



# Micro vs. Macro

- Economics: study decisions and use of resources
- Micro: study decisions of small units (households & firms)
- Macro: study decisions of nation as whole (govts, banking system)

# Normative vs. Positive

- **Positive:**
- **Based on scientific method**
- **Hypotheses are formulated and tested**
- **Normative:**
- **Value judgments**
- **Based on the way someone believes things *ought* to be**

# *Ceteris Paribus*

- “all others things remain unchanged”
- Used by economists to analyze economic choices when there is only one variable
- Assume nothing else changes.

# Inputs or Factors of Production

- **The resources available to manufacture into outputs (G&S)**
- **LAND**
  - natural
- **LABOR**
  - Human ability
- **CAPITAL**
  - Tools, machines, \$
- **ENTREPRENEUR**
  - Idea maker / risk taker

# Economics & Scarcity

- Resources are Limited, therefore economic systems are set up to determine:
  - *What to produce?*
  - *How to produce?*
  - *For Whom to produce?*

# Trade-Off & Opportunity Cost

- T/O: choice made
- O/C: sacrifice because a choice was made
- Used with PPC models!!
  - Study vs. working:
    - Working means more \$
    - Studying means better grades
    - Studying now means opportunity of more \$ later

# Comparative Advantage, etc.

- Comp. Adv: the ability to produce something with a lower opp. cost.
- Absolute Adv: ability to produce something more efficiently
- Specialization: focus on comp. adv. And trade, hone skills leads to more efficiency



# More Comparative

- What is the best choice:

	Output per Hour	
	Kristen	Anna
Wristbands	15	12
Potholders	3	2

**Kristen: 1 PH = 5 WB and 1 WB = 1/5 PH**

**Anna: 1 PH = 6 WB and 1 WB = 1/6 PH**

**Kristen has the comparative advantage in potholders, her O/C is least**

**Anna has the comp. adv. in wristbands, her O/C is least**

# Production Possibilities Frontier

- (PPC)
- Combinations of 2 goods that can be produced if all resources are fully employed and used efficiently

# PPC, cont.

## a. Guns or Butter

Used by economists when studying gov't

Guns = foreign (military) budget

Butter = domestic budget

## b. Straight or Curved

**Curved: Law of Increasing Opportunity Cost**

when reallocating resources, some efficiency can be lost

**Straight: all resources are perfectly versatile (transferable)**

# PPC, cont.

**c. Present consumption or future choices today could foster faster growth tomorrow:**

**ex) capital investments can lead to more efficiency**

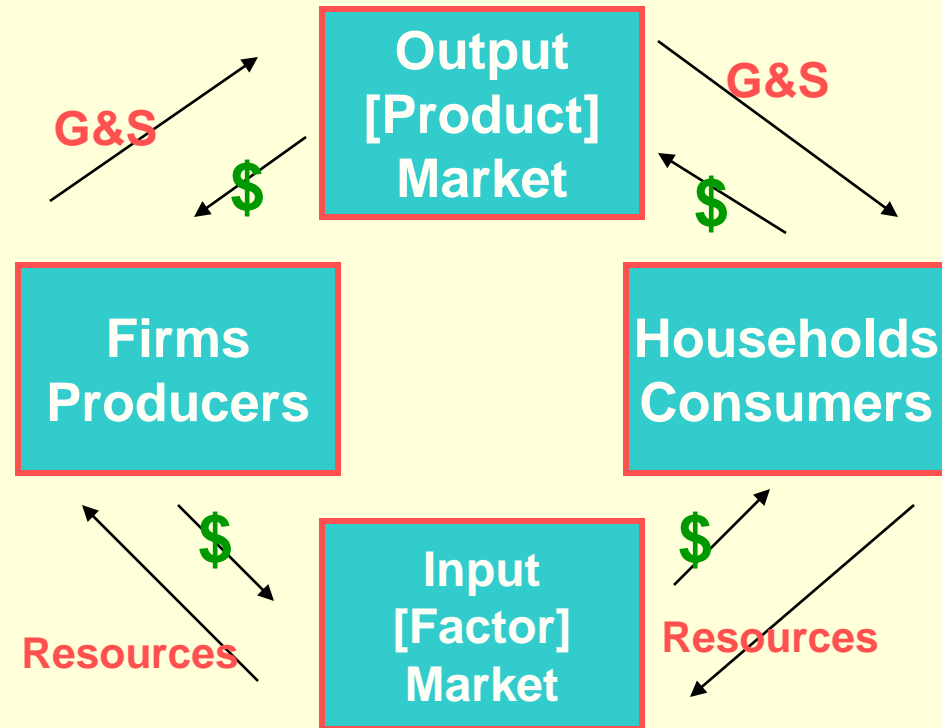
**ex) ovens & bread**

# Comparing Economic Systems

- a. **Command: gov't makes eco decisions**  
**-communism, N. Korea, USSR, Cuba**
  
- b. **Traditional: past/customs make decisions**  
**-tribal communities**
  
- c. **Market: households & firms make decisions**  
**-U.S., Western Europe, etc.**

# Circular Flow of Economic Activity

- **Factor Market:**  
market where inputs are bought and sold
- **Product Market:**  
market where G&S are bought and sold



# Consumers:

- The goal is to satisfy needs & wants
- Households demand when they desire, and are willing and able to buy g&s
- a. Law of Demand: as the price increase the quantity demanded decreases (and conversely)
- b. Demand Schedule & Curve
  - chart of numbers
  - graph of p & q
  - p & q have an inverse relationship
  - p on vertical, q on horizontal axis

