

# Elements of Microeconomics: Discussion Section 1

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## A little bit about me...

Omitted from this version.

# 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?

## 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?

- 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 marginal cost of flying one additional passenger on a flight that is not fully booked
- ⑧ For an airline, the marginal 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?