

New Semester!

A wide, straight asphalt road stretches from the foreground towards a bright sunrise on the horizon. The sky is filled with colorful clouds in shades of orange, red, and purple. The word "START" is painted in large, white, bold letters on the road surface. A white arrow is painted on the road, pointing directly towards the sun.

START

Plan for this semester



- **Microeconomics:**
 - The Foundations of Economics
 - Competitive market: Demand and supply
 - Elasticities
 - Government intervention

Grading

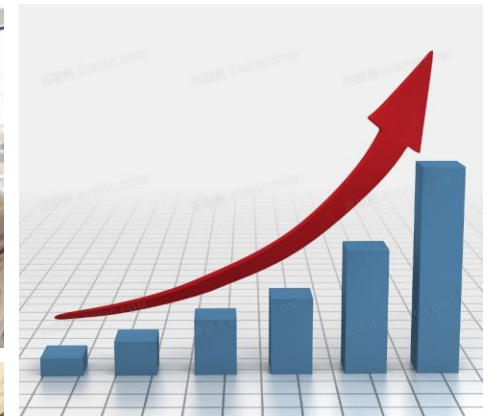


Grades for this semester will be calculated based on:

- The First Monthly Test (10%)
- Mid-term Exam (20%)
- The Third Monthly Test (10%)
- Final Exam (30%)
- Coursework (30%)

Tests will always be announced well ahead of time, but quizzes may be given with warning or as a surprise. Any missed assignments (homework, tests, quizzes, and report) are to be made up as quickly as possible upon your return to class.

What do you think the Economics is about?



Resources

Definition: the inputs used to produce goods and services wanted by people, it is also known as **factors of production**.

Land

All nature resources:
agricultural/
non-agricultural land

Everything
under/above the land:
minerals, oil reserves,
underground water,
forests, rivers and
lakes.

Gift of nature

Labour

The physical and
mental effort that
people contribute to
the production of
goods and services.

E.g., The effort of a
teacher, businessman,
doctor, taxi driver,
worker, etc.

People

Capital

Man-made factor of
production, it is itself
produced.

E.g., Machinery, tools,
factories, buildings,
road systems, airports,
harbours, electricity
generators, etc.

Physical capital

Entrepreneurship

The ability to innovate
by developing new
ways of doing things,
to take business risks
and to seek new
opportunities for
opening and running a
business.

Management

Start with some key definitions and concepts:

Goods and Services



← **Goods:** All the physical objects people need and want. E.g., food, clothing, house, phones, cars, etc.

Services: All the non-physical activities people need and want. E.g., education, banking, travel, health care, etc. →



The heart of Economics theory: **Scarcity**

- Scarcity: the condition in which available resources, or factors of production, are finite, whereas wants are infinite.

➡ There are not enough resources to produce everything that human beings need and want.

It is said that if there were no scarcity, there would be no social science of Economics.



Unlimited needs and wants

We always want more/better computers, cell phones, cars, clothes, transport services, travel and so on.

The list is endless...



Unlimited
needs and wants

Limited Resources





Some key words:
Choices

The conflict between
unlimited wants and
scarce resources



People must make
choices!

The fundamental problem of economics: Scarcity and choice

Economics is...



- **Economics** is the study of choices leading to the best possible use of scarce resources in order to best satisfy unlimited human needs and wants.
- The **choices** made by **economic agents (consumers, producers and governments)** generate **positive and negative outcomes** and these outcomes affect the relative well-being of individuals and societies. As a social science, economics **examines these choices through the use of models and theories.**

