ECONOMICS

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iPhone 14 prices

	UK	US	Australia
iPhone 14 128GB	£849	$799	AU$1399
iPhone 14 Plus 128GB	£949	$899	AU$1579
iPhone 14 Pro 128GB	£1099	$999	AU$1749
iPhone 14 Pro Max 128GB	£1199	$1099	AU$1899

ECONOMICS

MICROECONOMICS

- Basic Economic concepts
- Supply, Demand and Market
- Supply, Demand & Government Policies
- Elasticity
- Production and Cost
- Market structures

MACROECONOMICS

- National Income accounting
- Inflation and Unemployment
- Financial, Monetary and Banking system
- Macroeconomics Policies

MICROECONOMICS

- **Basic Economic concepts**
- Supply, Demand and Market equilibrium
- Supply, Demand and Government Policies
- Elasticity
- Market Failures: Externality and public goods
- Production and Cost
- Market structures

BASIC ECONOMIC CONCEPTS

- Factors of production
- Basic economic questions
- Circular flow diagram
- Production Possibility frontier
- Microeconomics vs. Macroeconomics
- Normative vs. Positive analysis
- Absolute advantage and comparative advantage.
- Specialization and Exchange

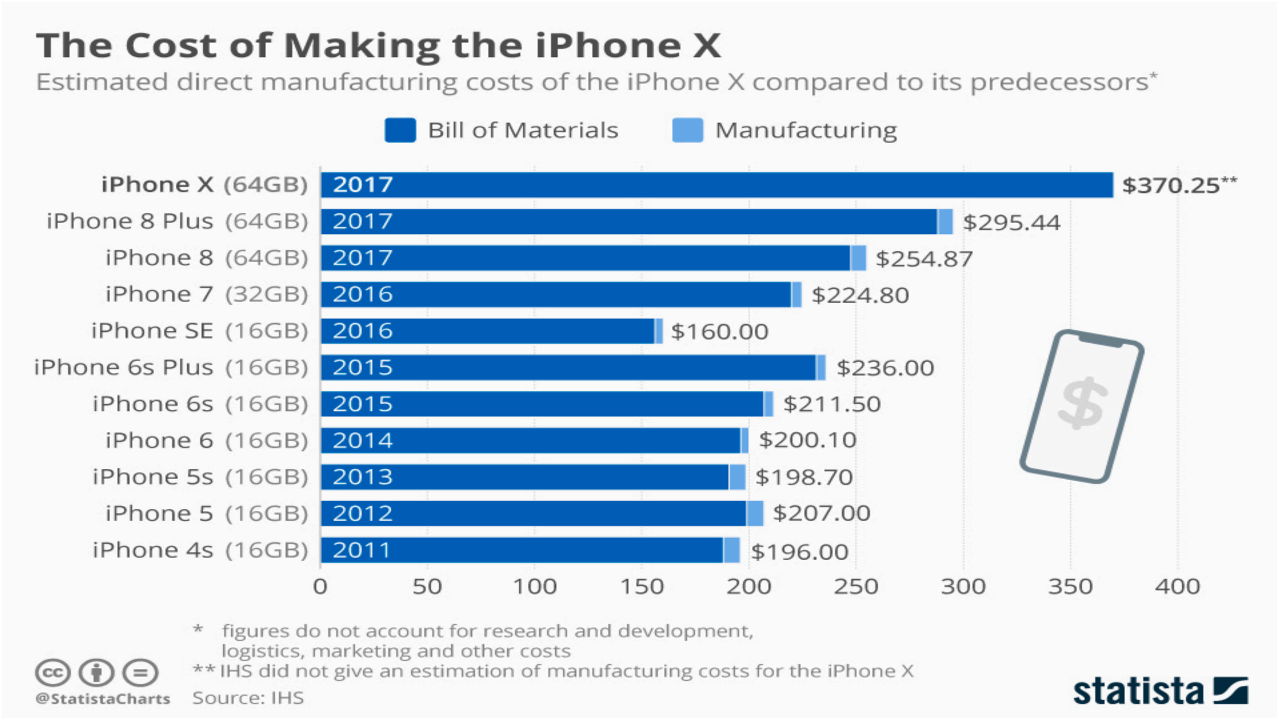
Factors of productions

Resource inputs used to produce goods and services.

- Land
- Labor
- Capital
- Entrepreneurship.

