- The economy will allocate its people and other resources needed to produce *goods and services*.
- Goods = tangible, e.g. pens, mobile phones, pizza.
- Services = intangible, e.g. haircut, legal advice.
- The economy also allocates these goods/services once their production to its *consumers*.
- Consume = purchase something for final use.

Goods and Bads

- Goods = anything that gives you utility
- Utility = satisfaction or happiness
- Bads = anything that gives you disutility
- Sometimes subjective!

Resources

- Resources = inputs = factors of production
- Inputs = commodities or services that are used to produce goods and services
- Outputs = goods or services that result from the production process and are either consumed or used in further production.

- Land = natural resources
- Labor = mental and physical effort
- Capital = produced goods
- Entrepreneurship = talent that people have for organizing the above resources to produce goods, seek new business opportunities and develop new ways of doing things.

The Central Concept and Definition of Economics

- Why allocate resources? = they are limited!
- *Scarcity* = unlimited wants and limited resources

Economics is the science of scarcity!

- How individuals and the society manage the limited resources to meet the unlimited wants/desires.

Effects of Scarcity

1. Choices – *You can't have your cake and eat it too!*
   - Everyone has to make choices, you, me, producers, governments, economies.
2. Need for a rationing device – A rationing device is a means of deciding who gets what of the available goods/resources.
   - E.g. price, FCFS, grades.
3. Competition – *You've gotta fight for it!*

Imagine a world without scarcity……….

The Three Big Questions

- Society must decide

1. *What* commodities are produced – what outputs to produce, and in what quantity
2. *How* these goods are made – how, or with what inputs and techniques, to produce the desired outputs
3. *For whom* they are produced and distributed

Key Concept

The Three Basic Economic Questions

Every society—no matter how rich or poor—must answer three basic economic questions about the goods and services its people want.

What will be produced? Even with our limited resources, billions of things might be produced. Who or what decides which wants to fulfill and which to leave unsatisfied?

How will it be produced? There are many ways to produce a desired item. Who decides how the factors of production will be organized to make what people want?

For whom will it be produced? Once an item is produced, the question remains: who should get it? The first person in line? The highest bidder? The person who needs it most?

