INTRODUCTION IN MICROECONOMICS

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STRUCTURE OF THE COURSE

13 Modules

Midterm Exam(100) / Final Exam (200)

Participation / tests

3 Quizzes

Individual assignment (topics on Moodle) Start: Feb. 23rd / PPT 15 min

Group assignment (3-5 people) Deadline: April 10th / PPT 15 min

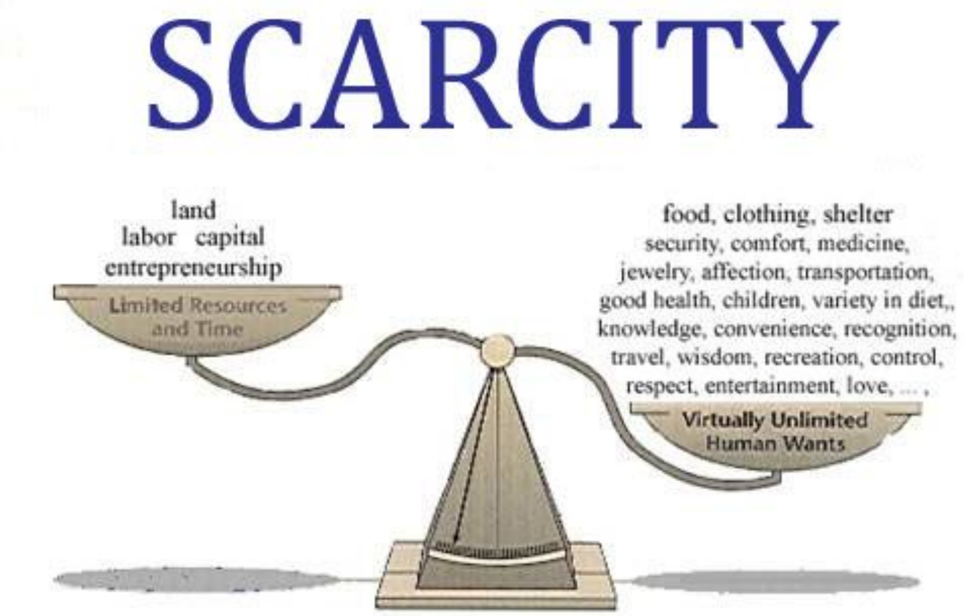
ECONOMICS IN NEWS

2008 seemed to be the year of economic news. From the worst financial crisis since the Great Depression to the possibility of a global recession, to gyrating gasoline and food prices, and to plunging housing prices, economic questions were the primary factors in the presidential campaign of 2008 and dominated the news generally.

News interpreted through economic consequences or background.

Economics is defined less by the subjects economists investigate than by the way in which economists investigate them. Economists have a way of looking at the world that differs from the way scholars in other disciplines look at the world. It is ***the economic way of thinking***

SCARCITY



Our resources are LIMITED. At any one time, we have only so much land, so many factories, so much oil, so many people. But our wants, our desires for the things that we can produce with those resources, are unlimited. We would always like more and better housing, more and better education— more and better of practically everything.

Virtually everything is scarce.

A FREE GOOD is one for which the choice of one use does not require that we give up another

