

AP/IB

Economics

Unit 1: Basic Economic Concepts

I WON THE LOTTERY!

I'll give you anything you want other than money.

What do you want?

Would your list ever end?

Why not?

Scarcity!!!

What is Economics?

- **Economics is the science of scarcity.**
- **Scarcity- we have unlimited wants but limited resources.**
- **Since we are unable to have everything we desire, we must make **choices** on how we will use our resources.**

Economics is the study of choices .

In economics we will study the choices of individuals, firms, and governments. 3

Examples:

You must **choose** between buying jeans or buying shoes.

Businesses must **choose** how many people to hire

Governments must **choose** how much to spend on welfare.

Textbook Definition

Economics- Social science concerned with the efficient use of scarce resources to achieve maximum satisfaction of economic wants.

(Study of how individuals and societies deal with scarcity)

Micro vs. Macro

MICROeconomics-

Study of **small economic units** such as individuals, firms, and industries (ex: supply and demand in specific markets, production costs, labor markets, etc.)

MACROeconomics-

Study of the large **economy as a whole** or economic aggregates (ex: economic growth, government spending, inflation, unemployment, international trade etc.)

How is Economics used?

- Economists use the scientific method to make generalizations and abstractions to develop theories. This is called **theoretical economics**.
- These theories are then applied to fix problems or meet economic goals. This is called **policy economics**.

Positive vs. Normative

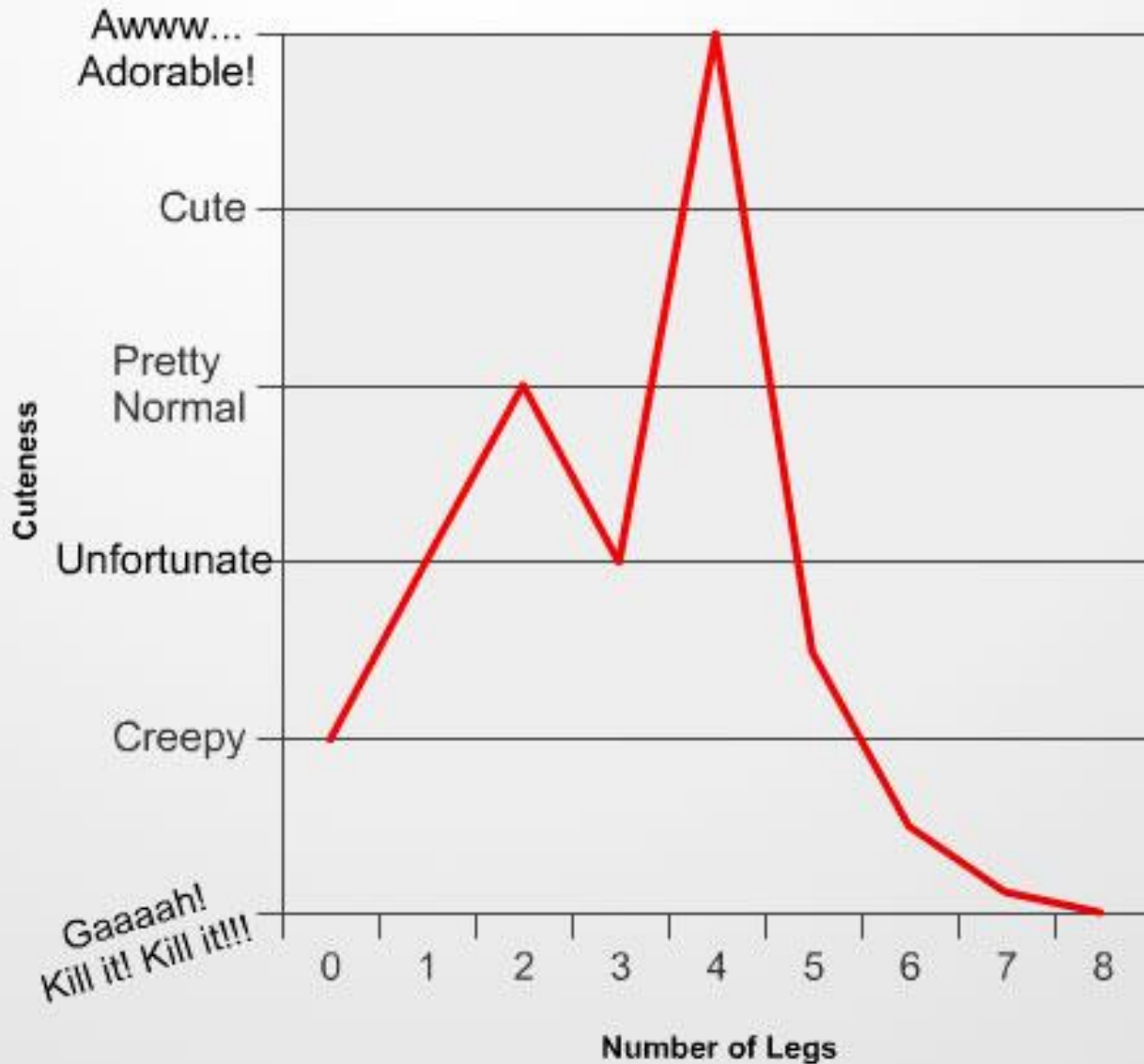
Positive Statements- Based on facts. Avoids value judgements (**what is**).

