At A Personal Level

- How can I maximize my grade point average given my time constraints?
- Will I really be better off financially if I quit my job now and go back for an MBA degree?
- What kind of career should I be preparing myself for?
- What about that new refrigerator or automobile I want to buy--should I get the new, energy-efficient one?

01:23 / 07:06

The Government's Role

- Why does the government regulate prices in some industries like electricity and gas but not in others?
- Why are there laws requiring seat belts and motorcycle helmets?
- Why do we have an EPA and thousands of rules about workplace safety?
- Why does the government provide some goods like national defense and let the free market provide other goods like hot dogs and computers?

02:01 / 07:06

A Powerful Set of Tools

- Microeconomics arms us with a very powerful set of conceptual and problem-solving tools.
- Many ideas and words that may be quite foreign to you now like opportunity costs, the time value of money, price elasticities, and oligopoly will become your friends for life.

02:22 / 07:06

Priscilla's Choice

- A very energy-efficient model that costs $750 or the identical refrigerator without the energy-saving features for only $500.
- After calculating the “net present value” of the energy savings on her electricity bill over the life of the investment, she realizes that the seemingly “more expensive” refrigerator is actually much cheaper.

03:08 / 07:06

To Work or Study?

- Phil was thinking about entering an Executive MBA program but the tuition is very expensive--over $100,000 for the two-year program.
- Phil's problem: He didn't know how to compare his up front costs of going to school with the future benefits that would come in the form of a higher salary and better promotional opportunities.

03:37 / 07:06

The Solution

- Priscilla got out her hand calculator, and made some assumptions about Phil's future stream of income after he got his MBA.
- It became pretty clear to both of them that the family would be better off financially over the long run with Phil in school now.

04:06 / 07:06

A Vanquished CEO

- Before losing his job and going back to school, Stuart was the Chief Executive Officer of a high-flying computer software company.
- When his company started to lose money, Stuart's solution was to raise prices in the hopes of boosting revenues and profits.

04:22 / 07:06

A Bankrupt Strategy

- Stuart came from an engineering background.
  - He didn't understand that the demand for his company's product was "highly elastic."
- In such a case, raising prices actually reduces both total revenue and profits.
- Stuart's pricing strategy bankrupted the company.

04:50 / 07:06

A Financial Analyst

- Fortunately, Jean Twilley, was a lot smarter when confronted with a similar situation in her job as a financial analyst in the operations department for the transit authority in Paradise, California.

05:03 / 07:06

Her Insight

- Facing a revenue shortfall, Jean ordered an analysis of the elasticity of demand for bus services.
- When she found that bus demand was also highly elastic, she recommended to her supervisor that the Transit Authority lower bus fares.
- This pricing strategy did indeed increase ridership and boost total revenues.

05:22 / 07:06

A Student

- It was a totally different set of microeconomic tools that helped Jong Chan get a different kind of promotion – one into medical school.
- Jong's problem was that at the end of his Freshman year in college, his grade point average was only 2.9.

05:38 / 07:06

He Maximized His Study Time

- After taking a course in microeconomics, Jong used the concept of "opportunity costs" and the tool of the "production-possibility frontier" to more efficiently allocate his studying time across various subjects.
- By the end of his senior year, Jong had raised his grade average to 3.8.

06:01 / 07:06

A Misguided Congressman

- Nai-fu is a newly elected member of Congress from the Los Angeles area.
- However, in his first term last year, Congressman Chan tried to pass some legislation that would have eliminated any kind of price regulation in the entire transportation industry.

06:22 / 07:06

What He Should Have Realized

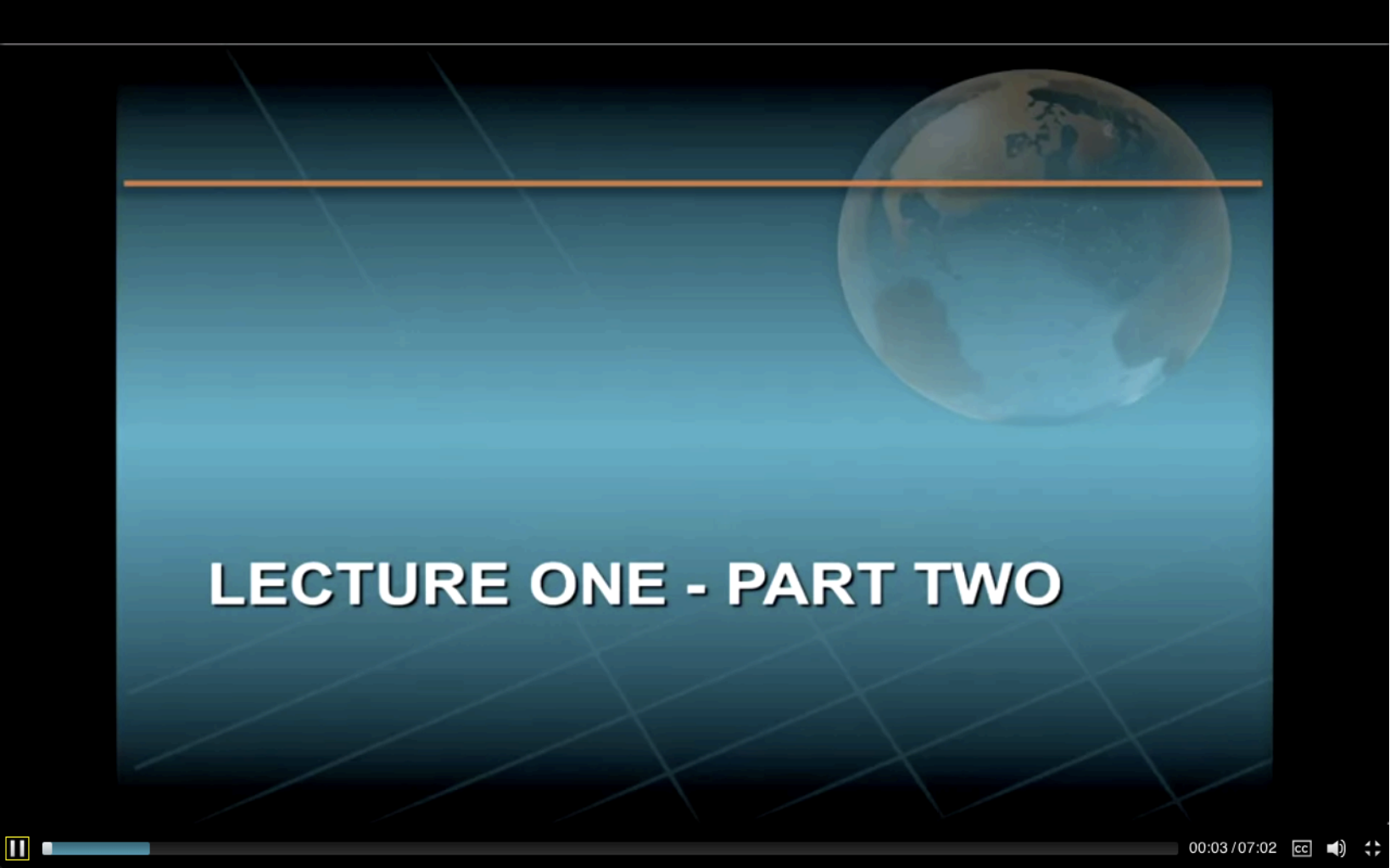
- Such price deregulation makes a lot of sense in an industry like trucking which is highly competitive.
- It makes very little sense for the railroad industry which is a natural monopoly that will gouge consumers with high prices in the absence of government regulations.
- Fortunately, Congressman Chan's bill didn't pass.

