Lecture 0   What is Economics

Fei Tan

 @econdojo   @BusinessSchool101   Saint Louis University

Macroeconomics 201

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The Road Ahead...

What Is Economics About?

- A subject about how people make choices to attain their goals, given scarce resources

  - e.g. study economics midterm or go to party tonight?

- Why an important subject

  - basic fact of life: we face trade-offs because we live in a world of scarcity

- Main references

  - HO: Hubbard & O'Brien, "*Macroeconomics*", 8th Edition (required)

  - BJ: Blanchard & Johnson, "*Macroeconomics*", 6th Edition (optional), see my lecture notes

Three Key Ideas

- ▶ People are rational
  - ▶ use all available information to make best decision possible

- ▶ People respond to economic incentives
  - ▶ e.g. few banks take costly security measures against not so costly robberies

- ▶ Optimal decisions are made at margin
  - ▶ optimality occurs when marginal cost (MC) equals marginal benefit (MB)

Three Fundamental Questions

- **What** goods and services to produce
  - opportunity cost: highest-valued alternative given up
  - e.g. funding for space exploration or cancer research

- **How** to produce goods and services
  - e.g. use more workers or more machines

- **Who** receive goods and services produced
  - e.g. people with higher incomes obtain more
 - changes in tax/welfare policy redistribute income

Economic Models

- ▶ What is a model
  - ▶ *probabilistic* characterization for what we observe
  - ▶ help guide our decision-making

- ▶ Steps to build economic models/theories
  - ▶ decide on assumptions/simplications
  - ▶ formulate testable hypothesis
  - ▶ use data to test hypothesis
  - ▶ revise or retain model

- ▶ Micro models study individual choices; macro models study economy as a whole
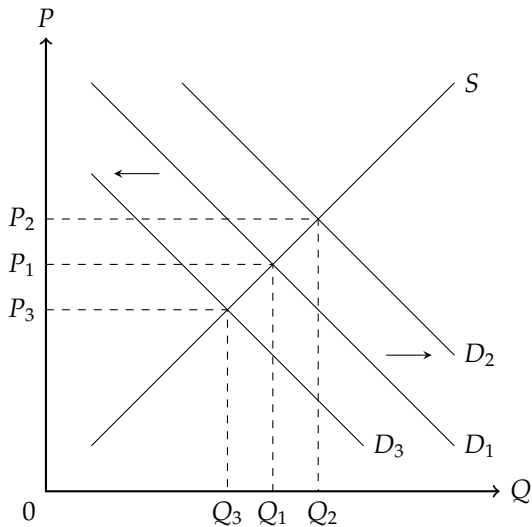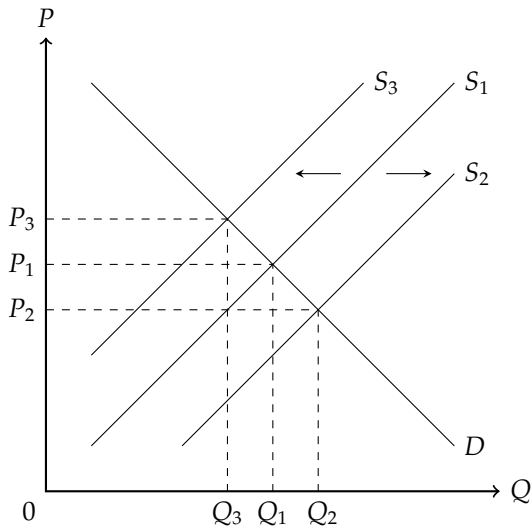
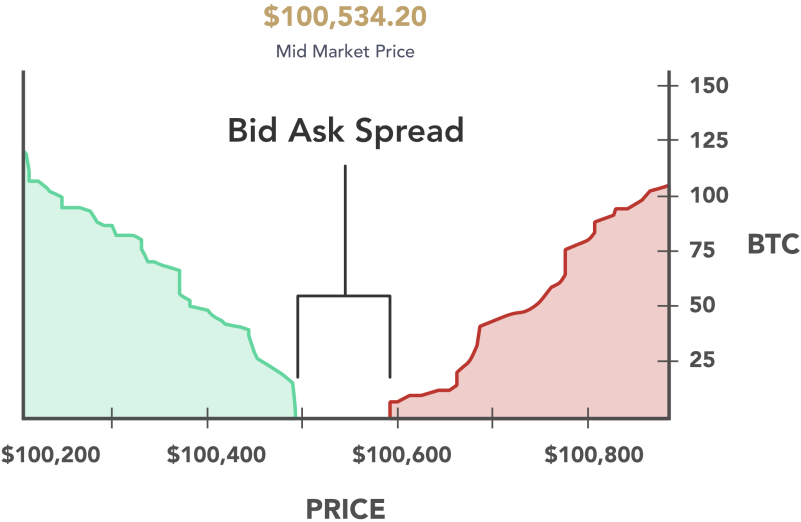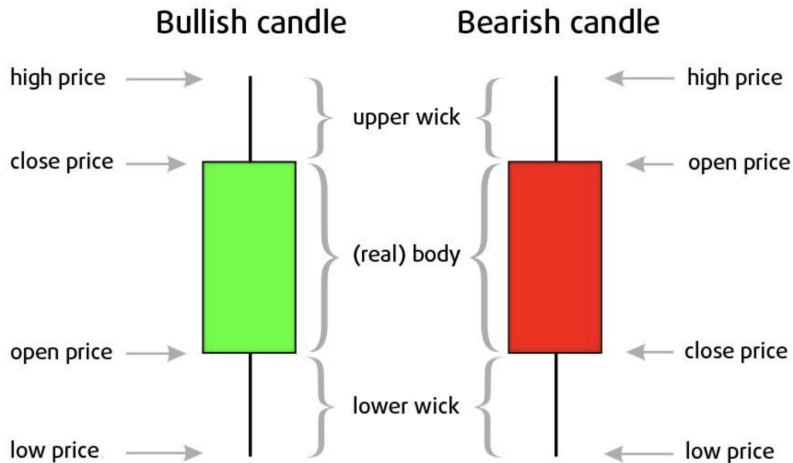# The Road Ahead...

