

## Economics Today: Notes

### Chapter 1:

1. Microeconomics
  - a. Studies decision making undertaken by individuals, households, and firms.
  - b. Focuses on small part of economy
    - i. Ex: effects of changes in price of gas relative to other energy sources, effects of new taxes on a specific product or industry
2. Macroeconomics
  - a. Studies behavior of economy as a whole
    - i. Ex: changes in unemployment, general price level, national income, inflation rates,
  - b. Deals with aggregates
    - i. Total amounts of quantities
3. 3 Basic Economic Questions
  - a. What and how much will be produced?
  - b. How will items be produced?
    - i. More labor, less capital? Vice versa?
    - ii. How to max or min total expenses
  - c. For whom will items be produced?
    - i. Use scarce resources so people value access to that item
4. Centralized Command and Control
  - a. A.k.a. Central planning
  - b. Kind or queen, dictator, central government
  - c. Decides what items to produce and how many
  - d. Decides how scarce resources will be organized and who gets them
    - i. Ex: Government that particular types of cars must be produced in certain numbers
5. The Price System
  - a. Alternative to command and control
  - b. A.k.a. market system
  - c. Answers 3 basic questions using decentralized decision making
  - d. Individuals and families own scarce resources
  - e. Signaling
    - i. Provides info to buyers and sellers about how much should be produced, who will buy them, the value of the item
6. Mixed Economic System
  - a. Incorporate both centralized command and control and decentralized price system
7. Rationality Assumption
  - a. We assume individuals don't make decisions that will leave them worse off
    - i. Explains how individuals respond to incentives
8. The Ceteris Paribus Assumption
  - a. All other things being equal
  - b. Holding other factors like taste, religion, customs constant

9. Behavioral Economics
  - a. The study of a consumers behavior; one that would interfere with rational decision making
    - i. Typically economists study how people act, not how they think
10. "Unrealistic" Rationality Assumptions presented by traditional models
  - a. Unbounded selfishness
    - i. People are only interested in their own satisfaction
  - b. Unbounded willpower
    - i. Choices are constant with long-term goal
  - c. Unbounded rationality
    - i. They are able to consider every choice
11. Bounded Rationality
  - a. Replaces Rationality Assumptions
  - b. People can't examine and think through every choice they confront
  - c. Therefore, people can't always pursue their best long-term personal interests
12. Positive economics
  - a. "If A, then B"
    - i. If the price of gas goes up, then people buy less gas
  - b. A statement of "What is" as opposed to someone's value judgment
13. Normative economics
  - a. "If the gas price goes up, people will buy less, *so we should....*"
    - i. Values are entering into the discussion
14. Direct relationship
  - a. Relationship between 2 variables is positive
    - i. As one increases, so does the other
15. Inverse Relationship
  - a. Relationship between 2 variables is negative
    - i. As one increases, the other decreases

## Chapter 2:

1. Scarcity
  - a. Not a shortage
  - b. Not poverty
  - c. The most basic concept in all of economics
    - i. We don't have enough of everything, including time, to satisfy every desire
    - ii. Human wants exceed what we can produce
2. Factors of Production (Resources)
  - a. Land (natural resources)
    - i. Nonhuman gifts of nature
    - ii. Timber, water, fish, minerals, etc.
  - b. Labor (human resources)
    - i. Productive contributions made by individuals
    - ii. Web page designers, iPad app creators, professional football players
  - c. Physical capital
    - i. Factories and equipment used in production
    - ii. Improvements to natural resources
      1. Ditches
  - d. Human capital
    - i. The education and training of workers
    - ii. How much the nation produces depends on how many hours people work and how productive they are
      1. In turn, depends on education and training
    - iii. Whenever a worker's skill increases, human capital is improved
  - e. Entrepreneurship (subdivision of labor)
    - i. Component of human resources that performs functions of organizing, managing, and assembling the other factors of production to create and operate business ventures
3. Goods
  - a. Things that generate human satisfaction and happiness
    - i. Include air, sunsets, food, cars
4. Economic goods
  - a. Subset of all goods
  - b. Scarce goods
  - c. Cars, blu-ray players, computers, socks, corn
5. Bads
  - a. Desired quantity is less of what nature provides
  - b. Ex: weeds
6. Natural fact of scarcity
  - a. We must make choices
  - b. Every choice made means some opportunity must be sacrificed
7. Opportunity cost
  - a. The value of the next best alternative