# **Chapter 1 - What is Economics?**

# **Definition of economics**

All economic questions arise because we want more than we can get.

Our inability to satisfy all our wants is called **scarcity.**

We must make **choices** as we face scarcity.

An **incentive** is a reward that encourages an action or a penalty that discourages an action.

**Economics** is the social science that studies the choices made by the individual, businesses, governments and entire societies as they cope with the scarcity and the incentives that influence and reconcile those choices.

It can be divided in two main parts:

Microeconomics

Macroeconomics

**Microeconomics** is the study of choices that individuals and businesses make, the way those choices interact in markets, and the influence of governments

**Macroeconomics** is the study of the performance of the national and global economics

# **Two Big Economic Questions**

**How do choices end up determining *what, how,* and *for whom* god and services are produces?**

**What?** Goods and services are the objects people value and produce to satisfy human wants

**How? For Whom?** Goods and resources are produced by using productive resources which economists call **factors of production.**

**Factors of production** are four categories:

**Land** that yields to **rents**,

**Labour** that yields to **wages**,

**Capital** that yields to **interest**, and

**Entrepreneurship** that yields to **profit**

## **When do choices made in pursuit of self-interest promote social interest?**

**Self-interest** corresponds to the choices that you think are best for you.

**Social interest** is what is best for the society.

Four topics generate discussion and illustrate tension between self-interest and social interest are:

*Globalization*

*Information-age monopolies*

*Global Warming*

*Economic Instability*

## The Economic Way of Thinking

A choice is a **trade-off**. (Trade-off means to give up one thing to get something else)

People make **rational choices** by comparing the **benefits** and **cost**.

**Benefit** is what you gain from something.

**Cost** is what you must give up getting something.

Most choices are "how-much" choices made at the **margin**.

Choices respond to **incentives**.

## *A choice is a trade-off*

**Trade-off** must be thought of as an exchange to get something and give up one thing

## *Making a rational choice*

A **rational choice** compares the benefits and costs. In end increasing benefits and reducing costs is the goal.

The quantities are build because they are what people want in the community

## *Benefit and Cost*

**Benefit** is what you must gain from something.

**Preferences** are what a person likes and dislikes and the intensity of those feelings

**Opportunity cost** of something is the highest values alternative that must be given up getting it.

## *How much? Choosing at the margin.*

The choices must be made at the margin reaching our goal.

**Marginal Benefit** and **Marginal Cost**

If **marginal benefit > marginal cost**, do more of that activity.