

Study Guide

Economics 103

- Frederick Bastiat - "We can see the greatest miracles are before our very eyes if we take the time to notice them."
- As the eye draws closer to the crack in the fence the world on the other side expands.
- **Economics**: The science of purposeful human action and the unintended consequences of that action.
 - economic science is the bridge between the mind - values, wants and desires, and social order - economy, markets and institution.

I. **Economics is "spontaneous order"**

A. Price System (information)

1. The price is concentrated information

B. Money = medium of exchange

1. primarily macro econ
2. barter system
3. Money emerged from the barter system but was not invented

C. Financial Institutions (Banks)

1. Coordinate between unknown borrowers and savers
2. Banks started in renaissance in Italy as warehouse vaults for valuables kind of by accident

D. Bond + Stock markets

1. Secondar Exchanges - NASDAQ, NSE etc
2. Primary markets - initial investment houses when companies go public
3. 1 in 3 people have investments on Wall Street but many don't even know

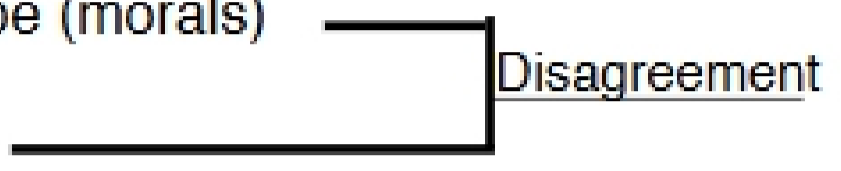
E. Future Markets (Speculators)

F. Accounting Systems (Information)

II. Economic Theory

A. Future Prediction

B. Normative vs Positive Question

1. Normative = What should be/what ought to be (morals)
 2. Positive = What is/Causation (Science)
 3. Burden is on the person to ask questions that can be scientifically justified
 - a) Science without theory is gibberish
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C. Theory + Assumptions

1. Abstract
 - a) Useful b/c it's not realistic - a tool used to find truth
 - b) Allows us to simplify so we can't test it through hypothesis
 - c) Correspondence is needed in the world is causation
 - d) Relevant facts to manage/narrow down - process of evaluation
 - e) Theory organizes and relates facts
2. Scarcity
 - a) Fundamental, forces us to make choices/decisions (Confucius) Forces choice on acting agents
3. Only individuals choose
 - a) Choice make is the unit of analysis
 - b) Methodological/Individualism
 - c) We are the economy, the decision makers
 - d) Abstract label is tabulation for the result of our decisions
4. Rational Choice
 - a) Rationality is purposes - Means to the ends, it is the aiming not what you are aiming for
5. Unlimited Wants

- a) Power of imagination for greed, never an end to things in life, unlimited desires living in a world of scarcity

III. History of Price Theory

Why is the price what it is?

Narrow scope to see more avenues

Aristotle, 300 B.C., Coined term Economics - household management

A. "Equality of exchange" (Aristotle)

1. People trading different objects of equal values
2. **wrong** because no trade is possible - Value of desired good must be $>$ value of owned good (Differences cause dynamic change *movement*)

B. **Scholasticism**: St. Thomas Aquinas (1300 A.D.)

1. Rediscovered Greek's knowledge
2. The **Just Price Doctrine** - to explain why prices are the way they are
3. Wrong - Used normative theory opposed to positive theory - based on what is fair. prices (wheat/wine)
 - a) There is no such thing as an unjust/just price - prices reflect no fairness
 - b) Sellers always want more/greedy (unlimited wants) (complaint - cost too little)
 - c) Buyers always want more, complaint - it cost too much
 - d) The seller and buyer created the price
 - e) Spanish \rightarrow the process in which price is agreed upon so both buyer and seller gain something

C. **Mercantilism**: 1500's-1776 (T. Mern, J. Law, J. Colbert (Finance expert for King Louise XIV))

1. Poorest school of thought
2. 4 reasons why wrong:
 - a) Thought social order came from the king/government (planned economic order from chaos/no spontaneous order)