# Determinants of Demand

- Outside of price, what affects a consumer's demand for g&s?
  1. Tastes and preferences
  2. Prices of related goods – complements & substitutes
  3. Consumers' income
  4. Change in expectations



# Change vs. Shift

## $\Delta$ in Q.D.

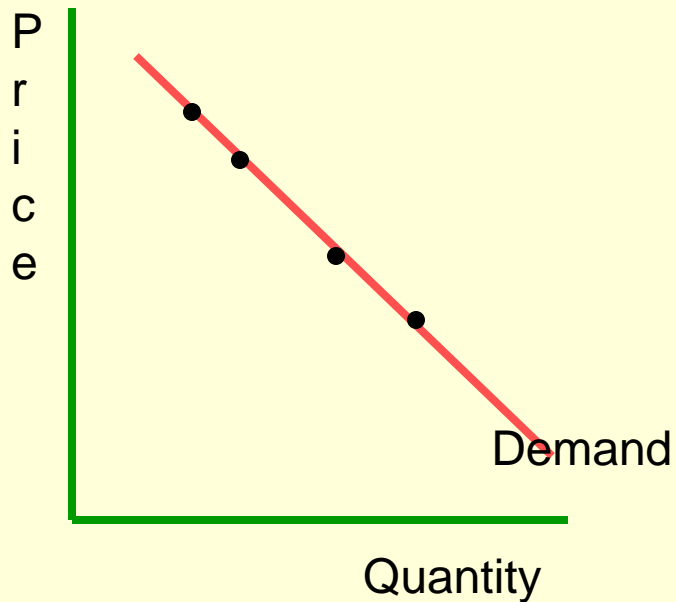
1. Law of Demand
2. Price change is cause
3. As price changes quantity will vary inversely
4. Move from point to point along same curve

## Shift in Demand

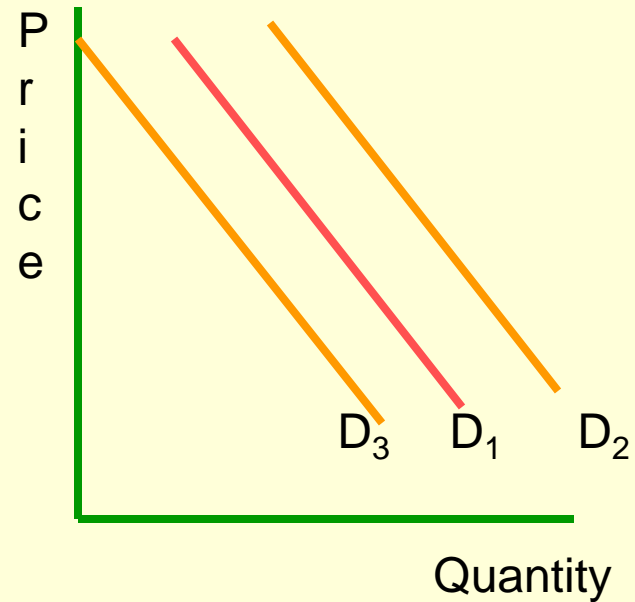
1. Demand Determinant
2. Price change is result of another factor
3. Move all quantities at same price (shift curve)
4. Increase = Right  
Decrease = Left

# Change vs. Shift

## $\Delta$ in Q.D.



## Shift in Demand



# Producers

**Role: make a profit**

- a. Law of Supply: as price increases the quantity supplied will increase (and conversely)**
- b. Supply Schedule & Curve**
  - chart of #s**
  - positive graph**
  - p and q have a direct relationship**

# Determinants of Supply

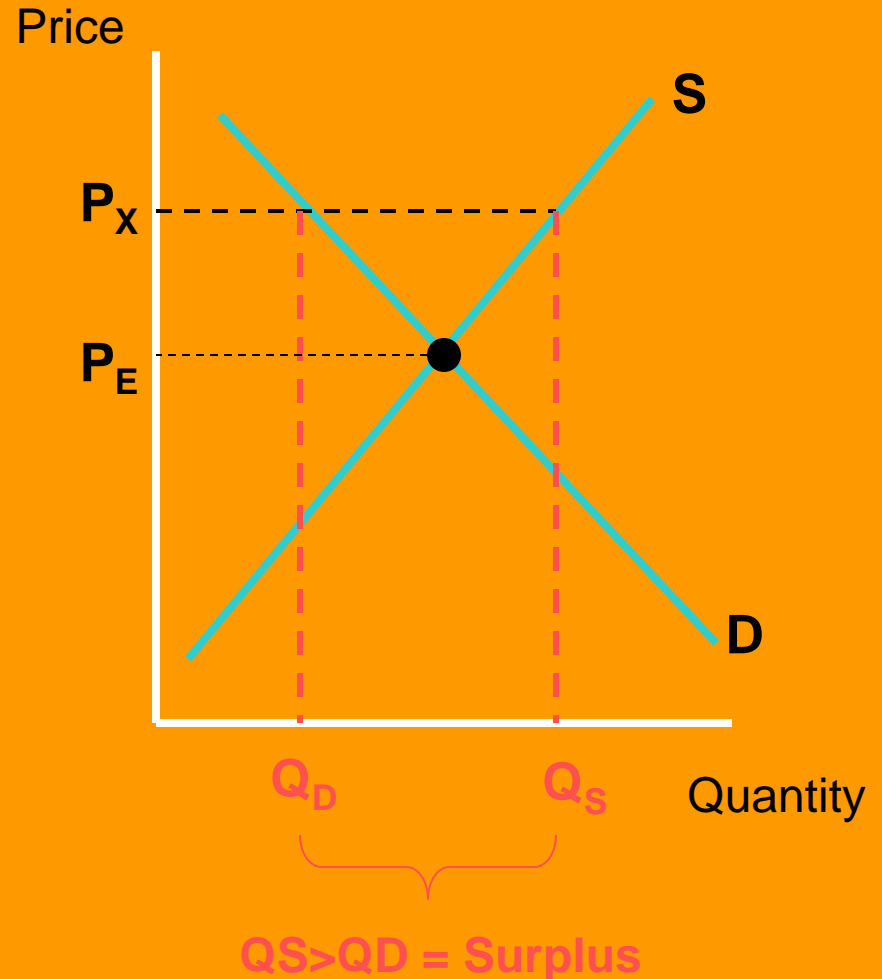
- **Outside of price, what can affect a firm's ability to offer g&s to the market?**
  - 1. Costs of resources or production**
  - 2. Technology**
  - 3. Government: regulation, taxes & subsidies**
  - 4. Number of sellers**
  - 5. Producer expectations**

