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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*