# Lecture 1: Introduction 10/26/2013

- Economic thinking:
    - Helps us see things other missed
    - Helpful in decision making
- **Basic principle of economic thinking**
    1. Think about the goods (not the money)
        - Ex: Black Monday -> U.S. Stock market lost 22.6% of its value ($500 billion)
            - Did it disappear?
            - Look at the goods: no factories or CEO desks disappeared
        - Material wealth didn't change
        - Investors revised their *beliefs* about its values downwards (people become pessimistic : don't want to buy -> factories produce less
        - Crash didn't make people poorer, but *effects on the future* are big
        - Bad for the seller of assets, good for buyers who can get assets cheap

2. Everything has a cost
    - Cost = what (opportunity) you sacrifice to get something
    - Opportunity cost= what opportunity you sacrifice to get what you wanted *(cost=opportunity cost)*
    - Ex: Cost of an A on an econ exam?
        - Evening of fun (opportunity) because you have to study
3. Rational choices involve comparing cost and benefits
    - Time & resources are scarce so we make choices
    - Reasonable choices= comparing benefit vs. cost
        - Choose actions whose benefits outweigh cost
    - Ex. of rational decision: Try for an A in Econ?
        - Benefits: better job, self-esteem
        - Cost: less social life, less TV (sacrifice)
4. When deciding "how many" think at the margins (margin means edge)
    - **Marginal unit:** last unit you buy, sell, use etc.
        - marginal benefit: benefit of last unit
        - marginal cost: opportunity cost of last unit (sacrifice)
    - When deciding how many units to buy or sell compare marginal benefit and cost
        - Ex: 4 slices of pizza cost me $4
            a. Marginal cost= 4$^{th}$ slice $1
            b. After 3 slices I wont be hungry
            c. Benefit of 4$^{th}$ slice isn't $1 (since I'm full)
            d. Benefit doesn't outweigh cost (last slice is the marginal unit)

# Lecture 3: Free Markets, Voluntary Exchange
10/26/2013

- **Important Economic Concepts**
- Wealth
  - **Wealth** refers to the capacity to create valued goods and services (*ability to produce*)
  - Wealth takes many forms:
    - Buildings, roads, machines, ships, stores and warehouses filled with goods (all help us produce)
    - Education and training; which makes people more productive
    - Good governmental institution
    - Productive social and economic organizations, private and public
  - Economists want to understand why some societies are wealthier than others (major question in developmental econ)
- Economic Agents
  - The word "**agent**" is economic jargon for a person or group that plays an active role in the economy
  - We describe three important types of agents
    - Households
      - Individuals living alone, or
      - Small groups living together and making joint economic decisions
    - Firms
      - Individuals producing alone, or
      - Groups of people producing together
    - Governments
      - Groups of people who jointly regulate households and firms
      - Governments may be viewed as specialized firms with regulatory functions (regulate)