06:52 / 07:06

The Main Point

- When you learn microeconomics, you will learn a skill that will help you enormously in both your personal and professional life.

07:05 / 07:06


LECTURE ONE - PART TWO
00:03 / 07:02

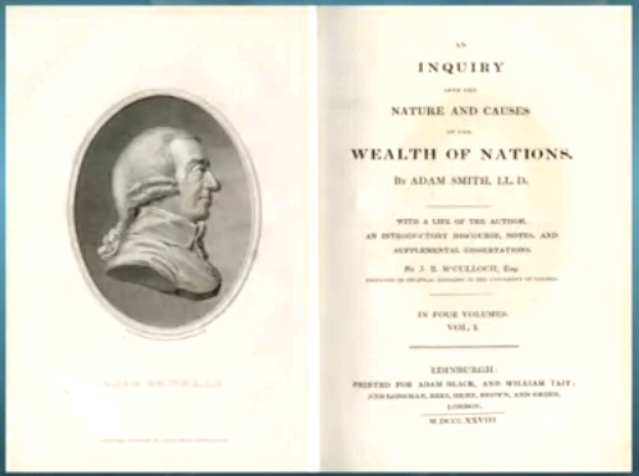
What Is Microeconomics?

- The word micro means small, and microeconomics focuses on the behavior of individual markets and the smaller individual units that make up the broader economy -- businesses, consumers, investors, and workers.
- Microeconomics is distinguished from macroeconomics which focuses on problems in the broader economy like inflation and unemployment and the rate of economic growth.

00:23 / 07:02

Adam Smith

- Intellectual forefather of microeconomics.
- Smith considered how individual prices are set, studied the determination of prices for land, labor, and capital, and examined the strengths and weaknesses of the free market mechanism.



AN

INQUIRY

INTO THE

NATURE AND CAUSES

OF THE

WEALTH OF NATIONS.

By ADAM SMITH, LL. D.

WITH A LIFE OF THE AUTHOR,

AN INTRODUCTORY DISCOURSE, NOTES, AND

SUPPLEMENTAL DISSERTATIONS.

By J. R. M'CULLOCH, Esq.

IN FOUR VOLUMES.

VOL. I.

EDINBURGH:

PRINTED FOR ADAM BLACK, AND WILLIAM TAIT,

AND LONGMAN, REES, ORME, BROWN, AND GREEN,

LONDON.

M.DCCC.XXVIII.

00:37 / 07:02

The Invisible Hand

- Most importantly, he identified the remarkable efficiency properties of perfectly competitive markets.
- Using his now famous “invisible hand” analogy, Smith argued that the self-interested actions of individuals actually guide market outcomes to yield great economic benefits for the broader society.

00:59 / 07:02

Few Markets Are Perfectly Competitive

- Adam Smith's keen insights provide an important foundation for many discussions in our study of microeconomics.
- Few sectors of the economy fulfill Adam Smith's vision of a perfectly competitive marketplace delivering goods and services at lowest price and highest quality.

01:26 / 07:02

A Mixed Economy

- The U.S., as well as most other modern industrialized nations, has what is called a mixed economy.
- At one end of this mixed economy, we have industries like farming and mining.
- These industries are characterized by many buyers and sellers and come closest to approximating Adam Smith's model of perfect competition.

01:50 / 07:02

Pure Monopoly

- We have pure monopolies like the post office characterized by one seller and run by the government.

02:01 / 07:02

Oligopoly

- Oligopolies are industries which typically have a small number of large firms.
- Many of America's largest industries are oligopolies much more likely to engage in collusive practices such as price fixing than the type of fierce competition envisioned by Adam Smith.

02:25 / 07:02

A Command Economy

- The government makes all the important decisions about production and distribution.
- The government owns most of the means of production (land and capital).
- It also owns and directs the operations of enterprises in most industries.
- It is the employer of most workers and tells them how to do their jobs.
- And it decides how the output of the society is to be divided among different goods and services.

03:07 / 07:02

Three Questions -- Three Facets

- What shall be produced?
- How shall it be produced?
- For whom shall it be produced for?

Three Facets

- Scarcity
- Efficiency
- Equity

03:37 / 07:02

Scarcity

- If infinite quantities of every good could be produced, there would not be economic goods--goods that are scarce or limited in supply.
- All goods would be free, like sand in the desert or seawater at the beach.

03:50 / 07:02

In Such An Eden

- People wouldn't have to worry about stretching out their limited incomes to fulfill their wants.
- Businesses wouldn't worry about costs and profits when they produced their products.
- Governments wouldn't have to tax their citizens to build things like roads and bridges.
- There would be no distinction or political and economic conflict between rich and poor.
- Prices and markets would be irrelevant.

04:21 / 07:02

No Society Is A Utopia

- While goods are limited, wants are seemingly limitless.
- Even after two centuries of rapid economic growth, production in the United States is still not high enough to meet everyone's desires.

04:37 / 07:02

Outside The United States

- Particularly in Africa and Asia, hundreds of millions of people suffer from hunger and material deprivation every day.

04:48 / 07:02

How To Cope With Limited Resources

- An economy must choose among different potential bundles of goods (the "what").
- Select from different techniques of production (the "how").
- Decide in the end who will consume the goods (the "for whom").

Key Point

The essence of economics is to acknowledge the reality of scarcity and then figure out how to organize society in a way that produces the most efficient use of resources.

05:19 / 07:02

Efficiency

- Denotes the most effective use of a society's resources in satisfying people's wants and needs.
- Allocating resources efficiently is complicated because there is almost always a very thorny tradeoff between what is efficient and what is "fair."

05:46 / 07:02

Efficiency vs. Equity

- Grappling with the tradeoff between efficiency and equity is one of the most difficult tasks of economists and the political and business leaders they serve.

05:59 / 07:02

The Case of Electricity

- When we study monopoly, we'll learn that, from a microeconomic view, the most efficient way to regulate electricity prices would be to charge individual consumers much more than businesses for the same unit of electricity.

