

Economics 8/27/13

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Overview (2)

- Analyze and interpret daily life decisions: emphasize costs, benefits and possible future consequences
- Making choices is all about comparing costs and benefits. – ex: Lebron James changing teams

What is Economics (2)

Scarcity

- The limited nature of society's resources.
- If it takes even a small amount of time, energy or money to acquire then a good is
- Nothing is free in nature- not even air and water!

Economics

- Study of how people allocate their limited resources to satisfy their nearly unlimited wants
- Study of how people make choices

Scarcity (3)- not going away- unlimited wants limited resources

Which do you prefer?

-\$10 or \$20?

- 1 vehicle or 2?

- 1 meal a day or 3?

- 200 gigabytes of disk space or 400?

Idea: More is preferred to less

Question: How does this relate to scarcity?

Managing the problem of scarcity and save money: Become more efficient, productive and technologically advanced...

Self-Interest and Rationality (3)

- Economics usually assume:
 - Self-Interest
 - Rationality

Ex's: Star Trek Spock- Economics Rational Agent, The consumer, wont buy something unless you feel the money you're giving for it is equal to the value

Homer Simpson- Human Being, Not rational- Behavioral Economics

Self-Interest (4)

"It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest." (Adam Smith, *An inquiry into the Nature and Causes of the Wealth of Nations*, 1776)

Smith's invisible Hand: when shoppers line up to check out, there is no authority telling them which lane they are assigned. They naturally just proceed to the lane that they believe will help them check out most quickly, and if one lane gets congested or held up for whatever reason, shoppers will relocate to other lanes, smoothing the flow of traffic.

So shoppers working toward their own self-interests result in working in the interest of everyone through social cooperation and, thereby, promoting the most efficient method for everyone.

- Companies produce products because they make money
- We buy them based on taste and price
- Everyone profits from someone else's suffering
- Complaints are hypocritical
- Society functions best when we all act among our own Self-Interest
- Self-interest does not necessarily mean increasing one's wealth
- Still leaves room for charity, gifts and altruism

Ex's: Are Politicians failing our Lobbyists?

Seinfeld "The Calzone"

Incentives (5)

- Responding to incentives:
 - Rationality and the use of incentives
 - o Positive incentives (bonuses, a sale, free food for a work meeting)
 - o Negative incentives (stick, fired from your job, sales taxes, spanking your child)
 - Making Choices: Change the way people make decisions
 - o Balancing cost and benefit

Direct and Indirect Incentives (5)

- Direct incentives
 - o Generally easy to recognize
 - o Ex: Offered 100\$ to work harder for an A
 - o What you want
- Indirect incentives
 - o Secondary change in behavior (unintended consequences)
 - o Ex: Offered \$100 to any student to get an A--- the indirect incentive is that more people will cheat!
 - o What you get

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Unintended Consequences (6)

- An Unplanned result (usually negative and unwanted) of an incentive.
- Debate over social security (safety net)
- If social security (designed to help the poor) is better than a shit job it encourages people not to work—good intentions can lead to unwanted consequences
- Ex: The Office

Microeconomics v Macroeconomics (6)

- Microeconomics
 - The study of decisions making undertaken by individuals (or households) & firms

- Focuses on the individual parts of the economy
- Ex: Football TICKET, grocery list
- Macroeconomics
 - Study of the behavior of the economy as a whole.
 - Deals with economy-wide phenomena, aggregates or totals.
 - Ex: Football GAME, unemployment, inflation, foreign trade

Scientific Method in Economics (7)

- Similar to “hard sciences”
 - Construct a theory (or hypothesis)
 - Design experiments to test the theory
 - Collect data
 - Revise or refute the theory based on evidence
- Differences from “hard sciences”
 - Economist’s lab is the world around us
 - Firm and consumer behavior studied
 - Not always able to design experiments
 - Historical data often used

Positive and Normative Analysis (7)

- Positive Statement
 - A claim that can be tested to be true or false
- Normative Statement
 - Statement of Opinion.
 - Cannot be tested to be true or false.
 - What “ought to be” or “should be”
 - Biased
 - Ex: Children should be vaccinated to prevent a disease
- Which is generally preferred?
 - Positive.
 - Like to test claims with data.

Poll Everywhere Question:

Identify the Positive Statement (s):

Answer: A ONLY (PSU in-state tuition is \$13,280 per academic year)- Can be tested

Think, Pair, Share: Positive or Normative? (\$250)

1. Winters in Arkansas are too cold (**Norm**)
2. Everyone should work at a bank to see the true value of money (**Norm**)
3. The current exchange rate is .7 pounds per dollar (**Pos**)
4. On average, people save 15% when they switch to Geico (**Pos**)
5. Everyone ought to (should) have a life insurance policy (**Norm**)
6. University of Virginia graduates earn more than Duke university graduates (**Pos**)
7. Harvard University is the top education institution in the country (**Norm**)
8. The average temperature in Fargo, ND in January is 56 degrees (**Pos**)