

“Practice” Attendance

- ▶ Uses Secure attendance
- ▶ If you can successfully enter code, tophat correctly set up
- ▶ If not, look at links in Canvas, reach out to tophat support as needed

- TH Module 2
Graphical Q 1
- TH open ended
questions

What is Economics?

A question with many answers and no “answer”

Economics is not just math

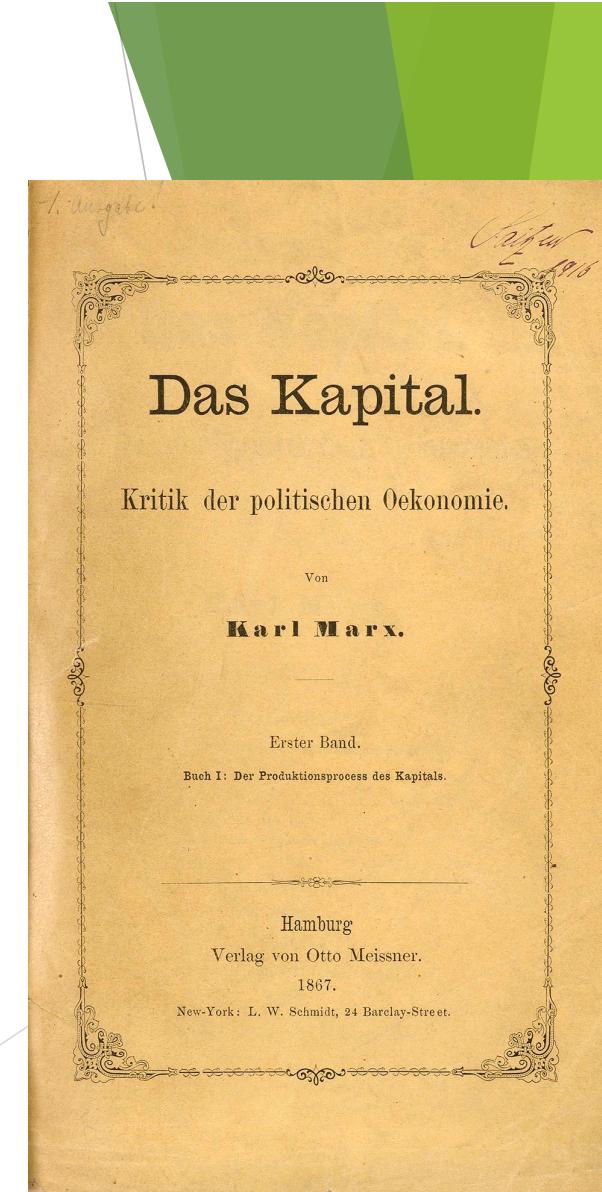
- ▶ We will use a few math skills
 - ▶ Percentage change
 - ▶ Equation of a line
 - ▶ Solving systems of equations
- ▶ Cannot just learn steps for every type of problem
 - ▶ Need intuitions/explanation

Economics is not just philosophy

- ▶ Many concepts can be reasoned out
 - ▶ Need math to calculate actual values
 - ▶ Can help with missed intuitions
- ▶ Most economic ideas can be:
 - ▶ Explained in words
 - ▶ Explained in equations
 - ▶ Explained on graphs

Economics is not an endorsement/condemnation

- ▶ Does not prove/disprove any economic system as “best”
- ▶ Does not support/argue against any political party/philosophy
- ▶ Does give us tools to analyze actions





Study of Scarcity

- ▶ Motivates the need for an “Economy” : System to allocate Scarcity
- ▶ Ever present
 - ▶ What goods/services will always be scarce?