Two levels to look at the economic world



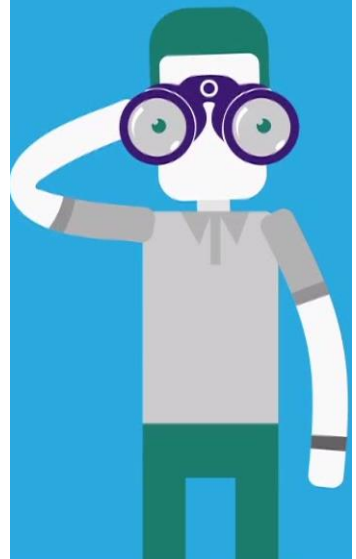
Microeconomics

- Examines the Behaviour of individual decision-making units in the economy.
- Choices made at the level of producers and consumers in individual markets
- “Microscope” point of view

Economics

Macroeconomics

- Examines the economy as a whole to obtain a broad picture of the economy.
- Choices made at the level of the government and the national economy
- “Telescope” point of view





Three interrelated economic questions:

1. What to produce?

All economics must choose what particular goods and services and what quantities of these they wish to produce.



Three interrelated economic questions:

2. How to produce?

• All economics must make choices on how to use resources in order to produce goods and services.



Three interrelated economic questions:

3. For whom to produce?

All economics must make choices about how the goods and services produced are to be distributed among the population.