06:13 / 07:02

It Wouldn't Be Fair

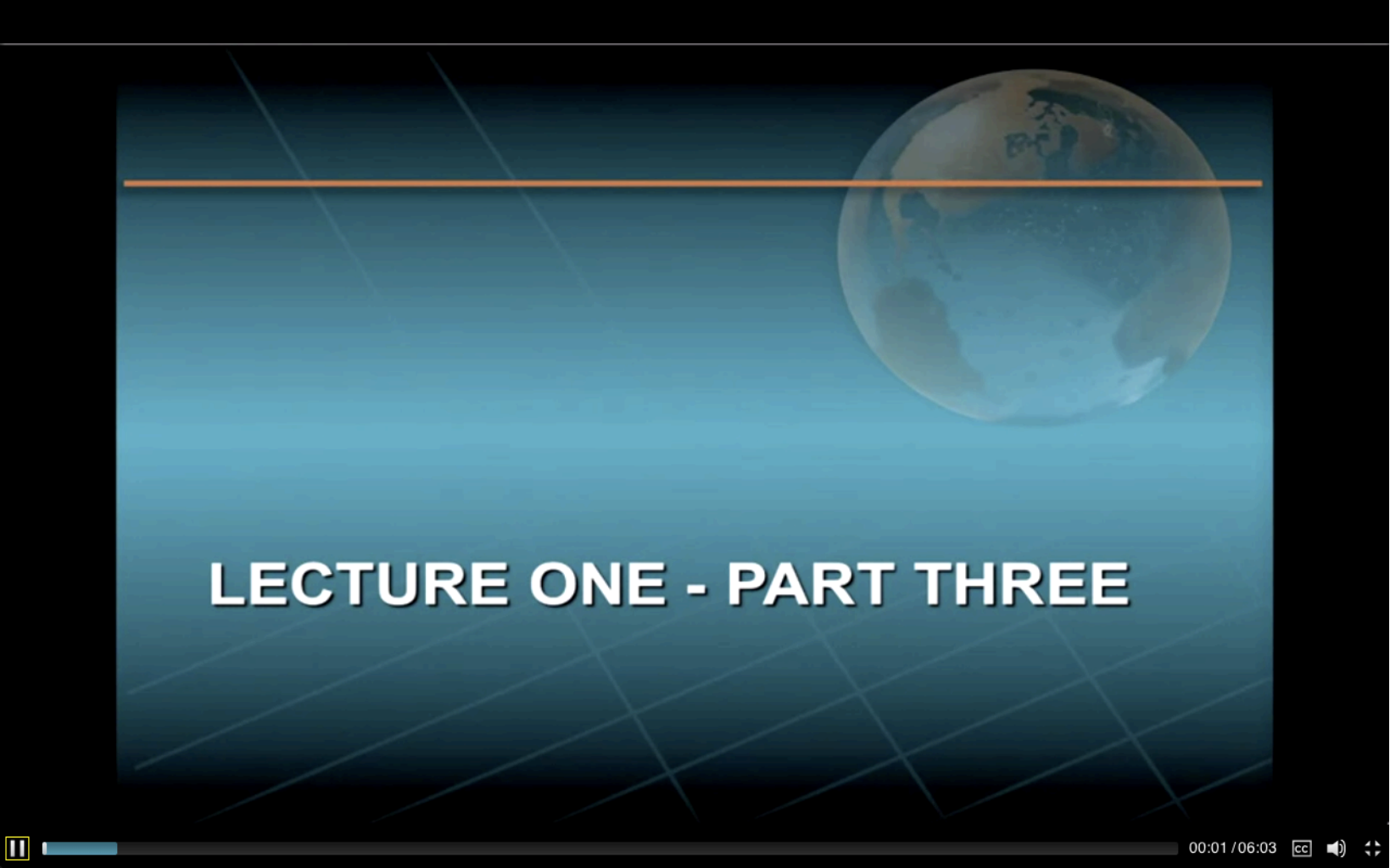
- Such a pricing policy creates enormous political problems because it is people rather than businesses that vote in our democratic system.
- Many would argue that it simply wouldn't be fair to charge people-especially the poor and elderly-more than big corporations for the same product.

06:38 / 07:02

Taxes Interfere With Efficiency

- We will also see that almost any time the government tries to raise taxes to redistribute income from the rich to the poor through mechanisms like food stamps or Medicare, those taxes tend to interfere with the efficiency of the free market.

06:47 / 07:02


LECTURE ONE - PART THREE
00:01 / 06:03

The Production Possibility Frontier

- To further illustrate these concepts of scarcity, efficiency, and equity, let's introduce the production-possibilities frontier.
- PPF: Shows the maximum amounts of production that can be obtained by an economy given its technological knowledge and quantity of inputs or resources available.
- If a country is operating on its PPF, it is allocating resources efficiently.

00:37 / 06:03

Goods Are Limited

- Societies cannot have everything they want.
- They are limited not just by their resources but also by the technology available to them.
- Societies must chose between goods, and one of the broadest choices that virtually every country is forced to make is between producing "guns vs. butter."

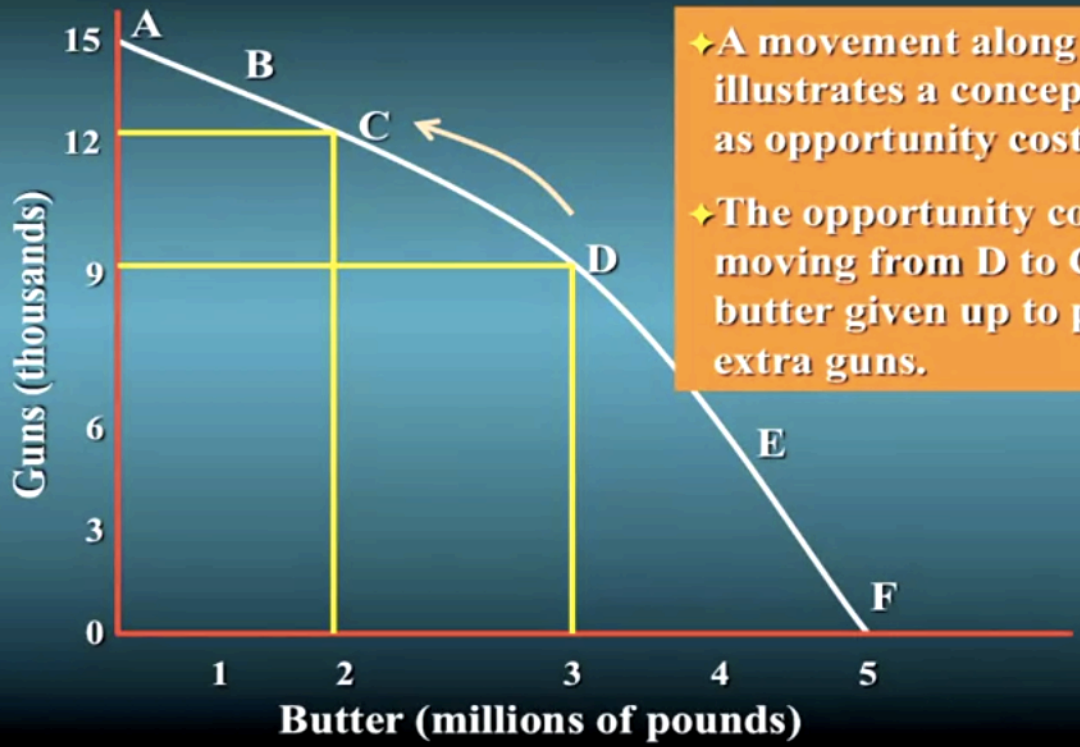
00:57 / 06:03

Guns vs. Butter

- How much of a country's resources should go to the military-- the "guns"--and how much should go to civilian uses like education and health care and the production of consumer goods like computers and automobiles?

