

Podium

- German – Podest
- Spanish – Podio
- French – Podiu
- Italian – Podio
- Norwegian-?
- Chinese - 讲台



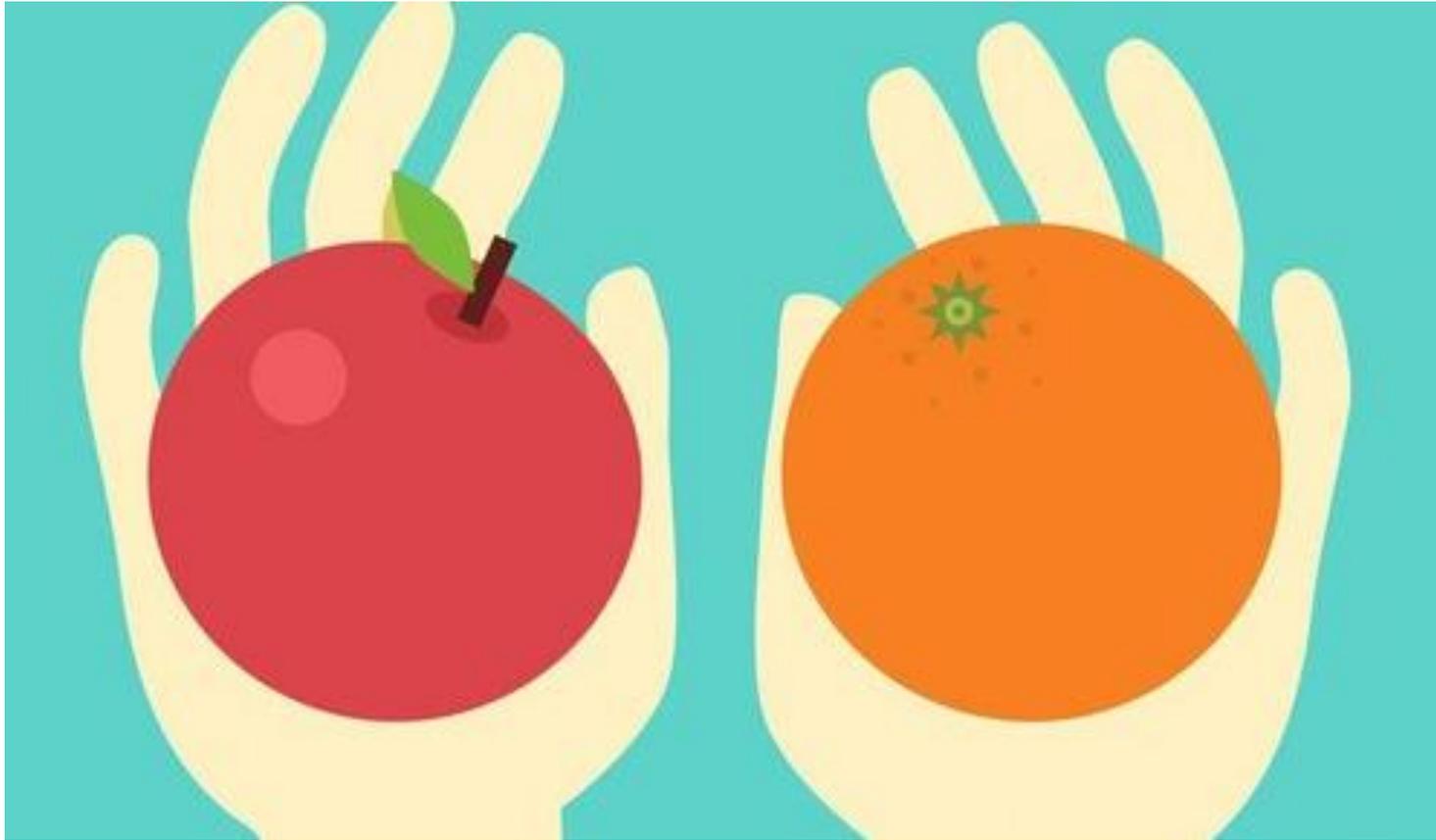
THE LANGUAGE OF ECONOMICS

Chapter 1 Ten Principles of Economics
(pp. 3-18 in text)

