




ECONOMICS TOPIC 1

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Course Materials and Announcements:
<https://github.com/zamnolence/Economics-at-YSU>

ASSESSMENTS

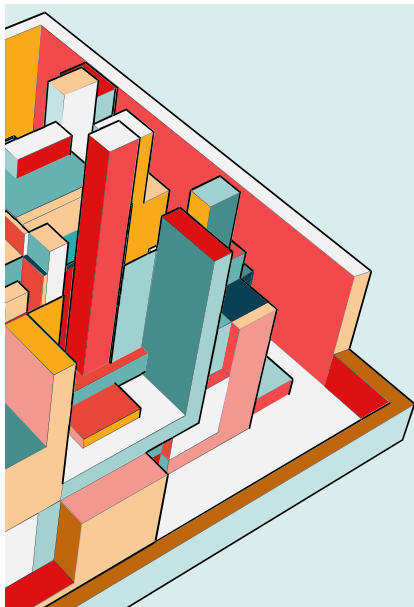
- 20% Assignment (13 June 11:59 PM)
 - WeChat ID: cubdwi 
 - Tell me your name (in English) and student ID and wait for confirmation.
- 80% Final Exam (Duration: 2 hours)

CORE READING

- CB2 Business Economics Course Notes. The Actuarial Education Company, 2019 or newer.
- Economics for business, 7th edition.** Sloman, J. Pearson, 2016.

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Date	Topic	Topic
Wed 4 June	1	Introduction to Economic Concepts
	2	Supply and Demand
Thu 5 June	3	Elasticity
	4	Consumer demand and uncertainty
Fri 6 June	5	Production and costs
	6	Revenue and profit
Sat 7 June		Break
Sun 8 June	7	Perfect competition and monopoly
	8	Imperfect competition
Mon 9 June	9	Pricing strategies
Tue 10 June	10	Macroeconomic environment and objectives
Wed 11 June	11	Supply-side policy
	12	Demand-side policy
Thu 12 June		Revision
Fri 13 June		Practice test & assignment due at 11:59 PM



INTRODUCTION TO ECONOMIC CONCEPTS

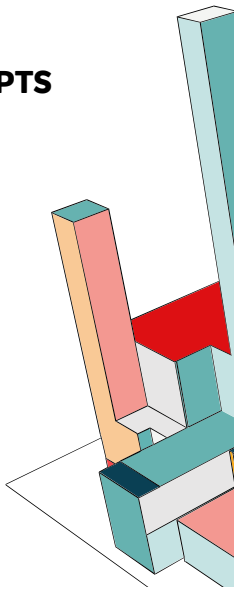
Syllabus objectives

- Describe what is meant by opportunity cost and scarcity and their relevance to economic choice.
- Understand the core economic concepts involved in choices made by businesses relevant to selection of outputs, inputs, technology, location and competition.
- Distinguish between microeconomics and macroeconomics.

TOPIC 1: INTRODUCTION TO ECONOMIC CONCEPTS

- What economists study
 - Tackling the problem of scarcity
 - Demand and supply
 - Dividing up the subject — Macro- and Microeconomics
- Macroeconomics
 - Objectives
 - Example: Assessing macroeconomic performance
- Microeconomics
 - Choices
 - Opportunity cost
 - Rational choice

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1 WHAT ECONOMISTS STUDY

Economics is the study of how individuals, businesses, and governments make **choices** about the allocation of **scarce*** resources



It helps us understand how these entities interact within various markets and economies to allocate resources like time, money, and labour most efficiently.