Natural resources

Healthcare

- Oil
- Water
- Land

Labour

Study of Scarcity

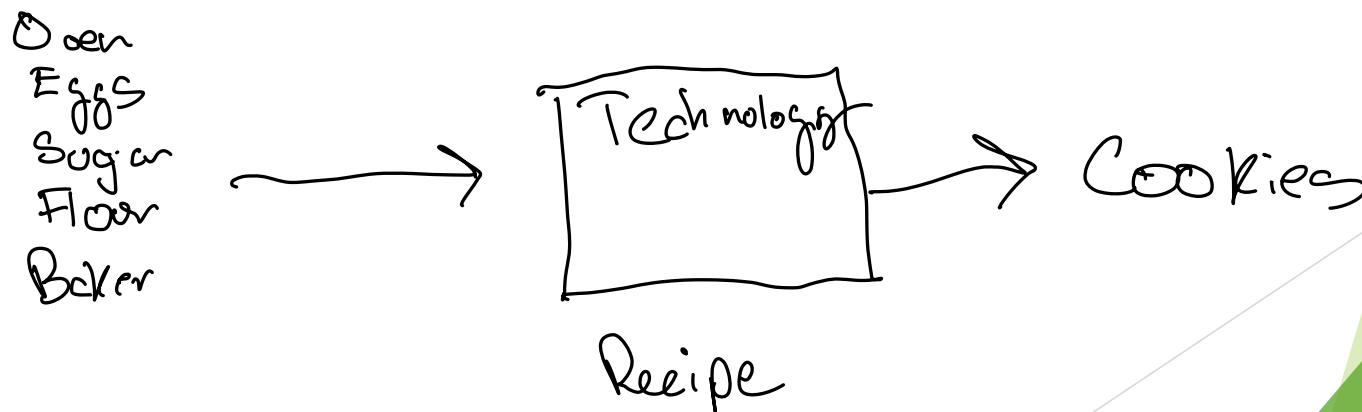
- ▶ Motivates the need for an “Economy”
- ▶ Ever present
 - ▶ What goods/services will always be scarce?
 - ▶ Van-Gogh paintings
 - ▶ Beach-Front Property
 - ▶ Donor Kidneys
 - ▶ The world’s “Best surgeon”
 - ▶ Time



Study of Scarcity

- ▶ Inputs turned into outputs using “technology”

- ▶ Technology: Ability to turn inputs into outputs
 - ▶ Scarce inputs → Scarce outputs
 - ▶ Land (T) : Natural resources (Endowed / Not Created by humans)
 - ▶ Labor (L) : Human element (quantity [# workers/hours])
 - ▶ Capital (K) : Anything physical used in production (Not T or L)



Study of Scarcity

- ▶ Motivates the need for an “Economy”
- ▶ Ever present
 - ▶ Scarce inputs → Scarce outputs
 - ▶ Land (T)
 - ▶ Labor (L)
 - ▶ Capital (K)

Study of Scarcity

- ▶ Opportunity cost: what I give up to take an action
Value of your next best option
 - ▶ Does not go on a ledger
 - ▶ Does influence behavior
- ▶ "There is no such thing as a free lunch"

Study of Scarcity

- ▶ "There is no such thing as a free lunch"

- ▶ What people think it means:

Salespeople trying to
sell you something

- ▶ What economists “mean”:

O. C. matter

Economics is not purely monetary

- ▶ Barter systems ; Economics w/o currency
- ▶ Kidney Market [Alvin Roth](#)
- ▶ Behavioral economics
 - ▶ [Freakonomics](#)
 - ▶ [Minimum wage and drunk driving](#)
- ▶ “Psychic benefits”
 - ▶ Altruism
 - ▶ Bequests

Study of “Unintended Consequences”

- ▶ People respond to incentives

- ▶ Self-interest: Doing what is preferable for the individual

- ▶ Societal Interest: Doing what is preferable for the group

Study of “Unintended Consequences”

Lost “Practice”

Attendance

- ▶ People respond to incentives
 - ▶ Cobra effect
 - ▶ Boars
 - ▶ Driving limitations
 - ▶ Cheese



