Economics

Module 1: Economic Thinking

Microeconomics and Macroeconomics

Micro vs. Macro

- **Macroeconomics**: the branch of economics that focuses on broad issues such as growth, unemployment, inflation, and trade balance.
- **Microeconomics**: the branch of economics that focuses on actions of particular agents within the economy, like households, workers, and businesses. We learn about the theory of consumer behavior and the theory of the firm.

Understanding Microeconomics

Questions to Ask with Microeconomics

- What determines how households and individuals spend their budgets?
- What combination of goods and services will best fit their needs and wants, given the budget they have to spend?
- How do people decide whether to work, and if so, whether to work full time or part time?
- How do people decide how much to save for the future, or whether they should borrow to spend beyond their current means?

Understanding Microeconomics (cont.)

More Microeconomics Questions

- What determines the products, and how many of each, a firm will produce and sell?
- What determines what prices a firm will charge?
- What determines how a firm will produce its products?
- What determines how many workers it will hire?
- How will a firm finance its business?
- When will a firm decide to expand, downsize, or even close?

Understanding Macroeconomics

Macroeconomics: Macroeconomic policy pursues its goals through **monetary policy** and **fiscal policy.**

- **Monetary Policy**: policy that involves altering the level of interest rates, the availability of credit in the economy, and the extent of borrowing

- **Fiscal Policy**: economic policies that involve government spending and

Using Economic Models

Economic Model: a simplified version of reality that allows us to observe, understand, and make predictions about economic behavior.

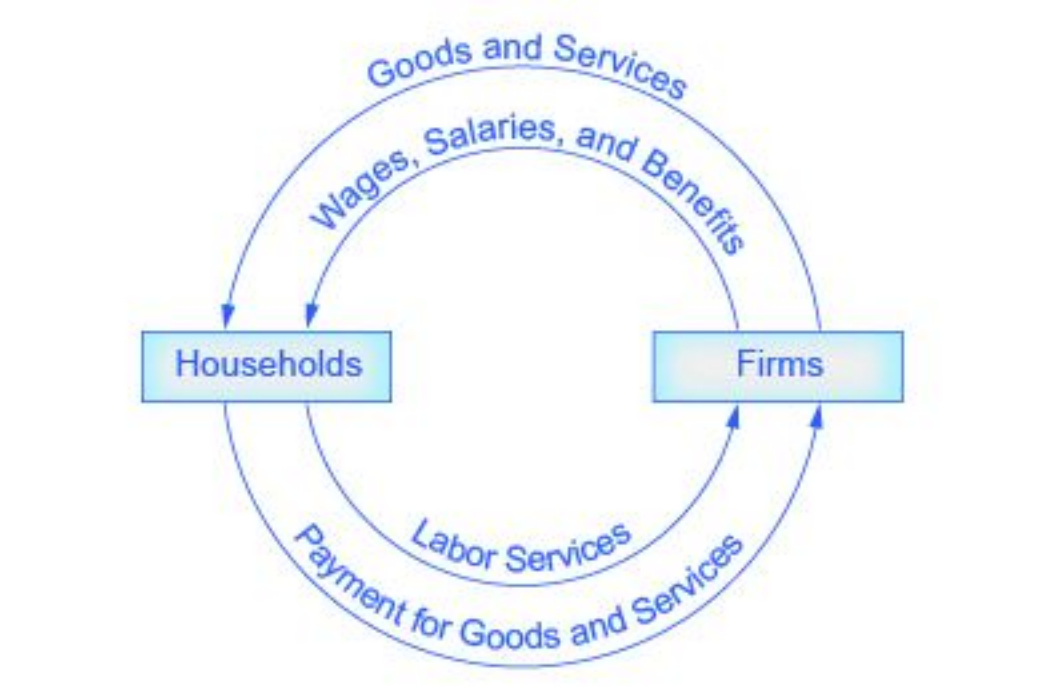
Economic Models and Math

- Economic models can be represented using words or using mathematics.
- Algebra and graphs are utilized to explain economic models.

Using Economic Models: Examples

Circular Flow Diagram: a diagram indicating that the economy consists of households and firms interacting in a goods-and-services market and a labor market.