Three Basic Economic Questions

- **What to produce?**
  - How people decide what to buy, how much to work, save, and spend
- **How to produce?**
  - find an optimal method of producing goods and services.
  - decide how much to produce, how many workers to hire
- **For whom to produce?**
  - How society decides how to divide its resources between national defense, consumer goods, protecting the environment, and other needs


The Cost of Making the iPhone X
Estimated direct manufacturing costs of the iPhone X compared to its predecessors*
Bill of Materials
Manufacturing
iPhone X (64GB) 2017 $370.25**
iPhone 8 Plus (64GB) 2017 $295.44
iPhone 8 (64GB) 2017 $254.87
iPhone 7 (32GB) 2016 $224.80
iPhone SE (16GB) 2016 $160.00
iPhone 6s Plus (16GB) 2015 $236.00
iPhone 6s (16GB) 2015 $211.50
iPhone 6 (16GB) 2014 $200.10
iPhone 5s (16GB) 2013 $198.70
iPhone 5 (16GB) 2012 $207.00
iPhone 4s (16GB) 2011 $196.00
0 50 100 150 200 250 300 350 400
* figures do not account for research and development, logistics, marketing and other costs
** IHS did not give an estimation of manufacturing costs for the iPhone X
@StatistaCharts
Source: IHS
statista

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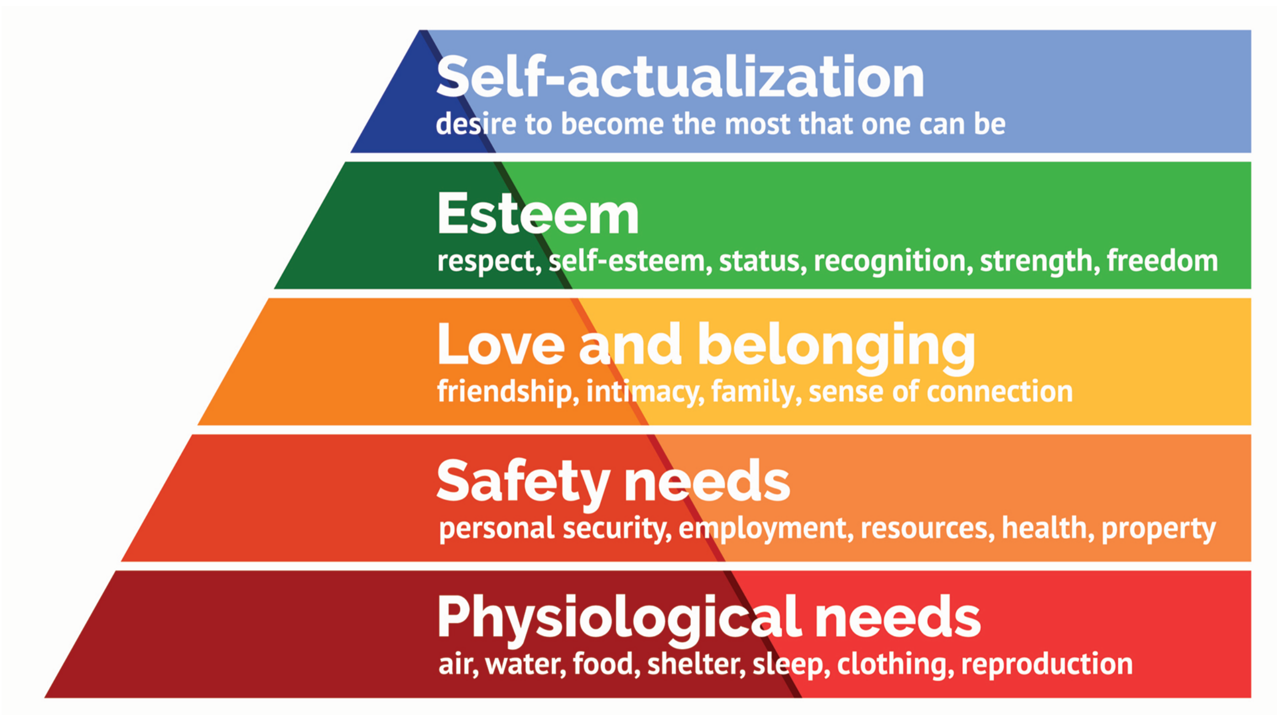
Self-actualization
desire to become the most that one can be
Esteem
respect, self-esteem, status, recognition, strength, freedom
Love and belonging
friendship, intimacy, family, sense of connection
Safety needs
personal security, employment, resources, health, property
Physiological needs
air, water, food, shelter, sleep, clothing, reproduction