Chapter 2 Thinking Like an Economist
(pp. 19-34 in text)

Chapter 2 Appendix: Math and Graph
Review
(pp. 37-45 in text)





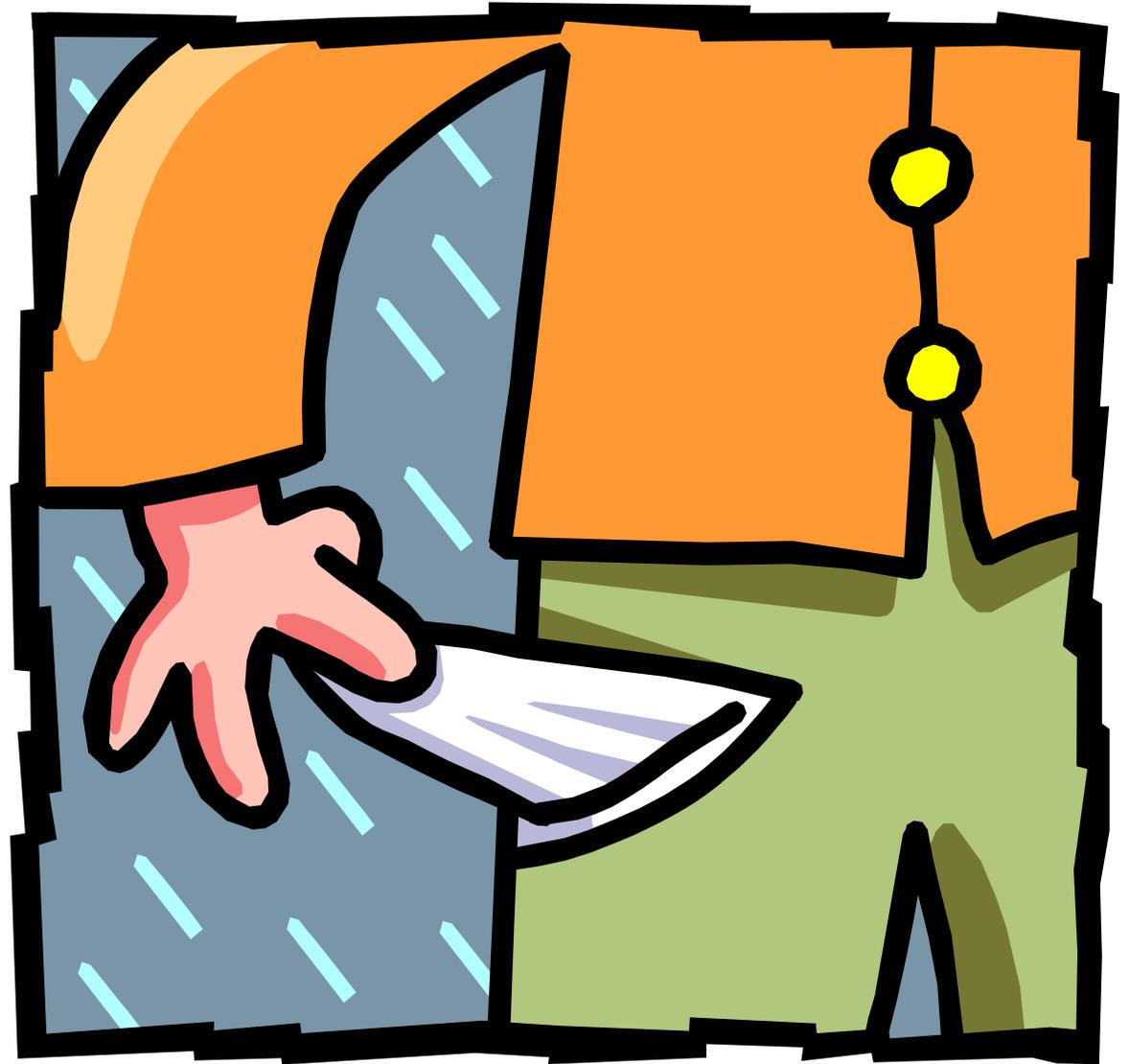
p. 5 in packet
I. Introduction: What is economics?

