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Matthew Grei 09/9/21

Econ Chapter 1:

1-1) • Our salary has to do with opportunity cost

• Our after college plans for a job are dependent on the state of the economy

• Marriage has to do with cost and benefits

• How many friends you have has to deal with scarcity

1-2) Key Economic Concepts

• Good - Anything that gives a person utility

• Utility - Satisfaction

• Examples of Goods: Computer, Car, Watch, TV, friendship, love (tangible + intangible)

• Bad - Anything that gives a person disutility

• Disutility - Dissatisfaction

• Example of Bads: FIU, nagging from family

- People pay to get "goods" and pay to get rid of "bads"

☆ Something can be a "good" for someone and a "bad" for someone else

Resources

• Referred to as inputs or factors of production

• Four Broad Categories of Resources

1.) Land (Natural Resources): Minerals, forests, water, oil, wood, animals

2.) Labor: Physical/Mental talents that people contribute to the production process (building a house)

3.) Capital: Produced goods that can be used as inputs for further production (factories, machinery, tools, etc.)

4.) Entrepreneurship: Talent that some people have for organizing the resources of land, labor, and capital to produce goods, seek new business opportunities, develop new ways to do things.

Scarcity and Definition of Economics

• Scarcity - The condition in which our wants for goods are greater than the limited resources (L.L.C.E) available to satisfy those wants

- Result of infinite wants hitting up against finite resources

Even Billionaires face Scarcity

- Without scarcity, there is no study of Economics.

• Economics - The science of scarcity; The study of how individuals and societies deal with the fact that wants are greater than the limited resources available to satisfy those wants.

• Scarcity and wealth CAN ~~[illegible]~~ co-exist (Scarcity can come w/ poverty or wealth)

• Ex. Both USA and Cuba face Scarcity: They have infinite wants for goods but finite resources to produce those goods.

• If Both countries face scarcity, then why is one country rich and the other poor?

- They don't function under the same economic and political systems

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- Prices are determined differently in these two countries as well
  - USA: Determined by market factors | Cuba: Determined by government edict
- The incentives to produce in these countries are also different
  - U.S.A can pick and choose what to produce | Cuba is determined by the government
- In the U.S.A profit and loss guide economic choices; In Cuba government officials make the decisions

★ Scarcity is not responsible for why U.S.A is rich and Cuba is poor
  - The way the two countries deal with scarcity is what differentiates them

- Institutions Matter: Economic and political institutions under which a country operates matter to the outcomes that the country faces.

Effects of Scarcity:
- 1.) The need to make choices
- 2.) The need for a rationing device
- 3.) Competition

~~[illegible]~~

- Choices: Scarcity causes us to make choices
- Rationing Device: A means of deciding who gets what of available resources and goods.

Yale rations students by ~~[illegible]~~ GPA and SAT

  - Dollar price is a rationing device: it decides who gets the available quantity of goods. Scarcity implies the need for a rationing device.
- Scarcity and Competition: Competition exists because of scarcity
  - People compete for rationing devices

1-3 · Opportunity Cost
  - The most highly valued opportunity or alternative forfeited when a choice is made.
    - Every time you make a choice, you incur an opportunity cost
      - Ex. By studying, you deny the benefits of doing something else.
        - The opportunity cost of reading this chapter is watching T.V.
          - Every option has an opportunity cost, unless there is a no alternative.

- 'No free lunch': Opportunity costs are still incurred
  - 'Free' means that there is no sacrifice and no opportunities forfeited → The resources could've been used for other things
    - Zero price does not mean zero cost → free ticket, you have opportunity cost (hanging w/ friends)

- The higher the opportunity cost of doing something, the less likely that it will be done.
- Benefits rarely come without costs
  - Economists think of both the costs and the benefits

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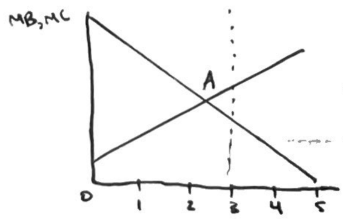
- Most of the time we think in terms of marginal or additional, costs and benefits, not total costs and benefits.
  - when deciding whether or not to order another hamburger we compare the marginal benefits (MB) of the next hamburger to ~~its~~ its marginal costs (MC)
    - By making decisions by comparing marginal benefits and marginal costs, we are making decisions at the margin
      - Ex. whether to put an extra question on final exam
- Efficiency
  - The right amount of something is the 'optimal' or 'efficient' amount
    - When MB=MC, you have achieved efficiency



A = MB = MC = efficiency

- Will never find a $10 bill on sidewalk because the first person will pick it up. The marginal benefits exceed the marginal cost to get the money.
- Incentive
  - Something that encourages or motivates someone to undertake an action
    - People have an incentive to do something in scenarios where the benefits are greater than the costs.
  - Unintended Effects
    - Andres has a job at $6.50, but when minimum age is raised to $9.50 he gets fired. The unintended effect of the minimum wage increase was the loss of his job.
    - Seat belt laws example: intended effect is to save lives but the unintended effect may be more crashes due to more risks, and thus more fatalities overall.
      - You must know the unintended effects beforehand to be safe
- Exchange
  - Exchange or trade is the giving up of one thing for something else.
    - Economics = the "science of exchange"
      - People enter exchanges to make themselves better off
- Economic Problem Procession

1.) problem identified 2.) Cause identified 3.) Solution proposed

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- Ceteris Paribus
  - "all other things constant" or "nothing else changes"
    - Allows us to designate what we believe is the correct relationship between two variables
      - "If the price of a good decreases, the quantity of consumption increases, ceteris paribus"
- Theory/Model
  - Everyone builds and tests theories
  - Theory: An abstract representation of the world
    - Abstract - You omit certain variables or factors when you try to explain or understand something
      - When Economists build a theory or model they abstract from reality; leave out certain things
        - They focus on the major factors or variables that will explain a phenomenon
          - A theory emphasizes only the variables that a theorist believes are the main or critical ones that explain an activity or event
            - Ex. Influence of diet on whether someone becomes a criminal
  - "If your theory is correct, what do you predict we will see in the world?"
    - This question minimizes talk and maximizes the chance of establishing who is correct and who is incorrect
      - Ex. Sloppy dressed history teacher.
  - Purpose of a theory: To explain something that is not obviously answered.

Economic Categories

- Positive Economics: Attempts to determine 'what is'; Cause-effects relationships that can be tested
- Normative Economics: Attempts to determine 'what should be"; Value judgements & opinions that cannot be tested
- Microeconomics: Deals with human behavior and choice as they relate to relatively small units
- Macroeconomics: Deals with human behavior and choice as they relate to the entire economy
  - Microeconomics deals with: firm and the effects on it
  - Macroeconomist deals with inflation, how the economy works, how changes in money supply effects economy