

Welcome to Econ 101:  
Introduction to Microeconomics

# **INTRODUCTION**

A Motivation

Year 2020:

- You graduate.
- You get a great job
- You earn a lot of money

**What are you going to do with all  
that money?**



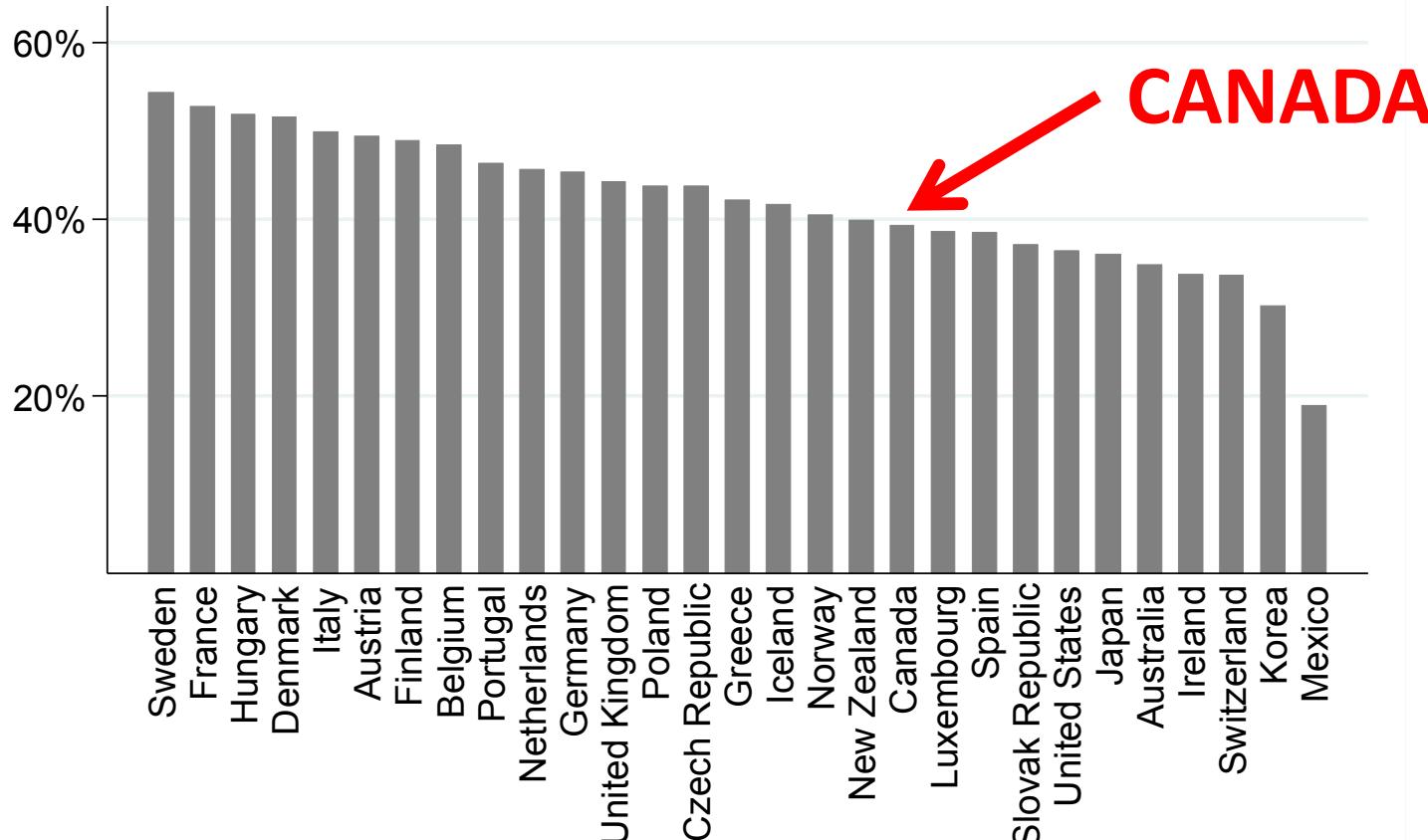
