

# Notes — Week 1

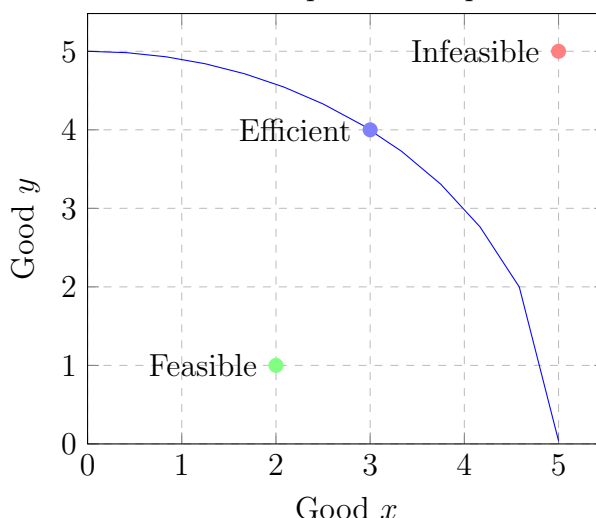
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## Period 3

1. There is no such thing as a f\*\*\* lunch
  - Everything has a cost (*i.e. opportunity cost*)
2. People respond to incentives
  - Incentives motivate people to do things (can be negative or positive)
3. The fundamental problem facing all societies is scarcity
4. Given the problem of scarcity, all societies must answer the three basic questions:
  - What to produce
  - How to produce
  - For whom to produce
5. Command economies have the government decide what, how, and for whom to produce goods
6. Factors of Production (Necessary for production to take place):
  - Land (gifts of nature — *i.e. navigable rivers, ocean access, etc.*)
  - Labor (*i.e. human capital*)
  - Capital (tools — *i.e. computers, bulldozers, etc.*)
  - *Optional: Entrepreneurship*
7. Guide to Economic Reasoning
  - People Choose — People choose the alternative that seems best to them because it involves the least cost and the greatest benefit (people economize)

- People's Choices Involve Costs — Opportunity cost is the second best alternative people give up in making a choice
  - One way to view these costs is with a production possibilities curve



- People respond to incentives in predictable ways — Incentives are benefits or rewards that encourage people to act. When incentives change, people's choices change
- People create economic systems, and these systems influence incentives and people's choices — How people cooperate is governed by written and unwritten rules. As rules change, incentives change and choices change
- People gain when they trade voluntarily — People can produce more in less time by concentrating on what they do best. The surplus goods or services they produce can be traded for other valuable goods or services

## 8. Terminology

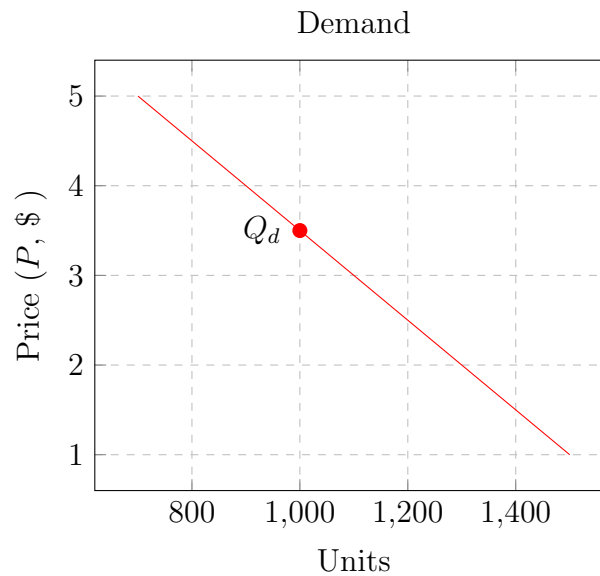
- When someone is better at something than someone else, they have an absolute advantage (*i.e. a plumber has an absolute advantage in plumbing*)
- Comparative advantage is used to compare which choice is better through comparison of opportunity costs. Essentially, the best choice is wherever the opportunity cost is the lowest
- Advantage problems:
  - Output or input
  - Who has absolute advantage
  - Calculate opportunity costs
  - Who has comparative advantage
  - Determine terms of trade

## 9. Demand — Desire plus the ability and willingness to pay

10. Demand Schedule — A table that shows the quantity demanded for a particular item at various prices

| Price ( $P$ ) | Quantity ( $Q$ ) |
|---------------|------------------|
| \$1.00        | 1,500            |
| \$3.50        | 1,000            |
| \$5.00        | 700              |

11. Demand Curve — A plotted demand schedule:



12. Income effect — Change in quantity demanded because of change in consumer purchasing power when the price of a commodity changes. This has the effect of raising/lowering their relative income
13. Substitution effect — Change in quantity demanded because of a change in the relative price of a product
14. Movement along a demand curve is known as change in quantity demanded
15. Rightward movement of a line is an increase in demand (and vice versa)
16. A point shows quantity demanded, a curve shows demand
- If only price changes, you will have a change in quantity demanded
  - If market conditions change (necessitating a new demand schedule and a new curve), you will have a change in demand

17. Demand changes are based on several determinants of demand:

- (a) Change in consumer income
- (b) Change in consumer tastes
- (c) Change in the price of a substitute good
- (d) Change in the price of a complementary good
- (e) Change in consumers' price expectations
- (f) Change in the number of consumers in the market