

## 1.2 Assignment

### 1. What are the three reasons that division of labor increases the productivity in an economy?

The first reason, why division of labor increases the productivity in an economy, is Specialization. Workers are able to focus on each part of the production process, they have advantages in. Every worker has different skills, talent and interests and is more effective in the overall production process, when he can use this.

Secondly, when the workers get used to their work, they will learn and find ways, how to produce more quickly and developing the quality.

The third reason is called economics of scales. That means, the average cost of each unit declines and the total output increases.

A good example therefore could be building an assembly line. You are able to produce more units and decline the average cost in the building process.

### 2. What are three major categories of economic trade-offs that people face in the course of life?

The first category are opportunity costs. It is what is given up, for the value of the next best alternative, when a decision is made. An example is when you produce two products equally and decide to produce more of one than the other now (change the production relation).

The second one is underemployment and economic expansion. The frontier is, where you have maximum production possibilities with the available resources.

For example in a recession you reach the status underemployment, where the production level is moving backwards.

Economic expansion is, when the situation gets better and describes the way back to full employment and the frontier.

The third category is economic growth.

When you increase the productivity of the workers with the same resources, learn how to use new tools, etc., this improves your productivity. With more productivity you can produce more of your product(s) and reach economic growth.

The frontier will move outwards.

### 3. In the budget constraint model of how people make economic choices, why do people make choices that lie on the budget constraint, not inside or outside the constraint?

Because if you are on the budget constraint you have full employment ("maximum production, with available resources"). That means you can produce the best combination out of the available resources in the most efficient way.

If you are below, you have underemployment and do not use all available resources, but it is possible to produce.

If it is above, there are not enough resources available, to reach the production combination ("failure of full employment") and it is impossible to produce.