

ECONOMICS, CHOICE AND SCARCITY

THE NECESSITY OF CHOICE

1. CHOICE AS AN ESSENTIAL ELEMENT OF THE HUMAN CONDITION DUE TO SCARCITY
2. ECONOMICS IS THE STUDY OF CHOICE. IT SEEKS TO BUILD A THEORETICAL MODEL OR ROADMAP OF **RATIONAL CHOICE**. THE AIM IS TO USE THIS ROADMAP TO EXPLAIN AND TO EVALUATE THE SOCIAL INTERACTIONS
3. USE OF FORMAL LOGIC IS SOURCE OF MATHEMATICS

CHOICES THAT SOCIETY MUST MAKE

1. WHAT GOODS TO PRODUCE
2. HOW TO PRODUCE THEM
3. WHO GETS THEM

CRITERIA FOR EVALUATING THESE DECISIONS

1. EFFICIENCY
2. EQUITY

THE MARKET MECHANISM

1. MARKETS AS A DEVICE TO RESOLVE THE THREE BIG ISSUES
2. MARKETS AS MECHANISM FOR COORDINATING AND RECONCILING INDIVIDUAL CHOICES IN A MANNER THAT PROVIDES ANSWERS TO THE THREE SOCIAL DECISIONS

A MARKET EXPERIMENT

1. IN A FREE AND VOLUNTARY EXCHANGE, ***BOTH*** PARTIES MUST GAIN (OR, AT LEAST, ONE GAIN AND THE OTHER BE NO WORSE OFF FOR THE TRADE TO OCCUR)
2. MARKETS TEND TO EXPLOIT ALL MUTUALLY BENEFICIAL TRADES

AN AUCTION MARKET FOR PAPER CLIPS

1. THE LAW OF ONE PRICE
2. DIFFERENCES BETWEEN THE EXPERIMENTAL MARKET AND AN AUCTION MARKET
 - a. INFORMATION
 - b. MONOPOLY POWER