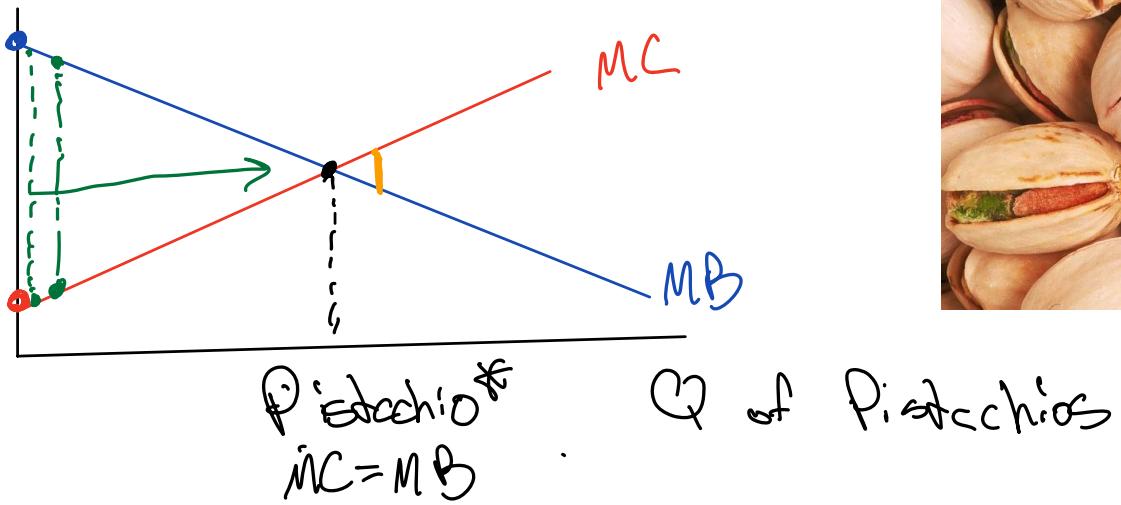
Study of “Marginality”

- ▶ Marginal: Additional (to the smallest possible degree)
- ▶ Marginal Cost:
The cost of an additional action
- ▶ Marginal Benefit: The benefit of an additional action



Study of “Marginality”

- ▶ Economic thinking -> People act “on the margin”
 - ▶ Pistachio Room



Study of “Marginality”

- ▶ Economic thinking -> People act “on the margin”
 - ▶ Who here decided to go to college for four years?

What economists do

- ▶ Model Building
 - ▶ Model qualities
 - ▶ Tractable
 - ▶ Simple enough to use/understand
 - ▶ “Perfect model”
 - ▶ Predictive
 - ▶ Tells something non-trivial
 - ▶ Forecasting the next recession



What economists do

- ▶ Model Building
 - ▶ Model qualities
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 - ▶ Predictive
 - ▶ Tells something non-trivial
 - ▶ Forecasting the next recession
 - ▶ "Kit Bashing"



Notes about Economics

- ▶ Assumptions for the sake of tractability
 - ▶ Start with the simplest model
 - ▶ -Ceteris Paribus
 - ▶ “all other things equal”
 - ▶ Pretend we had experiments
 - ▶ Theory Gas Price↑ will cause Amount of gas bought↓
 - ▶ Datapoint: Memorial day weekend
 - ▶ Observed Price↑ will cause Amount of gas bought ↑
 - ▶ Theory wrong?

Notes about Economics

- ▶ Assumptions for the sake of tractability
 - ▶ Start with the simplest model
 - ▶ People act “rationally”

