

Elements of Microeconomics: Discussion Section 1

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August 29, 2025



Outline

This week will cover chapters 1 of the Mankiw textbook:

① Ten principles of economics

Essentially just a gentle introduction:

- What is economics?
- What do economists do?
- How do economists think? (More on this next week)

Main point

Main takeaway from this week:

A little bit of intuition goes a long way.

There is usually a nice everyday analogy for questions in microeconomics.

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 is 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.

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

Markets solve the information problem.

7. Governments can improve market outcomes.

What happens when individuals do not internalize their costs?

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. Short-run trade-off between inflation and unemployment.

The "Phillips Curve."

Opportunity Cost

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

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

The Margin

Speculate on whether or not you think the marginal cost or benefit of the specified item is large or small:

- ① The marginal benefit of your first glass of water for the day
- ② The marginal benefit of your seventeenth glass of water for the day
- ③ The cost of streaming an additional movie when you already have netflix
- ④ The cost of streaming an additional movie on a streaming service you don't already own
- ⑤ The marginal benefit of your first hour of studying for your upcoming econ 102 exam
- ⑥ The marginal cost of your 30th hour studying in a row
- ⑦ For an airline, the cost of flying one additional passenger on a flight that is not fully booked
- ⑧ For an airline, the cost of flying one additional passenger when the current flight is fully booked

Trade-offs

What is the source of trade-offs? Can you give an example from your own life?