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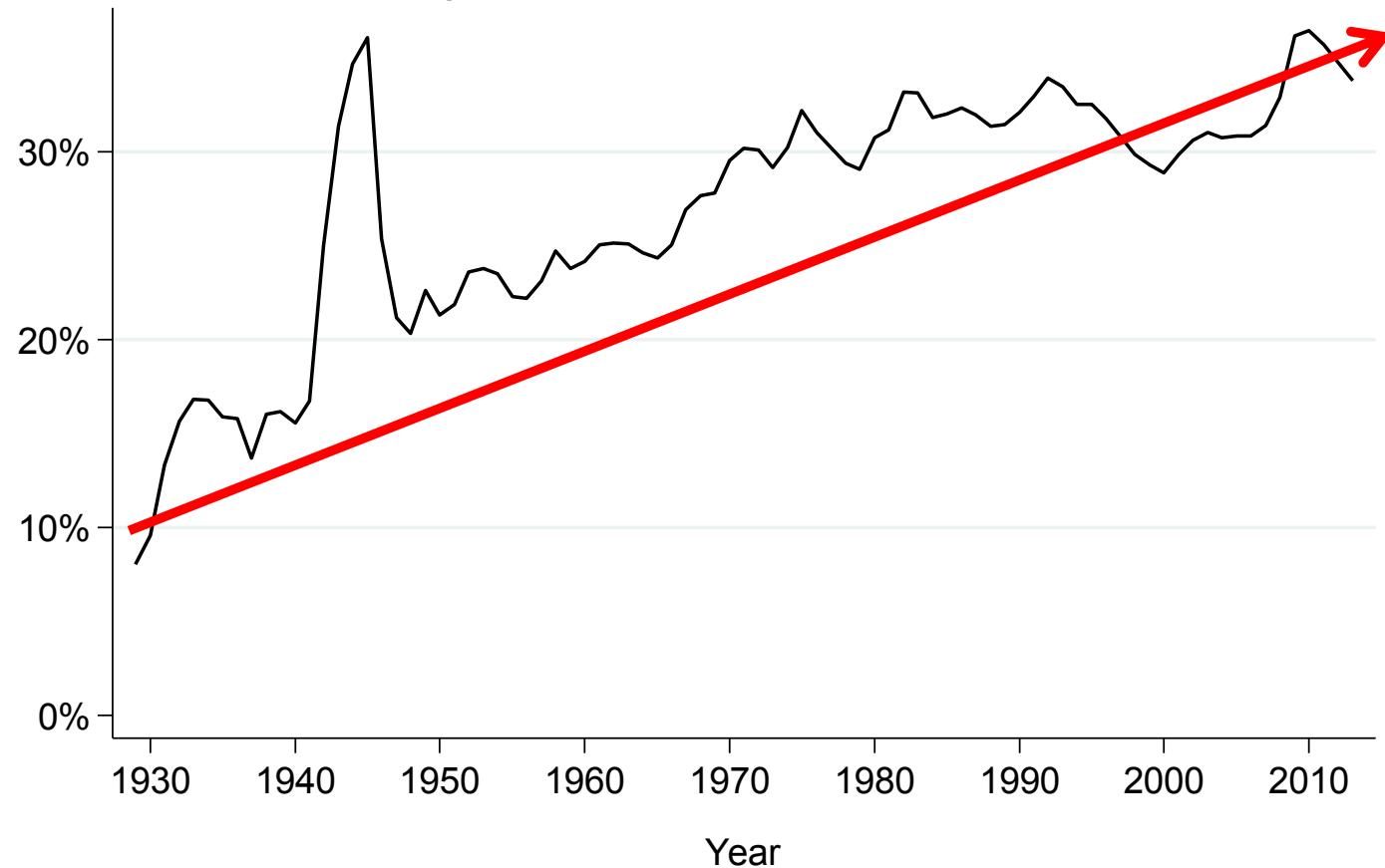
The forgotten question: **Who gets to spend that money?**

## General Government Expenditures as a Percentage of GDP



Source: OECD. Year: 2006.

