What is Economics?

Scarcity	When what everyone wants adds up to more than there is. There has never been enough to satisfy everyone completely.
Productivity	The production of output (products and services) from scarce resources.
Efficiency	The rate at which the inputs are turned into outputs.

The role of Economics is the systematic study of of cause and effect, looked at in terms of incentives and results, rather than goals.

Economics is the study of the use of scarce resources which have alternative uses. - Lionel Robbins, Economist

The Role of Prices

Play a crucial role in determining how much of each resource gets used where and how the resulting products get transferred to consumers.

Enable people to signal to other people how much they want and how much they are willing to offer for it, while other people signal what they are willing to supply in exchange for what compensation.

Resource allocation by prices	Competition in the market is what limits how much anyone can charge and still make sales. The price which one producer is willing to pay for any given resource becomes the price that other producers are forced to pay for that same resource. Changes in resource prices have repercussions in the prices of other resources.
Incremental substitution	Resources tend to flow to their most valued uses. From the standpoint of society as a whole, the "cost" of anything is the value that it has in alternative uses.

Different economic systems deal with the underlying reality in different ways and with different degrees of efficiency, but the underlying reality exists independently of whatever particular kind of economic system happens to exist in a given society.

Demand versus "-Need"	With goods in general, the quantity supplied varies directly with the price, just as the quantity demanded varies inversely with the price.
"Real" Value	Continuing transactions between buyer and seller make sense only if value is subjective, each getting what is worth more subjectively.
Competition	It not only forces prices toward equality, it likewise causes capital, labour and resources to flow towards where their rate of return are highest until the returns are evened out.
Prices and Supplies	Prices not only ration existing supplies, they also act as powerful incentives to cause supplies to rise or fall in response to changing demands.
"Unmet needs"	By its very nature as a study of the use of scarce resources which have alternative uses, economics is about incremental trade-offs, not about "needs" or "solutions".

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Published 27th March, 2021.
Last updated 1st October, 2023.

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Price Controls

Prices rise because the amount demanded exceeds the amount supplied **at existing prices**. Prices fall because the amount supplied exceeds the amount demanded **at existing prices**.

Demand under Rent Control	Just as price fluctuations allocate scarce resources which have alternative uses, price controls which limit those fluctuations reduce the incentives for individuals to limit their own use of scarce resources desired by others.
Supply under Rent Control	The rental housing stock is relatively fixed in the short term, so that a shortage occurs first because more people want more housing at the artificially low price. Later, there may be a real increase in scarcity as well, as rental units deteriorate more rapidly with reduced maintenance, while not enough new units are being built to replace them as they wear out, because new privately built housing can be unprofitable under rent control.
The Politics of Rent Control	Often it is politically effective to represent rent control as a way to keep greedy landlords from gouging the poor with "unconscionable" rents. In reality, rates of return on investments in housing are seldom higher than on alternative investments, and landlords are often people of very modest means.
Scarcity vs. Shortage	Keep in mind the distinction between an increased scarcity - where fewer goods are available relative to the population- and a shortage as a **price** phenomenon. Just as there can be a growing shortage without an increased scarcity, so there can be a growing scarcity without a shortage.
Hoarding	Hoarding is a special case of the more general economic principle that more is demanded at a lower price and the corollary that price controls allow lower priority uses to preempt higher priority uses, increasing the severity of the shortages.
Black Markets	Price controls almost invariably produce black markets, where prices are not only higher than the legally permitted prices, but also higher than they would be in a free market, since the legal risks, must also be compensated.
Quality Deterioration	Under price control, the amount of a product demanded at an artificially low price exceeds the amount supplied, so there is no need to spend resources on quality, as they will be sold anyway.

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Price Controls (cont)

Price "Floors" and Surpluses	Price control in the form of a "floor" under prices, preventing these prices from falling further, produces surpluses as dramatic as the shortages produced by price control in the form of a "ceiling" preventing prices from raising higher.

An Overview of Prices

Analyzing economic actions in cause-and-effect terms means examining the logic of incentives being created, rather than simply thinking about the desirability of the goals being sought.

Systemic Causation	While causation can sometimes be explained by intentional actions and sometimes by systemic interactions, too often the the results of systemic interactions are falsely explained by individual intentions.
Complexity and Causation	Complex effects may be a result of either simple causes or complex causes.
Individual vs Systemic Rationality	Under any economic of political system, people can make their choices only among the alternatives actually available.
Incentives vs Goals	Incentives matter because most people will usually do more for their own benefit than for the benefit of others. Incentives link the two concerns together.
Economic Institutions	Most people may be unaware that they are competing when making purchases, and simply see themselves as deciding how much of various things to buy at whatever prices they find. But scarcity ensures they are competing with others.
Incremental Substitution	As important as it is to understand the role of substitutions, it is also important to keep in mind that the efficient allocation of resources requires that these substitutions be **incremental**, not total.
Subsidies and Taxes	Prices charged to the consumers of such specially taxed or specially subsidised goods and services do not convey the real costs of producing them and therefore do not lead to the same trade-offs as if they did.
The Meaning of "Costs"	One reason for the popularity of price controls is the confusion between prices and costs. Once the distinction is recognised then it's not very surprising that price controls have the negative consequences that they do, because price ceilings mean a refusal to pay the full costs.

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