01:09 / 06:03

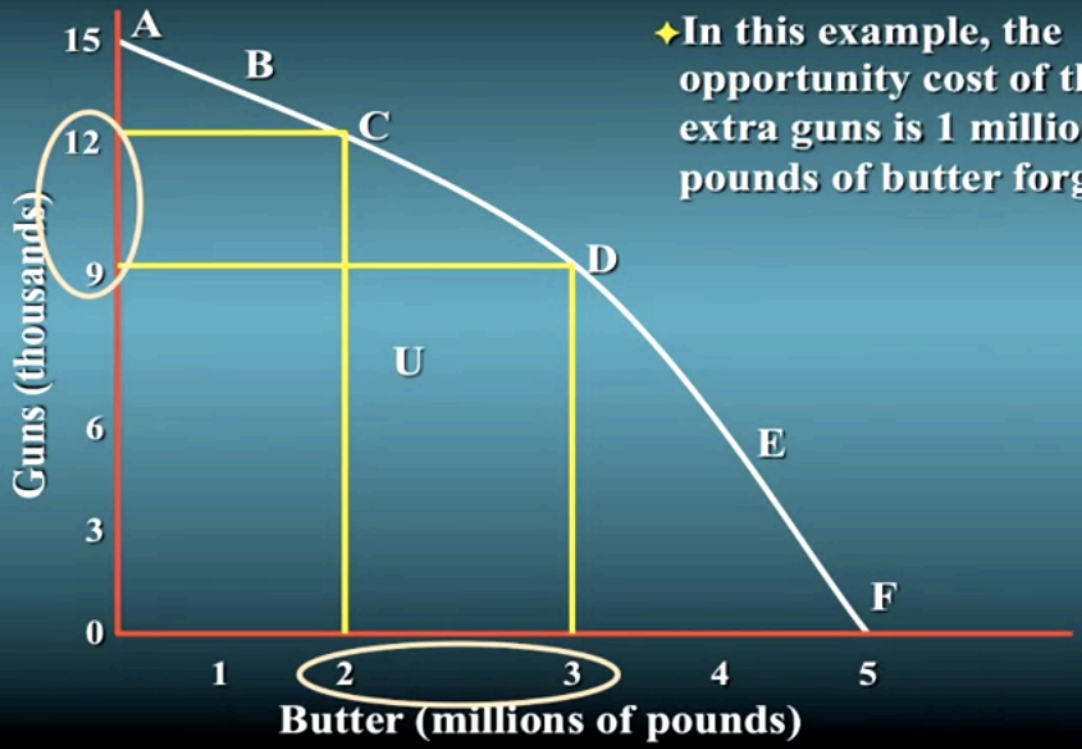
The Country of Tough Choice



- A movement along the PPF illustrates a concept known as opportunity costs.
- The opportunity costs of moving from D to C is the butter given up to produce extra guns.

02:45 / 06:03

The Country of Tough Choice



- In this example, the opportunity cost of the 3000 extra guns is 1 million pounds of butter forgone.

02:53 / 06:03

Opportunity Costs

- In a world of scarcity, choosing one thing means giving up something else.
- The *opportunity cost* of a decision is the value of the good or service forgone.
- Because resources are scarce, we must always consider how to spend our limited incomes or time.

03:09 / 06:03

Frontier Society

For a "frontier society," the country is likely to be at point A because the society lives from hand to mouth with little left over for public goods.

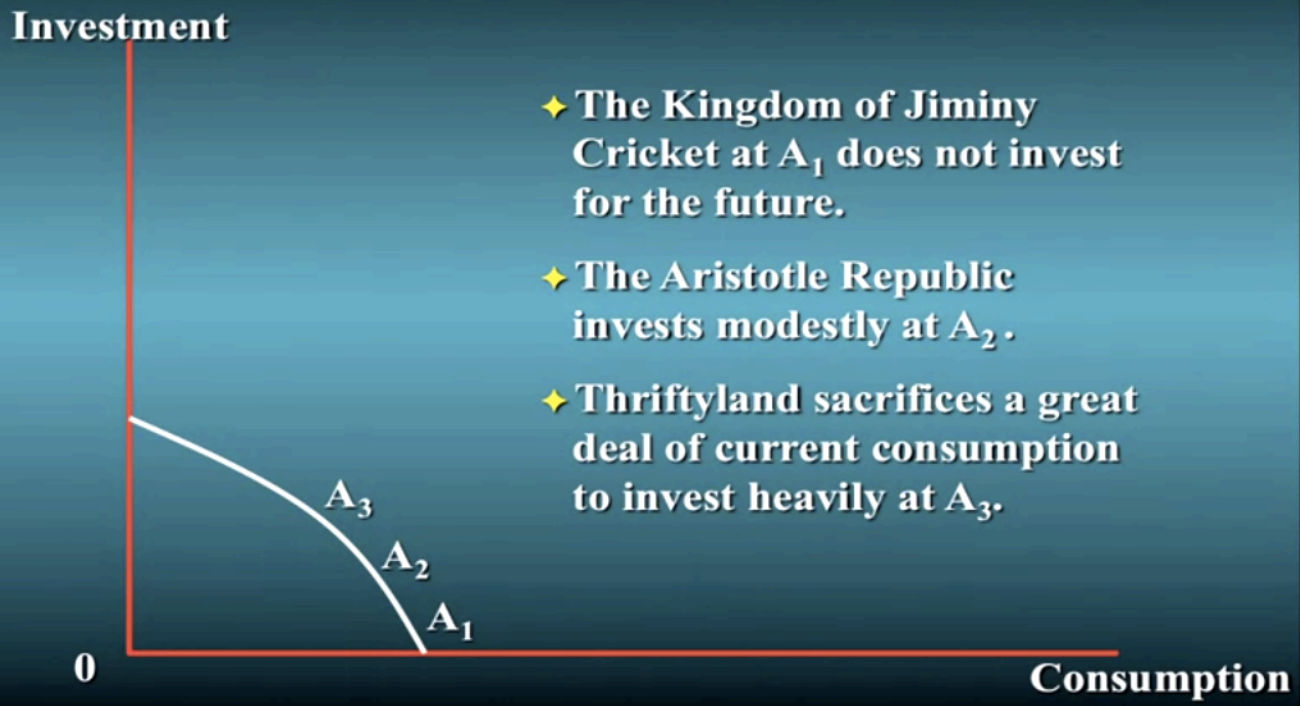
03:34 / 06:03

Urban Society

Society may choose to be at point B, spending more of its higher income on public goods like education, environmental protection, and roads.