## Government Expenditures as a Share of GDP in the U.S.



Source: Bureau of Economic Analysis

Year 2019:

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**Who gets to spend that money?**



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[http://images.mazda.ca/MciWeb/images/garage/landing/2014/MZ5/panels/exterior-view/Red/m5\\_360\\_1600x900\\_red\\_16.jpg](http://images.mazda.ca/MciWeb/images/garage/landing/2014/MZ5/panels/exterior-view/Red/m5_360_1600x900_red_16.jpg) 08/09/2014

Government decides how 30-60% of resources are allocated.

Is this a good thing?

Why should any resources be allocated through collective decision making?

Or should government decide how 100%  
of resources are allocated?

For this course, the question

## **"How Big Should Government Be?"**

forms the common motivating thread.

We will compare:

**Allocations with gov't intervention**

vs.

**Allocations we get with voluntary trade.**

In the process, we will learn the

**key concepts and tools in economics.**

What is “economics”?

Economics  $\equiv$  Analysis of allocation of  
scarce resources.

Why “scarce”?

Without scarcity:

Everyone gets everything.

=> Everyone feels good!

(No economists though.)

With scarcity:

The more apples you get,  
the less apples others get.

and also:

The more apples we produce,  
the less bananas we can produce.

**Allocation involves “trade-offs”.**

Thus, with scarcity, we must decide:

- Who gets the apples?
- How many apples vs. bananas  
to produce?

**Economists examine such resource allocation.**

## **How should we decide:**

- Who gets the apples?
- How many apples vs. bananas to produce?

## **Which allocation mechanisms exist?**

## Ways to allocate scarce resources

- Market Economy
- Command Economy
- No-Trade Economy

**Which system is the best?**

We will first compare a market economy and a command economy.

**What do we need to learn to do that comparison?**

1. Who gets what in a market economy

- Consumer Choice

(WEEKS 1-2)

- Interaction through the Market

(WEEK 3)

2. Who gets what in a command economy

(WEEK 4)

3. How to measure and compare well-being in the two economic systems

(WEEK 4)

=> By WEEK 4 we have our first answer to the question

“How Big Should Government Be?”

**and** we know many key economic concepts and tools.

WEEKS 5-12: more about the factors  
that determine

“How Big Should Government Be?”

**and** we learn more key economic con-  
cepts and tools in the process.

## Why the question

“How Big Should Government Be?”

- Key economic policy question
- Concepts can be uninteresting
- How to allocate resources is a central question in economics.

## Summary:

- Key economic tools, concepts.
- A common motivating thread:

“How Big Should Government Be?”