Normative Statements- Includes value judgements (**what ought to be**).

5 Key Economic Assumptions

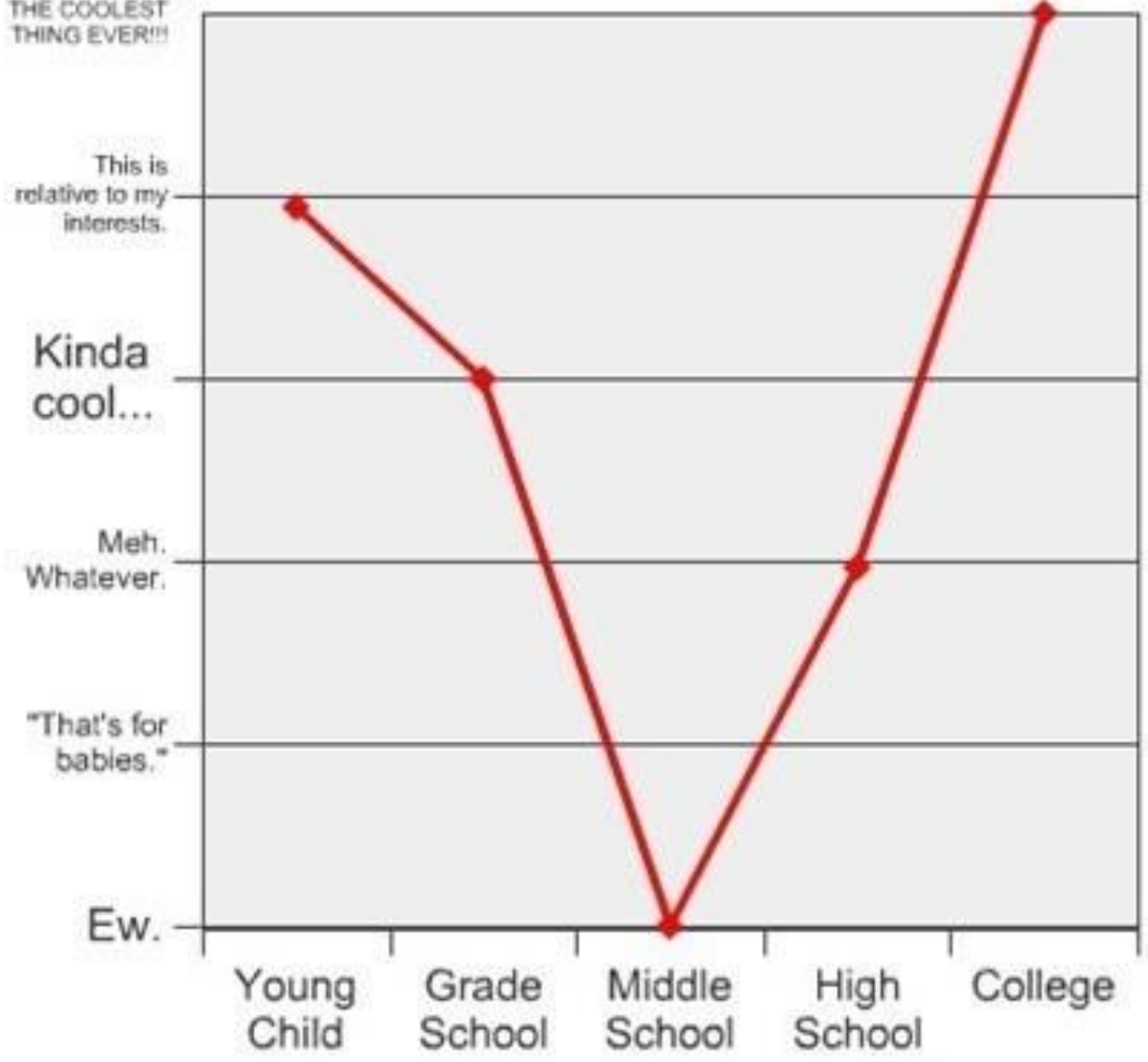
1. Society has unlimited wants and limited resources (**scarcity**).
2. Due to scarcity, choices must be made. Every choice has a cost (a **trade-off**).
3. Everyone's goal is to make choices that maximize their satisfaction. Everyone acts in their own "self-interest."
4. Everyone makes decisions by comparing the **marginal costs** and **marginal benefits** of every choice.
5. Real-life situations can be explained and analyzed through simplified models and graphs.

