

What is Economics?

- A Social Science
- Economic Models: Correlation
- Economic Policy Tool:
 - Personal
 - Business
 - Government

Economics

- *Thomas Malthus, 1800*

- Population Growth vs. Food Growth

- Technology, Efficiency, & Productivity

- Pessimistic View v. Optimistic View

- Limited Resources

- Scarcity, Allocation of Resources

- Diamond-Water Paradox

- Microeconomics and Macroeconomics

- Classical: *Adam Smith, 1776:*

- Invisible Hand, Specialization

- Keynesian: *James Maynard Keynes, 1930s:*

- In the long run, everyone's dead

Choice: The Heart of Economics.

Economic Decision.
She must choose.
And her choice affects others.

Wants vs. Needs
What economic decision that you made today?



Economic Issues

- Self-interest v. Social Interest
- Globalization
- Information Age
- Climate Change
- Social Security Time Bomb

The Five Principles

Common Ground – Economic Way of Thinking

1. Incentives
2. Trade-Offs
3. Opportunity Costs
4. Marginal Benefits – Marginal Costs
5. Trade Creates Value

1. Incentives

Choices are necessary
because
resources are scarce.

People responds to Incentives.
Positive and negative.
Direct and indirect.

Incentives and Performance

People usually respond to incentives, exploiting opportunities to make themselves better off.



In the United States, restaurant customers have the option of adding a tip to the restaurant bill. In much of Europe a tip is added automatically.

Where would you expect waiters to be more attentive?

2. Trade-offs

Trade-off: comparison of the costs and the benefits of doing something.

Each bite of the candy bar has costs and benefits.

Beijing 2008 Olympics: Clean Air or Economic Prosperity?

What kind of trade-off that you did lately?



3. Opportunity Cost

Opportunity cost:

what you must give up in order to get something.



Mark Zuckerberg understood the concept of opportunity cost—and dropped out of Harvard.

What is your opportunity cost of attending classes?



Got a Penny?

Sixty years ago, a penny was equivalent to 30 seconds worth of work—it was worth saving a penny if doing so took less than 30 seconds.

Today, wages have risen along with overall prices, a penny is now equivalent to just over 2 seconds of work—and so it's not worth the opportunity cost of the time it takes to worry about a penny more or less.

The rising opportunity cost of time in terms of money has turned a penny from a useful coin into a nuisance.

In April 2012, The Central Bank of Canada stopped printing (not the circulation) new penny coins.



Describe the opportunity costs

- 1. Attend college instead of taking a job**
foregone earning of potential job, valuable job experience;
on the other hand, there are benefit of having a college degree,
with the possibility of higher earning in the future.
- 2. Watch a movie instead of studying for exam**
- 3. Ride the bus instead of driving your car**
- 4. More people choose to get graduate degrees when the job market is poor.**
- 5. There are more parks in suburban than in urban areas.**
- 6. Fewer students enroll in classes that meet before 10:00 am.**

4. Marginal Thinking: Benefits-Costs

“How much” is a decision at the margin.

**Weighing the extra benefits
against the extra costs.**

If I eat one cookie each night before sleeping, how many extra pounds would I gain in a year?

If I study one more hour each night, I would increase 0.5 point in my GPA.

What marginal thinking that you have done lately?

5. Gains from Trade

Trade allows us all to consume more than we otherwise could.
Comparative Advantage, based on Specialization

