

Introduction to Economics – Principles of Economics



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- **Importance of attending lectures**

- you will be examined on the basis of the *entire syllabus, as defined by the material covered in the lectures and more*; the lecture slides are made available from the lecturer.

- **Do not think you can substitute a textbook for the lectures**

- you may find it helpful to consult at least one textbook, but do not expect an exact correspondence between the lecture-material and any one textbook.

- **Prepare for lectures**

- You can be asked to prepare answers to specific questions: do so!

- **Don't think that you can play 'catch up'**

- the course builds on itself; if you are left behind then the material will rapidly become incomprehensible.

- **Don't think that you can bluff your way to a pass mark**
 - the subject-matter of this course involves precisely defined concepts and deductive reasoning; there is little room for error or imprecision.
- **Take advantage of asking questions**
 - You can ask questions after lectures or on extra classes that may be arranged during the semester
- **You are advised to read course books and do extra work**
 - after each lecture you are advised to read relevant chapters and do extra work
- **Be aware that the exam structure!**
 - Exam structure has not yet been decided! But it won't be just Multiple Choice Test!!!

Lecture etiquette: try to be punctual; mobile phones should be switched off; and **NO TALKING!!!!**

Course structure

- L1. The nature and purpose of economics. Factors of production
- L2. Economic objectives of individuals, firms and governments.
10 Principles of Economics
- L3. Determinants of the demand for goods and services
Determinants of the supply of goods and services
Equilibrium market prices
- L4. Determinants of equilibrium market prices

Before we define Economics we should important concepts

Allocation – division or rationing of something

Distribution – delivering resources to individuals in the economy

Scarcity refers to the tension between limited resources and our unlimited wants

Resources \neq Needs and wants of individuals

Individuals and nations have to make decisions regarding what goods and services they want to buy and which they should forgo

For example, you decided to buy one 3D Bluray movie instead of two DVDs', you must give up owning a second movie of older technology in in exchange for higher quality and 3D capabilities of one Bluray disc

Before we define Economics we should important concepts

So every economic decision involves trade-offs

If every decision involves a trade-off, then it also involves cost to the individual

Opportunity cost is the value of what is foregone in order to have something else. This value is unique for each individual.

| Options | Benefit | Opportunity cost |
|-------------------------------------|----------------------|----------------------|
| 1 hour of extra study of Economics | Grade C on the exam | One hour of sleep |
| 2 hours of extra study of Economics | Grade C+ on the exam | Two hours of sleep |
| 3 hours of extra study of Economics | Grade B on the exam | Three hours of sleep |

Another Example of Opportunity cost and Scarcity

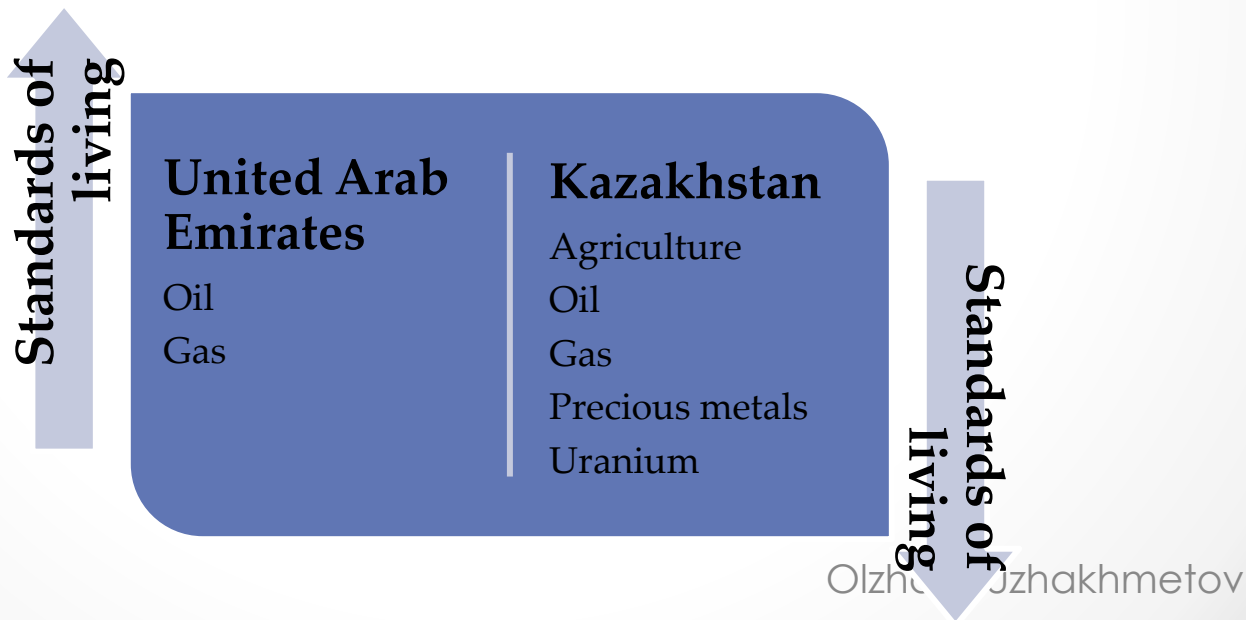


So what is Economics?

Economics is a study of **allocation** and **distribution** of **scarce resources**

How a nation manages its scarce resources and how it will distribute its resources to individuals

Who manages resources better?



Factors of production

An economic term to describe the inputs that are used in the production of goods or services in the attempt to make an economic profit. The factors of production include land, labor, capital and entrepreneurship.



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Economic goods and free goods

A free good is a good with zero opportunity cost. This means it can be produced by society in as much quantities as needed with little or zero effort. E.g. River.

An **economic good** is one which is scarce and therefore has an opportunity cost and price

Or

A consumable item that is useful to people but scarce in relation to its demand, so that human effort is required to obtain it. In contrast, free goods (such as air) are naturally in abundant supply and need no conscious effort to obtain them.

Private goods and Public goods

A product that must be purchased in order to be consumed, and whose consumption by one individual prevents another individual from consuming it.

Private good or service has three main characteristics:

- **Excludability.** Consumers of private goods can be excluded from consuming the product by the seller if they are not willing or able to pay for it.
- **Rivalry:** With a private good, one person's consumption of a product reduces the amount left for others to consume and benefit from - because scarce resources are used up in producing and supplying the good or service.
- **Rejectability:** Private goods and services can be rejected - if you don't like the soup on the college or school menu, you can use your money to buy something else!

Private goods and Public goods (cont.)

A product that one individual can consume without reducing its availability to another individual and from which no one is excluded.

Non-excludability: The benefits derived from the provision of pure public goods cannot be confined to only those who have actually paid for it.

Non-rival consumption: Consumption of a public good by one person does not reduce the availability of a good to everyone else

Practice questions

You win 100 dollars in a basketball pool. You have a choice between spending this money now or putting it away for a month into bank account that pays 5% interest. What is the opportunity cost of spending \$100 now?

Practice questions

The company that you manage has invested \$5 million in developing a new product, but the development is not quite finished. At recent meeting, your salespeople report that the introduction of competing products has reduced the expected sales of your new product to \$3 million. If it would cost \$1 million to finish development and make the product, should you go ahead and do so? What is the most you should pay to complete development?