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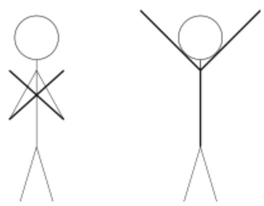
Principles of Economics

- **Scarcity:** Society has limited resources, cannot produce all the goods and services people wish to have
- **Economics**: The study of how society manages its scarce resources
  - How People Make Decisions
  - How People Interact
  - How the economy as a whole works

How people make decision

- People face **trade-offs** among alternative goals
- The cost of any action is measured in terms of **forgone opportunities**
- **Rational** people make decisions by comparing marginal costs and marginal benefits
- People change their behavior in response to the **incentives** they face



1. Economics is broadly defined as the study of how individuals and societies:

a. make choices about work and the division of labor.

b. attempt to maximize their financial incomes and wealth.

c. answer the basic economic questions of "Why, Where, and When."

d. allocate scarce resources in attempts to satisfy human wants.

2. Economist often say there is no such thing as a free lunch. What do economists mean when they say such a thing?

a. People never offer a lunch for free.

b. Even if someone literally offers you a free lunch, there is an opportunity cost to the resources that are used to produce your free lunch.

c. Some resources cause significant negative externalities.

d. Economists, in this case, are talking about common resources.

You have decided that you want to attend a costume party as Black Panther. You estimate that it will cost $40 to assemble your costume. After spending $40 on the costume, you realize that the additional pieces you need will cost you $25 more. The marginal cost of completing the costume is

A) $15.
B) $25.
C) $40.
D) $65.

If your tuition is $5,000 this semester, your books cost $600, you can only work 20 rather than 40 hours per week during the 15 weeks you are taking classes and you make $15 per hour, and your room and board is $3,000 this semester (same as if not attending college), then your opportunity cost of attending college this semester is

A) $5,600.
B) $5,900.
C) $10,100.
D) $11,600.

3. The opportunity cost of making a specific choice is:

a. useful primarily as an indicator of relative prices.

b. Its nominal costs in terms of all other goods.

c. the information that guides your decision.

d. measured by the subjective value of the best alternative you sacrifice.

4. A furniture maker currently produces 100 tables per week and sells them for a profit. She is considering expanding her operation in order to make more tables. Should she expand?

a. Yes, because making tables is profitable.

b. No, because she may not be able to sell the additional tables.

c. It depends on the marginal cost of producing more tables and the marginal revenue she will earn from selling more tables.

d. It depends on the average cost of producing more tables and the average revenue she will earn from selling more tables.

5. A rational decision maker

a. ignores marginal changes and focuses instead on "the big picture."

b. ignores the likely effects of government policies when he or she makes choices.

c. takes an action only if the marginal benefit of that action exceeds the marginal cost of that action.

d. takes an action only if the combined benefits of that action and previous actions exceed the combined costs of that action and previous actions.

6. To say that "people respond to incentives" is to say that

a. changes in costs (but not changes in benefits) influence people's decisions and their behavior.

b. changes in benefits (but not changes in costs) influence people's decisions and their behavior.

c. changes in benefits or changes in costs influence people's decisions and their behavior.

d. tradeoffs can be eliminated by rational people who think at the margin.

How people interact

- **Trade** and interdependence can be mutually beneficial
- **Markets** are usually a good way of coordinating economic activity among people
- The government can potentially improve market outcomes by remedying a **market failure** or by promoting greater economic equality

The Different Kinds of Goods

		Rival in consumption?	
		Yes	No
Excludable?	Yes	Private Goods • Ice-cream cones • Clothing • Congested toll roads	Club Goods • Fire protection • Cable TV • Uncongested toll roads
	No	Common Resources • Fish in the ocean • The environment • Congested nontoll roads	Public Goods • Tornado siren • National defense • Uncongested nontoll roads

7. Which of the following statements about trade is false?

a. Trade increases competition.
b. With trade, one country wins and one country loses.
c. Cambodia can benefit, potentially, from trade with any other country.
d. Trade allows people to buy a greater variety of goods and services at lower cost.

8. The basic principles of economics suggest that

a. markets are seldom, if ever, a good way to organize economic activity.
b. government should become involved in markets when trade between countries is involved.
c. government should become involved in markets when those markets fail to produce efficient or equitable outcomes.
d. All the above are correct.

