

Basic Concepts in Economics

EC 103–004

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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 2024.

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.

Economic policy

Fed Minutes Showed Officials Feeling Better About Inflation

Central bankers wanted to signal that interest rates were likely at or near their peak while keeping their options open, December minutes showed.

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Jerome H. Powell, the Federal Reserve chair, has sounded increasingly optimistic about the central bank's chances of taming inflation without causing a recession. Pete

Democrats Blast Corporate Profits as Inflation Surges

Politicians are placing more blame on greedy companies as prices stay high. But booming consumer demand is enabling firms to charge more.

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Senator Elizabeth Warren has blamed inflation in part on corporate greed, pointing to soaring company profits as people pay more for everyday goods. Stefani Reynolds for The New York Times

Economic policy

ECONOMY | JOBS | HEARD ON THE STREET

The Job Market Can Stay Strong Without Rekindling Inflation

A growing supply of workers is helping balance out the labor market

By [Justin Lahart](#) [Follow](#)

Jan. 5, 2024 at 9:00 pm ET

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The Labor Department on Friday reported the December unemployment rate at 3.7%, unchanged from November. PHOTO: JEFF KOWALSKY/AGENCE FRANCE-PRESSE/GETTY IMAGES

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

Microeconomics 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

Mini Project 1

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

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

Next time: The macroeconomic perspective