Economics and Microeconomics

Intro into economics :

* 1. economics as a social science
* different from natural sciences
* the result oft he research might impact the behavior of people

e.g. political sciences : “median voter theorem”

theorem = extremely strong assumption

What do economists study?

* How people make decisions
* How do they interact with one another

Important term: homo economicus

* Human, who makes completely rational decisions
* Other aspects of human life are not taken into account

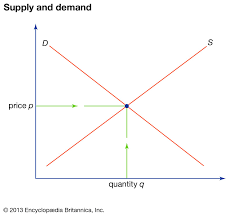
1. The usual scientific methods apply

* Develop a theory
* Collect data
* Analyse the data to
  + Confirm/verify the theory
  + Reject the theory

1. Working tools for economists

Economists generally make use of analytical techniques

* Finding an optimum 🡺 optimization problems
  + Requires Understanding of absolute (Totalwert), average (Durchschnitt) and marginal values (Grenzwert; limes, ableitung)
* Finding an equilibrium (Gleichgewicht) 🡺 equilibrium problems
* The primary technique is a supply/demand analysis



1. What are the tools for solving problems

* Mathematical solutions
* Graphical solutions
* Verbal reasoning
  1. The Role of Assumptions and Experiments

1. Role of Assumptions = Annahme

Make the world easier to understand

Example: International Trade Theory

* Simplify trade with 200 nations into trade with just another nation 🡪 therefore easier to show/understand
* 2 countries; 2 goals; 2x2 model of international trade

1. Experiments

* Not always rational decisions (90-10-Split; 10€ more, still rejected)
* Set up and other factors influence results
  1. Positive and Normative Statements

Positive Statement :

* Descriptive (Beschreibend)
* Make a claim about how the world is

Example: With a constant income people can buy fewer products when the inflation rate is high

🡨 description of a fact

Normative Statement:

* Prescriptive
* Claim about how the world should be/ought to be

Example: The ECB should raise the interest rate to fight inflation

🡨 suggestion

* Implicates that economists have to functions

1. scientists
2. Policy advisors

EXCURSUS:  
5 Wirtschaftsweisen : Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung  
besteht aus 3 Frauen und 2 Männern

EXCURSUS END

* 1. Microeconomics and Macroeconomics

Microeconomics :

* How households and firms make decisions
* How they interact on specific markets (e.g. automotive market in Germany)

Macroeconomics:

* Study of economy-wide phenomena (e.g. Inflation)

1. two simple models
   1. circular flow model

* wants to show interdependencies
* two sectors/players interact on two markets

1. goods and services
   * Companies provide and Households buy
2. Factors for production (e.g. labour, land, etc)
   * Households provide and companies “buy”

* Macroeconomic model 🡺 simulates/looks at the economy as a whole
* Often no true answer, because both sides can be right (e.g. argument about higher wages (households need it to have purchasing power; but companies would have to raise prices, because of higher production costs)