

Microeconomics 22060—Dr Rohlin:

Jan 15th—Chapter 1

Economics: the study of how society manages its scarce resources

Scarcity: the limited nature of society's resources

Principles of Economics:

1. People face tradeoffs
 1. Efficiency vs. Equality
 2. **Efficiency**—when society gets the most from its resources
 3. **Equality**—when prosperity is distributed uniformly among everyone
2. The cost of something is what you give up to get it
 1. Opportunity Cost (OC): Whatever must be given up to obtain
 - **Ex:** Movie night (\$20 tickets, \$10 food = \$30 cost—explicit)
Works \$10/hour—movie is 2 hours long (\$20—wage he gave up—implicit cost) \$50—book OC, \$20—Dr. Rohlin OC
 - **Implicit cost**—old job, interest on savings
 - **Explicit cost**—like writing a check, gas to get to the movie
3. Rational people think on the **margin**
 1. Airline Question—if it costs an airline \$200,000 to make the flight, it can seat 400 people. What would the price be for profit to equal 0 (break even). $200,000/400 = 500$.
 2. If there are 6 seats left 5 minutes before the flight—you offer \$200 to fly. What should the airline do? (Take the \$200 deal because they would come closer to their break even)
 3. marginal benefit vs marginal cost
 - **Marginal:** The benefit/cost for the next Q/good
 - **Sunk cost:** Money that is gone already (cost that do not change based on the decision)
4. People respond to incentives
 1. Incentive: something that induces a person to act
5. Trade can make everyone better off to act (Chapter 3)
6. Markets are usually a good way to organize economic activity
 - How to determine prices and quantities:
 1. Market—buyers and sellers determine price and quantities
 2. Command—one person or the government decides price and quantities

3. Traditional—letting history affect/determine prices and quantities

- Gender gap—minus 20%
- Black/white gap—minus 10%

7. Governments can sometimes improve market outcome

1. Creating laws and enforcing them

- **Important role of government: enforcing property rights**