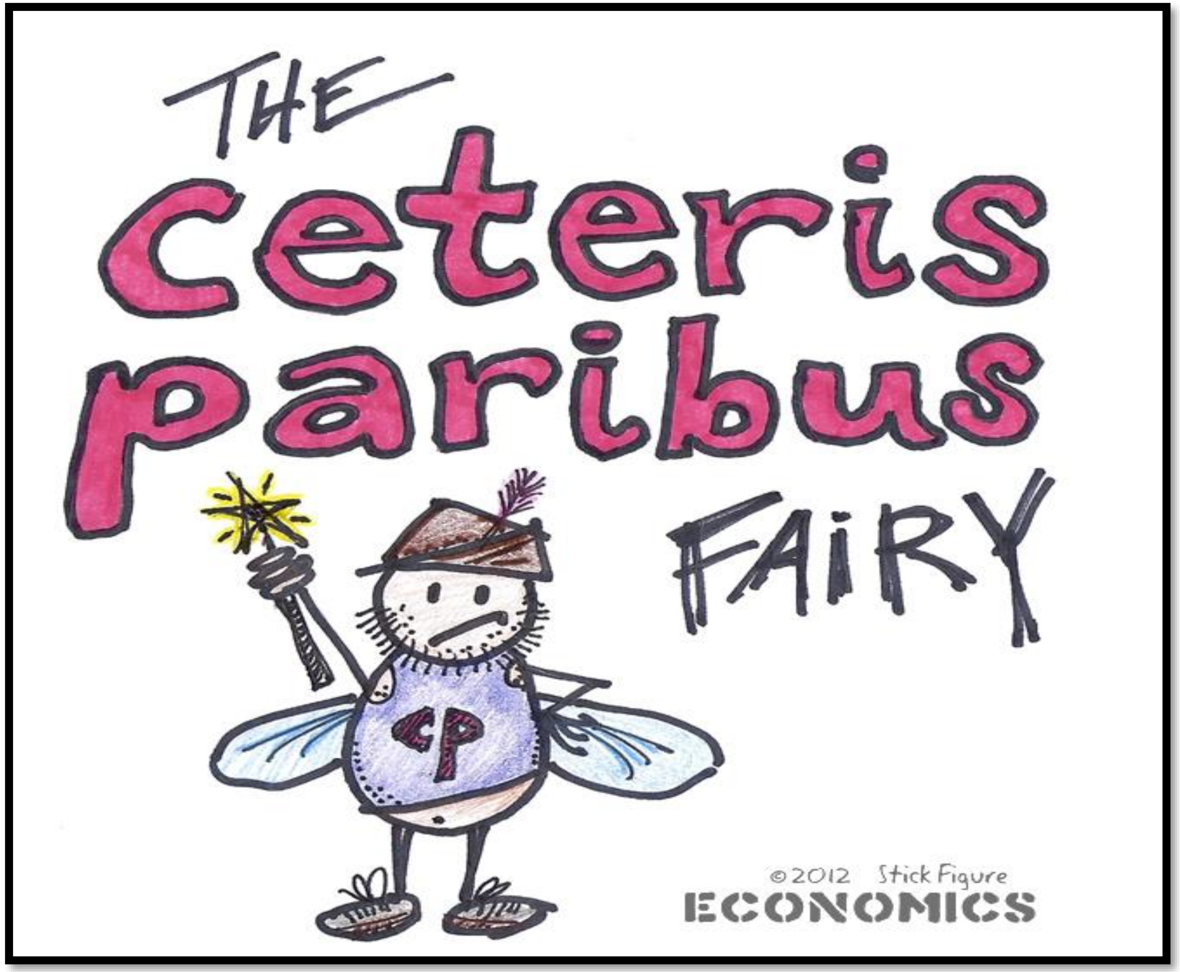
Categories of Economics

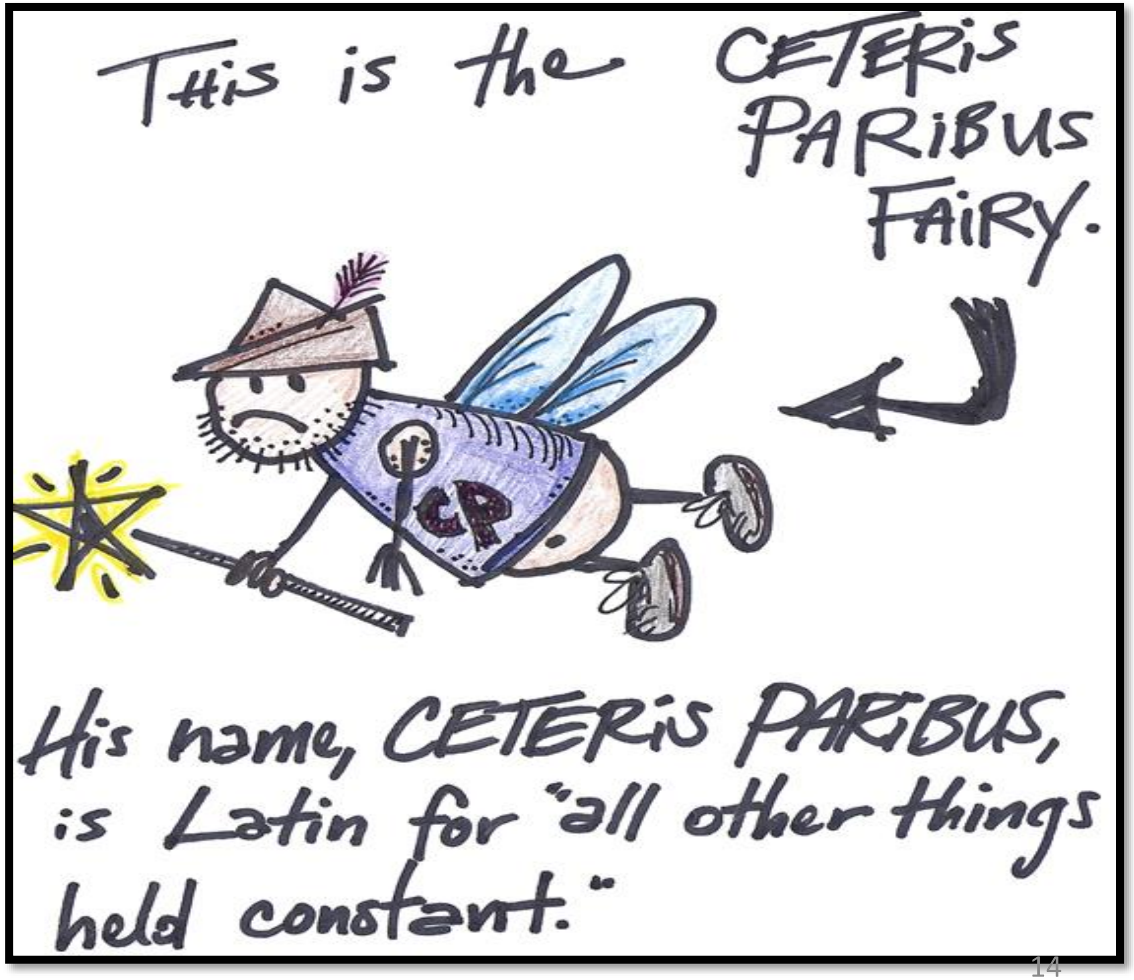
- **Based on the type of question being asked.**
- **Positive Economics** – based on facts that can be tested. "***what is***".
  - *E.g. 55% of the students at EWU are female.*
- **Normative Economics** – based on opinions and value judgements. "***what should be, what ought to be***".
  - *E.g. the income tax should be lowered.*