# Equilibrium

- Quantity supplied equals quantity demanded; the market is cleared
- On graph: the intersection of the two curves
- Adam Smith's *Invisible Hand*, guides the market to find this equilibrium w/o govt intervention

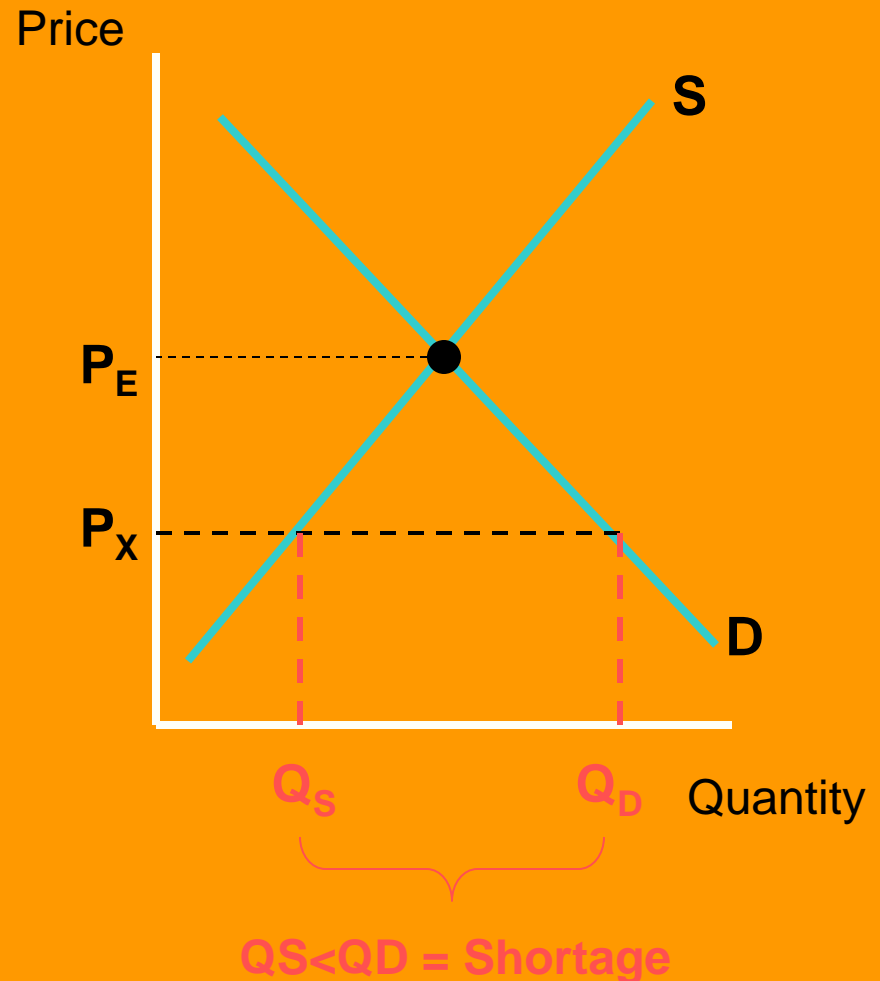
# a. Surplus

- $Q.S. > Q.D.$
- Price was too high, above equilibrium: consumers not willing or able
- Result: firms must either withhold supply, lower price, or stimulate demand



## b. Shortage

- $Q.S. < Q.D.$
- Price was too low, below equilibrium: consumers too eager and firms unable to meet it
- Result: firms must either increase supply or raise price