Cuteness vs. Number of Legs



How much we enjoy childhood things

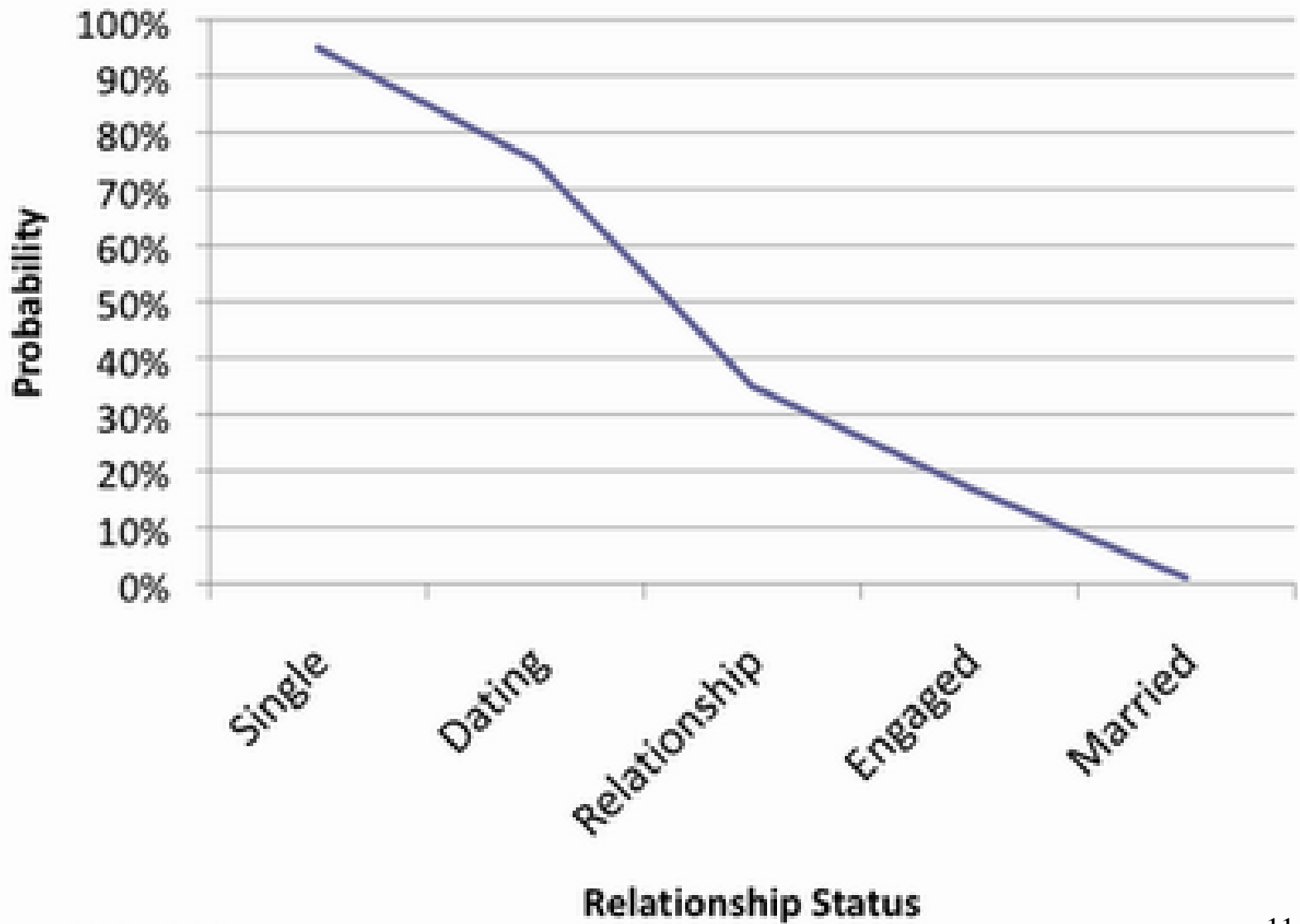
OMG THIS IS THE COOLEST THING EVER!!!



