Elements of Microeconomics

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Chapter 1

Introduction

- My name is Hank and I am one of the Junior Lecturers in the Economics Department.
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What's this Economcis Thing?

- I imagine most of you took macroeconoimcs last semester, if you did not that that will not affect you in this course.
- The book defines economics as *the study of how society manages its scarce resources*. This is a fine definition however note that Mankiw elaborates his definition later in the same passage.
- Economics has many subfields beyond simply the macro and micro distinction.
- Today we will describe some of the guiding principles of the science, as well as what it is economists actually do.

The Guiding Framework

- Before we dive into models and anything of the sorts we must first build a little intution.
- This intution will start with the *10 Principles of Economics*.
- It is important to take these as a framework upon which we will build out models and interpret various ongoings in the course.
- Do not spend time memorizing which number principle is which. Rather focus on learning and internalizing how they might shape our thinking regarding economic issues.

How People Make Decisions

- The first group of principles concerns itself with how people make decisions for themselves.
  1. **People face tradeoffs**. The largest tradeoff that we as a society face is *equality* v. *efficiency*.
  2. **The cost of something Is What you give up to get it**. In economcis we introduce the concept of *opportunity cost*. Opportunity cost is a whollistic way to define costs, it includes things such as: forgone opportunity, time, etc.
  3. **Rational people think at the margin**. Here the important takeaway is the *margin*. Marginal benefits and costs come up time and time again.
  4. **People respond to incentives**. Think bonuses given for acheivement and work well done. Given an incentive poeple tend to seek it out.

How People Interact

- The next set of principles sheds some light on how people may interact.
  1. **Trade can make everyone better off**. Here pay attention to the fact that when it says *everyone* it is referring to the aggregate surplus.
  2. **Markets are usually a good way to organize economic activity**. This principle has a little Hoobes/Locke flavor to it.
  3. **Governments can sometimes improve market outcomes**. This prinicple is important because it introduces another actor into the economy. We will dive deeper into this principle's implication later in the course.