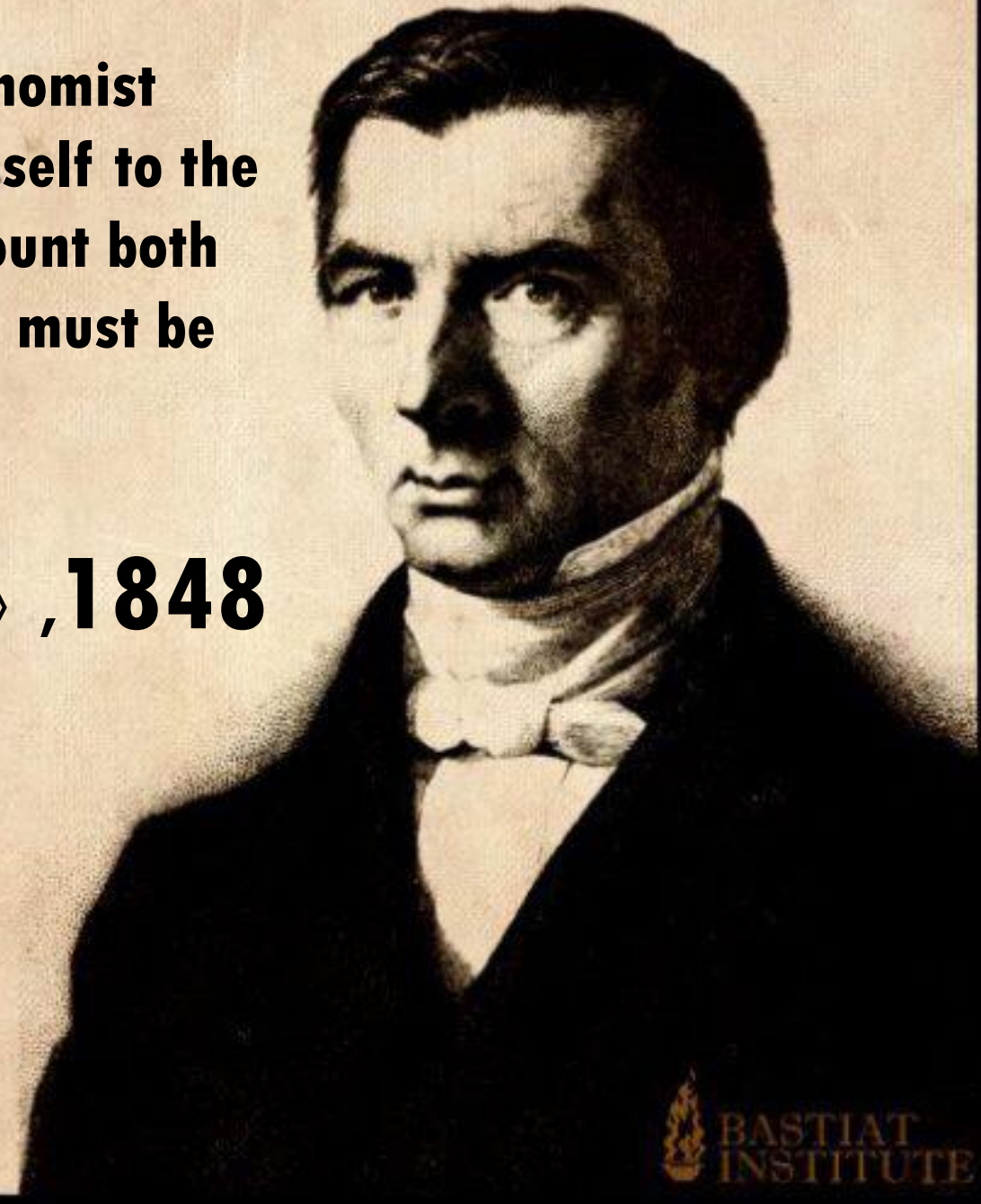


opportunity
cost!

“There is only one difference between a bad economist and a good one: The bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen.”

-- 《What Is Seen and What Is Not Seen》 ,1848

Frederic Bastiat



Sunk cost: the cost that has already been incurred in the past and that cannot be recovered.



Opportunity cost: The value of the next best alternative that must be given up or sacrifices in order to obtain something else.



“There is no such thing as a free lunch.”

- What is the sunk cost of a free lunch?
- What is the opportunity cost of a free lunch?

opportunity cost is the real cost.



Everyone face trade-offs

- We have limited money, time, etc., we cannot get everything we want.
- To get one thing that we like, we usually have to give up another thing that we like.
- Making decisions requires **trading off one goal against another**.



Opportunity cost cont.

What is the opportunity cost of Yao Ming to go to university while he was playing basketball in NBA?



我一直想上大学，
可是上大学，对我
而言，机会成本是
多少呢？

Society/Economy face trade-offs

When people are grouped into societies, they face different kinds of trade-offs.

Governments also face trade-offs.

- trade-off between “guns and butter.”
- trade-off between a clean environment and a high rate of economic growth and high level of income.



Practice



Discuss with your desk mates about the opportunity cost of following decisions:

1. I bought an antique bow with 10 RMB, and I discovered it is worthy 1 million RMB, what is the opportunity cost of using this bow for dinner tonight?
2. I bought an antique bow with 1 million, and I discovered it is worth 10 RMB, what is the opportunity cost of using this bow for dinner tonight?

Free and economic goods

- Free good: any good that is not scarce, and therefore has zero opportunity cost.
 - E.g., Oxygen in the open unpolluted countryside; sand in the Sahara desert
- Economic good: Any good that is scarce, it has a opportunity cost greater than zero.
 - **goods provided by the government**, such as the road system, public parks and playgrounds, free education, free health care services; all these are economic goods produced by scarce resources and are paid for out of tax revenues.
 - certain natural resources, such as forests, rivers, lakes and wildlife, that are not owned by anyone (they are called **common pool resources**; these are also economic goods because they are scarce, and are becoming increasingly scarce due to overuse and depletion

Economic systems:

- Free market economy: based on the market approach
- Planned economy: based on the command approach.

	Free market economy	Planned economy
Resource ownership	Private sector	Public sector
Economic decision-making (Questions of <i>what/how much, how</i> and <i>for whom</i>)	Private sector	Public sector
Rationing systems (method to make resource allocation and output distribution decisions)	Price rationing	Non-price rationing

*Public sector: the parts of the economy that are under the ownership of the government.

*Private sector: the parts of the economy that are under the ownership of private individuals or groups of individuals. (consumers, firms, resource owners, etc.)

- Mixed economy: Most real world economy positioning itself in somewhere between the free market and planned economy. ➡ Mixed economies are increasingly becoming mixed market economies.