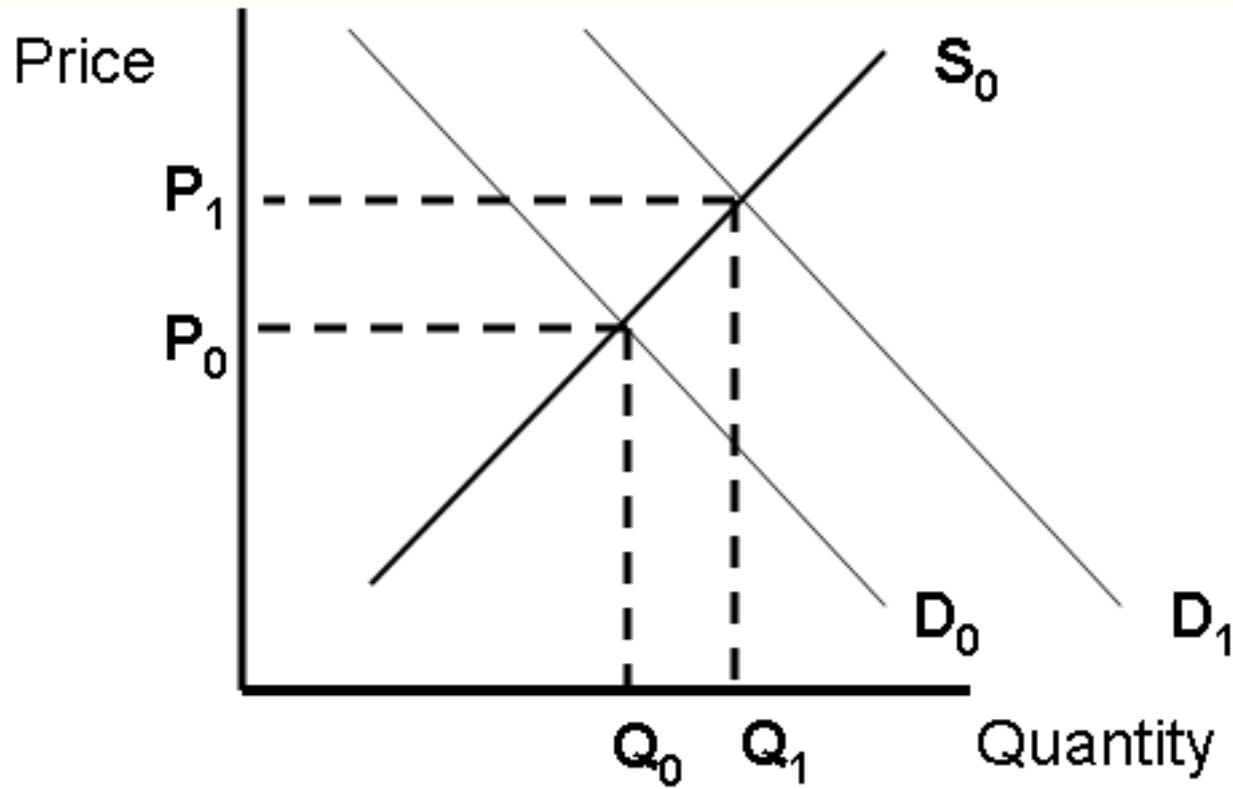
## c. Price Ceiling

- Maximum legal price that can be charged for a product
- Goal: equity
- Ex) concert tix, rent control apts, NCAA tix
  
- Graph = Shortage
- Result = permanent shortage leads to black market, scalping, the market finds a way!!