9. Which of the following observations was made famous by Adam Smith in his book The Wealth of Nations?

a. There is no such thing as a free lunch.
b. People buy more when prices are low than when prices are high.
c. No matter how much people earn, they tend to spend more than they earn.
d. Households and firms interacting in markets are guided by an "invisible hand" that leads them to desirable market outcomes.

10. The term "market failure"

a. means the same thing as "market power."
b. refers to the dissolution of a market when firms decide to quit producing a certain product.
c. refers to the failure of a market to produce an efficient allocation of resources.
d. refers to government's failure to enforce the property rights of households or firms that participate in a certain market.

How economy as a whole works

- **Productivity** is the ultimate source of living standards
- Growth in the **quantity of money** is the ultimate source of inflation
- Society faces a **short-run trade-off** between inflation and unemployment

Ten Principles of Economics

How People Make Decisions	#1:	People Face Tradeoffs
	#2:	The Cost of Something Is What You Give Up to Get It
	#3:	Rational People Think at the Margin
	#4:	People Respond to Incentives
How People Interact	#5:	Trade Can Make Everyone Better Off
	#6:	Markets Are Usually a Good Way to Organize Economic Activity
	#7:	Governments Can Sometimes Improve Market Outcomes
How the Economy as a Whole Works	#8:	A Country's Standard of Living Depends on Its Ability to Produce Goods and Services
	#9:	Prices Rise When the Government Prints Too Much Money
	#10:	Society Faces a Short-Run Tradeoff between Inflation and Unemployment

Circular-flow diagram

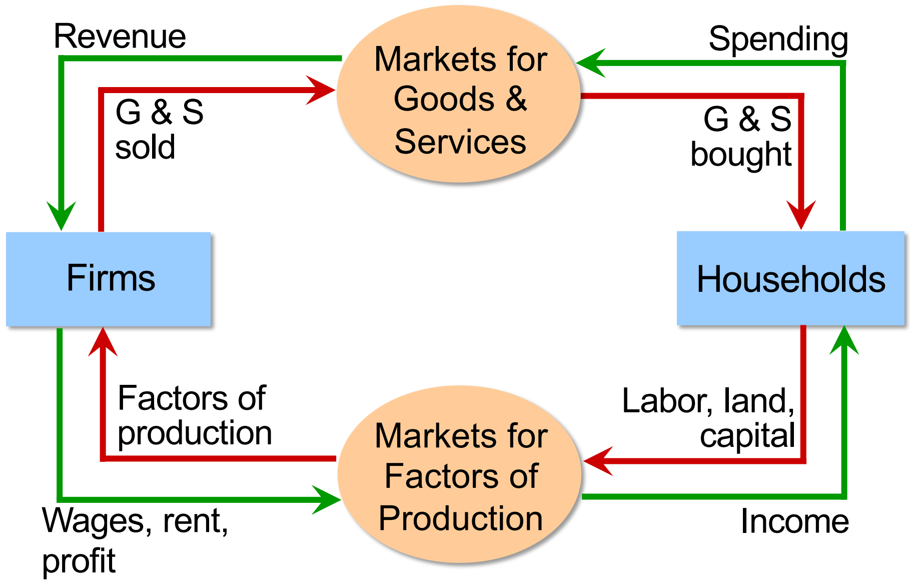
Households:
- Own the factors of production, sell/rent them to firms for income
- Buy and consume goods & services

Firms

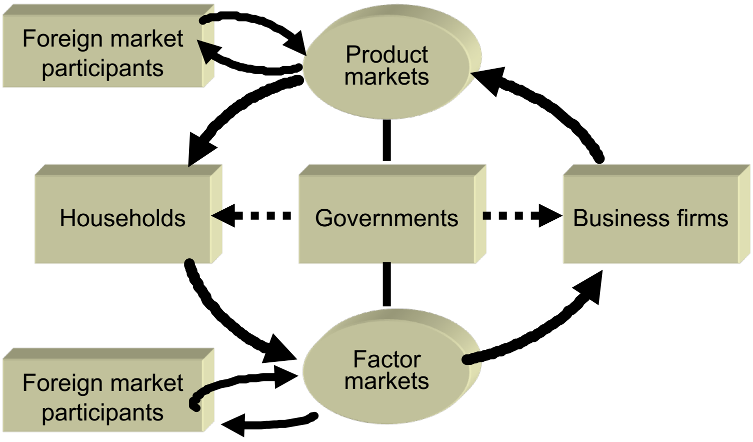
Households

Firms:
- Buy/hire factors of production, use them to produce goods and services
- Sell goods & services

Circular-flow diagram



Market Interactions



11. Households play what role(s) in the circular flow diagram?

a. purchasers of factors of production and sellers of services
b. purchasers of factors of production and sellers of goods
c. purchasers of goods and services and sellers of factors of production
d. purchasers of goods and services only

12. In a circular-flow diagram,

a. taxes flow from households to firms, and transfer payments flow from firms to households.
b. income payments flow from firms to households, and sales revenue flows from households to firms.
c. resources flow from firms to households, and goods and services flow from households to firms.
d. inputs and outputs flow in the same direction as the flow of dollars, from firms to households.

