Introduction (Microeconomics)

MICRO- AND MACROECONOMICS

Miscellaneous information

- Course: Micro- and Macroeconomics (BMEGT30A001)
- Lecturers: Micro: Zoltán Bánhidi (banhidi.zoltan@gtk.bme.hu), Macroeconomics: Zsolt Gilányi (gilanyi.zsolt@gtk.bme.hu)
- Assessment: Compulsory midterm exam AND an optional midterm exam OR final exam. Final grades are determined by the overall score, provided that a student scores at least 40% in all exams (otherwise an F grade is assigned).

WHEN?

- Compulsory midterm (7th week)
- Optional midterm (14th week)
- Final exam (Exam period)

% achieved	Hungarian grade	ECTS equivalent	Explanation for the Hungarian grade
86-100	5	A	Excellent
71-85	4	B	Good
56-70	3	C	Satisfactory
40-55	2	D	Pass
0-39	1	F	Fail

Attendance, grading

- Attendance is not compulsory, but may result in extra points being awarded (e.g. tasks)

% achieved	Hungarian grade	ECTS equivalent	Explanation for the Hungarian grade
86-100	5	A	Excellent
71-85	4	B	Good
56-70	3	C	Satisfactory
40-55	2	D	Pass
0-39	1	F	Unfulfilled/Fail

Textbook and student workbook

- Micro textbook: Begg, D. – Fischer, S. – Dornbush, R.: Economics. McGraw-Hill.
- Student workbook: Ward D. – Begg, D.: Student Workbook for Economics. McGraw-Hill.
- The textbook is available in limited quantities in the library.

Web site:
https://edu.gtk.bme.hu/?lang=en

Microeconomics and Macroeconomics

- **Microeconomics** offers a detailed analysis of particular activities in the economy. For simplicity, it may neglect some interactions with the rest of the economy. TODAY
- **Macroeconomics** emphasizes these interactions at the cost of simplifying the individual building blocks.
- **Macroeconomics** is the study of the economy as a system. ON WEDNESDAYS

Topics (Microeconomics)

Topics	Corresponding chapter in the textbook
Economics and the economy	1
Demand, supply and the market	3
Elasticities of demand and supply	4
Consumer choice and demand decisions	5
Introducing supply decisions	6
Costs and supply	7
Perfect competition and pure monopoly	8

Fundamental questions

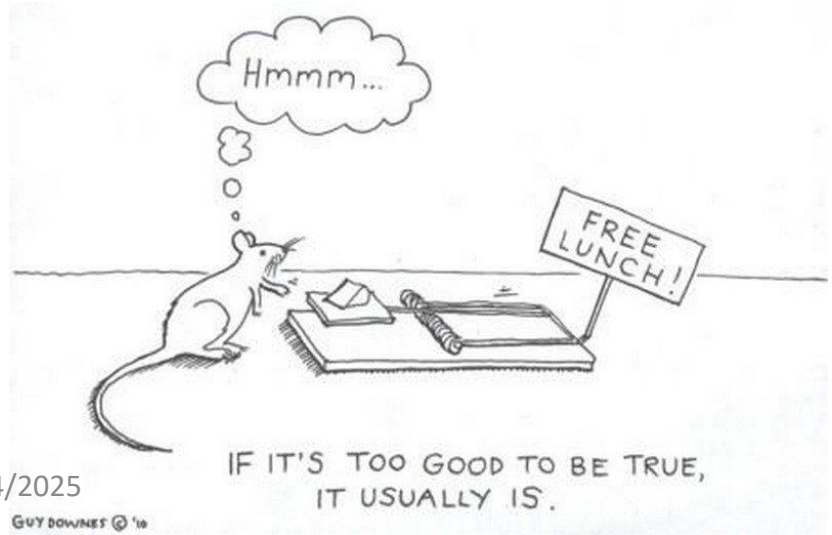
- Economics analyses **what**, **how**, and **for whom** society produces.
- The **key economic problem** is to reconcile the conflict between **people's virtually unlimited demands** with **society's limited ability** to produce goods and services to fulfil these demands.