Usefulness of Shotgun in Video Games



Probability of Being Right



Thinking at the Margin

# Times Watching Movie	Benefit	Cost
1st	\$30	\$10
2nd	\$15	\$10
3rd	\$5	\$10
Total	\$50	\$30

Would you see the movie three times?

Notice that the total benefit is more than the total cost but you would NOT watch the movie the 3rd time.

Marginal Analysis

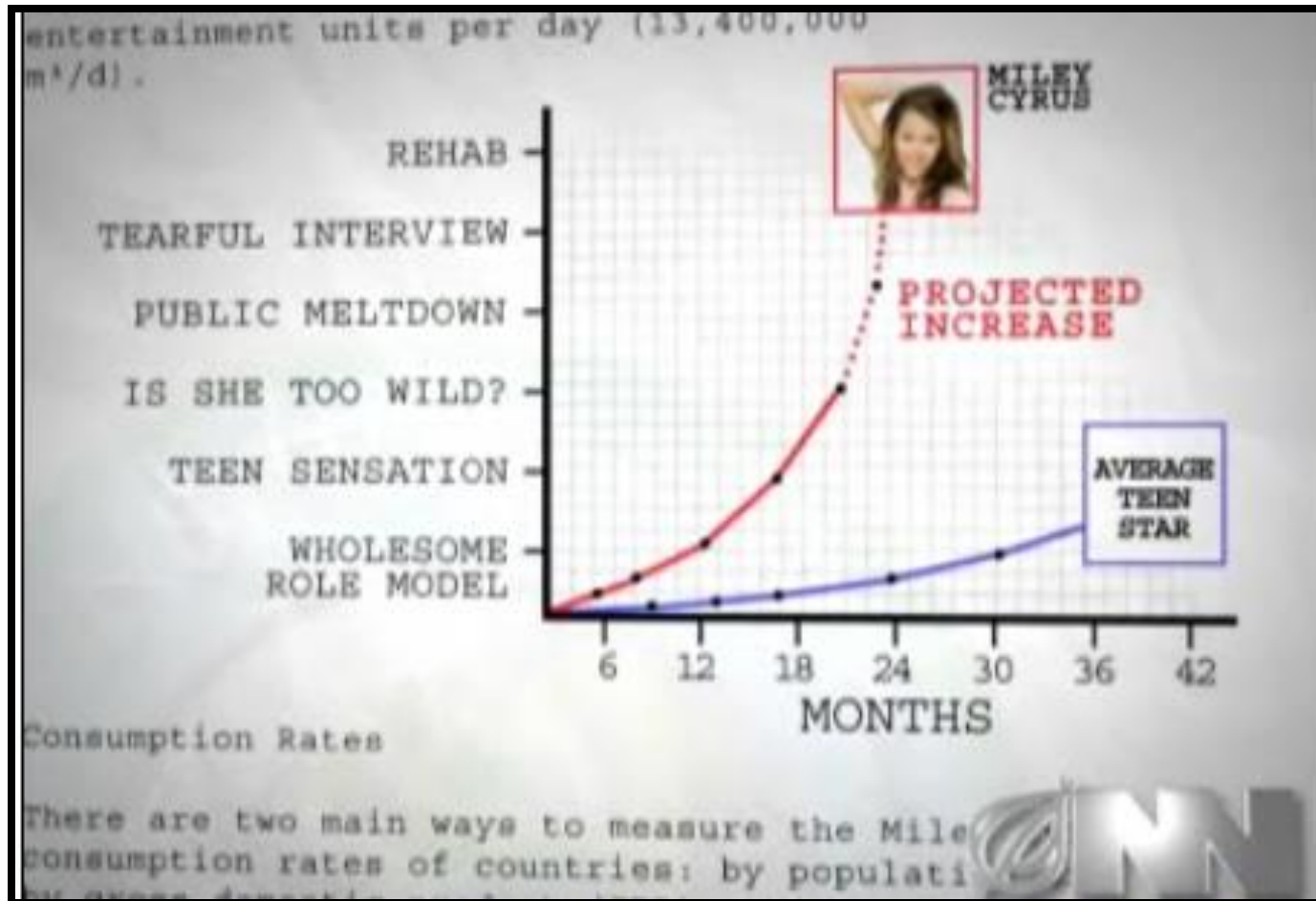
In economics the term marginal = additional
Marginal analysis (aka: thinking on the margin)
making decisions based on increments

