In this lesson we will:

- Explain what economists study and the benefits of studying economics
- Discuss the most important tenants in economics

What would you like to do right now (besides being in class)?

Opportunity Cost: The next best alternative forgone when making a choice

- Every choice you make involves an opportunity cost. When you choose to do or consume something you choose not to do or consume something else.

Would you like a yacht or a house on the beach? Why don't you get these things?

Economics: studies the choices people make in the face of scarcity. It’s the study of how we choose to use our limited resources to satisfy unlimited needs and desires.

Resources: inputs used in the production of goods and services.

Scarcity: A state in which the resources available are not sufficient to satisfy people’s needs and wants. What would life be like without scarcity?

- Scarcity creates competition and requires us to develop a system of rationing. How are things rationed in the US? Who decides how goods are distributed?

Macroeconomics: The study of how human behavior affects the outcomes of highly aggregated markets. It explains how entire economies operate and grow.

- Microeconomics explains how individual agents make choices.

Robert Malthus (1798) claimed that population growth would outstrip growth in food production. Did this really happen? Why or why not?

Both our resources and our technology increase over time.

- Our resources include land (natural resources), capital, labor & human capital

Do resources grow over time? How?

- Technology is the way in which we combine and use resources. Technology tends to improve over time. (Examples: assembly lines and the Internet.)

The Aggregate Economy:

- Just like private individuals (who have budget and time constraints), a country as a whole has a limited amount of resources. These resources include Land, Labor, Capital, Human Capital and Time.

- In this course, we will learn how the aggregate (the country’s) economy operates and grows over time. Growth alleviates the scarcity!
Better technology, improved knowledge and discovery allow us to produce more with the same amount of resources. The cavemen had more natural resources than we do now, but why did they have fewer goods?

Why should you study economics?
- By understanding economics you can better understand people’s motivation and world events. Most events in this modern world are driven by economics. (Examples: Colonialism, Japan’s Miracle Growth, the Gulf War and political alliances.)
- Studying economics would sharpen your analytical skills and will help you solve problems in other fields.

The Tenants of Economics:
- People are rational: individuals will try to select the option that gives them the highest net benefit (benefit minus cost) taking their constraints into account. Individuals attempt to maximize their utility (joy), but may face limited information and analytical ability
- The use of resources (including time) is costly. Because of scarcity, every decision that we make (whether we choose to produce or consume something) requires us to give up other things. What are you giving up by studying economics?
- Incentives matter: if the benefit from doing something increases or the cost decreases individuals are more likely to do it. How can I get students to study more and not cheat?
- Decisions are made on the margin: individuals compare the marginal benefit and marginal cost of an additional unit of consumption or activity (studying, sleep, etc.)
- Although information can help us make better decisions its acquisition is costly

Examples: How did you choose which car to buy or which doctor to use?
- The long-run effects of an action may be vastly different than the short-run effects
  What is the short and long term effects of attending class or cutting the rainforest?
- The values of goods and services is highly subjective
- A good (economic) theory must be able to predict behavior

Until the 20th century economics was largely a theoretical field. These days, economists use both empirical analysis and experiments to verify (or nullify) theories. (Examples: Market experiments and purchasing power parity).

There are two branches of economics:
- Positive Economics: Attempts to establish how things are through scientific investigation. Note: positive results may lead to normative conclusions
- Normative Economics: Discusses how things ought to be (hopefully, based on objective scientific findings). Normative economics can influence one’s positive analysis creating self-fulfilling prophecies. Examples?
  What would a career in economics be like?

Fallacies in Economics:
- Ceteris Paribus conditions cannot be violated. In summers, prices of hotels rise but occupancy increases, does this imply that price and occupancy are directly related?
- Association does not imply causation (e.g. sunspots and GDP)
- Fallacy of composition. Public goods dilemmas?