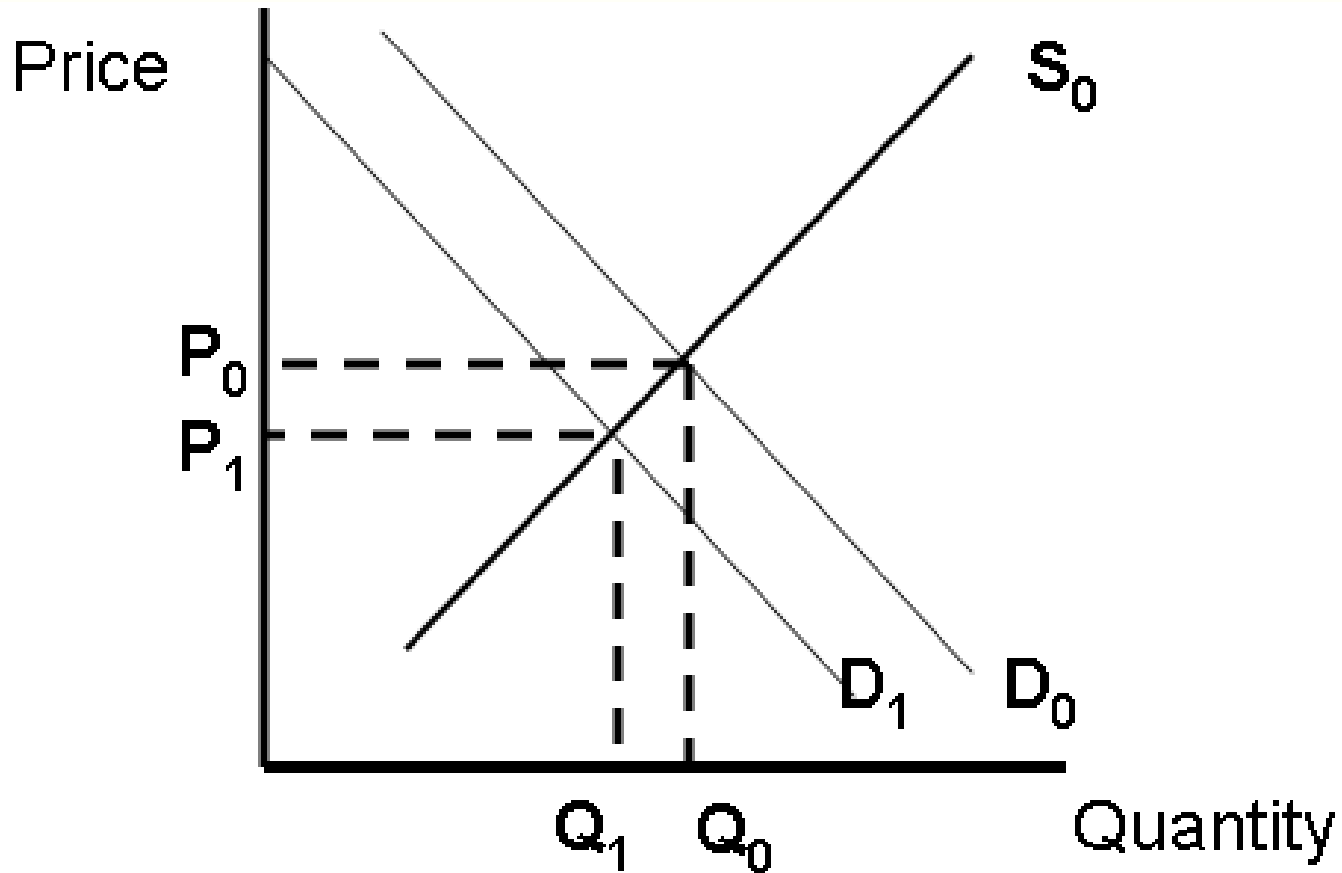
## d. Price Floor

- Minimum legal price that can be charged for a g&s or even input.
- Goal: equity
- Ex) minimum wage
  
- Graph: Surplus (there are  $S_L > D_L$ )
- Result: surplus of labor leads to under-the-table wages, the market finds a way!!



