

SURVEY OF ECONOMICS

CHAPTER 1

INTRODUCING THE ECONOMIC WAY OF THINKING

The Economic Perspective

- **Wants** - nice house, car, vacation
- **Needs** - food, shelter, water, air, clothing versus
- In order to satisfy the above, the economy uses **resources** - land, labor, tools, mineral deposits to produce goods and services.
- **Economic system or economy** - The organizational mechanism by which we accomplish the satisfying of needs and wants is called the economic system.
- **There is no free lunch** - Because there is scarcity, there is always an opportunity cost - someone always has to pay.
- **Opportunity cost** - to get more of a product you have to give up some of the other.
- **Utility** - the pleasure, happiness, or satisfaction obtained from consuming a good or service.
- **Marginal analysis** - Marginal benefit vs. marginal cost (Marginal = Extra)

THE PROBLEM OF SCARCITY

- **Scarcity** - The condition in which human wants are forever greater than the available supply of time, goods and resources.
- **Scarce Resources and Production**
 - **Land** - any natural resource provided by nature that is used to produce goods and services.
 - **Labor** - The mental and physical capacity of workers to produce goods and services
 - **Entrepreneurship** - The creative ability of individuals to seek profits by taking risks and combining resources to produce innovative products
 - **Capital** - Human made goods that are used to produce other goods and services

Microeconomics vs Macroeconomics

- **Microeconomics** - details of an economic unit
- **Macroeconomics** - examines the economy as a whole or its basic aggregates such as the government, household or business unit
- **Positive economics** - focuses on facts and cause and effect
- **Normative economics** - incorporates value judgements, what the economy should be

Theories, Principles, and Models

- The methodology of economics is the **scientific method**.
- Data hypothesis \implies testing of the hypothesis \implies acceptance / rejection of the hypothesis \implies continued testing of the hypothesis \implies continued favorable results \implies **theory**
- A widely accepted theory is a **law/principle**
- Combinations of laws / principles are **models**. Economic laws and principles are usually less certain than the laws of physics!
- The process of deriving theories and principles is called **theoretical economics**.
- In constructing theories, economists use the *Ceteris Paribus* or **other things equal** assumption. All variables held constant except those under consideration.

APPENDIX 1 - APPLYING GRAPHS TO ECONOMICS

Construction of a graph

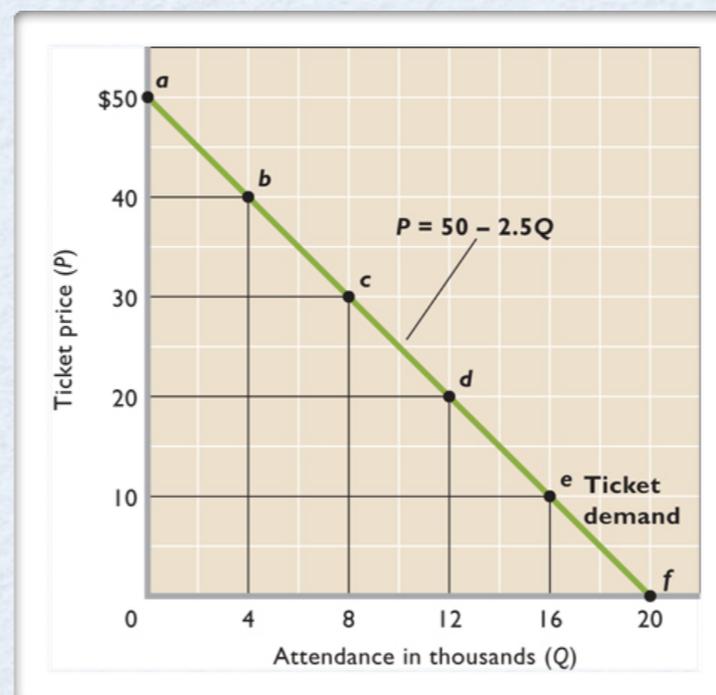
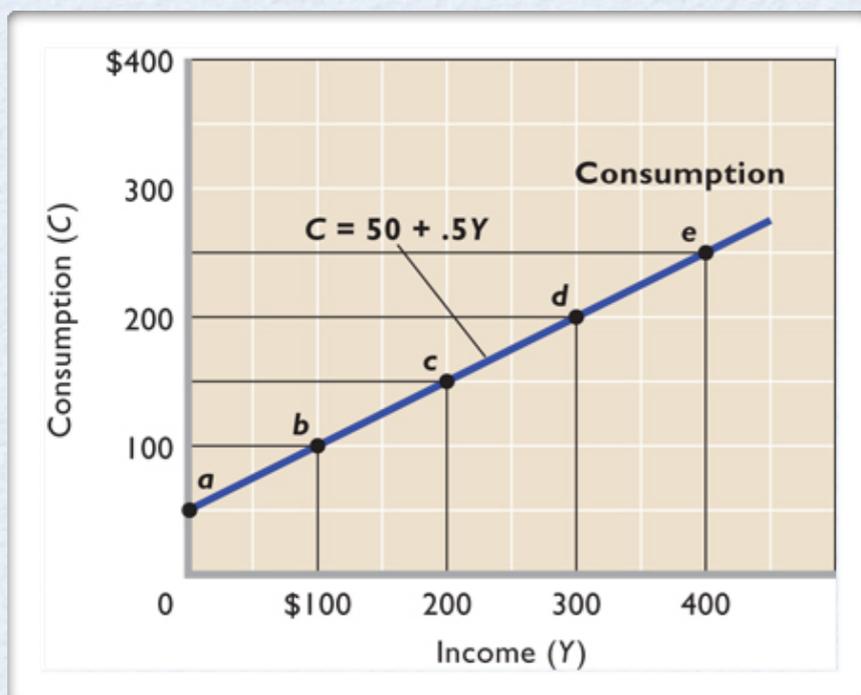
Direct vs indirect relationship - Dependent vs independent variables

Income per Week	Consumption per Week	Point
\$ 0	\$ 50	a
100	100	b
200	150	c
300	200	d
400	250	e

Ticket Price	Attendance, Thousands	Point
\$50	0	a
40	4	b
30	8	c
20	12	d
10	16	e
0	20	f

Positive Slope

Slope = vertical change / horizontal change = $50 / 100$
 $= 1/2 = 0.5$



Negative Slope

Slope = vertical change / horizontal change = $-10 / 4$
 $= -2.5$