

Project 1, Economics of Daily Life, Tuesdays, Fall 2023

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The subject of the project: The Invisible Hand That Raises Us (Topic 1)

- a. From this topic, what methods of economic analysis (including economic principles, theories, and explanations) did you learn from the lecture, classroom game, and discussion in the class? Briefly explain these methods and the process through which you learned these methods.
- b. Use examples to explain where and how these methods can be applied to other issues in your daily life.

From this topic, I can learn how economics works. "The Invisible Hand" here refers to economics because it appears that all transactions, we do in daily life happen automatically. Economics has a great impact on our lives yet the impact of it is invisible because it will happen naturally until the equilibrium point is reached or until the society meets a socially desirable outcome.

It seems interesting to see the invisible process of economics. Economics is mainly concerned with the organization of economic activities. Economic activities here refer to the production and consumption of goods and services. Most economists believe in "Laissez Faire" (let people do as they will). To be able to organize an economic activity, you have to decide few things, such as the product you want produce, the identity of producer, the identity of consumers, and how much they consume. Economic activities are controlled by either government, market or perhaps both. It's referred to as pure communism if the government controls and decides everything. It is referred to as pure capitalism when the market controls and makes all of the decisions. However, in our real life, the country that has a 100% capitalist economy or 100% communist economy does not exist. For example, country like china has a socialist economy, but it is not 100% socialist. It is mixed so the market also has the role to determine the market outcome. In general, both government and market have a role to determine how the economic activities are going to be.

In our classroom game, there are buyers and sellers. A card indicating production cost is given to each seller, and a card indicating buying power is given to each buyer. To turn a profit, buyers and sellers must engage in trade. When price deals with production costs, a seller makes money; when price deals with buying capability, a buyer makes money. The price agreement will be documented whenever a deal is reached. My team was the seller at that time. At that game, there were 4 periods. And we sent each of our group member to the front. We found our profit is decreasing. I thought that is our group's inability to sell. It was not. It was the way how economics works or Laissez Faire, meaning that people will do things as they desire. If we set price in the range that buyers can't afford, then we will not earn much money. So, we have to observe the whole market to maximize the income and profit.

From buyers' perspective, I learn that they only have one option when bargaining. It is to pick one of the prices offered by the sellers. As the seller, in order to reach the agreement with the buyer, we have to bargain the price until the equilibrium point is reached. This indicates that in this case or in a free market, people tend to meet the best socially desirable outcome. Meaning that sellers are trying to benefit the buyers too. In other words, their doings will benefit society. In fact, everyone in this game has

one goal, that is to earn profit as much as possible. However, in the trading process make a shift in the price, making the price to be reasonable for both sellers and buyers. If one of both sides keep offer a price that the other side can't afford as I have said earlier, then no deal can be made.

When we were playing this classroom game, something funny happened. My group revealed the card or the capital to the buyers making the game became unbalanced as in the real-world sellers should not reveal the card to the buyers. This can make buyers have an advantage of information. Making the sellers have some difficulties in making profit because buyers can take advantage of that piece of information.

From this classroom game, we can learn about supply and demand diagram. The equilibrium point that I have said earlier is the intersection of the demand curve and the supply curve. Think of the equilibrium point like a meeting place where what people want to buy matches exactly what producers are ready to sell. And by this game, we can notice a very important result, that is the market outcome matches the socially desirable outcome.

In our daily life, I think I can implement "Laissez Faire" theory whenever I want to open a business. I find that doing a market survey is important to find the affordability of customers or consumers. Besides, I can learn if I want conduct a business, I have to secure the important information about the product, such as the capital. If this information leaks, this will lead a shift in market outcome which can reduce your income. Also, I can also apply this theory when I want to buy something. In this game, buyers do not know the market price of the widget so that they need to negotiate with the sellers. In my opinion, buyers can check and calculate the market price of the widget before they negotiate.