What is Economics
3 BENEFITS OF STUDYING ECONOMICS

- Learn a new WAY of thinking
- Understand WHAT’S going on
- Understand the WHYs of government policies and actions

WWW.econ
Economics: a Definition

• Economics is the study of:
  – how we make decisions in a world which resources are limited.
  – How things are made, bought, sold, used

• Economics is divided into 2 Branches: Micro and Macro
<table>
<thead>
<tr>
<th>MICROECONOMICS</th>
<th>MACROECONOMICS</th>
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<tbody>
<tr>
<td>Studies individual income</td>
<td>Studies national income</td>
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<tr>
<td>Analyzes demand and supply of labor</td>
<td>Analyzes total employment in the economy</td>
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<tr>
<td>Deals with households and firms decisions</td>
<td>Deals with aggregate decisions</td>
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<tr>
<td>Studies individual prices</td>
<td>Studies overall price level</td>
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<tr>
<td>Analyzes demand and supply of goods</td>
<td>Analyses aggregate demand and aggregate supply</td>
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SCARCITY AND CHOICE

- The resources for satisfying human wants are *limited*
- Collectively we want more than we can produce with our *limited resources*
- Economists help to determine the use of scarce resources to satisfy the “*most important*” wants.
- Because resources are desirable and *scarce*, we must make *choices* for the use of these resources
- ECONOMICS is the study of “*choice*”.
WHAT DRIVES CHOICES?

- INCOME
- WEALTH
- AVAILABILITY OF GOODS
DOES BILL GATES HAVE ANY INCOME CONSTRAINTS???????????
NO- BUT HIS CONSTRAINTS ARE TIME AND RESOURCES
Figure 6-3 The Individual’s Budget Constraint with a Change in Income

Income = $100
Income = $200
Income = $300

\( \frac{I'}{P_r} \)
\( \frac{I'}{P_p} \)
DISCUSSION:

HOW DO YOU MAKE CHOICES IN YOUR DAILY LIFE?
WHAT DRIVES YOUR DECISION MAKING?
A special kind of Trade-Off is an

**OPPORTUNITY COST =**

The Value of the Next Best Choice

(Ex: Sleeping is the opportunity cost of studying for a test)
THERE ARE TEN BASIC PRINCIPLES OF ECONOMICS
( BUT WE WILL ONLY STUDY THREE)

1. WHAT GETS PRODUCED?
2. HOW IS IT PRODUCED?
3. WHO GETS WHAT IS PRODUCED?

REMEMBER : RESOURCES ARE SCARCE
Markets

Consumers buy goods

Producers sell goods consumers want

Interact in a market for those goods

Subject to income constraints

Subject to consumer tastes

That are governed by prices subject to

Supply

Demand
WHAT GETS PRODUCED?
• RESOURCES
• ALLOCATED

HOW DOES IT GET PRODUCED?
• CONSUMER DEMAND
• INPUT COSTS

WHO GETS WHAT IS PRODUCED?
Supply and Demand

**Demand**
- Tastes & preferences
- Income
- Prices of related goods
- Expectations
- Number of Buyers

**Supply**
- Resource price
- Technique of production
- Prices of other goods
- Taxes & Subsidies
- Price Expectations
- Number of sellers
- Supply Shocks
SO LET’S SUMMARIZE WHERE WE ARE:

CONstrained choice AND Scarcity ARE central TO the study AND DISCIPLINE IN economics

PRODUCERS PRODUCE WHAT CONSUMERS WANT

CONSUMERS CONSUME WHAT PRODUCERS PRODUCE

PRICE THEORY IS THE GREAT EQUALIZER
theory of comparative advantage  Ricardo’s theory that specialization and free trade will benefit all trading parties, even those that may be “absolutely” more efficient producers.

absolute advantage  A producer has an absolute advantage over another in the production of a good or service if he or she can produce that product using fewer resources (a lower absolute cost per unit).

comparative advantage  A producer has a comparative advantage over another in the production of a good or service if he or she can produce that product at a lower opportunity cost.
EFFICIENT VS INEFFECTIVE

EFFICIENT IS WHEN BOTH PARTIES BENEFIT

INEFFECTIVE IS WHEN BOTH PARTIES DO NOT
World Economic Systems
What Is An Economic System?

- There are three types of economic systems

1. **Market economies** - all productive activities are privately owned and production is determined by the interaction of supply and demand
   - government encourages free and fair competition between private producers

2. **Command economies** - government plans the goods and services that a country produces, the quantity that is produced, and the prices as which they are sold
   - all businesses are state-owned, and governments allocate resources for "the good of society"
   - because there is little incentive to control costs and be efficient, command economies tend to stagnate

3. **Mixed economies** - certain sectors of the economy are left to private ownership and free market mechanisms while other sectors have significant state ownership and government planning
   - governments tend to own firms that are considered important to national security
The Characteristics of a Free Market

- Free to Set Prices
- Free, Cooperative, and Peaceful Process
- Free to Choose Your Work
- Free to Be an Investor
- Free to Be an Entrepreneur
- Free to Be an Entrepreneur
- Free to Create Capital Formation
- Free to Earn Profits
- Free to Compete
- Free to Buy, Own, Use, and Sell Private Property
Command Economy

What to Produce

How to Produce

For Whom to Produce

Completely determined and controlled by a central authority
Mixed Economic System

- No nation has a pure market or a pure command economic system.
- All economies are mixed, meaning they have elements of both market and command systems.
ONE FINAL NOTE BEFORE WE LEAVE:

1. I have posted a YouTube video entitled, “How To Write A Rhetorical Precis” in Coursework. Watch it and write the following:

2. THREE NEW THINGS YOU LEARNED TODAY

3. ALSO INCLUDE HOW MUCH TIME YOU WILL COMMIT TO STUDYING FOR THIS COURSE?
END OF LESSON!
Hope this helps!