Summary of Lecture 1

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Definition

1. **Scarce:**
   - Deficient in quantity compared with the demand.
   - Insufficient to satisfy needs or wants.
2. **Economics:** the study of choice under scarcity.
3. **Explicit cost:** monetary sacrifice.
4. **Implicit cost:** non-monetary sacrifice
5. **Microeconomics:** The study of how households and firms make decisions and how they interact in markets
6. **Macroeconomics:** The study of economy-wide phenomena, e.g., inflation, unemployment, and economic growth

Five Core Principles

1. Scarcity Implies Trade-Off
   - unlimited wants
   - limited resources
   - more of one good thing $\equiv$ less of another
2. Bargaining Strength Comes Through Scarcity
3. Compare Costs and Benefits: An action should be taken if, and only if, the benefit is at least as great as the cost.
4. People Respond to Changes in Costs and Benefit
   - benefit $\uparrow$ likehood $\uparrow$
   - cost $\uparrow$ likehood $\downarrow$
5. Focus on Your Comparative Advantage

Economics

1. Positive Economics
   - speaking like a scientist
   - attempt to describe the world as it is
   - addresses the relatively narrow "What is?" question
   - can be answered with the tools of economics
   - NO interjecting any value judgment (whether the particular outcome is desirable or harmful)
2. Normative Economics
   - speaking like a policy advisor
   - attempt to prescribe how the world should be
   - addresses the much broader "What should be?" question
   - answers require value judgements
   - based on an underlying positive analysis
   - involves our view on ethics, religion, and political philosophy
3. Economists Disagree

- Positive disagreements: differences in scientific judgments
- Normative disagreements: differences in values

Production Possibilities Frontier

1. **Definition:** a graph that shows all combinations of two goods that can be produced given the available resources and technology
2. **Character:**
   - Moving along a PPF involves shifting resources from the production of one good to the production of the other good.
   - The slope of the PPF indicates the opportunity cost of good x in terms of good y
   - Economic growth shifts the PPF outward
   - If the opportunity cost of a good is constant, the PPF is a straight line.
   - PPF is concave
     - the opportunity cost of a good rises as the economy produces more of the good
     - different resources are suited for different uses, i.e., different resources have different opportunity costs of producing one good in terms of the other good.

Gains from Trade

1. Interdependence
2. Specialization and Exchange
3. Production Possibilities in Vietnam
4. Consumption With and Without Trade: Compare consumption without trade to consumption with trade.
   - see how much of each good is produced and traded by each country
   - use the table to calculate consumption with trade
     - produced
     - imported
     - exported
   - compare consumption without trade to consumption with trade
5. Absolute advantage: the ability to produce a good using fewer inputs than another producer.
   - If each country has an absolute advantage in one good and specializes in that good, then both countries can gain from trade.
   - measures the cost of a good in terms of the inputs required to produce it
6. Comparative advantage: the ability to produce a good at a lower opportunity cost than another producer.
   - Absolute advantage is NOT necessary for comparative advantage!
   - Gains from trade arise from comparative advantage
   - When each country specializes in the good in which it has a comparative advantage → total production in all countries ↑ → world's economic pie ↑ → all countries can gain from trade.
   - individuals specializing in different goods or services and trading with one another