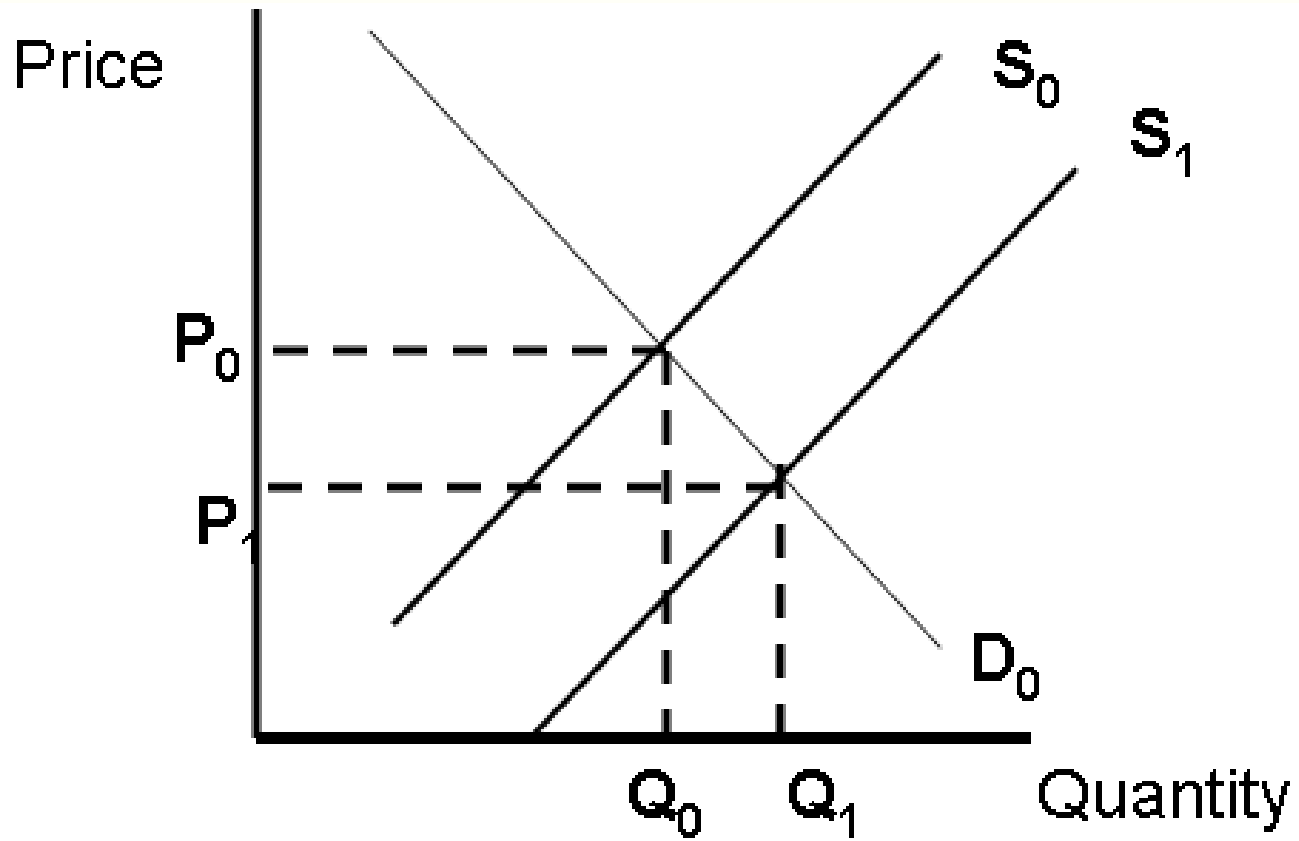
**Increase in Demand**

**$P \uparrow Q \uparrow$**



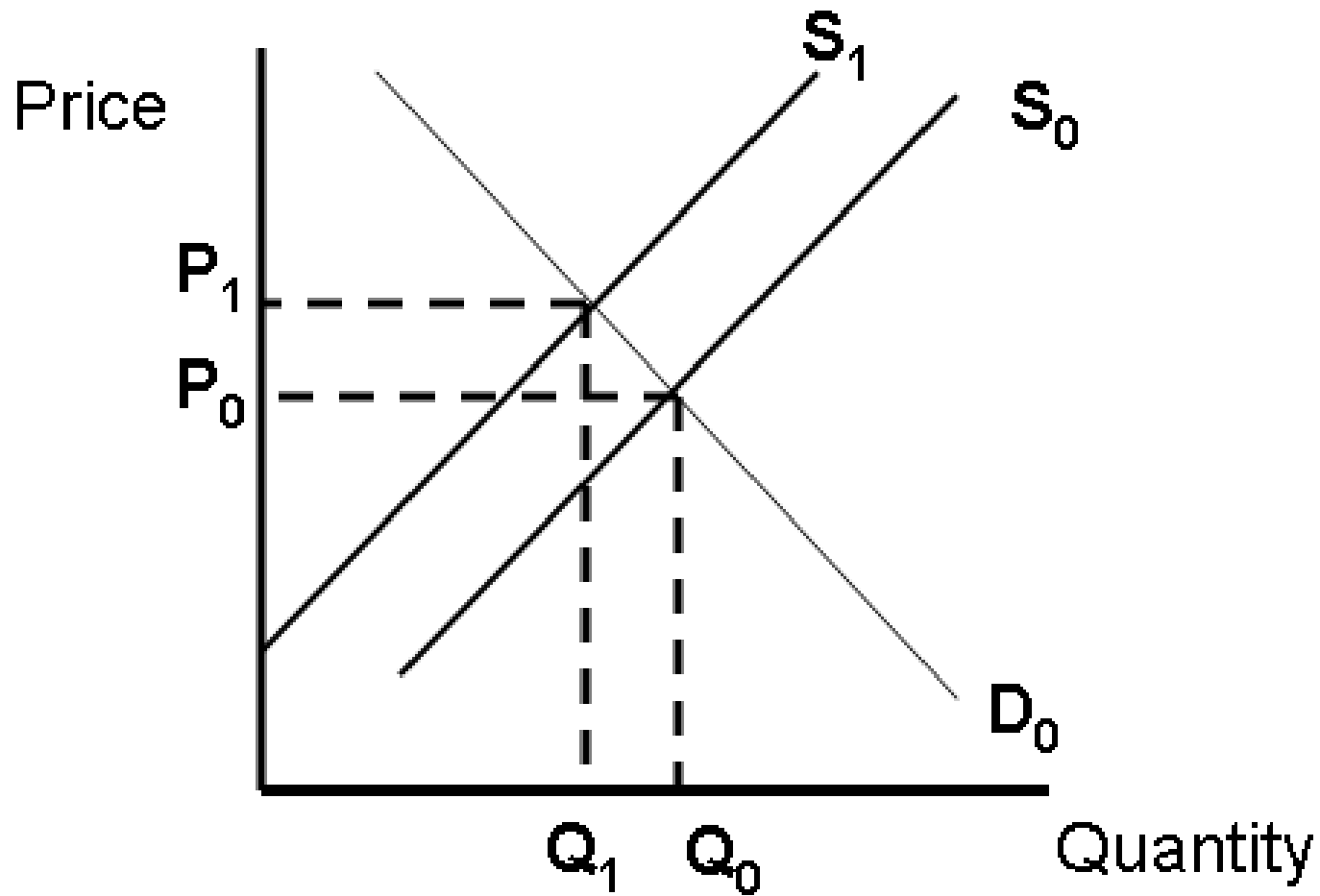
**Decrease in Demand**

**$P \downarrow Q \downarrow$**



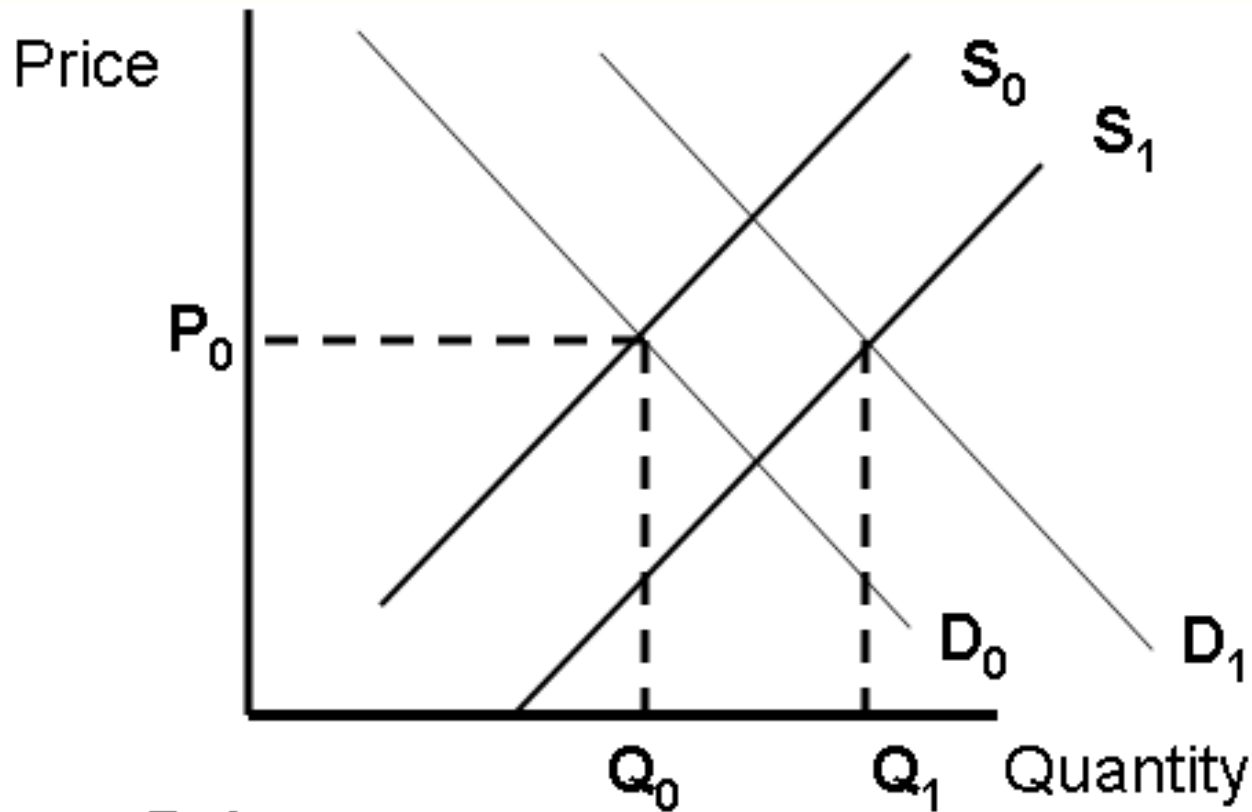
**Increase in Supply**

**$P \downarrow Q \uparrow$**



**Decrease in Supply**

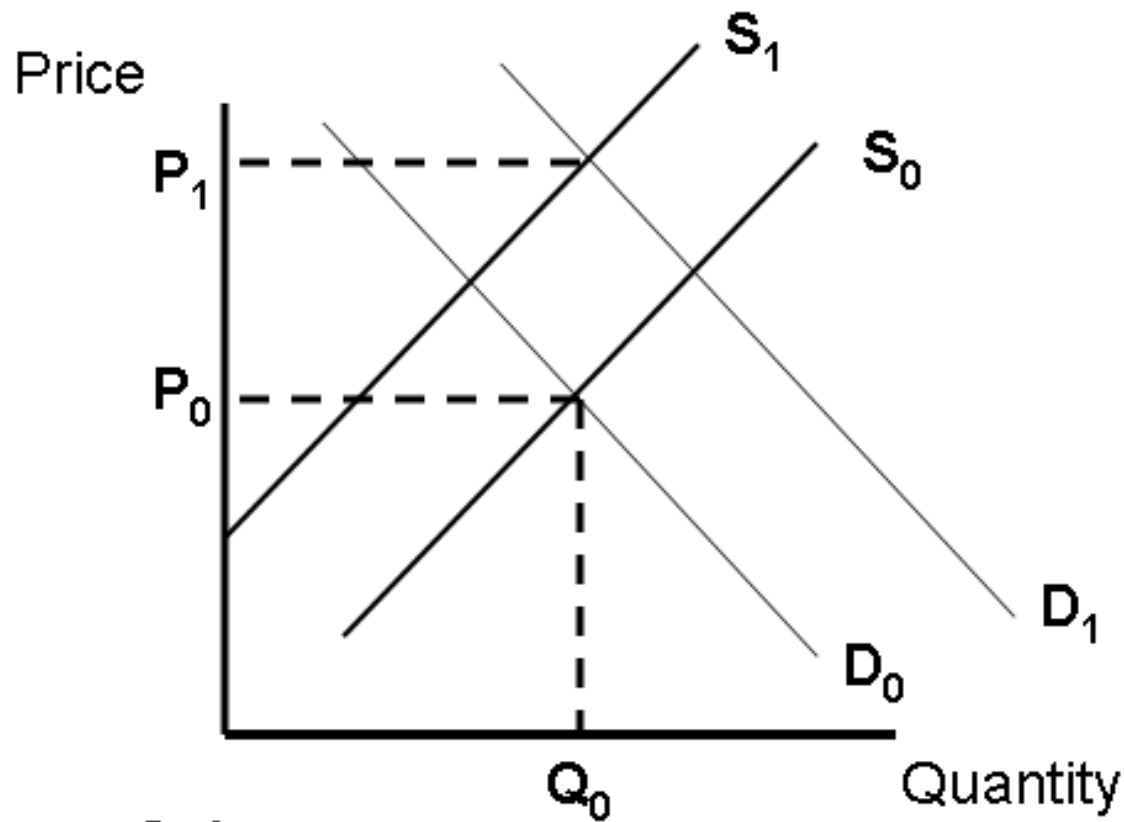
**$P \uparrow Q \downarrow$**



$P_1$  is  
indeterminable

**Increase in Supply & Demand**

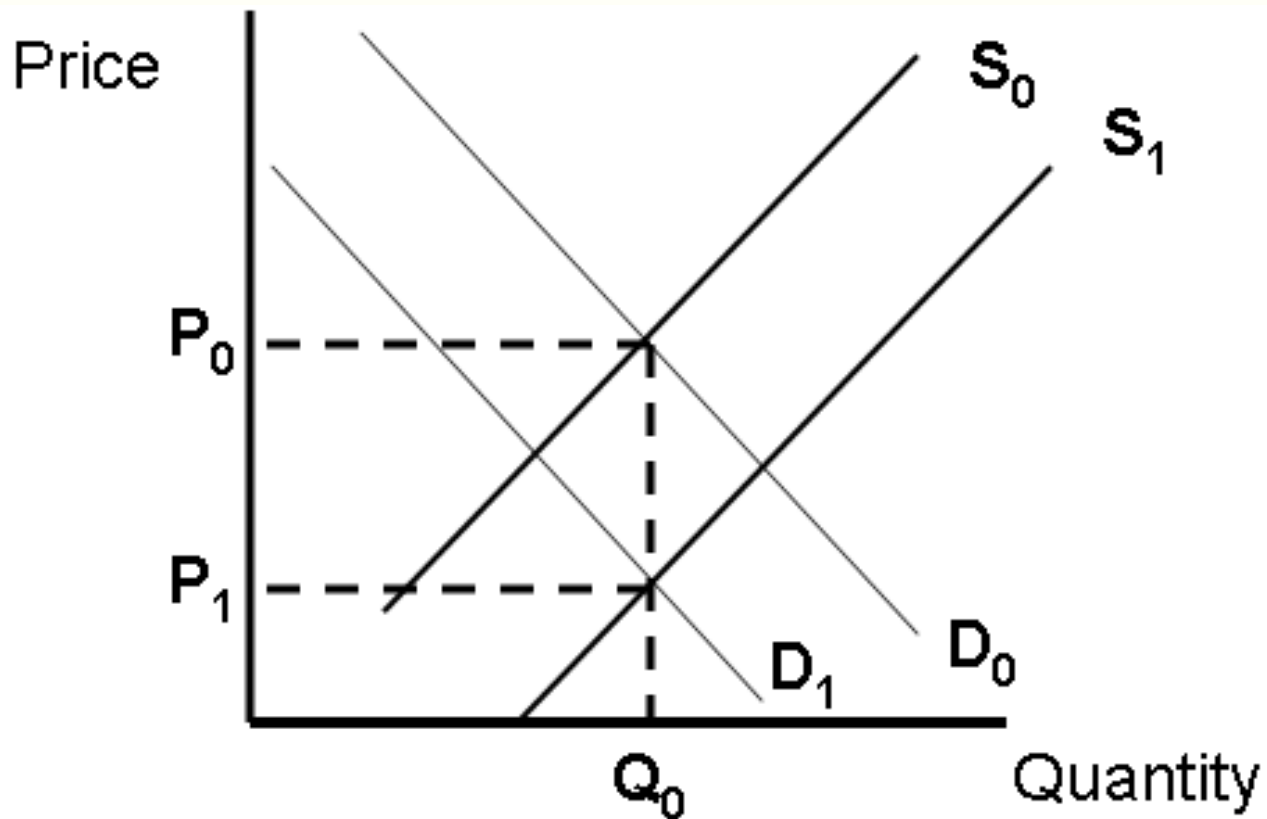
**P unknown Q  $\uparrow$**



$Q_1$  is  
indeterminable

