Notes 1 – 8/31/15

Adam Smith – On the Wealth of Nations, in 1776.

He advocated for capitalism; capitalism ended up superseding mercantilism, which was a focus on acquiring gold. Keep wages as low as possible, Iron Law of Wages.

Smith: “Allow individuals to pursue their own self-interests under the limitations of competition and growth.”

Economics: The study of how scarce productive resources are allocated among alternative uses and how the resulting commodities are distributed.

Productive Resources: Land, Labor, Capital.

Land: All natural resources.

Labor: All human activities.

Capital: Tools, Equipment, Technology, etc.

Human Capital: skills of the labor force.

Entrepreneurship: Individuals who invest their capital and start a new business.

Methodology: Because the real world is so complex, it is necessary to abstract from reality.

We accomplish this with *models.*

Models identify the most important variables and show how they are related.

Unnecessary details are left out.

CETERIS PARIBUS – All else held equal.

Correlation != Causation. Just because two things have similar graphs doesn’t make them related.

Reverse Causality; it’s easy to confuse which is dependent vs independent variable.

Interpret Coefficients.

P-value: needs to be lower than .05.

Std. Error: Average of all error.