Economics: studying Choice in a World of Scarcity

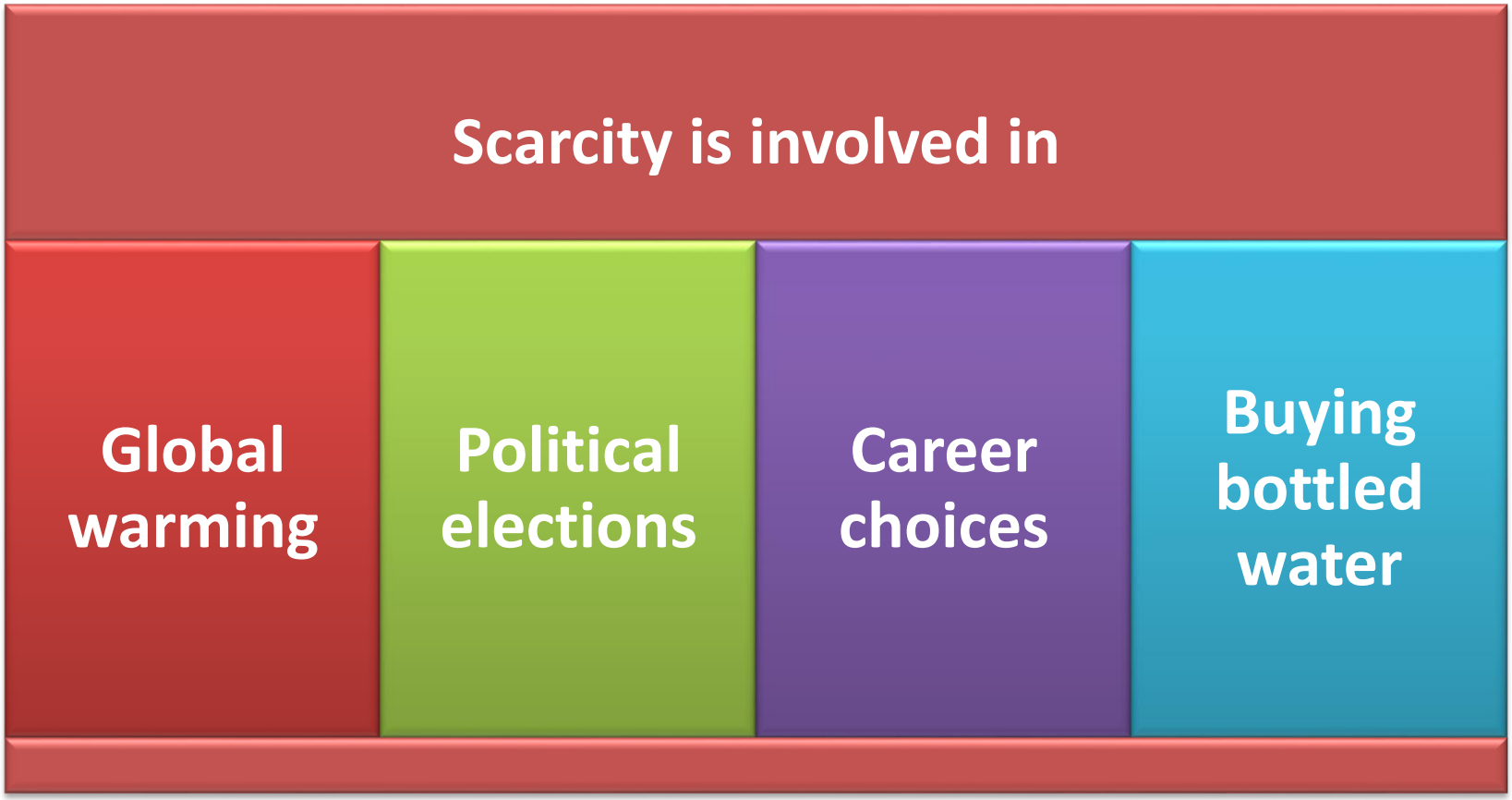
The Scarcity Principle
("No free lunch" principle)

- Boundless wants cannot be satisfied with limited resources.
- Therefore, having more of one thing usually means having less of another.
- Because of scarcity we must make choices.

