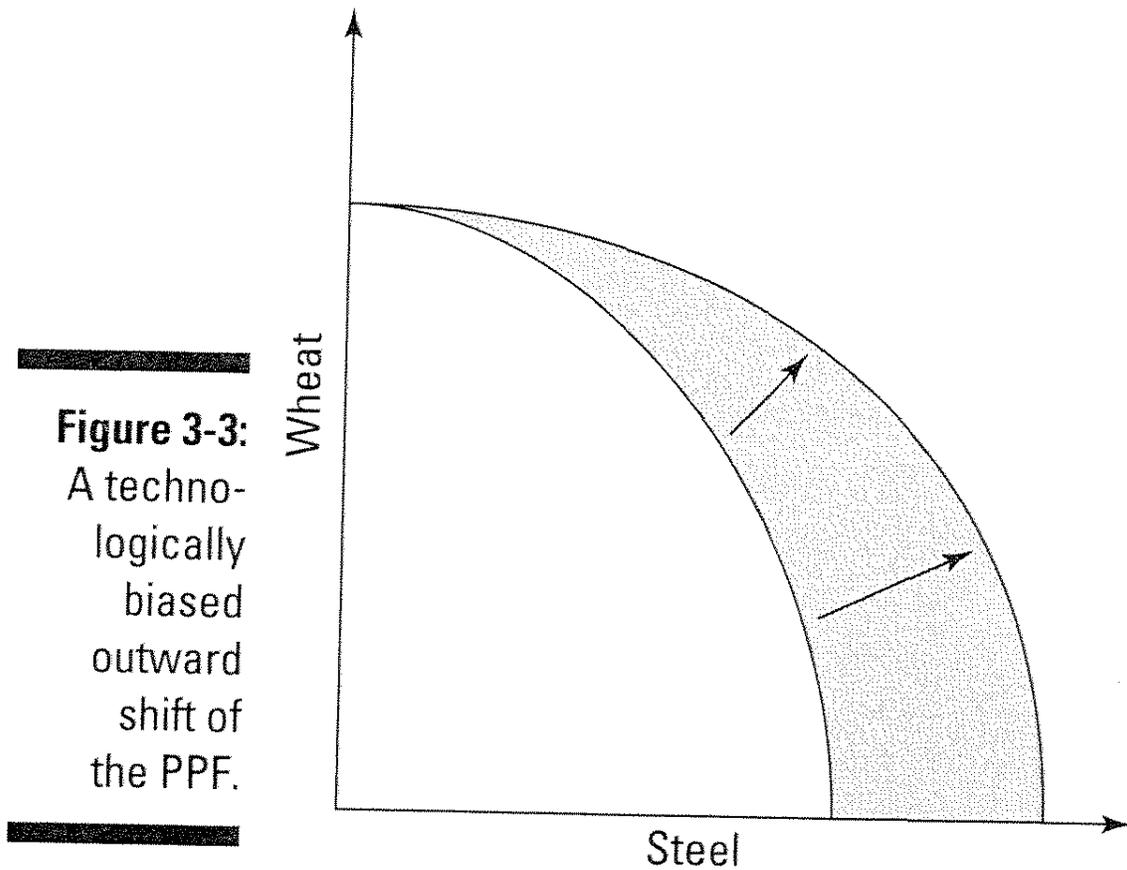


Figure 3-1:
The
production
possibilities
frontier
(PPF) for
the data in
Table 3-2.

Being on the line is when you are productively efficient

Reaching new frontiers with better technology

Technology helps shift the PPF outward, but not always equally



Deciding what to produce

Choosing only among frontier combinations guarantees productive efficiency

Choosing the single frontier combination that maximizes happiness assures allocative efficiency

Deciding which combinations is the tough part when there are competing priorities

Comparing market results and government interventions

Leave the markets alone or intervene?

3 key factors to consider:

1. complexity
2. side effects
3. inequality

The magic of markets: directing resources automatically

Market production: I sell you a product and we are both happy with the price

Figuring out what people want is becoming much easier just ask Barbie!

http://www.nytimes.com/2015/03/29/technology/a-wi-fi-barbie-doll-with-the-soul-of-siri.html?_r=0

Competitive market is where sellers compete against each other for consumers

1. using resources efficiently and keeping prices low
2. encouraging improvements in technology

Bad side

1. some things produced aren't good for people or then environment
2. may not be fair or equitable

Government intervention?

1. penalties or bans
2. subsidies for desirable goods and services
3. taxes to help reduce inequality

Bad side

1. special interests mo' money for mohair?
2. inefficiency
3. inflexibility

Opting for a mixed economy

1. market
2. command
3. traditional

Which is best?

Promoting Technology and innovation

1. Funding research
2. protecting intellectual property rights (patents and copyrights)
3. encouraging education