What Is Market?
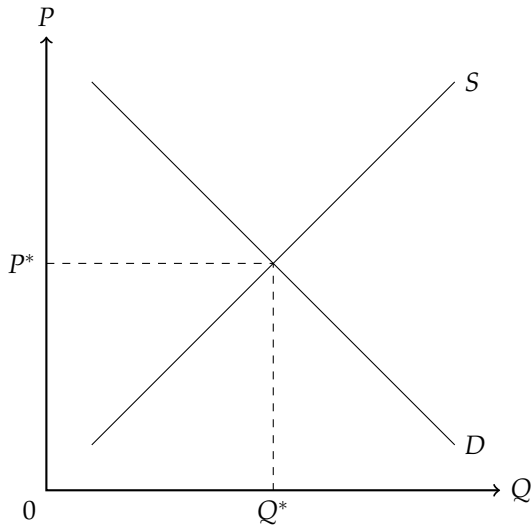
Shifts in Demand

Shifts in Supply

Bid-Ask Spread

Options
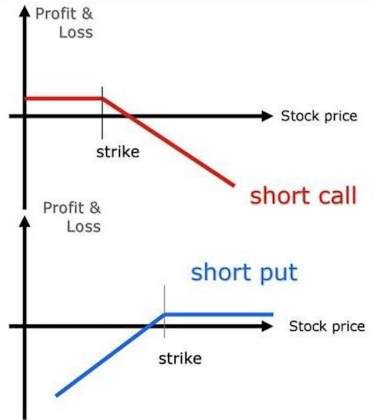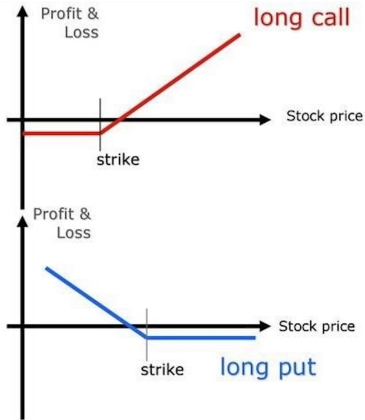
Japanese Candlestick

Candlestick Patterns
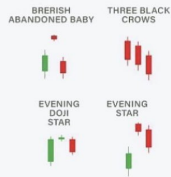
Supply & Demand Zones

Drop - Base - Drop

Drop

Supply Zone

Base

Entry

Drop

Rally - Base - Rally

Rally

Base

Entry

Demand zone

Rally

Volume Breakout

Low Volume Base

Low Volume Test

Volume Breakout

Low Volume Base

Low Volume Test
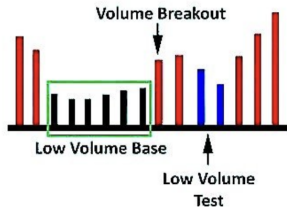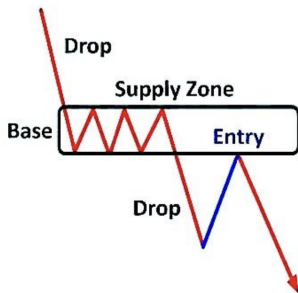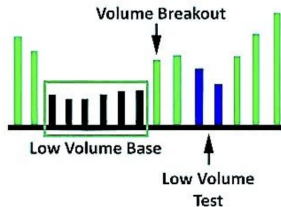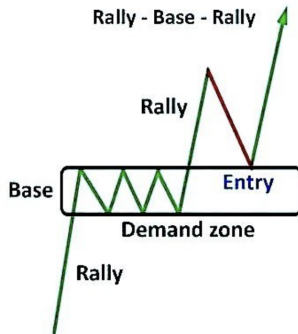
/ES Weekly Chart

UNG Daily Chart

UNG Hourly Chart

Useful Tickers

- ▶ Stocks
  - ▶ S&P 500: SPX, /ES, /MES, SPY, UPRO
  - ▶ Nasdaq: NDX, /NQ, /MNQ, QQQ, TQQQ
  - ▶ Dow Jones: DJI, /YM, /MYM, DIA, UDOW
  - ▶ Russell: RUT, /RTY, /M2K, IWM, URTY
- ▶ Bonds: TNX, /TN, /10Y, TLT
- ▶ Commodities: gold (/GC, /MGC, GLD), crude oil (/CL, /MCL, USO)
- ▶ Currencies: forex (/6E, /M6E, /6J, /M6J, /6B, /M6B), crypto (/BTC, /MBT, GBTC)

Readings & Exercises

- ▶ Readings
    - ▶ HO: chapter 1
    - ▶ *Japanese Candlestick Charting Techniques*, by Steve Nison
    - ▶ *Reminiscences of a Stock Operator*, by Edwin Lefèvre & Roger Lowenstein
    - ▶ *Principles for Dealing with the Changing World Order: Why Nations Succeed or Fail*, by Ray Dalio
- ▶ Exercises
    - ▶ HO: problem 1.3, 1.4, 3.3