# Introduction to Microeconomics

## Class 1

**“Behavior is Optimization”**

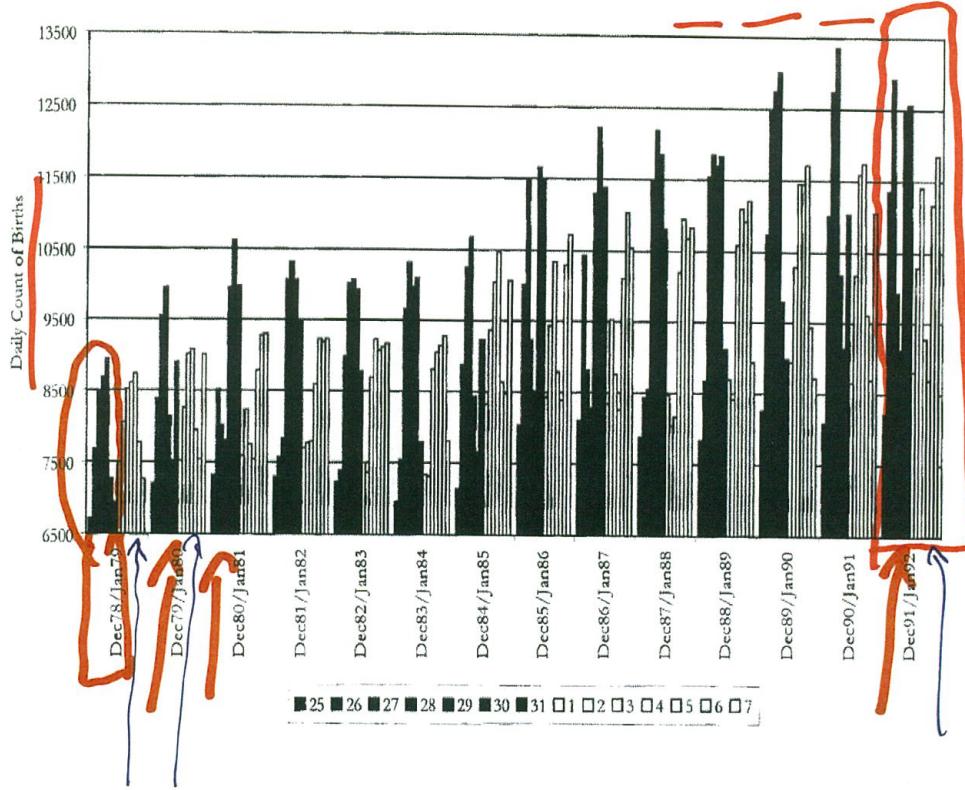
How do economists explain behavior?

Example 1:

Why a spike in births right before  
new year?