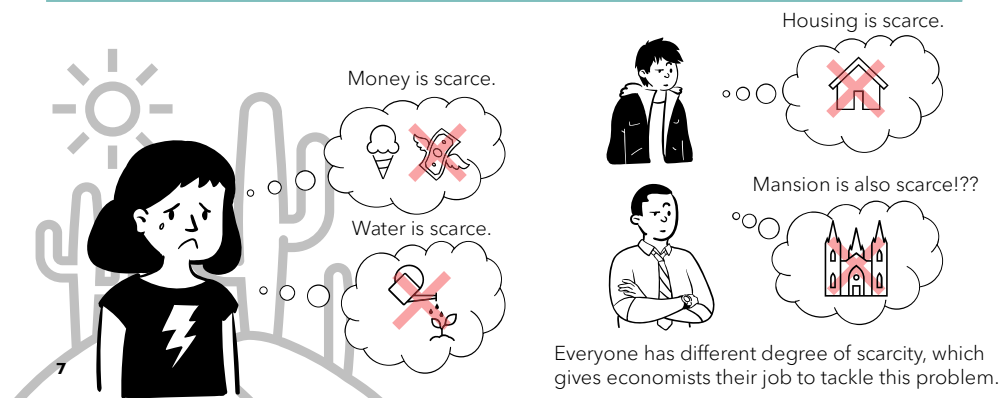
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* Scarce (adj.) insufficient, not enough

1 WHAT ECONOMISTS STUDY — SCARCITY

Scarcity (n.)

The excess of human wants over what can actually be produced.



Everyone has different degree of scarcity, which gives economists their job to tackle this problem.

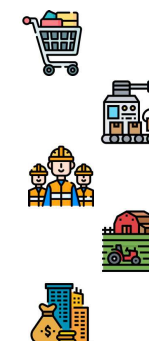
1 WHAT ECONOMISTS STUDY — SCARCITY

Question: What are your everyday examples of scarcity?

1.1 TACKLING THE PROBLEM OF SCARCITY

Scarcity happens when consumption **exceed** production.
To solve the problem of scarcity, we look into how to **balance** consumption and production.

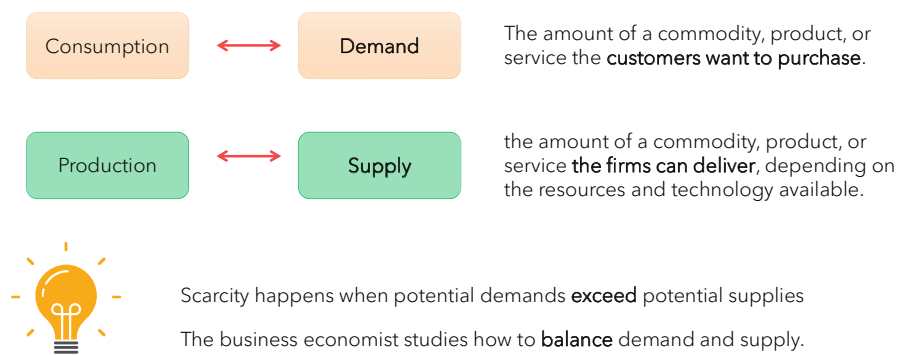
Consumption	The act of using goods and services to satisfy wants. This will normally involve purchasing the goods and services.
Production	The transformation of inputs into outputs by firms in order to earn profit or meet some other objective
Labour	All forms of human input , both physical and mental, into current production
Land (and raw materials)	Inputs into production that are provided by nature : e.g. unimproved land and mineral deposits in the ground.
Capital	All inputs into production that have themselves been produced : e.g. factories, machines and tools



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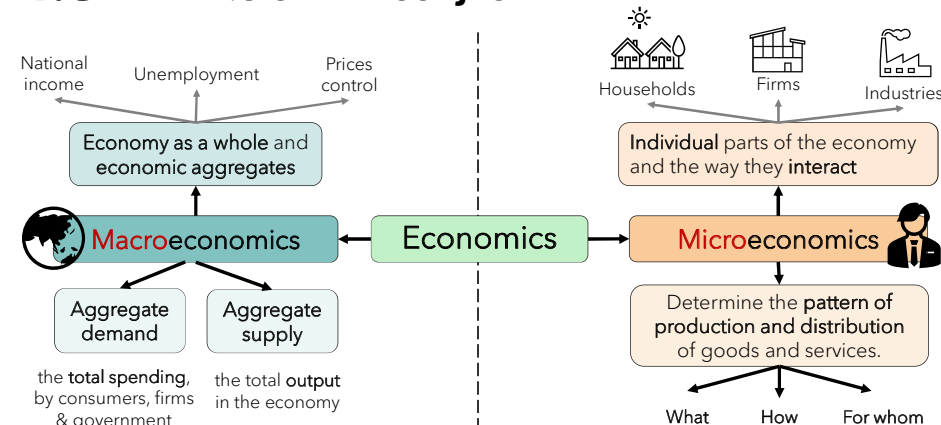
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1.2 DEMAND AND SUPPLY