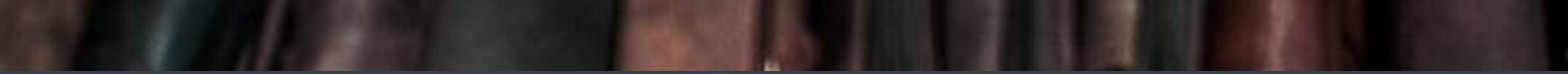
- **goods-and-services market** (also called the *product market)*, in which firms sell and households buy.
- **labor market**, in which households sell labor to business firms or other employees.
- **real world**, there are many different markets for goods and services and markets for many different types of labor. The circular flow diagram simplifies these distinctions in order to make the picture easier to grasp.

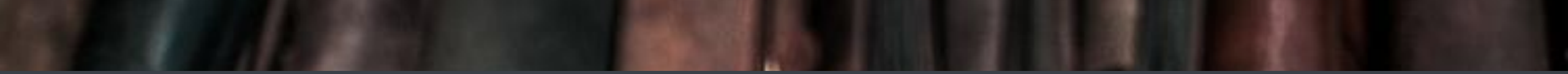


Note: Economists don't figure out the solution to a problem and then draw the graph. Instead, they use the graph to help them discover the answer.

Purpose of Functions

- **Function:** a relationship or expression involving one or more variables.
  - In economics, functions frequently describe cause and effect.
  - The variable on the left-hand side is what is being explained (“the effect”).
  - On the right-hand side is what’s doing the explaining (“the causes”).
- Economic models tend to express relationships using economic variables, such as:
  - Budget = money spent on econ books + money spent on music





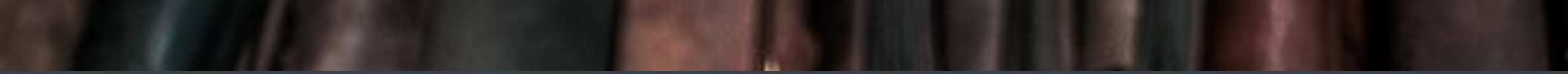
Creating and Interpreting Graphs (cont.)

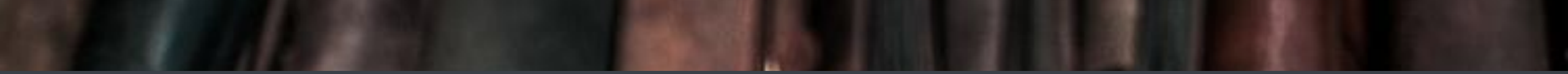
Equation for a Line: $y = mx + b$

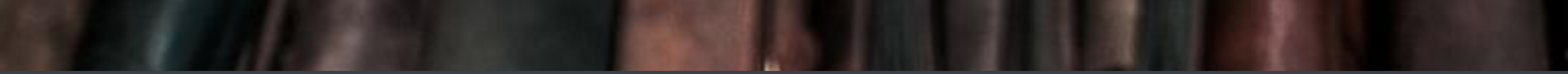
- In any equation for a line, *m* is the slope and *b* is the y-intercept.

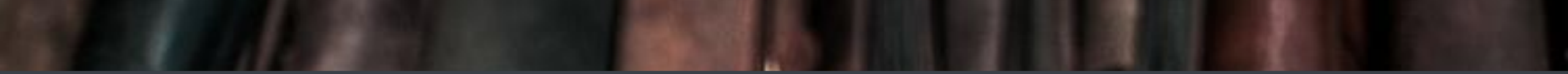
Interpreting Graphs in Economics

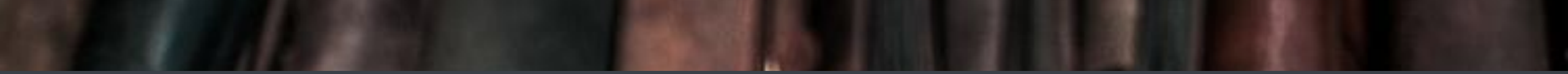
- It is rare for real-world data points to arrange themselves as a perfectly straight line.
- It often turns out that a straight line can offer a reasonable approximation of actual data.