Example:

- **When you decide to go to the mall you consider the additional benefit and the additional cost (your opportunity cost).**
- **Once you get to the mall, you continue to use marginal analysis when you shop, buy food, and talk to friends.**
- **Since your marginal benefits and costs can quickly change your analyzing them every second.**
- **What if your ex-girlfriend shows up?**

The Point: You will continue to do something as long as the marginal benefit is greater than the marginal cost

All Resources are Scarce!



**This video was made in 2008.
Did it come true?**





Review with your neighbor...

- 1. Define scarcity**
- 2. Define Economics**
- 3. Identify the relationship between scarcity and choices**
- 4. Explain how Macroeconomics is different than Micro**
- 5. Explain the difference between positive and normative economics**
- 6. Identify the 5 main assumptions of Economics**
- 7. Give an example of marginal analysis**
- 8. Name 10 Disney movies**

Analyzing Choices

Given the following assumptions, make a rational choice in your own self-interest (hold everything else constant)...

- 1. You want to visit your friend for a week. You will return Sunday night.**
- 2. You work every weekday earning \$100 per day**
- 3. You have three flights to choose from:**
 - Thursday Night Flight = \$275**
 - Friday Early Morning Flight = \$300**
 - Friday Night Flight = \$325**

Which flight should you choose? Why?

Trade-offs vs. Opportunity Cost

ALL decisions involve trade-offs.

Trade-offs - ALL the alternatives that we give up when we make a choice

(Examples: going to the movies)

Opportunity cost- most desirable alternative given up when you make a choice.

What are trade-offs of deciding to go to college?

What is the opportunity cost of going to college?



GEICO assumes you understand opportunity cost. Why? 19

Econ of College



Guns and Butter

"Every gun that is made, every warship launched, every rocket fired signifies, in the final sense, a theft from those who hunger and are not fed, those who are cold and are not clothed. This world in arms is not spending money alone. It is spending the sweat of its laborers, the genius of its scientists, the hopes of its children."

"The cost of one modern heavy bomber is this: a modern brick school in more than 30 cities. It is two electric power plants, each serving a town of 60,000 population. It is two fine, fully equipped hospitals. It is some fifty miles of concrete pavement."

