

AQA Economics A-level **Microeconomics**

Topic 1: Economic Methodology and the Economic Problem

1.2 The nature and purpose of economic activity

Notes

- 📄 The purpose of economic activity is to produce goods and services which satisfy consumer needs and wants.
- 📄 This requires using resources (inputs in the form of the factors of production) to produce outputs (the goods and services).
- 📄 Economists have to make decisions about how to use scarce resources:
 - **What is to be produced?**

The government and private sector is faced with this decision. They also have to consider how much of each good is to be produced.

Due to the problem of opportunity cost, they have to be careful about the decisions made.
 - **How should it be produced?**

This considers how the goods and services produced will be distributed. The rewards from each factor of production are considered. Firms aim to minimise costs and maximise profits, so production needs to be efficient.

They will consider how much each factor of production costs and how productive it is. This will help them decide between labour intensive production and capital intensive production.
 - **Who will benefit from the goods and services produced?**

Consumers who have purchasing power can benefit from the goods and services produced. Those who are willing and able to pay the price charged for a good or service will get the good or service.