- Economics - the study of the choices that individuals make given the presence of scarcity.
- **SCARCITY** - limited resources but unlimited wants
- Economics is a social science

Are scarcity and
poverty the
same thing?

A. YES

B. NO





Does Opera Winfrey
face scarcity?

A. Yes

B. No

Types of Resources (Factors of Production), p. 5

- 1) Land: Water, Air, Oil, land, natural resources



- 2) Nonhuman animal resources



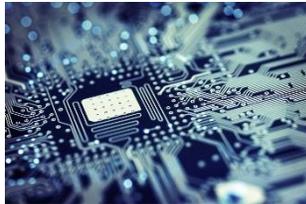
- 3) Labor: Human Capital (Physical and Mental)



- 4) Capital: Resources produced using land and labor (Man-made)



- 5) Technology



- 6) Entrepreneurial Ability



We combine (1)-(6) to produce commodities - economic goods and services

II. Ten Principles of Economics, p. 6

Principle #1: People Face Trade-offs

- **Scarcity forces us to make choices. Scarcity necessitates rationing.**
- **Economics - The study of how human beings coordinate their wants. (How society manages its scarce resources.)**
- **The economy- the institutional structure through which individuals in a society coordinate their diverse wants**



The economy will determine the answers to three questions – all involving trade-offs:



- 1) What, and how much, to produce?
- 2) How to produce?
- 3) For whom to produce?

Issues of ALLOCATION

Efficiency and Equality, p. 6

- Efficiency – the property of society getting the most it can from its scarce resources (the size of the economic “pie”)
- Equality – the property of distributing economic prosperity uniformly among the members of society (How the economic pie is sliced)



- ✓ Scarcity
- ✓ Choice
- ✓ Competition
- ✓ Allocation



<u>CHAD</u>		<u>WALTER</u>	
<u>ASSETS</u>	<u>LIABILITIES</u>	<u>ASSETS</u>	<u>LIABILITIES</u>
SORT OF A BAD-BOY	SORT OF A BAD-BOY	KINDA GEEKY	KINDA GEEKY
OWNS HARLEY	POOR CREDIT	GOOD SENSE OF HUMOR	WORKAHOLIC
GREAT IN BED	BAD CONVERSATION SKILLS	HIGH EARNING POTENTIAL	LIKES NICKELBACK
		GREAT WITH KIDS	

