

The Science of Economics

Introduction to Econ
Scarcity

Economic Way of Thinking

- ◆ Everything has a cost
- ◆ People choose for good reasons
- ◆ Incentives matter
- ◆ People create economic systems to influence choices and incentives
- ◆ People gain from voluntary trade
- ◆ The value of a good/service is affected by people's choices
- ◆ Economic actions create secondary effects

Vocabulary to define

- ◆ Scarcity
- ◆ Economics
- ◆ Needs
- ◆ Want
- ◆ Factors of production
- ◆ Land
- ◆ Capital
- ◆ Financial capital
- ◆ Labor
- ◆ Entrepreneur
- ◆ Production
- ◆ GDP
- ◆ Economic product
- ◆ Good
- ◆ Consumer good
- ◆ Capital good
- ◆ Service
- ◆ Value
- ◆ Paradox of value
- ◆ Utility
- ◆ Wealth

- ◆ Market
- ◆ Factor market
- ◆ Product market
- ◆ Economic growth
- ◆ Productivity
- ◆ Division of labor or Specialization
- ◆ Human capital
- ◆ Economic interdependence
- ◆ Trade-off
- ◆ Opportunity cost
- ◆ Production possibilities frontier
- ◆ Cost-benefit analysis
- ◆ Free enterprise economy
- ◆ Standard of living

Study of Economics

- ◆ Definition: study of how people try to satisfy unlimited and competing wants through use of scarce resources
- ◆ Topics:
 - Scarcity
 - How things are made, bought, sold & used
 - How incomes are earned and spent
 - How jobs are created
 - How economy works on a daily basis
 - Free enterprise system
 - Property rights
 - Competition
 - Supply & demand
 - Price systems
 - The role of business
 - How determine standard of living

Scope of Economics

■ Description

- ◆ Describes economic activity
- ◆ Ex: GDP—used to measure country's economic health

■ Analysis

- ◆ How & why questions
- ◆ Helps us discover why things work and how they happen

■ Explanation

- ◆ Communicate knowledge to others

■ Prediction

- ◆ Concerned with prediction to make the best possible decisions
- ◆ Decisions about economic choices are responsibility of all citizens in a free society

Scarcity

- ◆ **Fundamental Economic Problem—Scarcity**
 - ◆ People want more than they have
 - ◆ Scarcity affects almost all decisions
- ◆ **Needs and wants**
 - ◆ Need is requirement to live, a want is how you fill it
 - ◆ Wants are much broader than need
 - ◆ Because resources are limited—everything has a cost even when presented as free
 - Businesses hide costs in prices
- ◆ **Making Economic decisions—ask 3 questions**
 - ◆ What to Produce?
 - ◆ How to produce it?
 - ◆ For whom is it produced?
- ◆ **Production takes place when all factors of production are present**

Factors of Production

- ◆ What to Produce?
- ◆ How to Produce it?
- ◆ Who is it being for?

- ◆ Required resources to produce the things we'd like to have
 - Capital
 - Land
 - Labor
 - Entrepreneurs

Basic Economic Concepts

- ◆ **Products command a price because one cannot get enough to satisfy needs and wants**
- ◆ **Goods**
 - **Types—consumer, capital, durable, non-durable**
 - **Durable goods last 3 or more years**
 - **Durable, non-durable can be consumer and capital goods**
- ◆ **Services**
 - **Intangible, people oriented**
- ◆ **Value, Utility, Wealth**
 - **Paradox of value—why are some necessities cheap while other non-necessities are expensive?**
 - ◆ **Scarcity plays a role in determining value**
 - ◆ **Utility—the product needs to be useful to have value**
 - ◆ **Some necessities are abundant, so the value is low while some non-necessities are rare and therefore have a higher value**
 - **Wealth—accumulation of goods**

◆ **Circular Flow of Economic Activity**

- **Individuals earn income in factor markets**
- **Individuals spend their income in product markets**
- **Businesses use money from the product market to produce more goods and services**
- **When circular flow gets larger—economic growth**

◆ **Productivity**

- **Everyone benefits when scarce resources are used effectively**
- **often discussed in terms of labor, but can apply everywhere**
- **Improving productivity**
 - ◆ **through specialization—regional, assembly line, robotics**
 - ◆ **investments in human capital—education, health care, training**

Economic Choices

- ◆ **Need to make wise choices since resources are scarce**
 - How to identify the problem
 - Analyze alternatives
 - Make choice that considers costs and benefits of each possibility
- ◆ **Trade Offs—alternative choices when making economic decisions**
 - If given \$50, how should it be spent?
- ◆ **Opportunity Cost—the next best choice (the one you gave up)**
 - Give up an elective to take this class

Thinking like an economist

◆ Economic Models

- Diagrams and charts
- Production possibilities frontier
- Circular flow

◆ Cost-Benefits Analysis

- Compare positives and negatives of a choice
- Want to get the highest return per dollar spent