Production possibilities frontier

- A graph: combinations of output that the economy can possibly produce
- Given the available
  - Factors of production and technology
- Example:
  - Two goods: computers and wheat
  - One resource: labor (measured in hours)
  - Economy has 50,000 labor hours per month available for production

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Production possibilities frontier

- Producing one computer requires 100 hours labor.
- Producing one ton of wheat requires 10 hours labor.

	Employment of labor hours		Production	
	Computers	Wheat	Computers	Wheat
A	50,000	0	500	0
B	40,000	10,000	400	1,000
C	25,000	25,000	250	2,500
D	10,000	40,000	100	4,000
E	0	50,000	0	5,000

Production possibilities frontier

Point on graph	Production	
	Com-puters	Wheat
A	500	0
B	400	1,000
C	250	2,500
D	100	4,000
E	0	5,000

Moving along a PPF

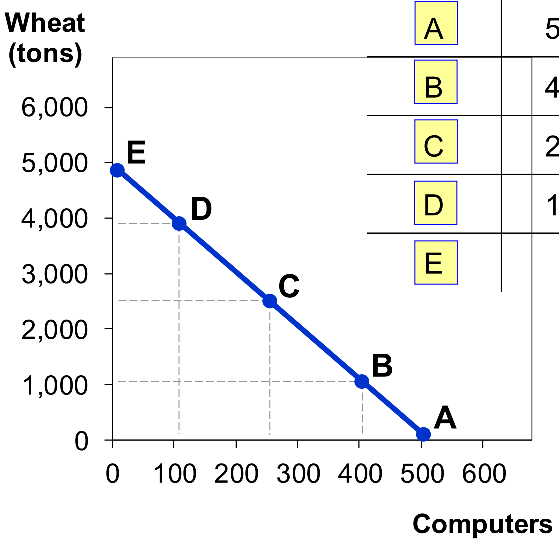
Involves shifting resources from the production of one good to the other

Society faces a tradeoff

Getting more of one good requires sacrificing some of the other

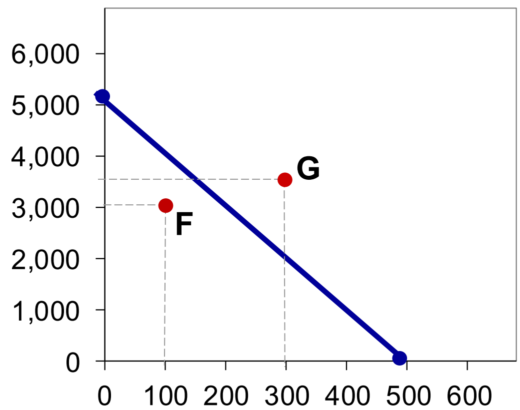
The slope of the PPF

The **opportunity cost** of one good in terms of the other



Production Possibility frontier

- **Point F:** 100 computers, 3000 tons wheat
- Requires 40,000 hours of labor
- **Possible but not efficient**: could get more of either good without sacrificing any of the other



- **Point G:** 300 computers, 3500 tons wheat
- Requires 65,000 hours of labor.
- Not possible because the economy only has 50,000 hours

13. The production possibilities frontier demonstrates the basic economic principle that:

a. economies are always efficient.

b. assuming full employment, to produce more of any one thing, the economy must produce less of at least one other good.

c. assuming full employment, an economy is efficient only when the production of capital goods in a particular year is greater than the production of consumption goods in that year.

d. assuming full employment, supply will always determine demand.

14. All points on a production possibilities frontier show the

a. maximum satisfaction that households receive from their purchases of goods.

b. minimum quantities of resources that must be used to produce a given quantity of output.

c. maximum output that society can produce with given resources and technology.

d. minimum output that society can produce with given resources and technology.

Assume that Falda and Varick can switch between producing wheat and producing cloth at a constant rate.