There is No Such Thing as a Free Lunch



The Scarcity Principle: Examples



The Scarcity Principle: Examples

Scarcity: Time is a valuable asset, too

Should Elon Musk pick up a $100 bill while hurrying to a business meeting?

Should a famous divorce lawyer write his own will?

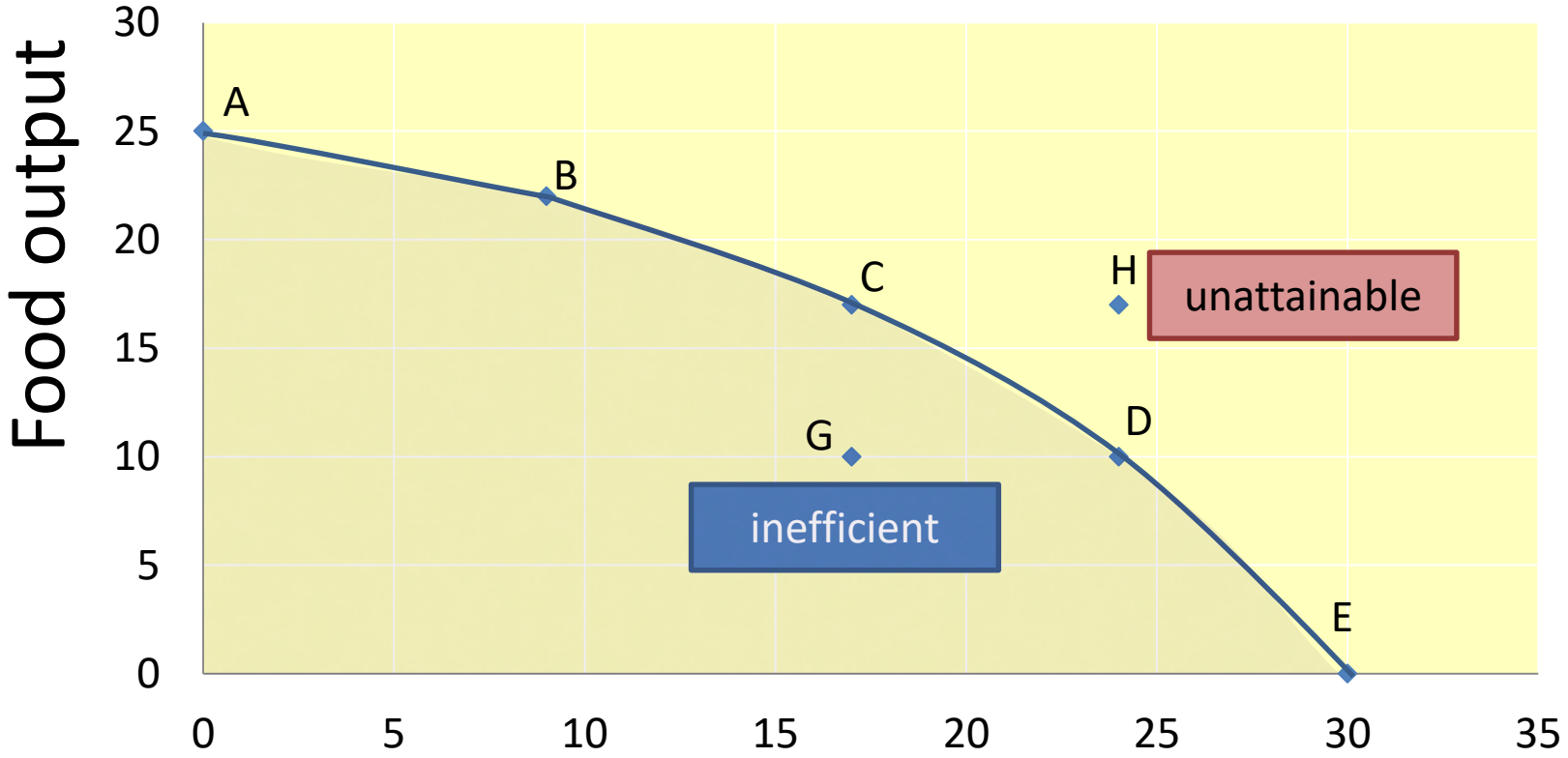
Production possibility frontier (PPF)

- The **production possibility frontier** shows the maximum amount of one good that can be produced given the output of the other good.
- It depicts the **trade-off** or menu of choices for society in deciding what to produce.