SCARCITY AND THE FUNDAMENTAL ECONOMIC QUESTIONS

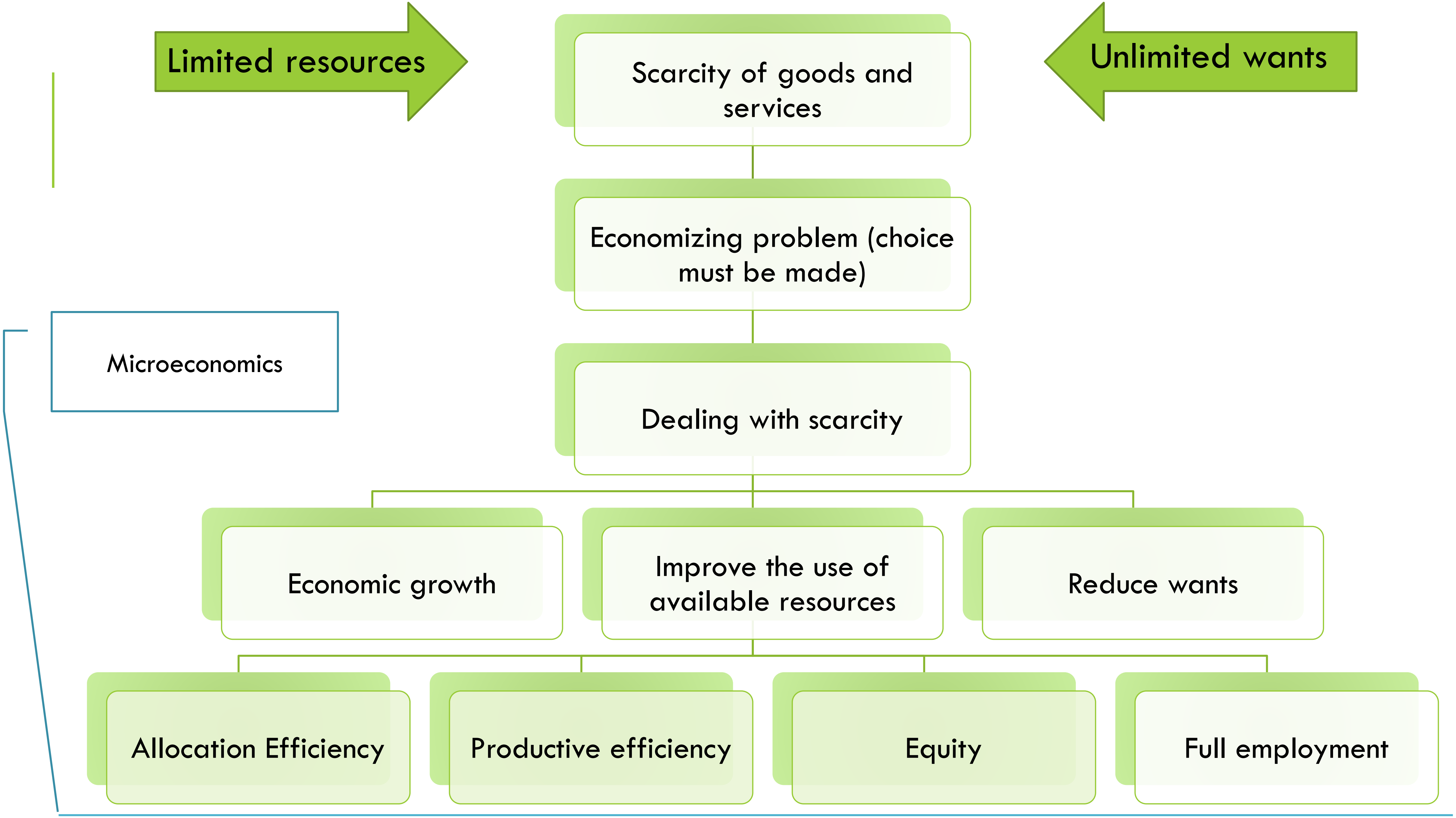
- What should be produced?
- How should goods and services be produced?
- For whom should goods and services be produced?

OPPORTUNITY COST

OPPORTUNITY COST is the value of the best alternative forgone in making any choice.

(1) The concept of opportunity cost must not be confused with the purchase price of an item.

The essential thing to see in the concept of opportunity cost is found in the name of the concept. Opportunity cost is the value of the best opportunity forgone in a particular choice. It is not simply the amount spent on that choice.


Limited resources
Scarcity of goods and services
Unlimited wants
Economizing problem (choice must be made)
Microeconomics
Dealing with scarcity
Economic growth
Improve the use of available resources
Reduce wants
Allocation Efficiency
Productive efficiency
Equity
Full employment

SUMMARY

Economics is a social science that examines how people choose among the alternatives available to them.

Scarcity implies that we must give up one alternative in selecting another. A good that is not scarce is a free good.

The three fundamental economic questions are: What should be produced? How should goods and services be produced? For whom should goods and services be produced?