03:58 / 06:03

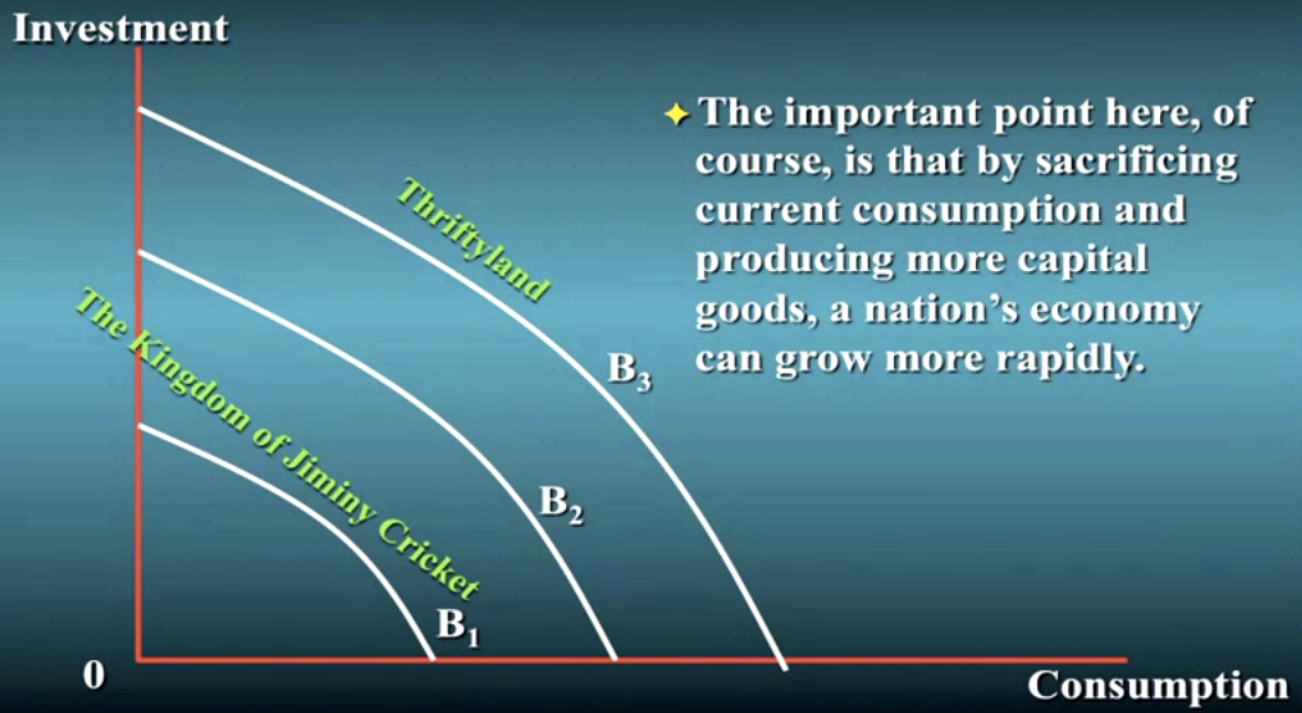
Invest or Consume?



- The Kingdom of Jiminy Cricket at A_1 does not invest for the future.
- The Aristotle Republic invests modestly at A_2.
- Thriftyland sacrifices a great deal of current consumption to invest heavily at A_3.

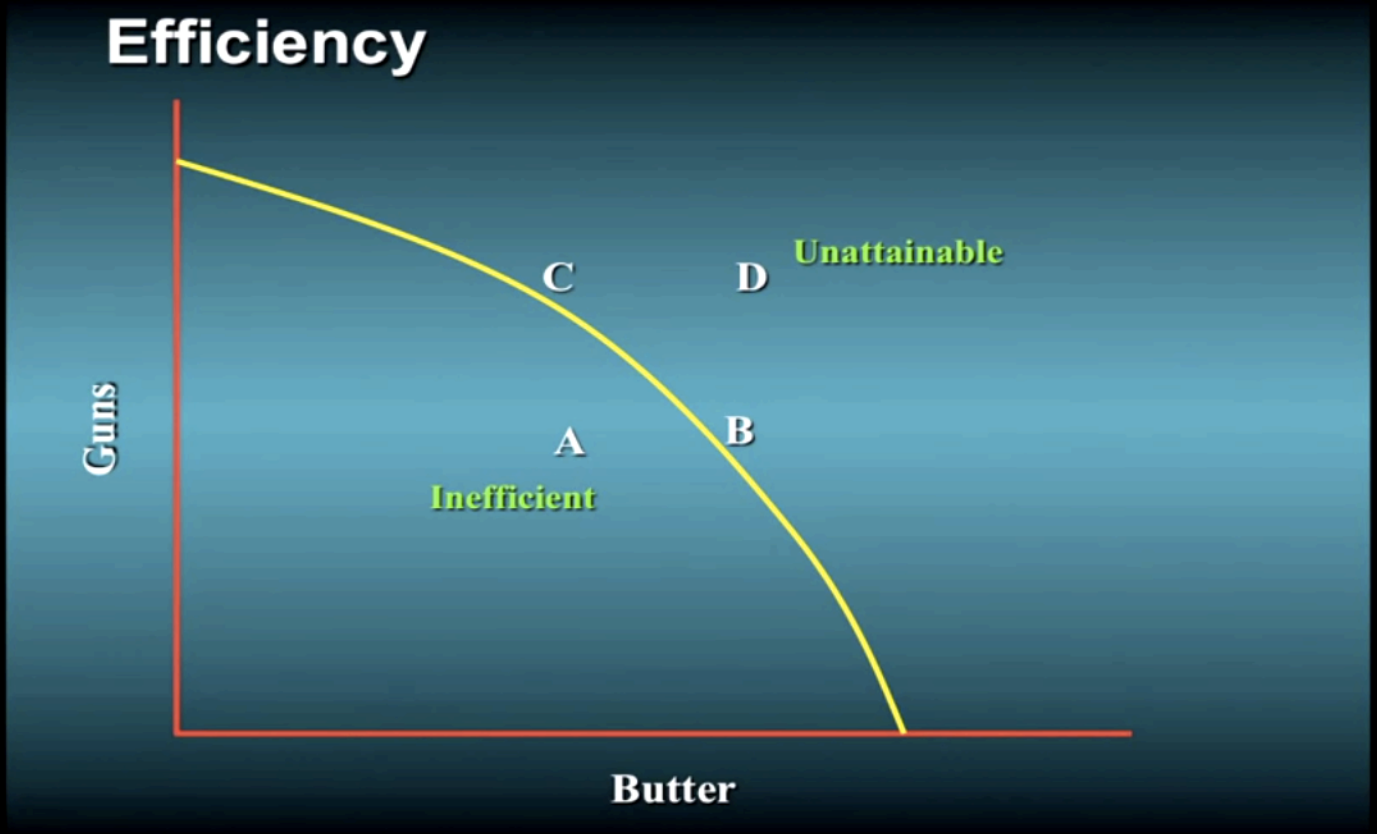
04:48 / 06:03

Investment and Growth



- The important point here, of course, is that by sacrificing current consumption and producing more capital goods, a nation's economy can grow more rapidly.