A SECOND EXPERIMENT

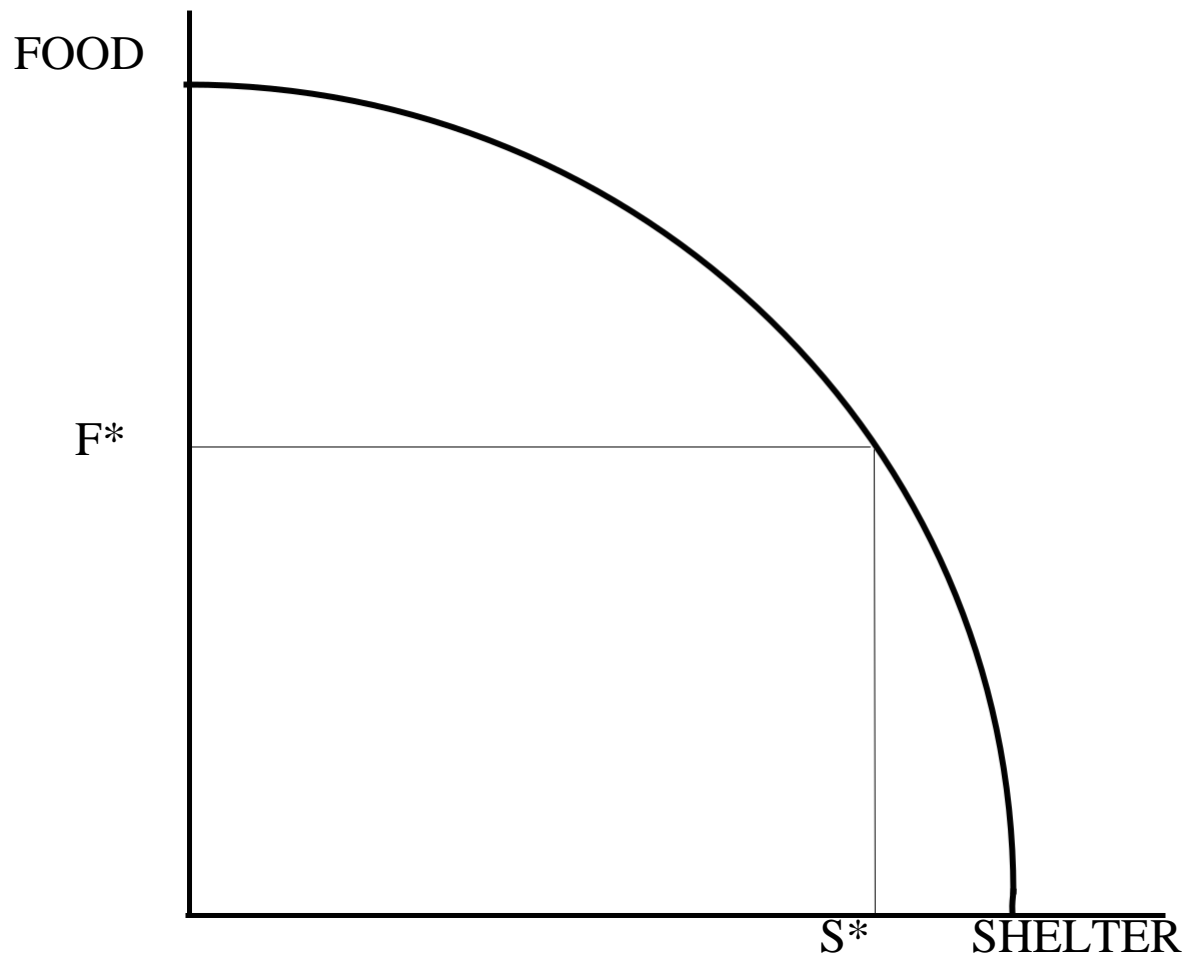
1. PRICES AND MARKET SIGNALS
2. SIGNALS, PRICES, AND VALUES

IMPLICATIONS OF EXERCISES 1 AND 2: MARKETS TEND TO DO WELL ON THE CRITERION OF ECONOMIC EFFICIENCY; ***IF***

1. COMPETITION
2. GOOD, SYMMETRIC INFORMATION
3. NO EXTERNALITIES

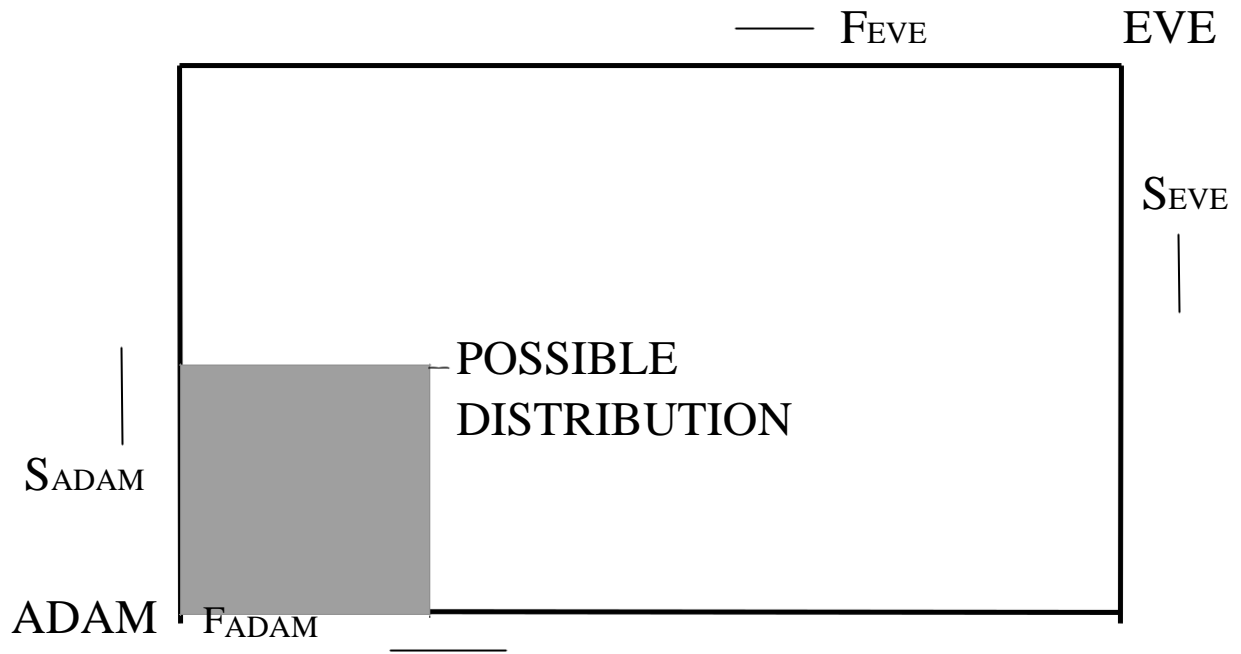
FIGURE 1

PRODUCTION POSSIBILITIES FRONTIER



PRODUCTION EFFICIENCY: BEING ON THE FRONTIER

FIGURE 2



EXCHANGE EFFICIENCY: NO VOLUNTARY
EXCHANGES LEFT

1. Microeconomics Versus Macroeconomics

- **Microeconomics** is the study of the choices that individuals and businesses make, the way these choices interact in markets, and the **influence of governments**. Some examples of microeconomic questions are: Why are people downloading more movies? How would a tax on e-commerce affect eBay?

- **Macroeconomics** is the study of the **performance of the national economy** and the global economy. Some examples of macroeconomic questions are: Why does the Canadian **unemployment rate fluctuate**? **Can the Bank of Canada make the unemployment rate fall by keeping interest rates low**?

2. Self interest versus social interest

3. Efficiency and social interest

4. Inequality in income, opportunity, and wealth

5. Four issues: Globalization, Information-age-monopolies, climate change, economic instability.

Globalization

The term globalization means the expansion of international trade, borrowing and lending, and investment.

Information-Age Monopolies The technological change of the past forty years has been called the Information Revolution . Bill Gates, a co-founder of Microsoft, held a privileged position in this revolution. For many years, Windows was the only available operating system for the PC. The PC and Mac competed, but the PC had a huge market share.

Climate Change

Burning fossil fuels to generate electricity and to power airplanes, automobiles, and trucks pours a staggering 28 billion tonnes—4 tonnes per person—of carbon dioxide into the atmosphere each year. These carbon emissions, two-thirds of which come from the United States, China, the European Union, Russia, and India, bring global warming and climate change.

Economic Instability

Positive and Normative statement

A positive statement is about what is . It says what is currently believed about the way the world operates. A positive statement might be right or wrong, but we can test it by checking it against the facts “Our planet is warming because of the amount of coal that we’re burning” is a positive statement. We can test whether it is right or wrong.

Normative Statements A normative statement is about what ought to be . It depends on values and cannot be tested. Policy goals are normative statements. For example, “We ought to cut our use of coal by 50 percent” is a normative policy statement. You may agree or disagree with it, but you can’t test it. It doesn’t assert a fact that can be checked.

An economic model is a description of some aspect of the economic world that includes only those features that are needed for the purpose at hand. For example, an economic model of a cellphone network might include features such as the prices of calls, the number of cellphone users, and the volume of calls. But the model would ignore cellphone colours and ringtones.