Week 1

Week 2

Economics and Scracity

economics	the study of how society manages its scarce, or limited, resources.	Economics studies all of these forces – decision making by individuals, by firms, by government institutions	Focus is on how markets operate to allocate scarce resources
Scarcity	**Dictators** (since they might not know much about economics, it would likely fail) and **government** (have advisors to help plan) decide allocation	allocations work through the interactions of all these people through markets	

from Week 1

Basic Principles of Microeconomics

Microeconomics	The study of how households and firms make decisions and interact in markets.		
Macroeconomics	The study of how economy wide phenomena including inflation, unemployment and economic growth.		
Principles of Microeconomics			
How People Make Decisions			
	Principle 1	People face trade-offs	
	Principle 2	Opportunity Cost	the cost of something is what you give up to get
	Principle 3	People think at the margin	
	Principle 4	People respond to incentives	Government policies have incentives, sometimes unintended. Sometimes don't work as intended.
How People Interact			
	Principle 5	Trade can make everyone better off	
	Principle 6	Markets are usually a good way to organize economic activity	
	Principle 7	Sometimes governments can improve market outcomes	
How the Economy Works			
	Principle 8	A country's standard of living depends on its ability to produce goods and services	

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Basic Principles of Microeconomics (cont)

Principle 9	Prices rise when the government prints too much money	**inflation**: an increase in the overall level of prices in the economy
Principle 10	Society faces a short-run trade-off between inflation and unemployment	

Questions

What exactly do people gain when they trade with each other?

Why do people choose to be interdependent?

Important Concepts

Absolute Advantage	ability to produce more of a good, given inputs, then another producer	
Comparative Advantage	the ability to produce a good at a lower opportunity cost than another producer	better to specialize in whatever makes makes your opportunity cost the least

Demand, Supply, and Market Equilibrium

Market Demand		
Quantity demanded	amount of good buyers are willing and able to purchase	
Law of Demand	all else equal, as the price rises its quantity demanded decreases	
Demand Curve	a graph of the relationship between the price of a good and quantity demanded	
	Causes of shifts	
	Income	
	normal good	if demand for a good **increases** when income increases
	inferior good	if demand for a good **decreases** when income increases
	Prices of related good	
	substitutes	if price of sunstitute goes down, the demand goes down
	complements	if price of complement goes down, the demand goes up
	tastes/preferences	
	expectations	
Market Supply		

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Demand, Supply, and Market Equilibrium (cont)

Quantity supplied	amount of a good that sellers are willing and able to sell
Law of Supply	all else equal, when the price of a good rises the quantity supplied rises
Supply Curve	relationship between price of a good and quantity supplied

Remember to notice what makes that demand relationship change, i.e. the forces that would make someone want more of a good at any given price.

Market Equilibrium

a situation in which the market price has reached the level at which quantity supplied = quantity demanded

Changes in Supply and Demand

Steps

1	Decide whether it is: supply, demand, or both.
2	Decide in which direction curve shifts
3	Use demand-supply graph to evaluate change.

Scenarios

-	An increase in demand.
-	An increase in supply.
-	An increase in both demand and supply

Week 3

Elasticity

Elasticity	a measure of the responsiveness of quantity demanded or quantity supplied to a change in one of its determinants		
	Elastic Demand	if the quantity demanded responds *substantially* to a *price change*	steeper demand curve
	Inelastic Demand	if the quantity demanded responds *only slightly* to a *price change*	flatter demand curve

Types of Elasticity

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Elasticity (cont)

Price Elasticity	measures how much quantity demanded responds to a change in price.	Price Elasticity of Demand= %Δ in Quantity Demanded / %Δ in Price	[Q2−Q1 (Q1+Q2)/2] / [P2−P1 (P1+P2)/2]
Supply Elasticity	measures how much the *quantity supplied* responds to a change in the *price*		

What factors affect elasticity?

close substitutes	*elastic* since easier for consumer to switch to a substitute good
necessities	*inelastic* because need to survive
luxuries	*elastic* because don't need
time horizon	more *elastic* over long horizons because necessities can become luxuries

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