HAPPINESS WITH CHAD = X_t
 HAPPINESS WITH WALTER = Y_t

$$X_t = P_x + (5 E_x) + (3 H_x)$$

$$Y_t = P_y + (5 E_y) + (3 H_y)$$

$$n(z) = \frac{1}{\sqrt{2\pi}} e^{-z^2/2}$$

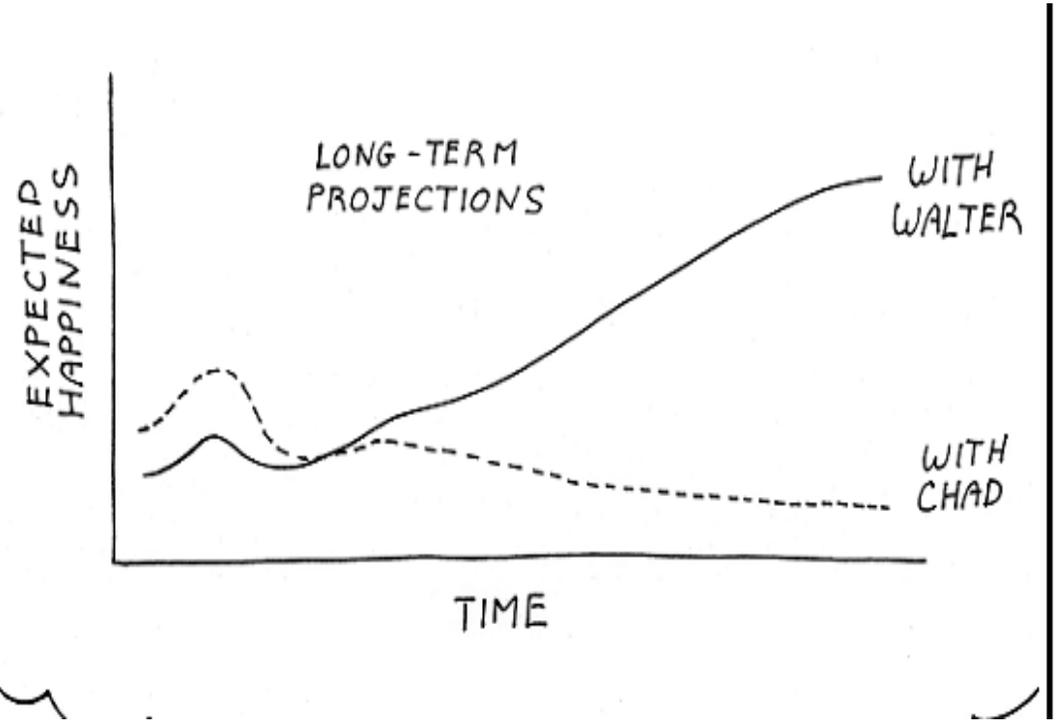
$$u_0(C_0, X_0) + u_1(C_1, X_1) = \frac{C_0^{1-\alpha} X_0^{1-\beta}}{1-\alpha} + \rho \frac{C_1^{1-\alpha} X_1^{1-\beta}}{1-\alpha}$$

$$\eta_x = \int_{-\infty}^{\infty} u_0(C_0, Y_0) + u_1(C_1, Y_1) e^{x+dn(x)} dx = \mu_x + \frac{1}{2}\sigma^2$$

$$P_j^st(S_j, k) = S_j N(Z_k + \sigma_j) - ke^{-rt} \uparrow \mu_x + \frac{1}{2}\sigma^2$$

p. 6
 Principle #2: The cost of something is what you give up to get it.

OPPORTUNITY COSTS





- **Opportunity Cost: highest valued benefit forgone due to choosing an alternative.**
- **Opportunity cost of being in college?**
- **NOT the sum of ALL forgone activities**
- **Costs (and benefits) are subjective.**



Opportunity costs of completing college

Principle #3: Rational People (Weigh Costs and Benefits) and Think at the Margin, p.7

Rational People (decision-makers)—
systematically and purposefully do the
best they can to achieve their objectives



Sometimes
information is
incomplete or
imperfect when
we make choices.



Principle #3: Rational People (Weigh Costs and Benefits) and Think at the Margin, p.7

Rational People (decision-makers)–
systematically and purposefully do the best
they can to achieve their objectives

A. We weigh costs and benefits

- What are the costs of attending class today?
- Tuition?
- Sunk cost – has already been incurred and can't be recovered
- What are the benefits of attending class today?



What if we
aren't
"rational?"

"Irrational" Behavior

Cognitive Biases Influencing Decisions
(like loss aversion, bandwagon effect, anchoring bias)

Behavioral Economics



B. Individuals Make Decisions at the Margin
Economic thinking is marginal thinking.

Examples:

- Deciding to attend class
- Food consumption choices

Do you have a
boyfriend/girlfriend/significant other?

A. YES

B. NO

C. UNCERTAIN



Cheating is a
decision
made at the
margin.



Buffalo Wings



The Economic Decision Rule:

- If the marginal (incremental) benefit (MB) of an action exceeds the marginal (incremental) cost (MC), do it.

If the $MC > MB$, don't do it.

- We do things to the point where:

$$MB=MC$$

Ali Wing #	1	2	3	4	5	6	7	8
MB Marginal Benefit	75¢	60¢	50¢	40¢	10¢	2¢	0	-\$1
MC MARGINAL COST	25¢	25¢	25¢	25¢	25¢	25¢	25¢	25¢
consume?	✓	✓	✓	✓	X	X	X	X

$MB > MC$
 $MC > MB$

