CH 1 - Introduction to Microeconomics

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Definition

Econimics: the study of Behaviour & Incentives

Mircroecomomics: the study of individual Markets, Consumers, and Firms

Textbook definitions:

Economics: the study of what, how, and for whom

At the core of microeconomics is the idea that people act in their own self-interest, and that these individual choices—through markets—often lead to efficient outcomes.

However, markets are not always perfect. Government intervention is justified when it can improve overall efficiency or correct market failures, but it should be designed carefully so that it does not unnecessarily distort individual incentives or self-interest.

Finally, an outcome is said to be in the social interest when it maximizes the well-being of society as a whole, not just individual gains.

Economic ways of thinking

🐳 **Info — Definitions of Important Terms**

1. Every choice is a trade-off
2. Opportunity Cosst
   - The highest value forgone alternative
3. Rational choice, assuming everyone is perfectly rational
4. **Marginal**
   - Change (gain/loss) due to the change (more/less) of input
5. Marginal Benefit (MB)
   - Benefit associated with one more of on action
6. Marignal cost (MC)
   - Cost associated with one more of an action

Bascially: Whenever answer to: Do I …?

- Yes $\rightarrow$ MB $\geq$ MC
- No $\rightarrow$ MC $<$ MC

7. Incentives
8. Economic Models
   - Simplify the economic world around
     - Mathematical
       - Gtaphs
       - Equations

Example: Model of Pizza Consumption

MB: Red line

MC: Blue line MB = MC at the green line