# 2017-01-10

# Basic Economic Concepts

## What is Economics?

- **Economics** = the "science" of **scarcity**
  - **Scarcity** = the premise that resource availability is finite
  - Economic "actors" make decisions on how to allocate resources
    * Economics is also called the science of **choices**

### A Note About This Class

- This class is about **Macroeconomics**
  - **Macroeconomics** = an aspect of economics concerned with the higher-level details of how markets operate
    * Especially how governments can affect market trends
- **Economics(textbook definition)** = a social science that deals with how to efficiently allocate scarce resources such that the "actor" in question attains maximum satisfaction
  - *Flawed premise?*

### Micro vs Macro

- **Microeconomics** = an aspect of economics concerned with lower-level details of smaller economic units
  - Examples
    * *How do specific markets operate?*
    * *How do monopolies affect profit?*
- **Macroeconomics** = an aspect of economics concerned with higher-level details of the entire economy
  - Examples
    * *How do we best model economic growth?*
    * *How can international trade affect domestic industries?*
    * *How can government spending influence the market?*

### How is Economics Used?

- In economics, the chasm between practical affect and theoretical affect is relatively large
  - Sometimes, economic theories do not have the intended consequences
  - **Theoretical Economics** = the use of economic methods of analysis to develop a coherent model of an aspect of the economy
  - **Policy economics** = an economic model in which theories are applied and modified to best seek certain economic outcomes
- **Positive Statement** = a matter-of-fact statement of what reality consists of
  - Ignores morality and ethics and expectation
- **Normative Statements** = an assessment of perceived societal ills and how to best address them
  - Less based in practicality–more theoretical

### Five Economic Assumptions

1. People's desires are unlimited, and commodities are *scarce*
2. Because of scarcity, choices must be made
   - In addition, each choice had trade-offs due to **opportunity cost**
3. Actors make decisions to maximize their satisfaction
   - Everyone is fundamentally self-interested
4. Decisions are made by comparing **marginal costs** and **marginal benefits** of each prospective option
5. Economic situations can be illuminated via simiplified models and graphs

### What are "Marginal" costs and benefits

- **Marginal** = a term that describes "additional"
  - *Think "margin"*
- **Marginal Analysis** = a methodology that relies on comparing value that stands to be created or destroyed as a result of certain actions
  - Think of *cost-benefit analysis*
- Premise: *people will continue to do something until the marginal costs are greater than the marginal benefits*

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# 2017-01-11

### Practice Choice

> You want to visit your friend for a week. You will return Sunday night.
>
> You work every weekday earning $100 per day
>
> There are three flights available - Thursday night flight($275) - Friday Early Morning flight($300) - Friday night flight($325)

### Trade-offs vs Opportunity Cost

- **Trade-offs** = all the choices that we *don't* make
  - All choices have trade-offs, by definition
  - We no longer stand to accrue the value of any of the choices we do not make
- **Opportunity cost** = the most valuable of all potential trade-offs
  - Kind of a placeholder for the largest sum of value you lose out on by going with the best choice
  - Possible to be used in the plural: opportunity cost**s**
    - The most valuable subset of size $n$ of the set of tradeoffs

### Some Economic Terminology

- **Utility** = satisfaction
  - Very hedonist definition of utility
  - Philosophers might disagree with that
- **Marginal** = additional
  - A term that describes values or costs that accrue as a result of making a choice
- **Allocate** = distribute
  - What marxist nonsense

### Price vs Cost

- **Price** = the value that **consumers** dispense of to obtain a product
  - Price is set by the **producer**
- **Cost** = the value that **producers** dispense of to create or refine a product

    - Cost is set by the market

- **Investment** = the process by which producers dispense of value to increase production or efficiency
    - **Consumer Goods** = a product created for providing utility to the consumer
    - **Capital Goods** = the factors of production
        * The utility that **capital goods** provide is used to produce a **consumer good** that is of utility to the **consumer**

### Four Factors of Production

1. **Land** = a catchall term for **capital goods** that do not originate from labor
    - Examples
        - Physical land
        - Drinkable water
        - Coal
        - Oil
2. **Labor** = the effort exerted to transform existing **consumer goods** into **capital goods**
    - Examples
        - Slave labor
        - Wage workers
3. **Capital**
    - **Physical Capital** = **capital goods** that are used to generate **consumer goods**
    - **Human Capital** = skills gained through practice
4. **Entrepeneurship** = individuals with the ideas and skill to create goods and services that are of value to the consumer
    - Role of Entrepeneurship
        - Takes initiative
        - Innovation
        - Assumes the risk of business ventures
    - Incentive is sweet, sweet **profit**
        - **Profit = Revenue - Costs**
            * **Revenue** = the sum of value obtained by selling the goods produced

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# 2017-01-12

### Scarcity

- In order to manage resources requires **government**
  - *Gasp... IT'S SOCIALISM*
    - Nah more like social democracy
- How are resources allocated differently under **capitalism** and **communism**?

## The Three Economic Questions

1. What goods and services should we produce?
2. How should these goods and services be produced?
3. Who consumes the goods and services produced?

### Political Ideology and the Three Questions

- The answers to *these* questions determines what **economic system** the society operates by
  - **Economic System** = the methods involved in how production and consumption take place
- Three **economic systems**
  1. Centrally-planned economy
     - Also called a "Command" economy
  2. Free market economy
  3. Mixed economy
     - What the US and most liberal democracies are

### Centrally Planned Economies

- Characteristics
  - A government entity owns all the resources
  - A government entity answers the three questions
- *Why do centrally planned economies face problems of poor-quality goods, shortages, and unhappy citizens?*
  - Imperialism
  - Government bureaucracy
  - Apparently no incentive to work hard
    - Classic.. Just *classic*.

**Free Market Economies**

- **Laissez Faire** = "let it be"
  - Economic principle that the market is self-regulating and government regulation is just inefficient
- **Private property rights** = the legal and moral right to dictate how certain resources that are "owned" can be used and distributed
  - Private property is *key*
- **Profit-motive** = ~~people~~ entrepreneurs are motivated to create quality products because of **profit**
- **Invisible Hand of the Market** = pressures exerted on producers because of competition and self-interest
  - Free-market enthusiasts believe those pressures make the market efficient and *moral*

**Mixed Economies**

- *somewhat* of a mix between centrally planned economies and free-market economies
- The system that most modern liberal democracies are
  - Examples
    * United States
    * United Kingdom
    * Canada
    * France
    * *etc*