"We pay for a single fighter plane with a half million bushels of wheat. We pay for a single destroyer with new homes that could have housed more than 8,000 people."

-Dwight Eisenhower

Speaking against the military build up of the cold war

The USS Dwight Eisenhower

Launched in 1975 and cost \$679 million (\$4.5 billion in 2007 dollars)



46. Karen works part-time at a local convenience store and earns \$10 per hour. She wants to spend next Saturday afternoon attending a music concert. The full price of a concert ticket is \$75, but Karen was able to get a discounted price of \$50 from a friend who purchased the ticket but has become unable to attend. If Karen took 4 hours off from her job to attend the concert, what was her opportunity cost of attending the concert?

- (A) \$40
- (B) \$50
- (C) \$75
- (D) \$90
- (E) \$115

Economic Terminology

Utility = Satisfaction!

Marginal = Additional!

Allocate = Distribute!

Price vs. Cost

What's the price? vs. How much does that cost?

Price= Amount buyer (or consumer) pays

Cost= Amount seller pays to produce a good

Investment

Investment= the money spent by **BUSINESSES** to improve their production

Ex: \$1 Million new factory

• **Consumer Goods**- created for direct consumption 25
(example: pizza)

• **Capital Goods**- created for indirect consumption
(oven, blenders, knives, etc.)

• **Goods used to make consumer goods**

The 4 Factors of Production

The Four Factors of Production

ALL resources can be classified as one of the following four factors of production:

1. **Land** -All natural resources that are used to produce goods and services. (Ex: water, sun, plants, animals)
2. **Labor** -Any effort a person devotes to a task for which that person is paid. (Ex: manual laborers, lawyers, doctors, teachers, waiters, etc.)
3. **Capital** -
Physical Capital- Any human-made resource that is used to create other goods and services (Ex: tools, tractors, machinery, buildings, factories, etc.)
Human Capital- Any skills or knowledge gained by a worker through education and experience

Program for International Student Assessment (PISA) is a worldwide evaluation of 15-year-old school children's scholastic performance

2000		2003		2006	
Reading literacy		Mathematics		Science	
1.	Finland 546	1.	Finland 544	1.	Finland 563
2.	Canada 534	2.	South Korea 542	2.	Canada 534
3.	New Zealand 529	3.	Netherlands 538	3.	Japan 531
4.	Australia 528	4.	Japan 534	4.	New Zealand 530
5.	Ireland 527	5.	Canada 532	5.	Australia 527
6.	South Korea 525	6.	Belgium 529	6.	Netherlands 525
7.	United Kingdom 523	7.	Switzerland 527	7.	South Korea 522
8.	Japan 522	8.	Australia 524	8.	Germany 516
9.	Sweden 516	9.	New Zealand 523	9.	United Kingdom 515
10.	Austria 507	10.	Czech Republic 516	10.	Czech Republic 513
11.	Belgium 507	11.	Iceland 515	11.	Switzerland 512
12.	Iceland 507	12.	Denmark 514	12.	Austria 511
13.	Norway 505	13.	France 511	13.	Belgium 510
14.	France 505	14.	Sweden 503	14.	Ireland 508
15.	United States 504	15.	Austria 506	15.	Hungary 504
16.	Denmark 497	16.	Germany 503	16.	Sweden 503
17.	Switzerland 494	17.	Ireland 503	17.	Poland 498
18.	Spain 493	18.	Slovakia 498	18.	Denmark 496
19.	Czech Republic 492	19.	Norway 495	19.	France 495
20.	Italy 487	20.	Luxembourg 493	20.	Iceland 491

The Four Factors of Production

4. Entrepreneurship -ambitious leaders that combine the other factors of production to create goods and services.

- **Examples-Henry Ford, Bill Gates, Inventors, Store Owners, etc.**

Entrepreneurs:

- 1. Take The Initiative**
- 2. Innovate**
- 3. Act as the Risk Bearers**

So they can obtain PROFIT.

$$\text{Profit} = \text{Revenue} - \text{Costs}$$

