

Ch 1

- Scarcity-
 - What and how much will be produced?
 - How will items be produced?
 - For whom will items be produced?
- Scarcity- people want more than is freely available from nature
 - Leads to competition
 - Time, money, donuts, all scarce – air is not
 - Necessitates rationing
 - Prices, waiting, political, random
 - If everyone was rich, scarcity would still exist
- Micro econ – focuses on individuals, firms, industries, or families
- Macro econ – focuses on countries and the world
- Micro
 - Babies, advertising, gas prices
- Macro
 - Unemployment, inflation rate, gdp
- Poverty in the US is under \$23,050 for family of 4
 - Subjective – poor person in usa would be rich in rural Rwanda
- 12 ways to think about economics
 - 1st- tradeoffs
 - There is always an opportunity cost
 - Opportunity cost- the highest valued forgone alternative – give something up cause you can always pick something else
 - 2nd – individuals choose purposefully
 - They try to get the most from limited resources
 - Most bang for your buck
 - 3rd – incentives matter
 - Positive and negative incentives
 - Punish people not to do something or reward to do something
 - Direct and indirect effects
 - Direct- easily to recognize
 - Indirect – smoking bans in bar
 - People react predictability to changes in incentives
 - Penny vs. a quarter on sidewalk
 - A quarter on the sidewalk versus one in the middle of a busy road
 - 4th- individuals make decisions at the Margin
 - Marginal means additional
 - Compare marginal cost to marginal benefit
 - Gas station – 1 drink for \$1.50 or 2 drinks for \$2.00

- o 5th- information is Costly but helps make Better decisions
- o 6th- secondary effects
 - The indirect impact of an event or policy may not be easily and immediately observable. These secondary effects are often overlooked by politicians.
- o 7th- value is subjective
 - Value depends on the situation
 - 1 extra point is still one point no matter what but it may have more added value to someone with a 79 rather than a 74
- o 8th – test of a theory is its ability to predict
 - Want to determine what behavior will look like
 - Bad predictions come from bad theories
 - Models must be based on a set of assumptions – tells ‘ ‘ ‘ ‘ when model applicable
 - Models and realism
 - Economists seek to predict what people will do when faced with certain incentives
 - o When surveyed for a poll, many people will say that tax breaks have no effect on their charitable donations
- o 9th- hold all else equal
- o 10th – good intentions do not guarantee good outcomes
 - We care about results not thought process
- o 11th- association (correlation) is not causation
- o 12th – what is good for the individual is not always good for the group
 - Fallacy of composition
 - Standing at football game – stand up good for you but not good for others

2 opposing answers

- Centralized command and control aka central planning
- price system aka market system

Central planning

- Decisions are made by highest power
- Means of production owned by government
- Difficulty to obtain info that would be captured by prices

Market System

- Decentralized, example nail factory
- Individuals and families own the means of production
- Prices serve as signals that provide info

Mixed Economic Systems

- Mix of CCC and Price systems
- Continuum
- Some countries more CCC – china north korea and others more price (s.korea)

- Countries can change how much CCC how much price system over time (USA, Auto Banks)
- Rationality assumption
 - You don't make yourself worse off on purpose
 - Economics focused on outcomes rather than thought process
 - 3 rationally assumptions
 - Interested only in own satisfaction
 - Choices always align with long term interests
 - Can consider every choice
 - Bounded Rationality
 - People are nearly rational
 - People use rules of thumb instead of considering all choices
- Positive vs Normative Econ
 - Positive
 - Statements about what is
 - Something can be tested, proven or disproven
 - Normative
 - Statements about what "should be"
 - Matter of opinion
- Spontaneous Order
 - The result of human action but not human design
 - Markets
 - Language
 - Money
 - Grocery stores
 - Markets are a decentralized system -> they evolve rather than created

Scarcity And the World of Tradeoff- chapter 2

- 5 types of resources
 - Land
 - Not just "land but also"
 - Location
 - Original fertility
 - Topography
 - Climate
 - Water
 - Labor
 - Productive contributions of humans who work
 - Physical capital
 - Machines
 - Buildings
 - Equipment
 - Human Capital