	Quantity Produced in 1 Hour	
	Bushels of Wheat	Yards of Cloth
Falda	8	12
Varick	6	15

Refer to Table Falda's opportunity cost of one yard of cloth is

a. 2/3 bushel of wheat and Varick's opportunity cost of one yard of cloth is 2/5 bushel of wheat.

b. 2/3 bushel of wheat and Varick's opportunity cost of one yard of cloth is 5/2 bushels of wheat.

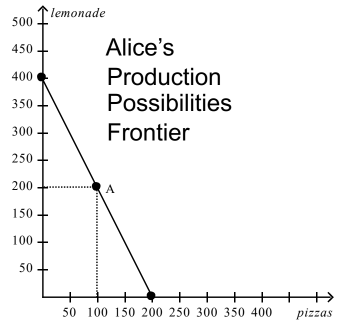
c. 3/2 bushels of wheat and Varick's opportunity cost of one yard of cloth is 2/5 bushel of wheat.

d. 3/2 bushels of wheat and Varick's opportunity cost of one yard of cloth is 5/2 bushels of wheat.

Alice and Betty's Production Possibilities in one 8-hour day.

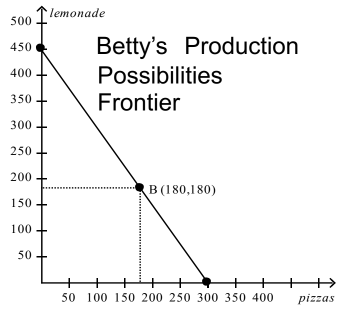
Refer to Figures

a. For Alice, the opportunity cost to produce a unit of lemonade is ½ unit of pizza.
b. At point A and B, Alice produces 100 pitchers of lemonade and 200 pizzas while Betty produces 180 pitchers of lemonade and 180 pizzas.
c. For Betty, The opportunity cost to produce a unit pizza is 2/3 unit of lemonade.
d. All of the above are correct.



Refer to Figures,

a. Alice has comparative advantage in producing lemonade
b. Betty has comparative advantage in producing Pizza
c. Betty has absolute advantage in producing both products
d. All of the above are correct.



Macroeconomics & Microeconomics

- **Microeconomics** is The study of how households and firms make decisions and how they interact in markets
  - supply and demand
  - pricing of output
  - production processes
  - cost structure
  - Distribution
- **Macroeconomics** is The study of economy-wide phenomena
  - national income analysis
  - gross domestic product
  - unemployment
  - inflation
  - fiscal policy
  - monetary policy

15. Which of the following questions would NOT be of particular interest to a microeconomist?

a. Why do national economies grow?

b. What percentage of consumer income is spent on entertainment?

c. Why do workers prefer the 4-day workweek?

d. What happens to worker productivity when a business shifts to a 4-day workweek?

16. The relationship between microeconomics and macroeconomics is analogous to the relationship between

a. the behavior of a single baseball player and the collective behavior of the entire team out on the baseball field.

b. the behavior of a single race car driver and the collective behavior of all cars racing on a race track.

c. the behavior of one football player and the collective behavior of the entire football team out on the field.

d. all of the above

Positive vs. Normative

- **Positive analysis: descriptive**
  - Positive analysis is the use of theories and models to predict the impact of a choice.
  - For example:
    - What will be the impact of an import quota on foreign cars?
    - What will be the impact of an increase in the gasoline excise tax?
- **Normative Analysis: prescriptive**
  - Normative analysis addresses issues from the perspective of "What ought to be?"
  - For example:
    - Consider the equity and efficiency trade-off of an increase in the gasoline excise tax versus import restriction on foreign oil.

17. "An increase in interest rates will lower economic growth." This statement is

a. a positive economic statement.
b. a normative economic statement.
c. untrue in every case.
d. controversial, and so not a valid economic issue.

18. The distinction between positive and normative economics

a. is that positive economics applies only to microeconomic problems.
b. is that normative economics applies only to microeconomic problems.
c. explains why economics is not a social science but a natural science.
d. helps us to understand why economists sometimes disagree with one another.

- **People face Trade-off:** To get something that we like, we have to give up something else that we also like
- **Opportunity cost**: Whatever must be given up to obtain some item
- People respond to **Incentives**
- **Rational** people make decision at the **margin**
- **Trade** can make everyone better off
- **Markets** Are usually a good way to organize economic activity
- **Market failure:** Governments can sometimes improve market outcomes
- **Productivity:** Standard of living depends on its ability to produce goods and services
- **Inflation:** Prices rise when the government prints too much money
- **Short-run trade-off** between inflation and unemployment