

Microeconomics 9/5

For Course Logistics/ Grading Problems with MyEconLab

- Contact the Head TA, Ben Solow: bsolow@bu.edu
- B-17 264 Bay State Road – See TAs there for questions if needed.

We are only RESPONSIBLE FOR WHAT HE COVERS IN CLASS

9/6

“Overview of the course and some Microeconomics”

bsolow@bu.edu = contact person for problems with MyEconLab – He is HEAD TA

1. There are two Midterms and one Final – same format
2. Dec 19th – 12:30 – 2:30 Final Exam Schedule
 - a. He drops the lower of the midterm grades
 - b. No make ups but he does drop the lowest midterm
3. “The only way to learn economics is to practice with it”
 - a. 9 Problem sets throughout the semester

The Central Questions of Economics

1. What gets produced
2. How does it get produced
 - a. Is it labor intensive
 - b. Etc. etc. etc.

The essence of a Market System

1. Self-interest – means that in our lives and in our decisions and in the choices that we make, we are wired to care about our own best interest – human nature, the way we’re built.
 - a. Self-interest is checked by competition, within a framework of law.

Four Central Concepts of Economics

1. People are Rational
2. People Respond to Incentives *
3. Every Decision Involves an Opportunity Cost
4. The Best Decisions are Made by Thinking “at the Margin”

Positive vs. Normative Issues

1. “An increase in income tax will reduce national output” – Positive Statement → What is
2. “We ought to raise income taxes to be more fair” – Normative Statement/Economics → What ought to be
 - a. Value Judgments
 - b. Paternalism vs. Individual Choice
 - c. Sooner vs. Later
3. Micro vs. Macro
 - a. Economic decisions of individuals:

- i. Individual consumers (households)
- ii. Individual firms
- iii. Individual markets

9/10

Overview of the Economy:

- A. Households
 - B. Firms
 - a. Product Markets (Goods and Services) go from firms to households.
 - b. Factor Markets (Labor Capital) – from households to firms
 - i. Labor -- households help produce these goods
 - ii. Capital
 - iii. Firms become the demanders and Households become the suppliers of labor and capital.
 - C. “Your income or budget goes up, so does your consumption.” – Normal situations
 - D. “Goods that are consumed instead of another are considered **substitutes**.”
1. Price
 2. Income of the consumer
 - a. Normal goods: Goods whose demand increases when income increases
 - b. Inferior goods: Goods whose demand decreases when income increases
 3. Price of Related Goods
 - a. Substitutes: Demand goes up when the price of a substitute goes up
 - b. Complements: Demand goes down when the

The Demand Schedule

- A table that shows the relationship between the price of a good and the quantity demanded.
- Example: Maria’s demand for lattes --- see slideshow for prices and quantity of demand

GRAPH

- Price on the vertical
- Quantity on the horizontal
- The quantity demanded in the market is the sum of the quantities demanded by all buyers at each price.
- Suppose Maria and Alexandra are the only two buyers in the Latte Market. (qd= quantity demanded)
- Everybody’s demand could be different but they all go up or down in the same direction – normally
- Market Qd = all demand added up together
- Capital “Q” is representative of Market demand

- Lowercase “q” is representative of an individual
- Rightward shift in the entire curve, when one of the non-price related factors changes--- expectations affect the curve whether right or left.
- Increase in income—assuming it is a normal good is also a key factor in shifting right.

Decrease in Demand

- One of the non-price determinants of D changes, cause the curve to shift left.

9/12

Determinants of Supply

- Price
- Input Prices – how much does it cost for the raw materials or the energy to produce the supply
- Technology
- Expectations
- Number of Sellers

The Supply Schedule

- The quantity supplied in the market is the sum of the quantities supplied by all sellers at each price.

DISCUSSION NOTES

Email: stevends@bu.edu

Office: B18 – 264 Bay State Rd.

Wednesday – 2-3, 4-5

Thursday – 10-11

TAKE NOTES FOR MISSED CLASS FRIDAY 9/14

Equilibrium – When the quantity of supply = the quantity of demand.

- $Q^S = Q^D$

Disequilibrium – when the quantity of supply is more or less than the quantity of demand, or visa versa.

- In the case of disequilibrium, price will fall to meet equilibrium.

Binding Price Floor

- Product cannot be sold at lower price, even if equilibrium is below it.

Non-binding Price Floor

- Set below P^* (which is ideal price for equilibrium) You do not have to follow it since it is below P^*