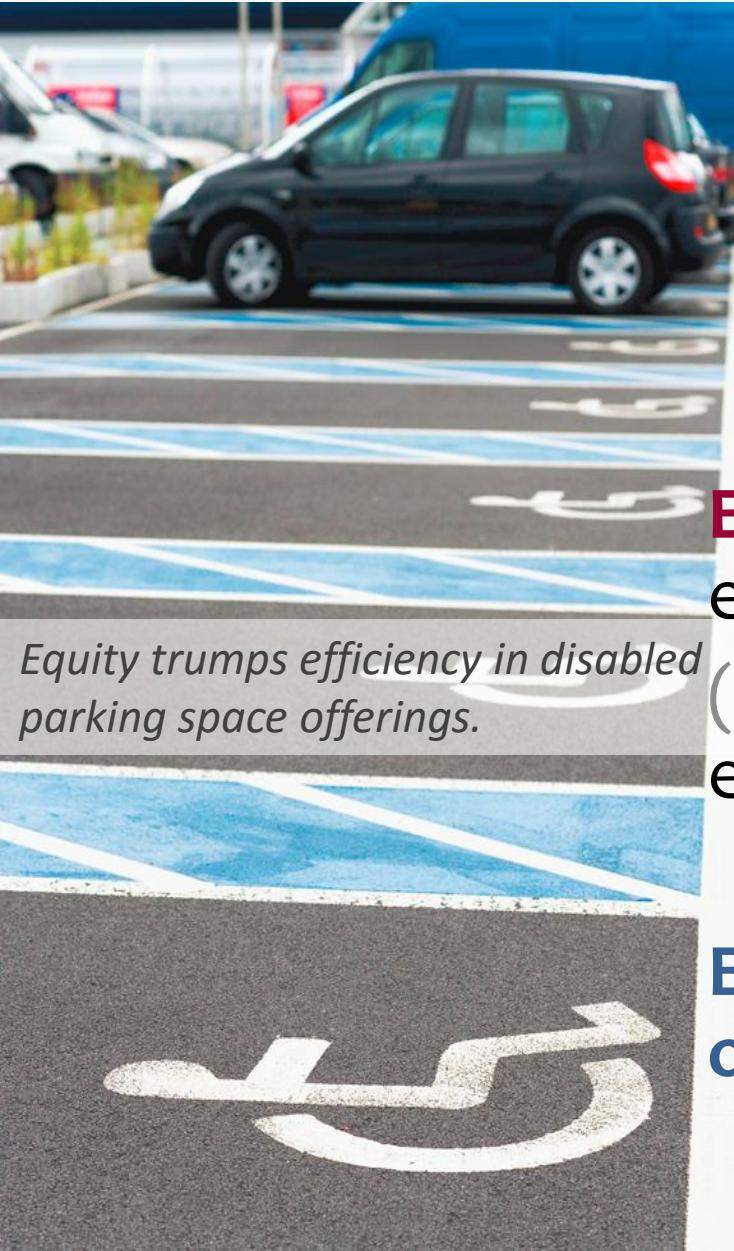


Adam Smith on Specialization



Specialization: the situation in which each person specializes in the task that he or she is good at performing.

Equity vs. Efficiency



Scarcity of Space

Personal needs v. Social needs

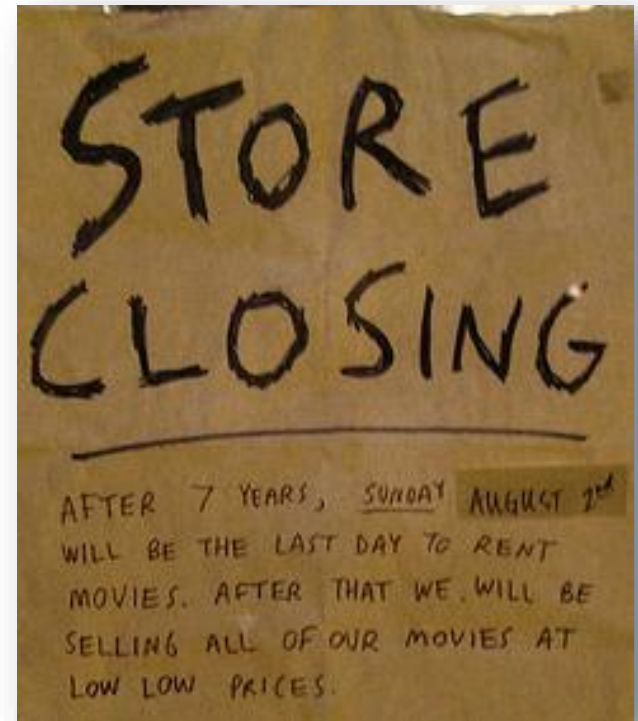
Equity: a condition in which everyone gets his or her “fair share.”
(There are many definitions of equity.)

Equity and efficiency are often at odds.

Economic Recessions: Business Cycle

During recessions, a drop in business spending leads to:

Less income,
less spending...



...and further drops in business spending, layoffs, and rising unemployment.

Government Policy

The U.S. government funded the WPA and provided almost 8 million jobs between 1935 and 1943.

In response to the Housing Crisis, American Recovery Act 2009



Active Learning: Application

BUSINESS CASE

Work in pair. Write down your answer in a piece of paper, put both of your names.

The US Government drives up miles-per-gallon requirements: auto-emission and fuel economy standards will require up to 35.5 mpg by 2016, in order to limit the amount of CO₂ emission. (source USA Today, May 18, 2009).

Discuss the situation in terms of the foundations of Economics: Incentives, Trade-offs, Opportunity Cost, Marginal Thinking, Trade; then answer the following questions:

- 1) What are two benefits of the new mpg requirements? Are these benefits in someone's self-interest or in the social interest?
- 2) What are two costs associated with this new mpg requirements?
- 3) Provide another government policy that influence behavior, then give two benefits and two costs of this policy.

