

Lecture 1

09/26/2013

Economics- allocating scarce resources

2 "f" words: Free/fair

Micro: individual decision makers

Difference b/w:

-wants & needs

-scarcity: aren't enough resources & shortage: At what price?

-positive: you can test & normative: opinion

-rational: respond to price & self interest: people do things for satisfaction

Rational self interest hypotheses

-that decision makers are self interested (self satisfaction)

- EX: Mother Teresa: she got satisfaction from helping

always trade offs in economics

-economics is choices

Opportunity cost: the best forgone alternative

-what you value most of your alternatives

Ceterus Paribas: everything else held constant

EX: tuition raised 10%

-keep everything constant that effects enrollment except tuition

--only enrollment and tuition

association as causation (cause effect fallacy)

-EX: tubing tripled in 1999; #of bankruptcy in south increased by 10; but

both are completely unrelated

fallacy of composition: just because one part is true does not mean its true

for all of the whole

EX: one cotton farmer switched to sorgon that doesn't mean all cotton

farmers will benefit by switching

Resources:

-Land: oil, coal, minerals, water, etc

-Labor: People

-Capitol: Factories, machinery, buildings

--more capital the more money the country will make

Entrepreneurship: Risk taker

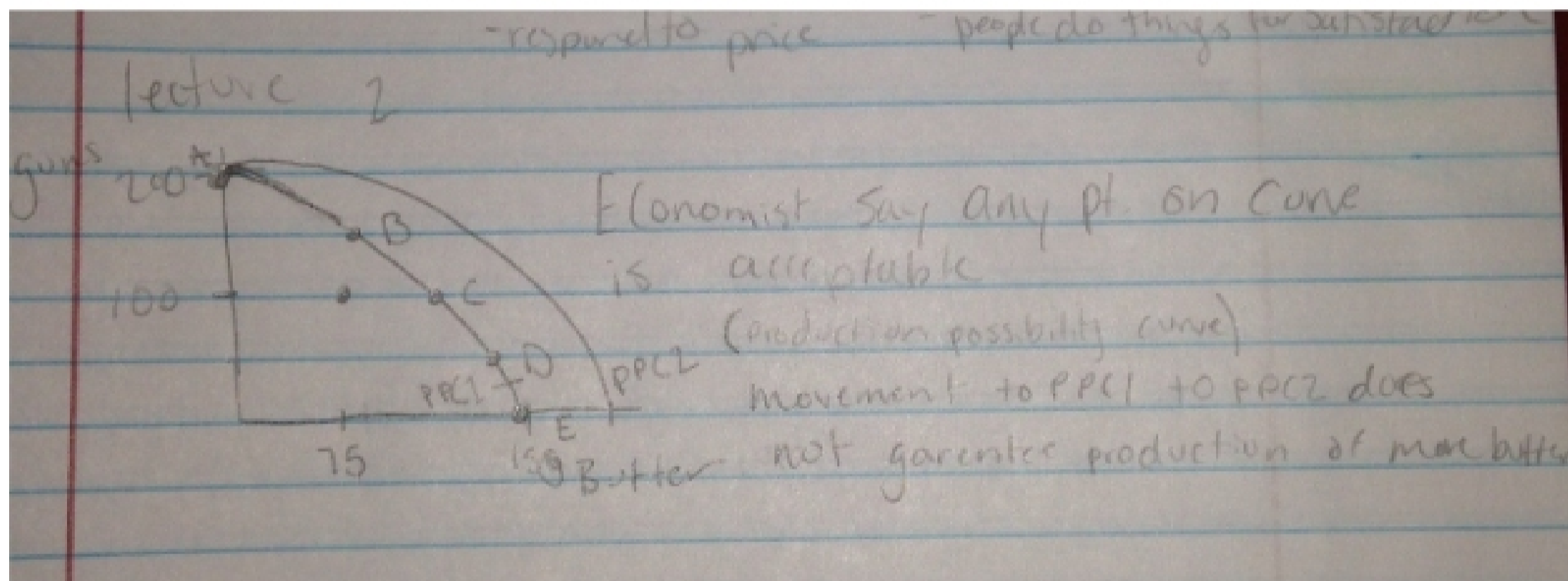
Questions: based on supply and demand

- what are we going to produce?
- How much?
- what technique? -EX: labor, technology
- Distribution?

Production possibilities: with given resources

Guns	Butter
A 200	0
B 150	75
C 100	125
D 50	145
E 0	150

- Moving from E to D the cost is 5 lbs of butter to gain 50 guns and so on
- The opportunity cost keeps increasing because you lose more butter
- It doesn't matter what you choose on the table its all a matter of opinion/what's needed



ppc would shift in or out depending on population

Population matters

- educated population will produce more
- bigger will produce more

Capital goods

- Machines