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1.3 DIVIDING UP THE SUBJECT



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2 MACROECONOMICS

is concerned with the **economy as a whole** and studies **economic aggregates***, e.g., national income, GDP, unemployment and the general level of prices. It considers:

aggregate demand: the total level of **spending** in the economy, by consumers, firms and government

aggregate supply: the total amount of **output** (ie goods and services) in the economy

National Income calculates the **total income** generated by businesses and individuals in a country. National Income estimates the **economic health** of the country.

GDP estimates the **total market value of goods and services** produced in a country in a given period. GDP measures the overall **economic output** of the country.

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* Aggregate (adj., n.) formed by a collection or a sum; total; combined

2.1 MACROECONOMICS — OBJECTIVES

- National output and its growth over time: Keep **high and stable** to avoid **recessions*** when output declines for two or more quarters
- Unemployment: Keep **low**
- Inflation = a persistent, substantial rise in the general level of prices: Keep **low and stable**
- Balance of trade = exports - imports: Keep **balance** Why don't we keep it positive?

	exports > imports, trade surplus	exports < imports, trade deficit
Pros	Economic profit , economic growth, increased foreign reserves, reduced debt	More competition and foreign investment, cheaper imported goods
Cons *persistent	Less competition and foreign investment, expensive imported goods	Economic loss , currency depreciation**, increased debt

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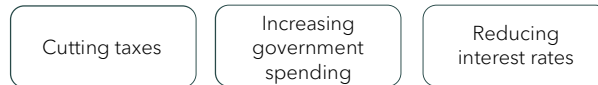
* Persistent (adj.) continuing to exist or occur over a prolonged period

** Depreciation (n.) decrease in value

2.1 MACROECONOMICS — OBJECTIVES (CONT.)

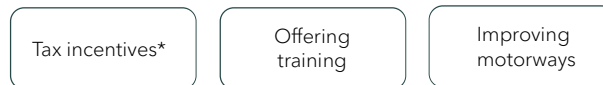
Demand-side policy

Influence the level of spending



Supply-side policy

Influence the level of production



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* Tax incentive (n.) tax reduction as a reward offered for increased productivity

2.2 ASSESSING MACROECONOMIC PERFORMANCE

	Unemployment (% of workforce)				Inflation (%)				Economic growth (%)				Balance on current account (% of national income)				
	USA	Japan	Germany	UK	USA	Japan	Germany	UK	USA	Japan	Germany	UK	USA	Japan	Germany	UK	
1961-70	4.8	1.3	0.6	1.7	2.4	5.6	2.7	4	4.2	10.1	4.4	2.8	0.5	0.6	0.9	0.2	
1971-80	6.4	1.8	2.2	3.8	7	8.8	5.2	12.6	3.2	4.4	2.9	2	-0.3	0.5	1.1	-0.7	
1981-90	7.1	2.5	6	9.6	4.5	1.8	2.8	7.1	3	4.4	2.3	2.7	-2.4	2.8	3.7	-1.4	
1991-2000	5.6	3.3	7.8	7.2	3.2	0.5	2.2	2.6	3.4	1.6	1.8	2.5	-1.6	2.5	-0.7	-1.5	
2001-6	5.3	4.8	9.2	5.1	2.7	-0.4	1.6	1.7	2.6	1.4	1.2	2.7	-5	3.3	3.3	-2.2	
2007-15	7.7	4.1	6.3	7.0	1.5	0.3	1.2	2.3	1.2	0.2	1.2	1.2	-2.3	1.2	6.7	-2.1	

1. Has the UK generally performed better or worse than the other three countries?
2. Was there a common pattern in the macroeconomic performance of each of the four countries over this period of just over 50 years?