Production possibilities

Food		Films	
Workers	Output	Workers	Output
4	25	0	0
3	22	1	9
2	17	2	17
1	10	3	24
0	0	4	30

Production possibility frontier



Food		Films	
Workers	**Output**	**Workers**	**Output**
4	**25**	**0**	**0**
3	**22**	**1**	**9**
2	**17**	**2**	**17**
1	**10**	**3**	**24**
0	**0**	**4**	**30**

Resources are scarce and points outside the frontier are **unattainable**. It is **inefficient** to produce within the frontier

Opportunity cost

- The **opportunity cost** of a good is the quantity of other goods sacrificed to make an additional unit of the good. It is the slope of the production possibility frontier.

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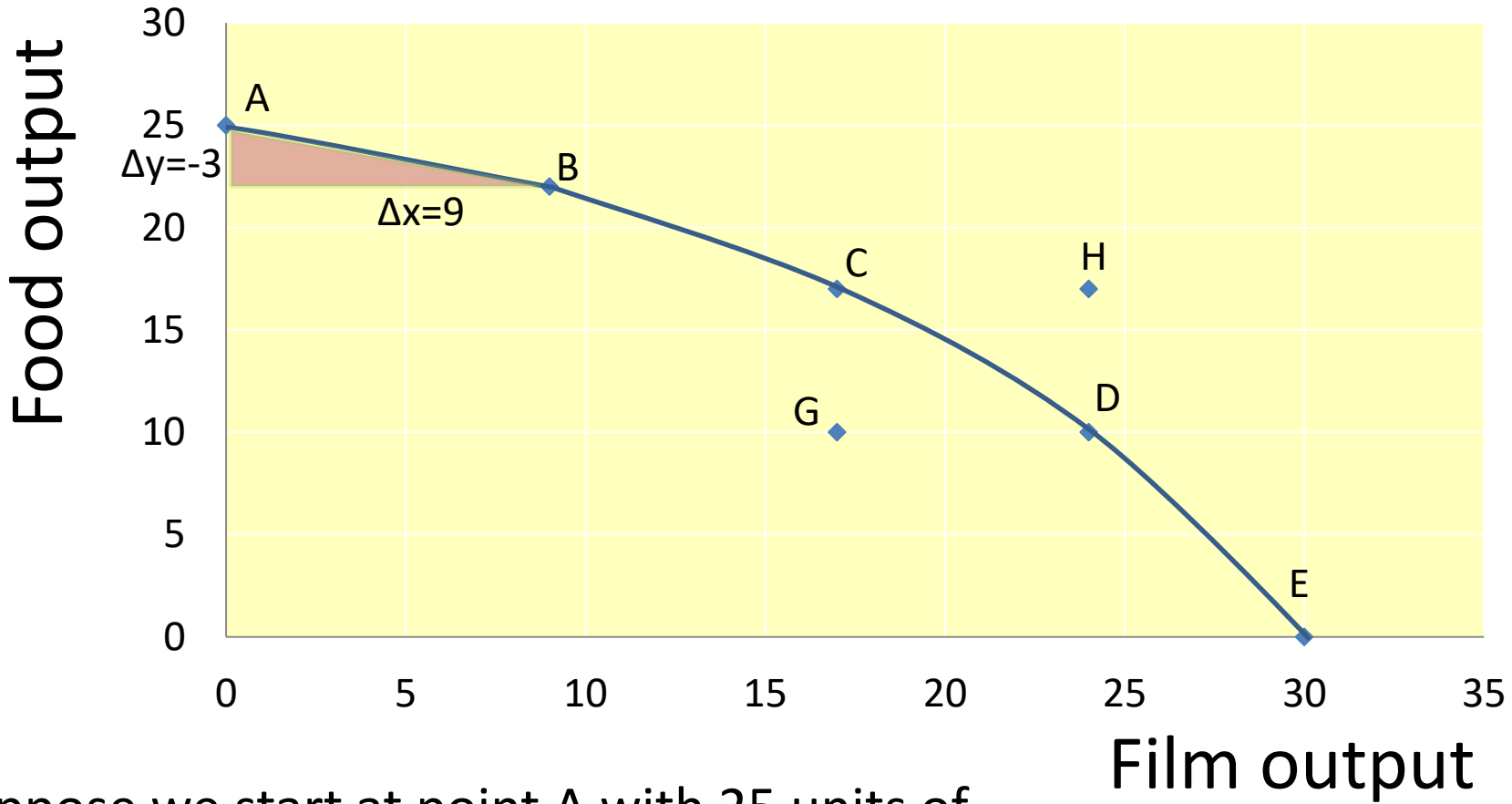
Opportunity cost (trade-off)



