Lab 1 – Introduction to Economics & Marginal Analysis

What is Economics?

1. "Economics is the social science that examines how people choose to use limited or scarce resources in attempting to satisfy their unlimited wants."
2. Definitions:
   a. Scarcity –

   b. Marginal –

   c. Marginal Benefit –

   d. Marginal Cost –

   e. Marginal Analysis –

   f. Rational Behavior –

3. Marginal benefit or cost? Course load example:
   a. Suppose you are currently enrolled in three courses this semester. You are considering taking another class—what would be some of the benefits of this class? What would be some costs?

4. Practice: Even though you can purchase CD's on iTunes for cheaper, you prefer to buy CD's because then you have the album artwork, lyrics, etc. Assume that the price of a CD is $14. Fill out the chart.

# of CD's	Marginal Benefit	Marginal Cost	Net Gain
1	30	14	16
2	25		
3			4
4			- 4
5	5		

Assuming you are rational, how many CD's will you buy?

Problems

1. Suppose that jeans cost $35, assuming you are rational, how many pairs of jeans would you buy?

(Fill out marginal cost and net gain columns)

Pairs of Jeans	Marginal Benefit	Marginal Cost	Net Gain
1	55		
2	50		
3	44		
4	37		
5	29		
6	20		

2. The price of a ticket to the Kanye West concert is $50 and your marginal benefit of seeing the concert is $100, would you see the concert?

Suppose that the price of tickets increases to $105, would you see the concert?

3. Suppose you own three pairs of sneakers and the price of sneakers are $75. Your marginal benefit is $50. Would you buy another pair?

4. True or False and justify: If your marginal benefit of a given good increases as you consume more of the good, then you will always continue to consume more of this good.