05:16 / 06:03



06:01 / 06:03

LECTURE ONE - PART THREE

00:01 / 06:03

LECTURE ONE - PART FOUR

00:04 / 05:53

The Fundamentals Of Economics

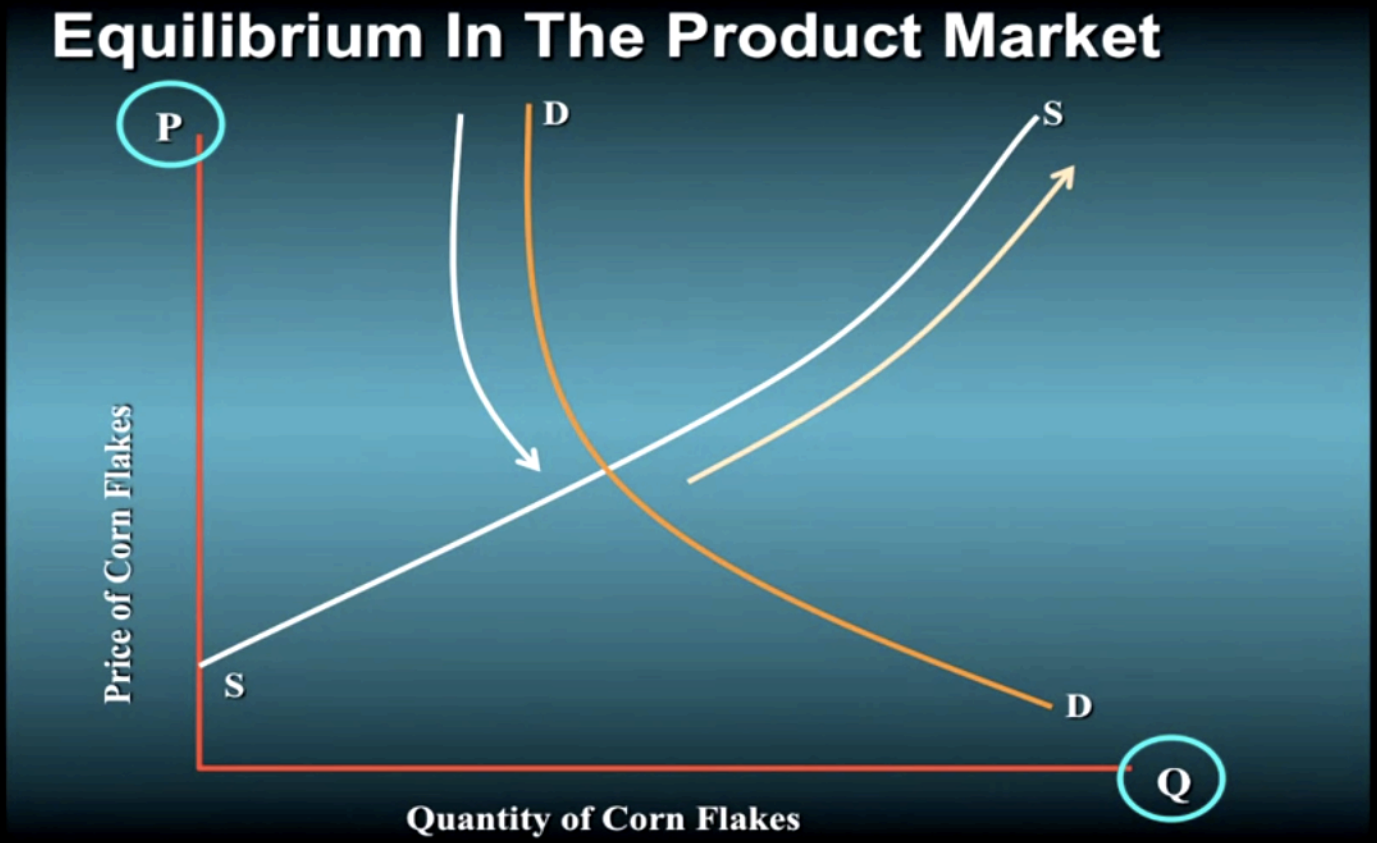
- Let's conclude this lesson now with an overview of the four major parts of the microeconomics puzzle.

00:13 / 05:53

Lectures 2, 3, and 4

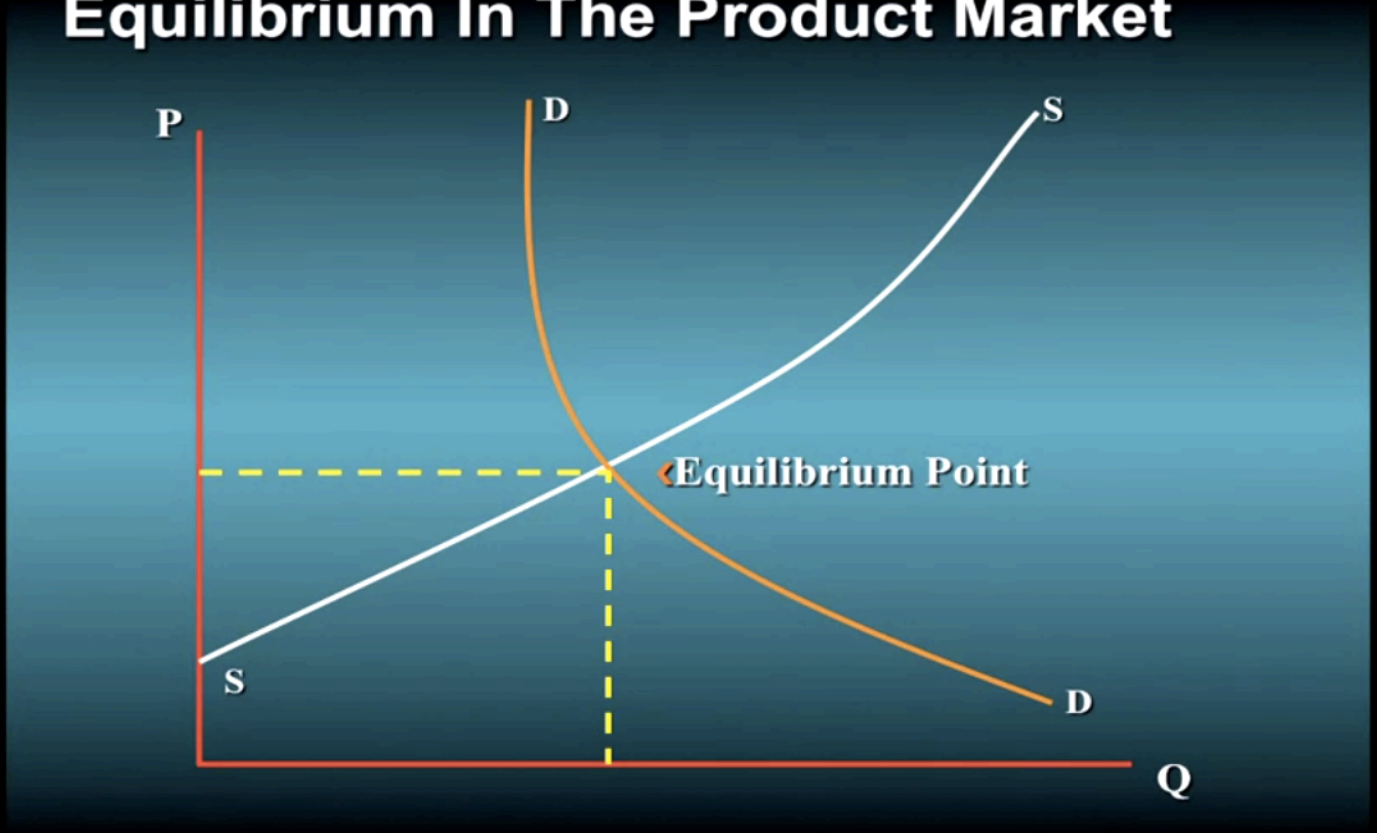
- We'll take a very good look at how the forces of supply and demand reach an equilibrium in the product market – the market for consumer goods like autos and shoes and computers.

00:26 / 05:53


Equilibrium In The Product Market
P
D
S
Price of Corn Flakes
S
D
Q
Quantity of Corn Flakes

00:56 / 05:53

Equilibrium In The Product Market



01:10 / 05:53

Consumer Theory

- To understand the downward slope and shape of the demand curve and indeed why that curve may also shift, we'll spend a whole lesson on the theory of consumer and household behavior.

01:24 / 05:53

Production Theory

- To figure out why the supply curve slopes upward, we'll look at "production theory," which examines why firms price and produce products the way they do.
- Once we come to understand these demand and supply curves, it will become very apparent why prices tend towards an equilibrium where the two curves cross.