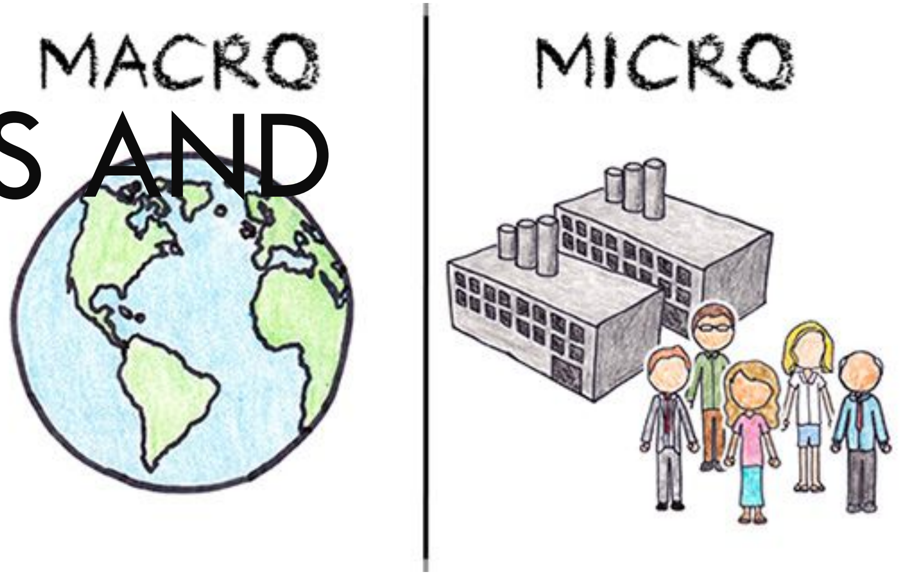
Every choice has an opportunity cost and opportunity costs affect the choices people make. The opportunity cost of any choice is the value of the best alternative that had to be forgone in making that choice.

10 PRINCIPLES OF ECON

1. People face trade-offs (between efficiency and equity)
2. The cost of something is what you give up to get it
3. Rational people think at the margin
4. People respond to incentives
5. Trade can make everyone better off
6. Markets are usually a good way to organize economic activity
7. Governments can sometimes improve market outcomes
8. A country's standard of living depends on its ability to produce goods and services
9. Prices rise when the government prints too much money
10. Society faces a short-run tradeoff between Inflation and unemployment.

*Economists argue that most choices are made "at the margin." **The margin is the current level of an activity.** Think of it as the edge from which a choice is to be made. A choice at the margin is a decision to do a little more or a little less of something.*