D

## DAILY COUNT

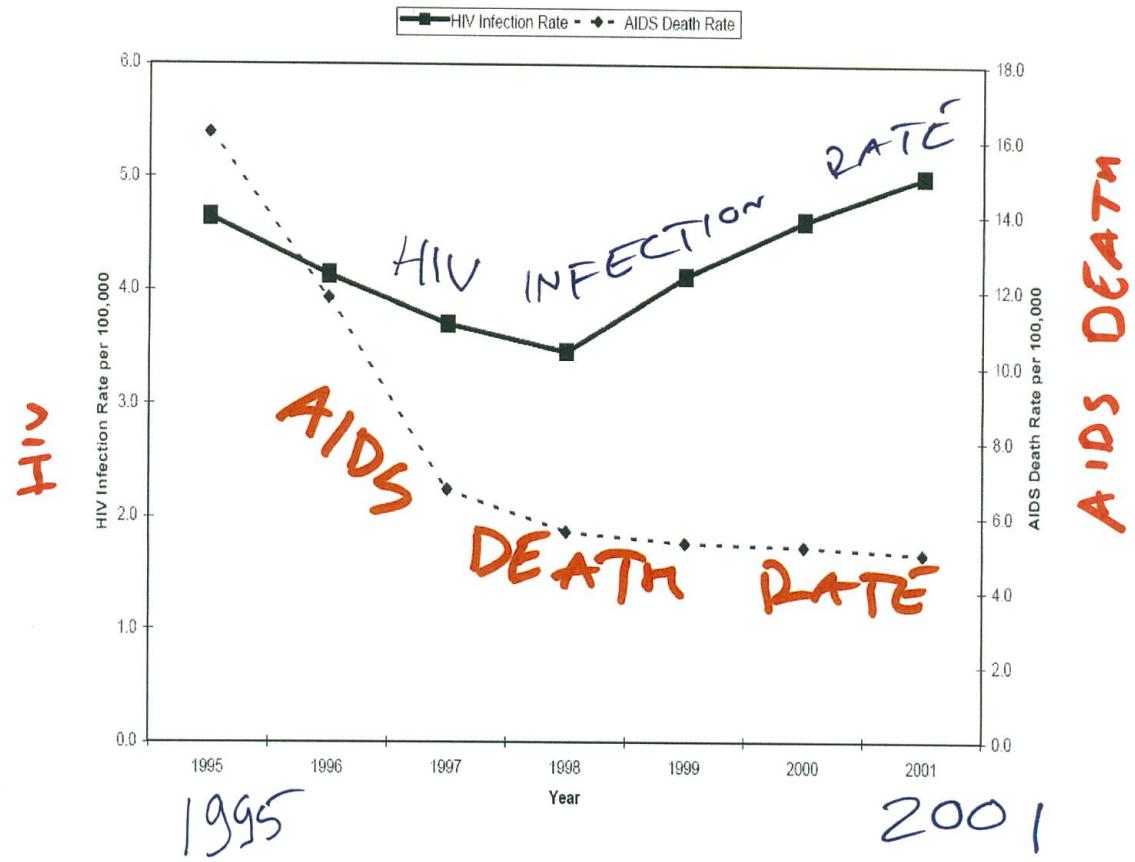


Example 2:

Why % of intercourse DECREASED,  
and % of oral sex INCREASED?

Example 3:

Why AIDS death rate DOWN,  
and HIV infection rate UP?



Example 4:

Mandatory seat belt laws:

=> What happened to the

number of accidents?

Economics: Behavior is optimization

~ comparison of costs and benefits

Economists analyze behavior of  
Individuals, Families, Students, Universities,  
Firms, Nations, ...  
≡ “Economic Agents”

“Behavior is optimization”

=> Analysis involves “modelling”

**agents' objectives**

“Resources are scarce”

=> Analysis involves “modelling”

agents' **constraints**

To analyze the behavior of individuals and firms,

we will write and analyze “models” of their objectives and constraints.

Summary:

“Behavior is optimization”



# More about this course

An introduction to microeconomic analysis of

- **Behavior**
- **Interactions**
- **Economic policy**

# Two Course Objectives

Course Objective #1:

To learn **key concepts and tools in economics.**

Course Objective #2:

To learn **economic rationales for gov't intervention** in economic activity.

# Course Materials

- Problem Sets (LEARN)
- Lectures
- Notes (LEARN)
- Slides (LEARN)

# Problem Sets

- Weekly
- learn.uwaterloo.ca
- FRIEND or ENEMY?

Homework Aim #1:

Improve the Opportunity

to Master the Material

Homework Aim #2:

Provide Incentives to Study

=> Some exam questions similar

Homework Aim #3:

Challenge Students

“If it’s not challenging,

it’s not worth your time.”

=> Include very difficult questions

Conclusion:

Problem Sets are your **FRIEND**

Note: As an economist, I assume that you optimize.

=> **Homeworks are NOT handed in.**

Note: Material is highly cumulative

=> WEEKLY effort recommended

## Notes and Slides

- Complement lectures
- on LEARN

No textbook; Optional textbooks include

Microeconomics by "Parkin and Baden"

\$\$\$

Microeconomics by "Mankiw" \$\$\$

Microeconomics by "Krugman" \$\$\$

"The Economy" e-book by various authors, [www.core-econ.org/the-economy](http://www.core-econ.org/the-economy),

**FREE**

No textbook is necessary, but (if you have a lot of time in your hands), you can buy one to study on your own.

But I doubt that is the best use of your time during the course.

## Kahoot

- Possible to get “bonus points” that count toward final grade (see course outline)

Course Outline has more detail

- When are the exams?
- What is the weight of each exam?
- Are the exams cumulative?
- What if I miss an exam?

Summary 1: Economists:

“Behavior is optimization”

## Summary 2: This course:

- Self-interest alone vs. econ policy
- Key econ concepts and tools

## Summary 3: Problem Sets

- FRIEND
- WEEKLY effort