

# ECONOMICS 201: WEEK 1

## INTRODUCTION

### Definitions:

- What is Economics?
- The Basic Problems of Economics
- Microeconomics vs. Macroeconomics

### Overview of the Economy

# DEFINITIONS: What is Economics?

## Commonly used Textbook Definition:

- Economics is the study of choice under conditions of scarcity.

*or*

- The study of the allocation of scarce resources.

**Do you have to know Economics already to understand this definition?**

# DEFINITIONS: What is Economics?

## Bigger Picture Definition:

- Economics is about *provisioning* or
- how we go about providing for *the material well-being* of *society*.

## Key words are highlighted.

1. Provisioning
2. Material Well-Being
3. Society

# DEFINITIONS: What is Economics?

## 1. Provisioning

- Provisions = stuff, things we need or want.
- Provisioning = getting the stuff we need or want.

# DEFINITIONS: What is Economics?

## 2. Material well-being

- Goods and services.
- (i.e. not our emotional well-being, our psychological well-being, or our spiritual well-being, etc.)

# DEFINITIONS: What is Economics?

## 3. Society.

- Basic Survival = an individual effort.
- Living in a modern economy = a social effort.
- Conclusion: Economics is a *Social* Science

# DEFINITIONS: Basic Problems of Economics

## Two Problems:

### ➤ Production

- What goods and services to produce.
- How to produce them.

### ➤ Distribution

- Who gets these goods?
- How much does everyone get?

# DEFINITIONS: Basic Problems of Economics

## ➤ Production Problems

*Are we producing the right goods and services?*

- More food?
- More consumer goods?
- More education?
- More military goods?
- More factories?
- More Research and Development?
- More infrastructure?

# DEFINITIONS: Basic Problems of Economics

## ➤ Production Problems

*All types of economies have can production problems.*

- Poor economies
  - Unemployment is a chronic problem.
  - At the same time, lots of things need to be done.
  - Breakdown or inefficiency in economic production.

# DEFINITIONS: Basic Problems of Economics

*All types of economies have can production problems.*

- Great Depression of the 1930s
  - 25% unemployment in the US.
  - Stock market crash.
  - Agricultural prices fell 60%
  - Breakdown or inefficiency in economic production.

# DEFINITIONS: Basic Problems of Economics

## ➤ Distribution Problems

*Who gets what? How much? On what basis?*

- Need
- Want
- Fairness
- Power

Distribution raises important social, political, and moral issues.

# DEFINITIONS: Basic Problems of Economics

## ➤ Basic Production and Distribution Mechanisms

### Tradition

- Based on customs and social beliefs.
- Example: Women & children in the life boat first?

### Command

- Imposed by authority.
- Example: King decides who gets land, food, etc.

### Market

- Based on ability to purchase goods and services.

# DEFINITIONS: Basic Problems of Economics

## ➤ Basic Production and Distribution Mechanisms

### Tradition

- *Some societies are dominated by tradition.*
  - Social classes.
  - Strict religious, gender, or Ethnic roles.
- *But, all societies have customs and traditions that affect economic outcomes.*
  - Family, social and/or religious traditions.
  - Gender roles
  - Peer pressure.

# DEFINITIONS: Basic Problems of Economics

## ➤ Basic Production and Distribution Mechanisms

### Command

- *Some societies are dominated by Command.*
  - Authoritarian regimes
- *But, command structures are common in most societies.*
  - Examples:
    - The military (command structure)
    - Workplaces (the “boss” is in charge)
    - Sports (coach, quarterback, etc.)
    - School? (maybe....)

# DEFINITIONS: Basic Problems of Economics

## ➤ Basic Production and Distribution Mechanisms

### Market

- *Some societies are dominated by the Market.*
- *But, markets occur in almost all societies.*

Traditional societies have markets.

- May be dominated by Barter (swap)

Command societies have markets.

- Often confined to selected areas or sectors of the economy.

# DEFINITIONS: Basic Problems of Economics

## ➤ Production and Distribution Mechanisms and “Social Values.”

### Market Value

- How much can you sell it for?
- Value = Price

### Non-Market Values

- Value also depends on some other important consideration.

*Market values and non-market values may be in conflict.*

# Production and Distribution Mechanisms and “Social Values.”

## MARKET GOODS \$\$

- Pizza
- Cell phones
- New car
- Water?
- The Environment?
- Medical care?

## NON-MARKET GOODS 😊

- Your father’s watch
- A child’s drawing
- Your favorite shirt
- Water?
- The Environment?
- Medical care?

# DEFINITIONS: MICRO VS. MACRO

## MICROECONOMICS

**Everything starts with the individual.**

- Consumer
- Worker
- Saver
- Investor
- Business Firm

## MACROECONOMICS

**Begins with the whole economy.**

- The US Economy
- The Canadian Economy

**Or major part of the economy.**

- Households
- Government
- Business

# DEFINITIONS: MICRO VS. MACRO

## Micro View

Individual's demand for a Toyota Camry depends on:

- Individual preferences for cars
- Price of Toyota
- Price of other cars.
- Income
- Add up all individuals' demand.
- Sum = market demand for Toyota Camry's.

# DEFINITIONS: MICRO VS. MACRO

## Macro View

Individual's demand for a Toyota Camry depends on

- Having a driver's license,
- A government motor vehicle department.
- Paved roads and highways.
- The availability and cost of gasoline.
- Banking system to get a car loan.
- Having a job to get a loan.
- Having employers that have jobs.

# DEFINITIONS: MICRO VS. MACRO

## Micro

- The study of individuals.
- Ignores interdependence by making a crucial assumption.
  - *Ceteris Paribus* – hold everything else constant.

## Macro

- Key issue is coordination.
- How do the various parts of the economy connect?
- How do they work together?

# **DEFINITIONS: MICRO VS. MACRO**

*Do you need to know Microeconomics?*

**Adverse Selection**

**Antitrust**

**Externality**

**Capital gains**

**Cartel**

**Comparative Advantage**

**Diminishing Returns**

**Economic Rent**

**Economies of Scale**

**Elasticity of Demand**

**Moral Hazard**

**Oligopoly**

**Opportunity Cost**

**Price Discrimination**

**Prisoner's Dilemma**

**Regulatory Capture**

**Subsidy**

**Zero Sum Game**

*Here are some commonly used terms covered in this course.*