01:46 / 05:53

Lectures 5, 6, and 7

- We will turn to the broader issue of how markets are organized and structured.
- In this stage, we'll see that when a market meets Adam Smith's test of being perfectly competitive, its "invisible hand" truly is a wondrous mechanism.
- It allocates resources in the most efficient way possible--without any help or interference of the government.

02:14 / 05:53

Market Failures

- However, in this part of our studies, we'll also come to understand that markets are prone to various kinds of "market failures" that may require the government to intervene to correct these failures.

02:23 / 05:53

Three Types of Market Failure

- Imperfect competition, such as monopolies.
- Externalities, such as pollution.
- Public goods, such as national defense.
- In each case, the market failure leads to inefficient production or consumption, and government can play a useful role in solving or reducing the problem.

02:47 / 05:53

Monopoly – One Seller

- Tends to set prices too high and consumption is too low relative to the most efficient outcome that would occur in a market with numerous buyers and sellers.
- In such a case, government intervention into the market may be appropriate.
- Such intervention may involve regulating prices and profits or prohibiting actions such as price fixing.

03:21 / 05:53

Negative & Positive Externalities

- In the case of a negative externality, a company may produce steel and sell it for the market price.
- In manufacturing the steel, the company will incur costs for its machinery and raw materials and labor; those direct costs will be subtracted from its revenues to calculate its profits.

03:41 / 05:53

Pollution Externalities

- In a free market, what the company does not take into consideration are the broader external costs it may impose on society in the process of making the steel.
- Such costs arise, for example, when the company pollutes the river adjacent to its plant or the air basin over the nearby town.

04:05 / 05:53

Too Much Is Produced

- In the presence of negative externalities the free market produces too much of the good-- steel in this example--at too low a price.
- In such a case, the government may want to regulate or tax the polluters.
- In the presence of positive externalities associated with goods like education and vaccinations, government subsidies may be appropriate to "internalize" the externality.

04:32 / 05:53

Non-Rival Public Goods

- A third market failure involves public goods like national defense and lighthouses.
- Public goods are "non-rival" in consumption, meaning that my use of, say, a lighthouse doesn't interfere with your use of that same lighthouse.

04:50 / 05:53

Rival Private Goods

- Goods like hamburgers and shoes.

Rival In Consumption Goods

If I eat the burger or wear the shoes, you can't.

05:07 / 05:53

The Public Goods Solution

- As we shall see, the typical solution to the public goods problem is for the government to step in and provide it.
- That's why it is the government that is in charge of providing many public goods, from national defense and the criminal justice system to parks, roads, and bridges.

05:26 / 05:53

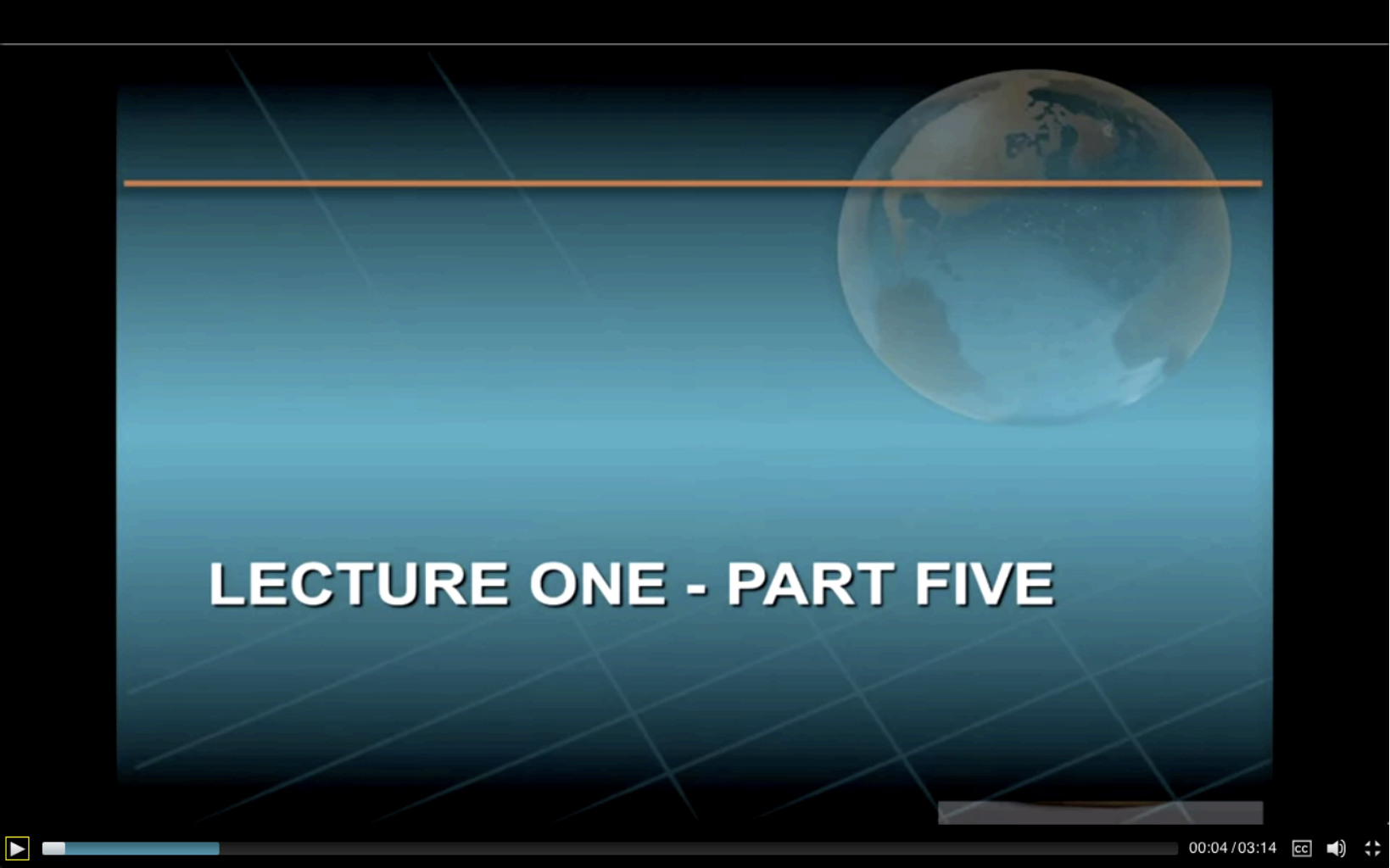
Equity Versus Efficiency

- The concept of market failure helps us better understand the many reasons – good and bad – why the government may get involved in our businesses and our lives.
- It is especially important for people in business to understand the economic role of government!

Key Point

Government rules and regulations have as much or more to do with the bottom line profits of most companies than any competitor's actions.

05:46 / 05:53


LECTURE ONE - PART FIVE
00:04 / 03:14

Other Reasons For Government Regulation

- Even if there are no failures in the market, there may be a political or ethical problem with how wealth and income are distributed that triggers government intervention into the free market.

00:08 / 03:14

To See This

- Assume the economy is functioning with complete efficiency on the production-possibility frontier.
  - Choosing the right amount of public versus private goods.
- Even if the market system works perfectly, it might still lead to a flawed outcome.

