

Elements of Microeconomics

AS.180.102 (03)

Chapter 1

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Introduction

About me...

- Adam Edwards
- 3rd-year economics PhD student
- From Iowa
- Semi-professional Blackjack card counter

This Section

- Review of book chapters assigned for each week
- Examples and practice problems (including some from previous exams)

Attendance Policy

- Attendance is not mandatory
- However, attendance will be taken at the beginning of class by writing your name on an attendance sheet

Office Hours

Need to choose a time:

- Monday, 10-11 AM
- Monday, 12-1 PM
- Monday, 2-3 PM
- Tuesday, 10-11 AM
- Tuesday, 12-1 PM
- Tuesday, 2-3 PM

I will make an announcement after class with the time and location.

Outline

- Chapter 1 is essentially just a gentle introduction:
 - What is economics?
 - What are the generally agreed upon principles?

How People Make Decisions

1. People face trade-offs

There are finite and scarce resources

2. The cost of something is what you give up to get it

Everything has an **opportunity cost**

3. Rational people think at the margin

What will a small change in X do to Y?

4. People respond to incentives

How can we change behavior?

How People Interact

This is the bread and butter of microeconomics!

5. Trade can make everyone better off

Everyone can do what they do best and benefit from other peoples' skills and resources

6. Markets are usually a good way to organize economic activity

Markets solve the information problem

7. Governments can improve market outcomes

Market failure can occur as a result of **externalities** and **market power**

How the Economy as a Whole Works

Microeconomics aggregates up to macroeconomics.

8. A country's standard of living depends on its ability to produce goods and services

Why do we see such large differences between countries?

9. Prices rise when the government prints too much money

Too much money chasing too few goods is one cause of inflation

10. Society faces a short-run trade-off between inflation and unemployment

Greater demand for goods equals higher prices but also greater demand for workers

Trade-offs

You are trying to decide whether to go on a beach trip during your first spring break. What costs do you need to consider?

- 1 **Direct Costs:** Dollar cost of the vacation: transportation, food, renting a house...
- 2 **Monetary Opportunity Cost:** Money you could make if you worked your part-time job instead
- 3 **Non-Monetary Opportunity Cost:** Studying you could get done: preparation for finals, work on semester projects, etc...