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## 1 Chapter 1

### 1.1 Scarcity

- all economic questions arise because we want more than we can get
- inability to satisfy all wants because of scarcity
- scarcity = limited resources

### 1.2 Definition of Economics

- because we face scarcity, we must make choices
- incentive = a reward that encourages an action or a penalty that discourages an action
- economics is the social science that studies the choices that individuals, businesses, etc. make as they cope with scarcity and the incentives that influence and reconcile those choices
- Economics divides into two parts:
  - Microeconomics = study of choices that individuals and businesses make & how those choices interact with markets and the influence of governments
  - Macroeconomics = the study of the performance of national and global economies

### 1.3 6 Key Ideas

- a choice is a tradeoff: every choice is an exchange giving up one thing for another
- making a rational choice: a rational choice compares costs and benefits, maximizing benefit
- benefit = what you gain: the gain or pleasure something brings about, determined by preferences
  - preferences = what a person likes, dislikes, and the intensity of those feelings
- cost = what must be given up
  - opportunity cost = highest valued alternative that must be given up
- choosing at the margin: the benefit of pursuing an incremental increase in some action is marginal benefit of that action
  - the opportunity cost of pursuing an incremental increase in some action is marginal cost
  - if  $\text{marginal benefit} > \text{marginal cost}$ , rational choice is to do more of that action
- choices respond to incentives: a change in marginal cost/benefit changes our incentives & choices

### 1.4 Positive & Normative

- economists distinguish between two types of statements:
  - positive statements: can be tested by checking the facts
  - normative statements: express an untestable opinion
- economists as social scientists
  - economists test economic models
  - economic model = a description of some aspect of the world with only the necessary features
- economists as policy advisors

## 1.5 Resources & Highest Valued Use

- the scope of economics:
  - how do choices end up determining "what, how, and for whom" goods and services get produced
- goods and services are produced using productive resources called factors of production
  - land
  - labor
  - capital
  - entrepreneurship
- who gets goods and services depends on income
  - land earns rent, labor earns wages, capital earns interest, entrepreneurship earns profit
- **resources gravitate towards their highest value use**

## 1.6 Self Interest & Social Interest

- self interest = choices that are made because you think they are the best for you
- social interest = choices that are best for society as a whole
- social interest has two dimensions:
  - efficiency: resource use is efficient if it is not possible to make someone better off without making someone else worse off (no waste to be eliminated)
  - fair shares/equity: refers to the fairness with which resource division occurs in a society
- tension between self & social interest: information revolution, climate change, globalization