introduction to microeconomics

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microeconomics

1. foundations of economics
2. demand, supply and market equilibrium
3. elasticities
4. government intervention
5. market failure

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foundations of economics

- things are scarce
- people have a choice
- everything has an opportunity cost
- utility is a measure of usefulness and pleasure
- <u>basic economic problem: for producers</u>
  - *what* should be produce
  - *how* to produce
  - *for whom* to produce
- <u>factors of production</u>
  - land
  - labor
  - capital
  - management (entrepreneurship)

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demand, supply, and market equilibrium

- *demand* is what consumers are willing and able to buy at every price point
- *supply* is what producers are willing and able to produce at every price point
- *market equilibrium* is the point where demand and supply meet—where consumers’ and producers’ willingness and ability meet.

elasticities

- *elastic* means something responds to a *force* put on it. Example: a rubber band: the force = the pull
- *price* is a force that effects people's decision to buy.
- *income* is a force that effects people's decision to buy.
- the *price of a similar product* is a force that effects people's decision to buy.
- *price* is a also a force that effects the producer's decision as to what to *supply*.

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government intervention

- *governments are the parents of an economy.*
- *think of this as parental involvement in your life—for better or worse.*
- government gets involved in the market, thus the market is not allowed to function freely.
- they can *tax* goods, *subsidize* industries, and/or *control prices* for goods.

market failure

- when the free *market fails* to produce the best possible outcome for society.
- so think about a situation where the consequence of an economic decision impacts people who are not involved in the purchase decision.
  - can be positive or negative
- examples of *negative*: smoking or air pollution
- examples of *positive*: heath care or education