Suppose we start at point A with 25 units of food but no films. Moving from A to B, we gain 9 films but lose 3 units of food. Thus, 3 units of food is the opportunity cost of producing the first nine films.

Note that the curve becomes steeper as we move from point *A* to point *E*.

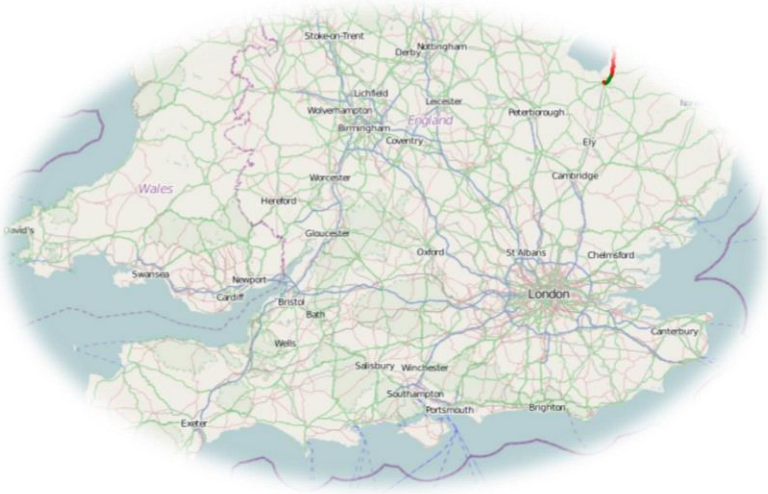
Opportunity cost (example)

- In a broader sense, opportunity cost refers to the value of the next-best alternative that must be forgone to undertake an activity.
- Joe Jamail, a highly successful divorce lawyer, employs another attorney to write his will. Why?
  - Writing his own will: ***2 hours***
  - Opportunity cost of 2 hours of Joe's time: ***$10,000+***
  - Hiring a junior lawyer to spend 4 hours on his will: ***$3,200***
  - Making the right economic choice: ***priceless***
- He should have done it himself only when:

Opportunity cost < hired cost

The role of economic models

- Economic models are abstract constructs (simplified descriptions) that allow us to analyze situations in a logical way
- Other examples of abstract models
  - A computer model of climate change
  - A road map



The role of markets (in a free market economy)

- Modern economies rely heavily on markets and prices to allocate resources between competing uses.
- The interplay of demand (the behaviour of buyers) and supply (the behaviour of sellers) determines the quantity of the good produced and the price at which it is bought and sold.

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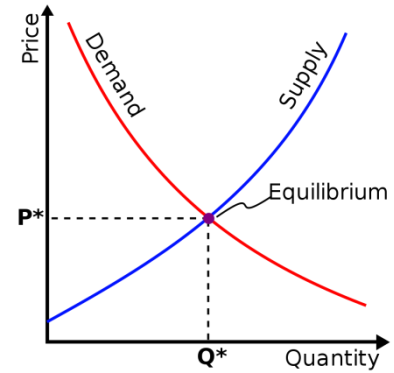

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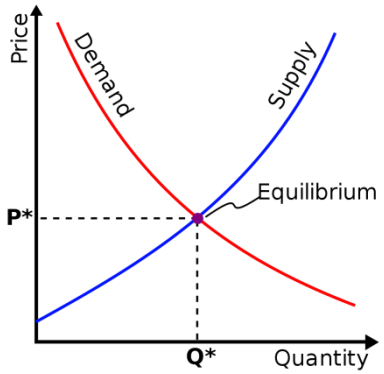