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3 MICROECONOMICS

is concerned with **individual parts of the economy** (eg households, firms and industries) and the way they interact to determine the **pattern of production and distribution** of goods and services.



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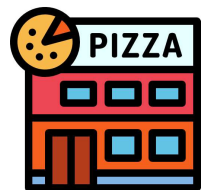


3.1 MICROECONOMICS — CHOICES

As resources are scarce, society needs to make 3 key choices:

1. **What** goods and services will be produced and in what quantities?
2. **How** are the goods and services going to be produced, ie what resources and production methods are going to be used?
3. **For whom** are goods and services going to be produced

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100/day



Pizza for everyone!

* Sacrifice (n., v.) surrender, forgo, or giving up of something for something else

3.2 MICROECONOMICS — OPPORTUNITY COST

Choice involves sacrifice*.

What have you given up, forgone, or sacrificed for the choices you made?

The **opportunity cost** of something is what you give up to get it/do it. In other words, it is cost measured in terms of the best alternative forgone.



OR



Example: What might be the opportunity cost of choosing to open a pizzeria instead of a bakery?

1. It's more expensive to hire a pizza chef than a bakery chef.
2. Pizzeria requires more fresh ingredients than a bakery.
3. Bakery is more versatile. More demand for baked goods (eg bread, muffin, etc.) than for pizzas in a day.

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3.3 MICROECONOMICS — RATIONAL CHOICE



Rational* choices	involve weighing up the benefit of any activity against its opportunity cost
Rational decision making	Involves weighing up the marginal benefit of any activity against its marginal cost
Marginal costs	The additional cost of doing a little bit more (or 1 unit more if a unit can be measured) of an activity
Marginal benefits	The additional benefits of doing a little bit more (or 1 unit more if a unit can be measured) of an activity.

If the **marginal benefit** exceeds the **marginal cost**, it is rational to **do** the activity (or to do more of it)

If the **marginal cost** exceeds the **marginal benefit**, it is rational **not to do** it (or to do less of it).

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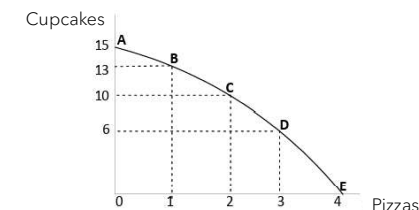
* Rational (adj.) agreeable to reason; reasonable, sensible; logical

3.2 MICROECONOMICS — OPPORTUNITY COST



Example: Sam opens both pizzeria and bakery. The table gives maximum production possibilities for pizzas and cupcakes in 10's.

Point	Number of pizzas	Number of cupcakes
A	0	15
B	1	13
C	2	10
D	3	6
E	4	0



- i) Calculate the opportunity cost of increasing the output of pizzas from 2 to 3 units
- ii) Explain how and why the opportunity cost of producing higher levels of output of pizza changes
- iii) Describe the situation that must exist if Sam produces a combination of 2 units of Pizzas and 8 units of Cupcakes.

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3.3 MICROECONOMICS — RATIONAL CHOICE EXAMPLE

What time will you set the alarm clock to go off tomorrow morning if you have to leave home at 8.30?

Choice	Benefits	Costs
Set the alarm for 7.00	Plenty of time to get ready	Short night's sleep, might feel sleepy later
Set the alarm for 8.00	Longer night's sleep	Much more of a rush in the morning

How do you make a rational decision about when the alarm should go off?

What you have to do is to weigh up the costs and benefits of *additional* sleep.

Each extra minute in bed gives you more sleep (**marginal benefit**), but gives you more of a rush when you get up (**marginal cost**).

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