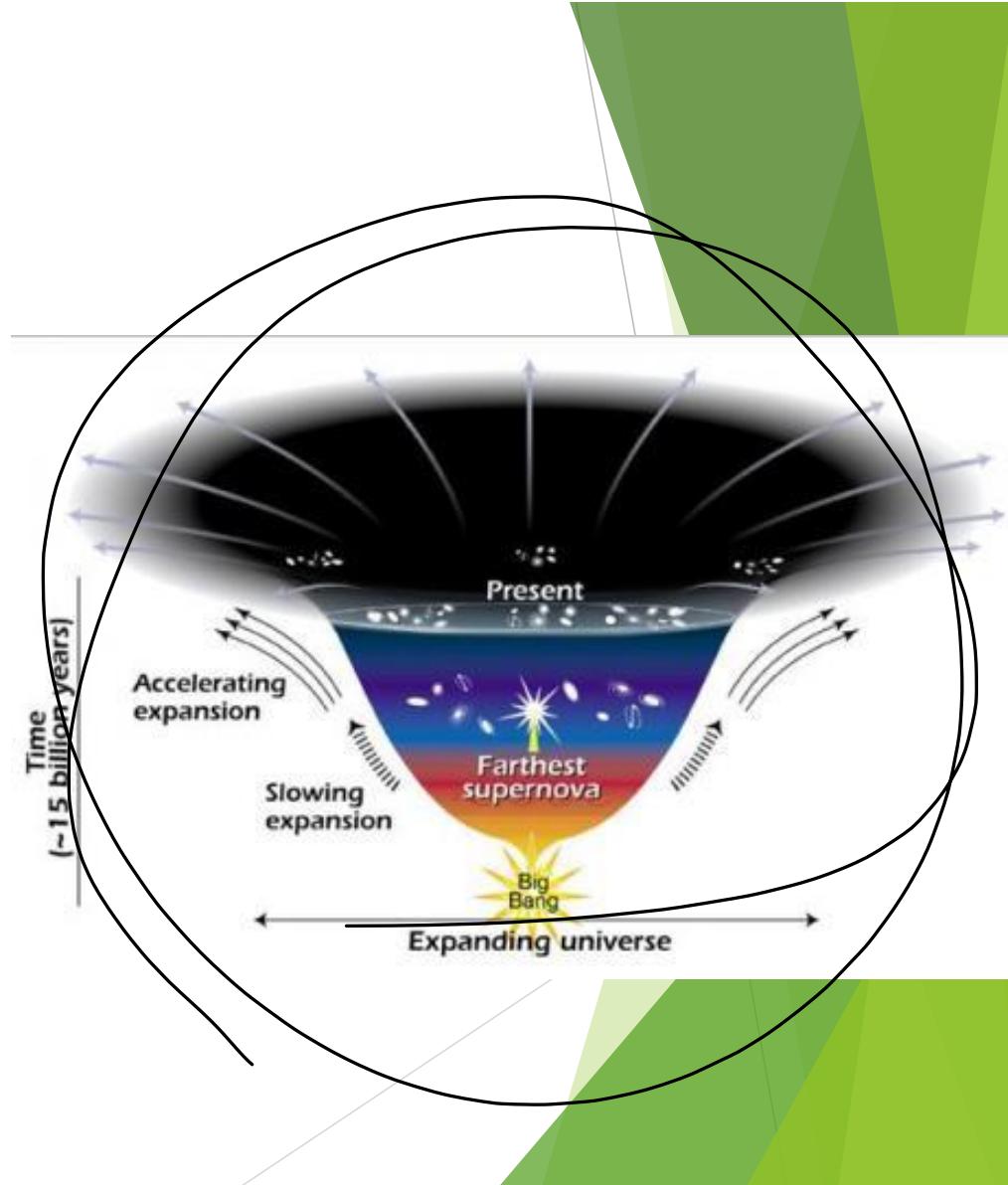
People do what they “know” is
“best” for themselves

- ▶ People act “purposefully”

People do what they guess
will satisfy them

What economists do

- ▶ Empirical analysis
 - ▶ Story Telling
 - ▶ Correlation vs causation
 - ▶ Spurious correlation



What economists do

- ▶ 2 general “fields”
 - ▶ Microeconomics
 - ▶ Interactions between “individuals”
 - ▶ Markets
 - ▶ Sectors
 - ▶ Industries
 - ▶ Labor
 - ▶ Health
 - ▶ Industrial Organization

What economists do

- ▶ 2 general “fields”
 - ▶ Macroeconomics
 - ▶ Study Whole economies or systems
 - ▶ Dynamic Effects of many “individuals”
 - ▶ Monetary
 - ▶ Financial
 - ▶ Growth and Development