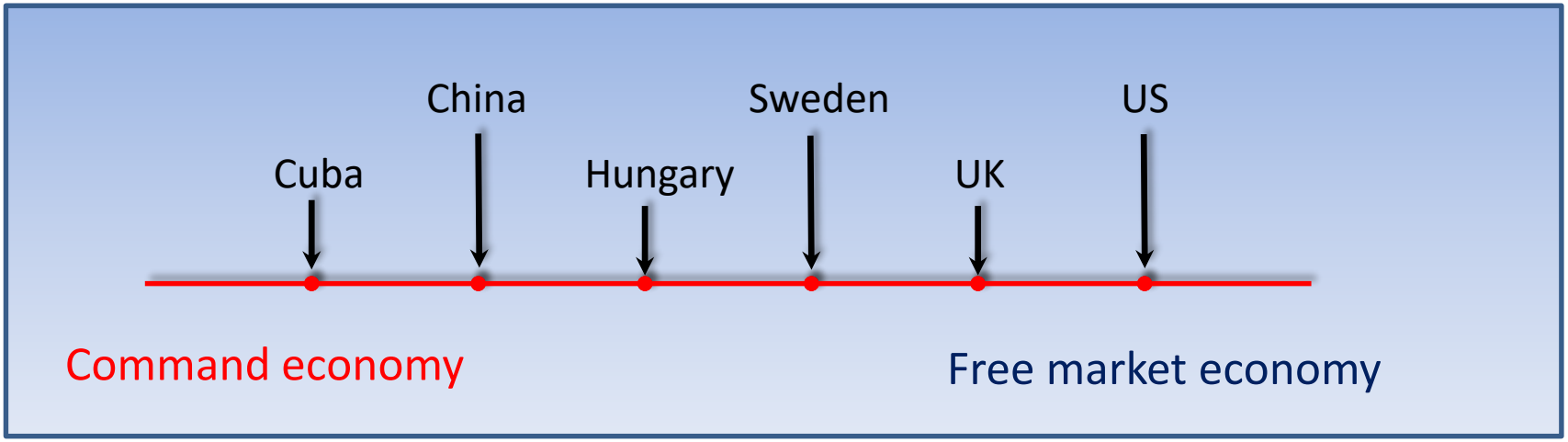
Markets

- A **market** is a set of arrangements by which buyers and sellers exchange goods and services.
- Markets determine prices that ensure that the quantity people wish to buy equals the quantity people wish to sell.
- Examples of markets:
  - Market for used cars
  - Market for gasoline
  - Stock market
  - Goods market
  - Labour market
  - Financial market

Microeconomics

Macroeconomics

Market orientation



In the **command economy** resources are allocated by central government planning. In the **free market economy** there is virtually no government regulation of the consumption, production, and exchange of goods. In between lies the **mixed economy**, where market forces play a large role but the government intervenes extensively.

Normative and Positive Economics

- **Normative economic principle** says how people *should* behave

Examples: opinion pieces in newspapers (even those written by economists).

Gas prices are too high

Building a space base on the moon will cost too much

- **Positive economic principle** explains causal relationships between economic variables and predicts how people *will* behave

The average price of gasoline in May 2010 was higher than in May 2009

Building a space base on the moon will cost more than the shuttle program

Increasing the duty on alcoholic beverages decreases their consumption

Normative and Positive Economics

- **Positive economics** studies how the economy actually behaves. **Normative economics** recommends what should be done.
- The two should be kept separate. Given sufficient research, economists could agree on issues in positive economics. Normative economics involves subjective value judgements. There is no reason why people should agree on normative statements!

Microeconomics and Macroeconomics

Microeconomics studies choice and its implications for price and quantity in individual markets

- Sugar
- Carpets
- House cleaning services

Microeconomics considers topics such as

- Costs of production
- Demand for a product
- Competition between firms

Macroeconomics studies the performance of national economies and the policies that governments use to try to improve that performance

- Inflation
- Unemployment
- Economic growth

Macroeconomics considers

- Monetary policy
- Deficits
- Tax policy