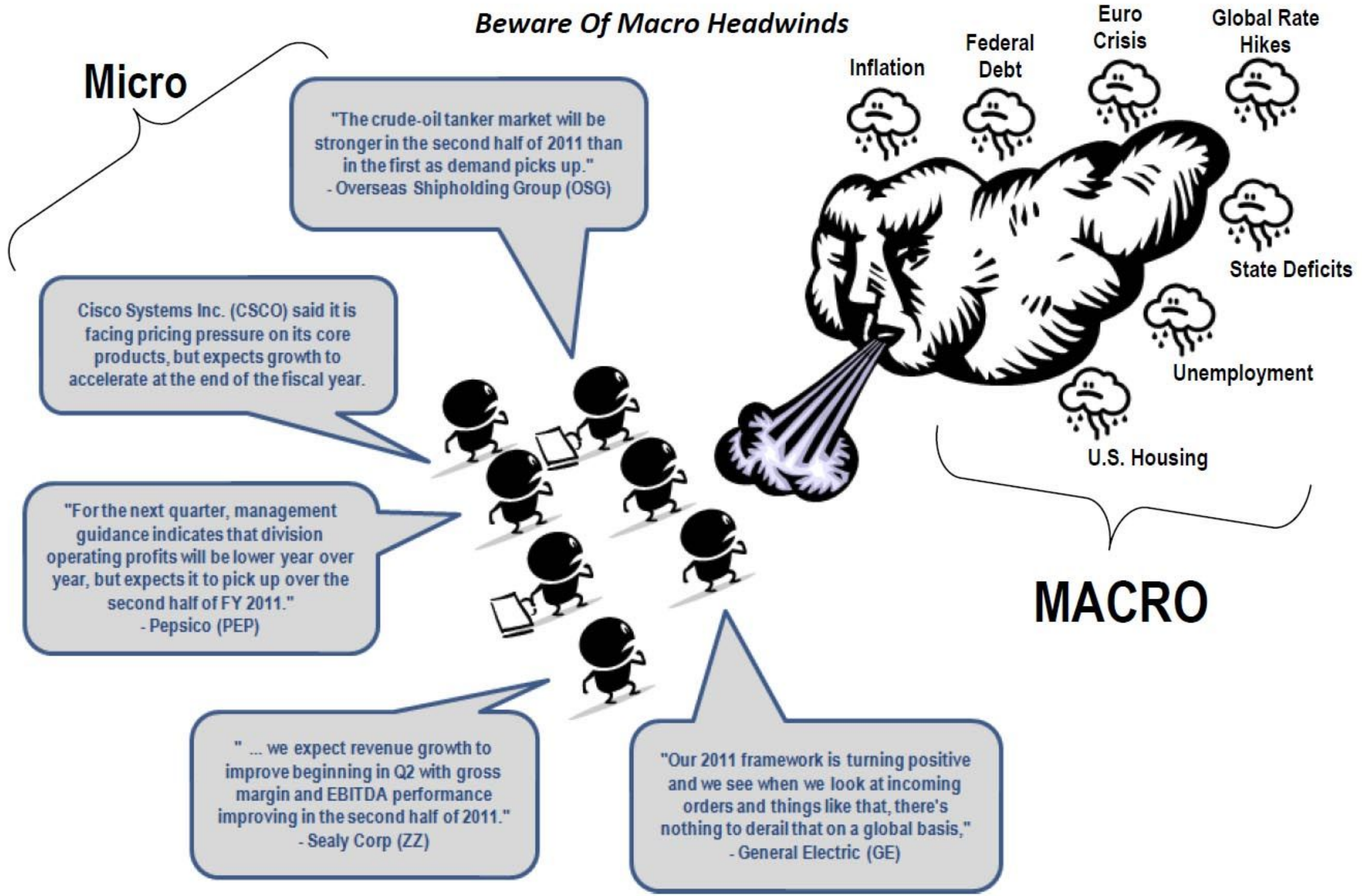
MACROECONOMICS AND MICROECONOMICS



Macroeconomics *is the branch of economics that focuses on the impact of choices on the total, or aggregate, level of economic activity.*

What is happening to the unemployment rate? Other questions that deal with aggregates, or totals, in the economy. The question about the level of economic activity, for example, refers to the total value of all goods and services produced in the economy. Inflation is a measure of the rate of change in the average price level for the entire economy; it is a macroeconomic problem.

Microeconomics *is the branch of economics that focuses on the choices made by individual decision-making units in the economy – typically consumers and firms – and the impacts those choices have on individual markets.*


Beware Of Macro Headwinds
Micro
"The crude-oil tanker market will be stronger in the second half of 2011 than in the first as demand picks up." - Overseas Shipholding Group (OSG)
Cisco Systems Inc. (CSCO) said it is facing pricing pressure on its core products, but expects growth to accelerate at the end of the fiscal year.
"For the next quarter, management guidance indicates that division operating profits will be lower year over year, but expects it to pick up over the second half of FY 2011." - Pepsico (PEP)
" ... we expect revenue growth to improve beginning in Q2 with gross margin and EBITDA performance improving in the second half of 2011." - Sealy Corp (ZZ)
"Our 2011 framework is turning positive and we see when we look at incoming orders and things like that, there's nothing to derail that on a global basis," - General Electric (GE)
Inflation
Federal Debt
Euro Crisis
Global Rate Hikes
State Deficits
Unemployment
U.S. Housing
MACRO

THE ECONOMISTS TOOLKIT

In the scientific method, hypotheses are suggested and then tested. A **HYPOTHESIS** is an assertion of a relationship between two or more variables that could be proven to be false.

A statement is not a hypothesis if no conceivable test could show it to be false.

- The statement “Plants like sunshine” is not a hypothesis;
- The statement “Increased solar radiation increases the rate of plant growth” is a hypothesis;

The All-Other-Things-Unchanged Problem (ceteris paribus)

- Models are important (All scientific thought involves simplifications of reality)

The Fallacy of False Cause

- Hypotheses in economics typically specify a relationship in which a change in one variable (independent) causes another (dependent) to change. Sometimes the fact that two variables move together can suggest the false conclusion that one of the variables has acted as an independent variable that has caused the change we observe in the dependent variable
- *Reaching the incorrect conclusion that one event causes another because the two events tend to occur together is called the FALLACY OF FALSE CAUSE.*

Normative and positive statements

- A statement of fact or a hypothesis is a POSITIVE STATEMENT
- A NORMATIVE STATEMENT is one that makes *a value judgment*. Such a judgment is the opinion of the speaker; no one can “prove” that the statement is or is not correct.

SUMMARIZING

- Economists try to employ the scientific method in their research.
- Scientists cannot prove a hypothesis to be true; they can only fail to prove it false.
- Economists, like other social scientists and scientists, use models to assist them in their analyses.
- Two problems inherent in tests of hypotheses in economics are the all-other-things-unchanged problem and the fallacy of false cause.
- Positive statements are factual and can be tested. Normative statements are value judgments that cannot be tested. Many of the disagreements among economists stem from differences in values.