**Increase in Demand &  
Decrease in Supply**

**$P \uparrow$   $Q$  unknown**



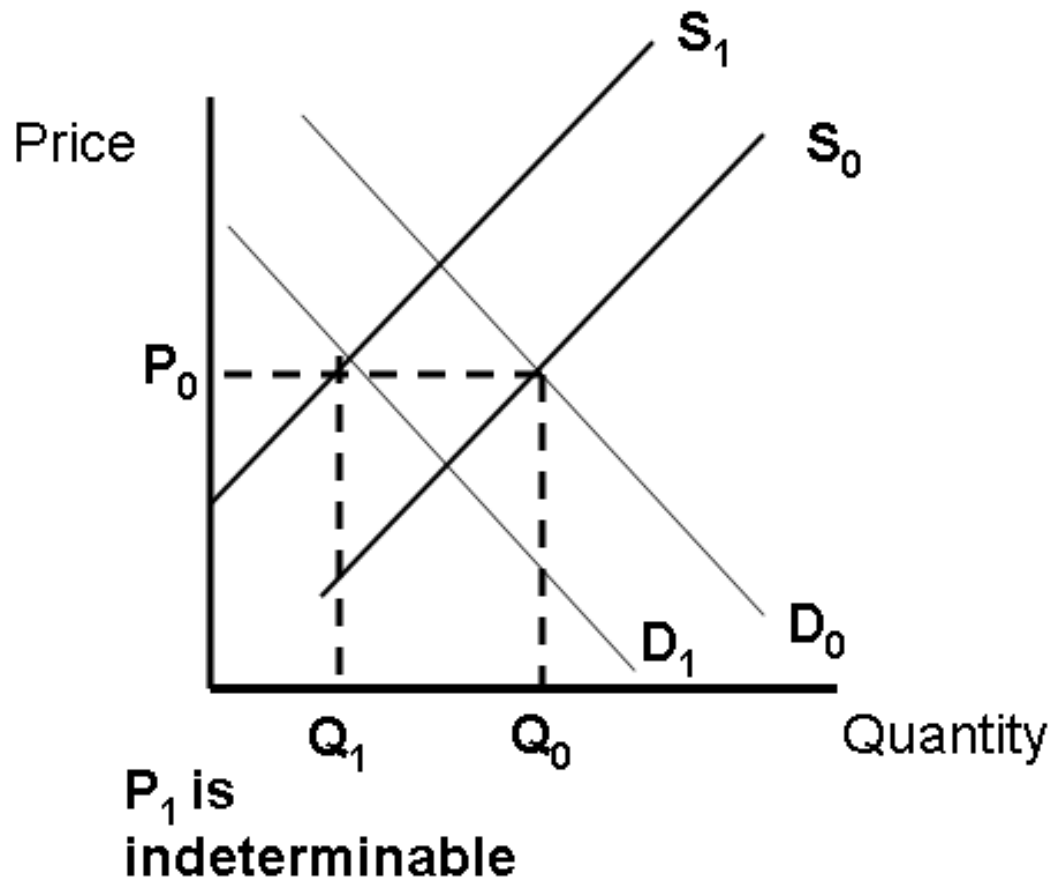
$Q_1$  is  
indeterminable

**Increase in supply &**

**Decrease in demand**

**$P \downarrow$   $Q$  unknown**





**Decrease in supply & demand**

**$Q \downarrow$   $P$  unknown**