

# **Basic Concepts in Economics**

**EC 103–003**

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Motivation

# Housekeeping

## Required reading:

- [OpenStax, ch.1](#)
  - Introduction, and Sections 1.1—1.2.

# Motivation

Before we dive deep into Macroeconomics, we first need to define some basic Economics **vocabulary**.

First and foremost:

| The answer is always "**it depends**."

- Why so?
  - As in any **Social Science**, the issues studied in Economics hold strong ties to **different individuals**, *different locations*, *different social classes*, and *different historical periods*.
  - As an example, the *working class* in the US was one in the 1960s, and it is very different in 2023.

# The definition of Economics

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"Economics is the study of how goods and services are distributed."

"Economics is the study of individuals' unlimited wants in a world of limited resources."

"Economics is the study of how individuals behave and spend their income."

"Economics analyzes the choices made by society, and how present and past choices are reflected in future outcomes"

- Which one is correct?

# The definition of Economics

Regardless of the definition you pick, the **most important factor** is that studying Economics provides a **set of tools** to *critically* analyze social problems in its quantitative and qualitative economic aspects.

Just as a first exercise, consider the following:

- 50 years ago, a basket of groceries (some eggs, milk, chicken, and butter) used to cost about \$2.
- Today, this same basket may cost about \$20.

Have things become **more expensive** over this time period?

Economic reasoning



# Economic reasoning

Economic reasoning involves comparing **costs and benefits**.

And, many times, costs and benefits go beyond *money* or other *quantitative measures*.

- Examples?

Also, economic reasoning requires knowledge of **institutions**.

- **Institutions** are entities that affect economic decisions and outcomes.
  - Families (households), social networks, markets, governments,...

Economic policy

# Economic policy

**Economic policies** are measures taken by the government (and its agencies) in order to *influence economic outcomes*.

- For instance, a government may intervene if the *price* of a good or service is too abusive.
- Furthermore, if the economy looks overstimulated, the government may choose to *increase interest rates* to contain demand.
- Also, the government may adopt a *higher income tax* on wealthy individuals, to provide a more egalitarian distribution of income.

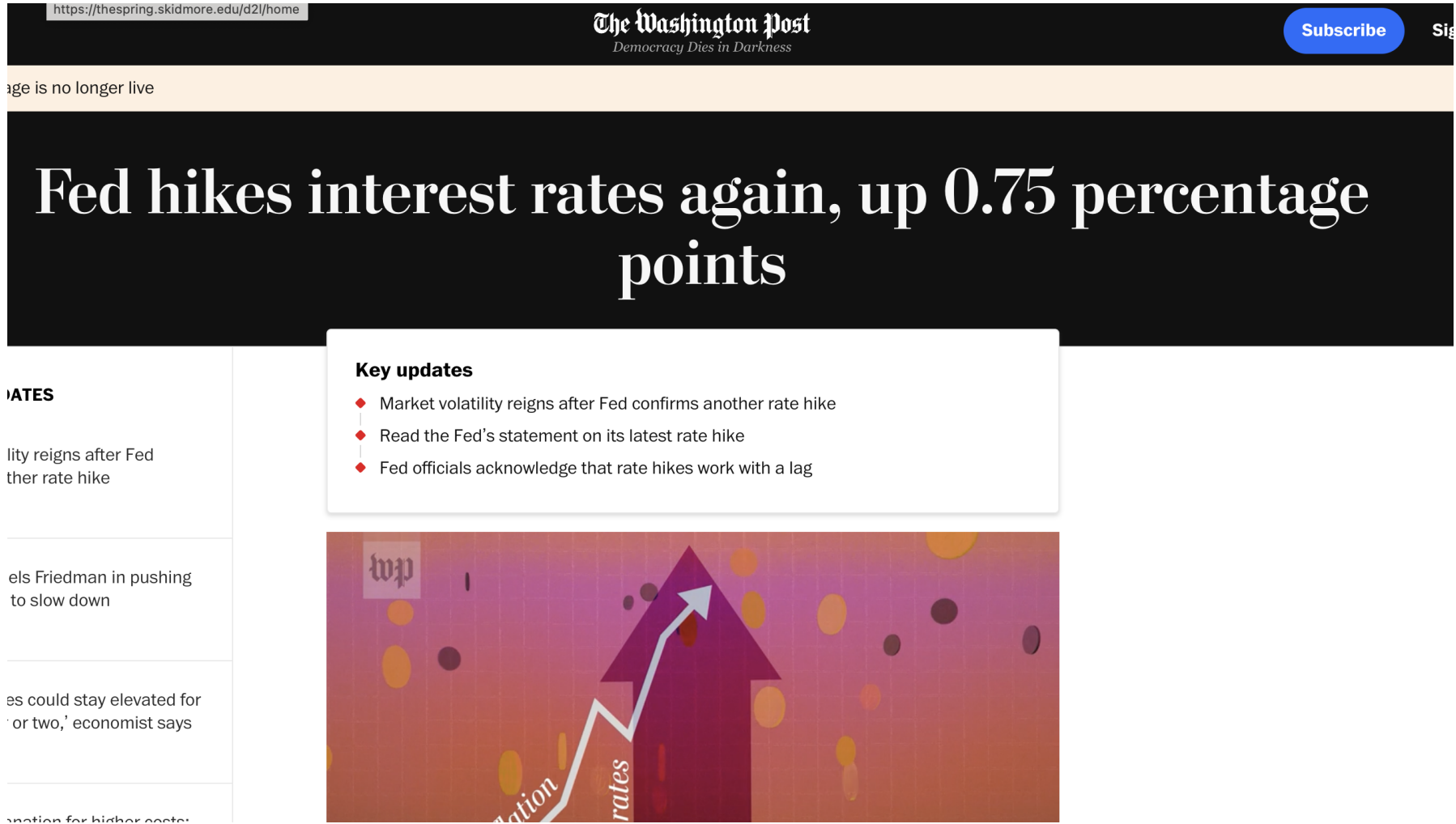
United States | Winter of discontent

## Joe Manchin kills the Build Back Better Act, Joe Biden's ambitious legislative package

Bits of it may live on, but Mr Biden ends the year with coal in his stocking



# Economic policy



JUNE 22, 2022

## FACT SHEET: President Biden Calls for a Three-Month Federal Gas Tax Holiday



[BRIEFING ROOM](#)



[STATEMENTS AND RELEASES](#)

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Micro vs. Macro

# Micro vs. Macro

Economic reasoning and knowledge can be applied in several **different** areas.

In Economics, the basic **scope** distinction lies on **Micro** and **Macro**economics.

While **Micro**economics applies economic reasoning by studying **individual** choices and behavior, **Macro**economics considers the economy **as a whole**, breaking it down into its main *aggregate components*.

**Micro**economics concentrate on topics like

- Individuals'/families' decisions on *what to buy*;
- How one uses their time between *labor and leisure*;
- How businesses *price* their goods and services, etc.



# Micro vs. Macro

On the other hand, **Macro**economics studies aggregate problems such as

- *Inflation*;
- *Unemployment*;
- *Economic growth*;
- How government *policies* affect all of the above and other areas, such as the environment;
- ... and many more.

Thus, although very different in **scope**, Micro and Macroeconomics are closely related.

- Several microeconomic facts/actions may lead to important macroeconomic changes.
- Also, macroeconomic conditions affect individual-level decisions every day.

# Mini Project 1

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This discussion leads us to **Mini Project 1**:

- where you will explore the **relationship** between *macro* and *microeconomic* events.

Next time: The macroeconomic perspective