- **Microeconomics –** Focuses on the behaviour and decision-making of individual economic agents – such as a person, a firm (producer/organization), an industry (groups of firms), a market.
  - **Market –** Any system where trade takes place, i.e. brings buyers and sellers together for exchange of goods and services. E.g. market for eggs, jute, heaters.
  - ***The Wealth of The Nations (1776) by Adam Smith***
- **Macroeconomics –** Studies the entire economy as a whole. The decisions and interactions between multiple individuals, firms, markets, governments and countries.
  - 1930s Great Depression
  - ***General Theory of Employment, Interest and Money by John Maynard Keynes***

The Role of Assumptions

- Models
- Relationships between two variables





The point is that his magical powers allow for the foundation to be laid for BASIC ECONOMIC THOUGHT.

yes.

CETERIS PARIBUS FAIRY is that powerful.

No matter what the situation, he holds all other variables constant.

Key Concepts in Economics

Opportunity Cost (OC)

- Choices = we must give up something in order to gain something else.
- The OC of an item—what you must give up in order to get it (good/service/activity)—is its true cost.

The most highly valued opportunity or alternative forfeited when we make a choice is known as OC.

- *Think of your decision to come to class today, what are the OC you faced?*
- OC are both monetary and non-monetary.

- *There is no such thing as a free lunch*.
- So even if you didn't pay for something you will still experience OC.
- Changes in OC change behaviour.

The higher the opportunity cost of doing something is, the less likely it will be done.

Benefits and Costs

- Every choice/decision comes with costs and benefits.
- We need to think about both when making a decision.
- A decision involves a trade-off—a comparison of costs and benefits.
- E.g. Cutting down pollution

Marginal Decision Making

- Rather than always making *either-or decisions*, we are more involved in *how much decisions.*
- *"how much" is a decision made at the margin.*
- *Decisions about whether to do a bit more or a bit less of an activity are marginal decisions. The study of such decisions is known as marginal analysis.*

- Should I run one more mile? Should I study one more hour? Should I hire one more worker? Should I produce one more kg of rice?
- Marginal Benefits (MB): Additional benefits; the benefits connected with consuming an additional unit of a good or undertaking one more unit of an activity.
- Marginal Costs (MC): Additional costs; the costs connected with consuming an additional unit of a good or undertaking one more unit of an activity.
- Compare MB with MC to take a decision = decisions at the margin.

Efficiency

- More specifically, efficiency exists when marginal benefits equal marginal costs.
- Efficient amount = the right/most favourable/optimal amount.
- For e.g. lets find the efficient amount of time I am going to study.
- Goal = maximize net benefits (i.e. Total Benefits – Total Costs), not total benefits or net MB benefits.

- An economy is efficient if it takes all opportunities to make some people better off without making other people worse off.
- No other way to use or arrange resources to make everyone better off.
- Suppose, you’re in a classroom too small, whereas there are larger empty classroom available.

Incentives

- Anything that encourages/motivates people to undertake an action/change behavior.
- Can be a reward or punishment.
- *People usually respond to incentives, exploiting opportunities to make themselves better off.*

Exchange (trade)

- Giving up one thing for another.
- Exchange makes people better off.
- For e.g. I buy a laptop for Bashundhara City market for 50,000 taka. I am exchanging the 50,000 taka for a laptop whereas the shop is exchanging a laptop for the 50,000 taka.
- Through exchange we give up what we value less for what we value more.
- Why do countries trade?
- Why do we gain from trade? → Specialization