

Fundamentals 1

1. Scarcity: The reality that we have Unlimited wants but limited availability.

"All resources are scarce." That's why we have to make a choice about things.

Scarcity is relative: "the diamond water paradox." Relative to diamonds, water is not as scarce, even though water is a necessity to life, unlike diamonds. Increases in price mean a good has become relatively more scarce. Scarcity does not mean Poverty.

2. Economics as a positive science.

Positive statements, statements about how things are. "The truth."

Normative statements, statements about how things ought to be. "should be"

3. Assumptions of human choice/action

Individuals are **rational (economizing) what gives you the most benefit in a choice.**

Individuals are **self-interested. Thing's that interest us we have to provide things that interest others.**

Individuals make choices **at the margin. Making choices in increments.**

Individuals are **well-informed? They are NOT well informed.**

Opportunity cost will NEVER be zero.

It's rational if the reward is equal to or greater than the cost.

4. Marginal analysis

Marginal Benefit

The additional benefit of one more unit of activity

$MB = \text{total benefit/quantity (TB/Q)}$

Marginal cost

The additional cost of one more unit of activity

$MC = \text{Total cost/quantity (TC/Q)}$

The rule of rational life!

MB=MC

5. Opportunity cost - It's NEVER zero.

Arguably the most powerful concept of economics.

The value of the next best alternative forgone from making a choice.

What you give up in order to obtain something else.

Ex: Losing the fun going out with his crew, instead of swabbing for gold coins.

Opportunity costs are NOT just monetary costs!

Costs are subjective to the individual (Ex: time or psychical value). A great example of the UNSEEN of economics.

NOTHING is really free. (You could be doing something else.)

Tradeoffs are everywhere! Tradeoffs exist because of scarcity.

6. People Resonde to Incetives - The rewards or penalties that motivate your behavior.

Market economy takes advantage of your personal incentives.

7. Markets

Decentralized institutions where individuals voluntarily exchange their goods and services via the price system.

Changing the method of rationing with change the competition.