00:30 / 03:14

Why This Could Happen

- Incomes are determined by a wide variety of factors, including effort, education, inheritance, factor prices, and luck.
- The resulting income distribution may not correspond to a fair outcome.
- A rich man's cat may drink the milk that a poor boy needs to remain healthy.

00:53 / 03:14

Is The Market Failing?

- Not at all, for the market mechanism is doing its job—putting goods in the hands of those who have the dollar votes.
- If a country spends more fertilizing its lawns than feeding poor children, that is a defect of income distribution, not of the market.
- Indeed, even the most efficient market system may generate great inequality!!!!

01:17 / 03:14

Changing The Distribution Of Income

- If a democratic society does not like the distribution of dollar votes under a free market or laissez-faire market system, it can take steps to change the distribution of income.
- It can engage in progressive taxation, taxing large incomes at a higher rate than small incomes, or impose heavy taxes on large inheritances to break the chain of privilege.

01:36 / 03:14

Transfer Payments

- Because low tax rates cannot help those who have no income at all, governments can make transfer payments.
- Transfers include: Aid for the elderly, blind, and disabled and for those with dependent children, as well as unemployment insurance and low cost housing subsidies.
- This system of transfer payments provides a "safety net" to protect the unfortunate from privation, and they are paid for from taxes levied on the more privileged.

02:14 / 03:14

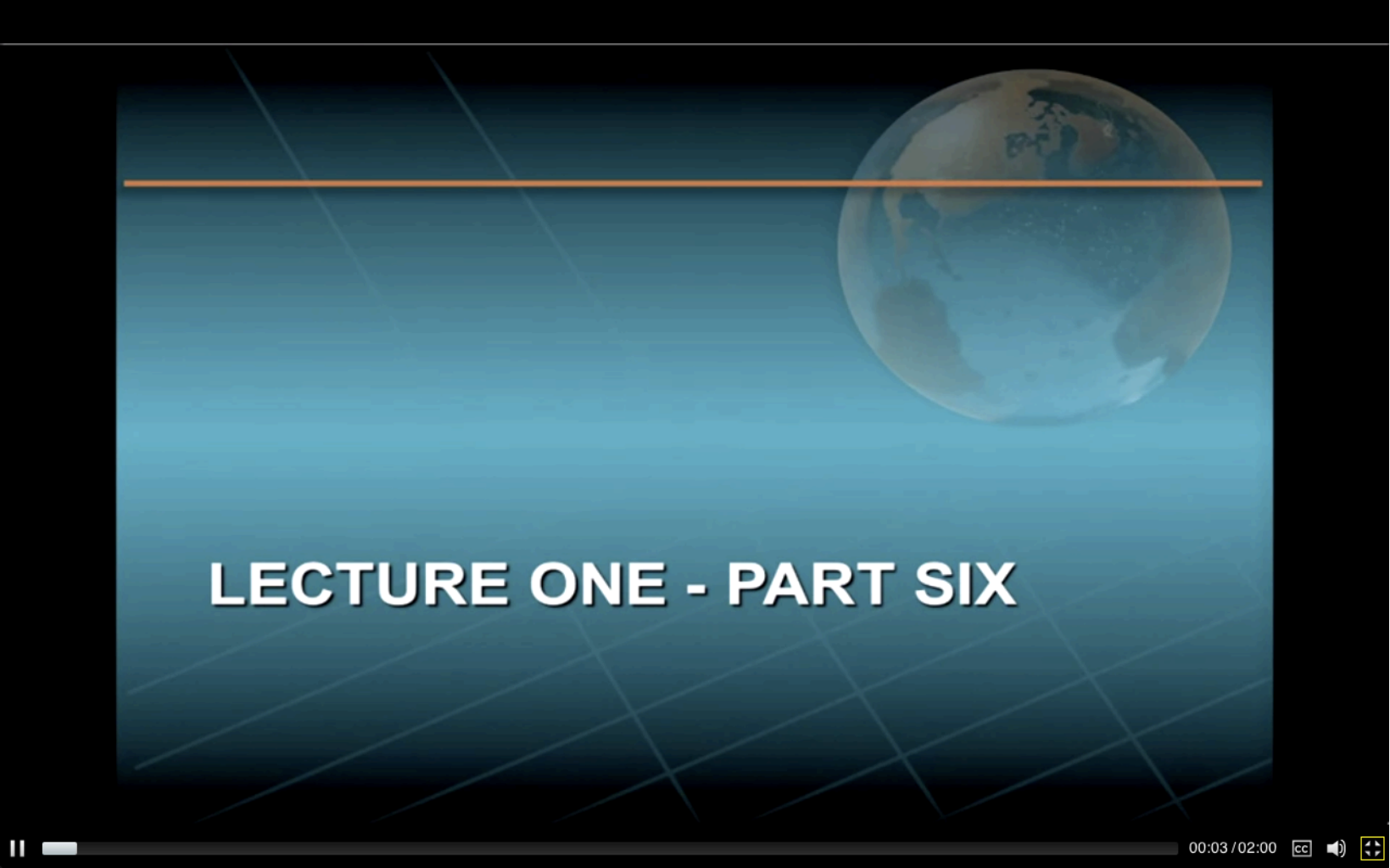
Normative Questions

- Economics cannot answer such normative or prescriptive questions about how much of our market incomes—if any—should be transferred to poor families.
- This is a political question that can be answered only at the ballot box – or in some countries, at the point of a gun.

02:42 / 03:14

Failure of market economy	Government intervention	Current examples of government policy
Inefficiency:		
Monopoly	Encourage competition	Antitrust laws, deregulation
Externalities	Intervene in markets	Antipollution laws, antismoking ordinances
Public goods	Encourage beneficial activities	Build lighthouses, subsidize scientific research
Inequality:		
Unacceptable inequalities of income and wealth	Redistribute income	Progressive taxation of income and wealth
	Income-support programs	(e.g., food stamps)
Macroeconomic problems:		
Business cycles (high inflation and unemployment)	Stabilize through macroeconomic policies	Monetary policies
		Fiscal policies
Slow economic growth	Stimulate growth	invest in education
		Raise national savings rate by reducing budget deficit

02:51 / 03:14


LECTURE ONE - PART SIX
00:03 / 02:00

Lectures 8, 9, and 10

- Study how firms use the three "factors of production" – land, labor and capital.
- These factors are the three major "inputs" into the production process where the final goods and services that are produced are called the "outputs."

00:25 / 02:00

The Labor and Capital Markets

- A study of the labor market will help us understand how wages are determined.
- An analysis of the capital markets will help us understand how to evaluate the profitability of investments.

00:37 / 02:00

Land Economics

- We'll get a better grasp of how rents are set in real estate markets.
- We'll acquire a number of very important analytical tools – concepts like net present value and rate of return – that will be of enormous use to us in our business and personal lives.

01:05 / 02:00

Lecture Eleven

- Looks much more closely at two particular market failures--externalities and public goods--both of which provide important rationales for large scale government intervention into the private marketplace.

01:19 / 02:00

We Have A Lot Of Work To Do

My Pledge to You!

The time you put into the study of microeconomics will yield a very high return in both your personal and professional life.

01:32 / 02:00

THE POWER OF MICROECONOMICS

Professor Peter Navarro
University of California-Irvine

END OF LESSON ONE

01:49 / 02:00