Economics: The distribution and use of limited resources with unlimited wants

The 10 Principles of Economics

* People face tradeoffs
  + Efficiency vs equity
    - Efficiency: an outcome is described as efficient if it is impossible to make someone better off without making someone else worse off
  + Safety vs cost
  + Key to successful decision making is knowing the real tradeoffs you face
* Cost of something is what you give up to get it
  + Main cost is time
* Think at the margin
  + Sweaters for $25, 2 for $45, 3 for $60, first cost $25, second cost $20, and the last cost $15
  + Marginal benefit
  + Marginal cost
  + Golden Rule of Optimization: Continue an action until Marginal Benefit = Marginal Cost.
  + Suppose
    - Spent $5000 restoring an old car, get an offer of $7000 for the car, but it needs $5000 more worth of work
  + Models & decision making
    - For a good model, suppose A,B,C are supplied and try to find the steps to F as accurately as possible.
    - Cheese Pizza: $2.99 or 2 slices for $5, 3 slices for $6
    - Competition Exam
      * Bad Bob’s: All You Can Eat $20
      * Applebee’s = $15/plate
* People respond to incentives
* Voluntary trade makes both parties better off
  + Production possibilities frontier
    - A relatively simplified view of the world
    - Based off
      * two goods
      * Production technology
      * Resources
    - Example
      * Frank the Farmer and Rosie the Rancher produce meat and potatoes. Frank can produce one unit of meat in 60 minutes and 1 unit of potatoes in 15 minutes. For eight hours available Rosie can produce 1 unit of meat in 20 minutes and 1 unit of potatoes in 10 minutes.
      * Frank
        + 1 unit of meat cost 4 units of potatoes
        + Inversely 1 unit of potatoes cost ¼ units of meat.
      * Rossie
        + 1 unit of meat cost 2 units of potatoes
        + Inversely 1 unit of potatoes would cost ½ units of meat.
      * Trade between the two (Autarky: a world without trade)
        + Why

The ability to consume more than we would otherwise

Wider variety

Advance economy

* + - * + How

Trade based on comparative advantage

Rossie specializes in meat, Frank in potatoes

Trade is 1 meat for 3 potatoes

With Frank not having to trade 4 potatoes and Rossie gaining more than 2 potatoes makes both parties happy

* Institutions Matter: How systems are set up matters