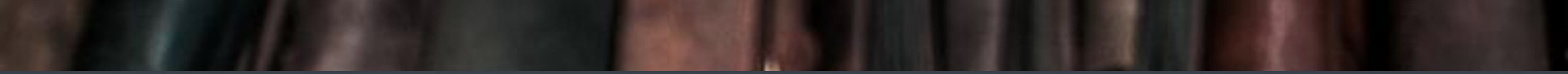


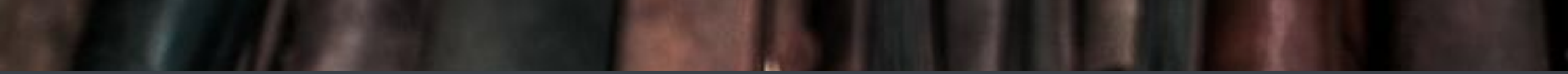


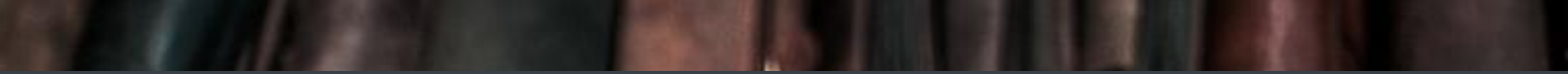


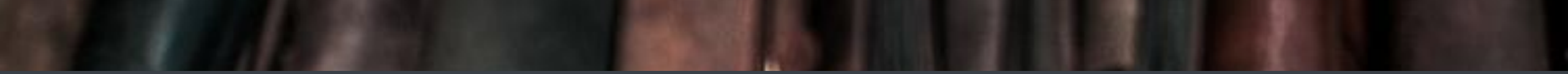


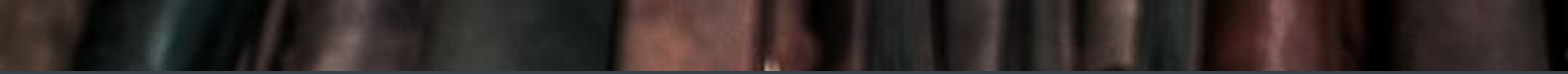


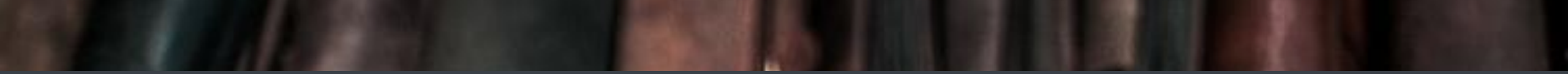


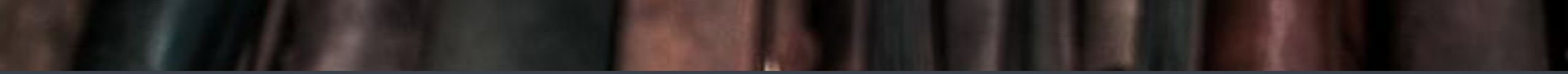


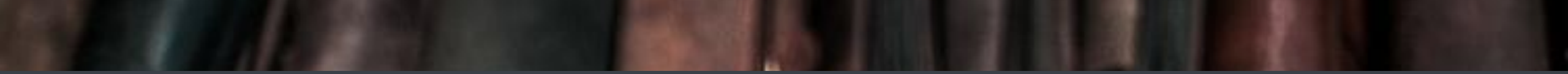








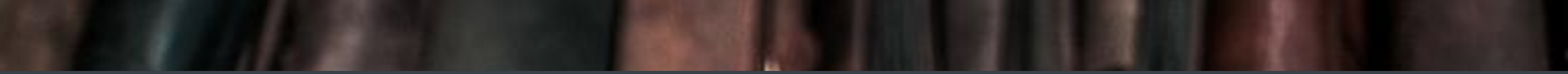




Types of Graphs: Comparison

How do you know which graph to use for your data?

- **Bar graphs** are especially useful when comparing quantities.
  - For example, if you are studying the populations of different countries, bar graphs can show the relationships between the population sizes of multiple countries.
  - Not only can it show these relationships, but it can also show breakdowns of different groups within the population
- **Pie graphs** are often better than line graphs at showing how an overall group is divided.
  - However, if a pie graph has too many slices, it can become difficult to interpret.



Quick Review

- What if scarcity? Explain its economic impact.
- What are productive resources?
- What is opportunity cost and its importance in decision-making?
- Why do trade and markets exist?
- What is the difference between **macroeconomics** and **microeconomics?**
- Why are economic models are useful to economists?
- What are common economic models?
- How are equations and functions used to describe relationships? What are the cause and effects?
- What proper order of operations is used while solving simple equations with variables?
- How does a graph shows the relationship between two variables?
- How do you differentiate between a positive relationship and a negative relationship?
- How do you interpret economic information on a graph?