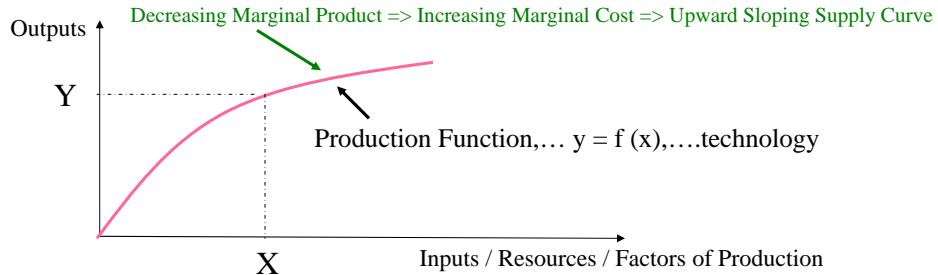


## Chapter 1: The Essence of Economics

Limited Resources => Limited Goods/Services < Unlimited Desires  
**Scarcity/Constraints**



**Scarcity** The situation in which unlimited wants exceed the limited resources available to fulfill those wants.

**Trade-off** The idea that because of scarcity, producing more of one good or service means producing less of another good or service.

**Scarcity => Tradeoffs => Choice**

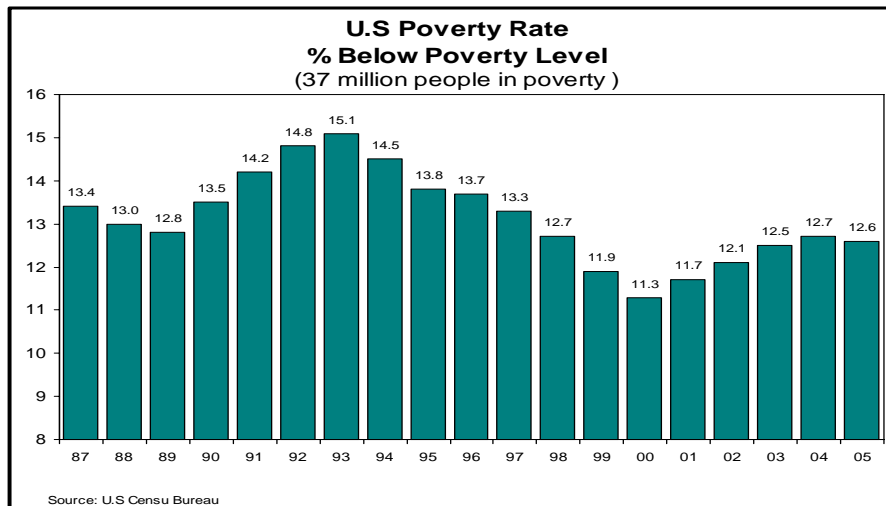
**Economics** The study of the choices people make to attain their goals, given their scarce resources.

## Scarcity

Limited Resources => Limited Goods/Services < **Wants**

## Poverty

Limited Resources => Limited Goods/Services < **Needs**



## 8 Principles of Economic Thinking

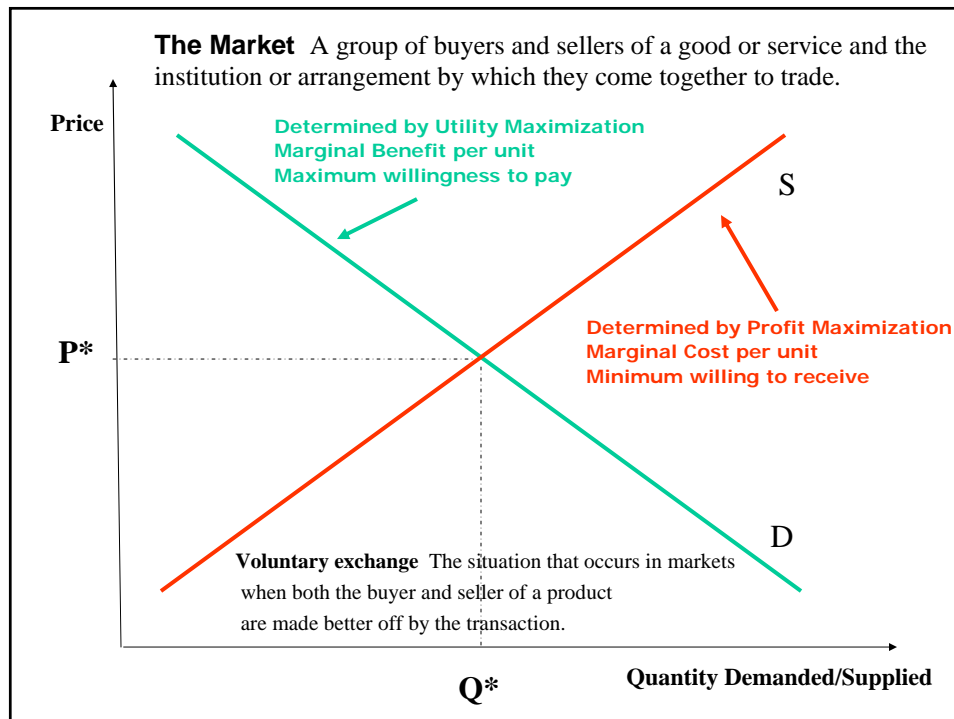
1. *The use of scarce resources to produce a good is always **costly**.*
  - Tradeoffs
  - Opportunity cost
2. *Individuals behave **rationally** & economize*
  - Weigh cost & benefits of actions
  - Maximize utility subject to a budget constraint
  - Minimize costs subject to a technology and output
3. ***Incentives Matter***
  - $Q. D. = F(P; \text{Income, tastes, expectations,.....})$
  - $Q. S. = F(P; \text{technology,.....})$
4. *Focus on **Marginal Changes***
  - Marginal Analysis: Compare marginal costs to marginal benefits
  - Optimal decisions are made on the margin,...spend a little more, save a little less vs. all or nothing
  - An activity should be continued to the point where the marginal benefit is equal to the marginal cost.

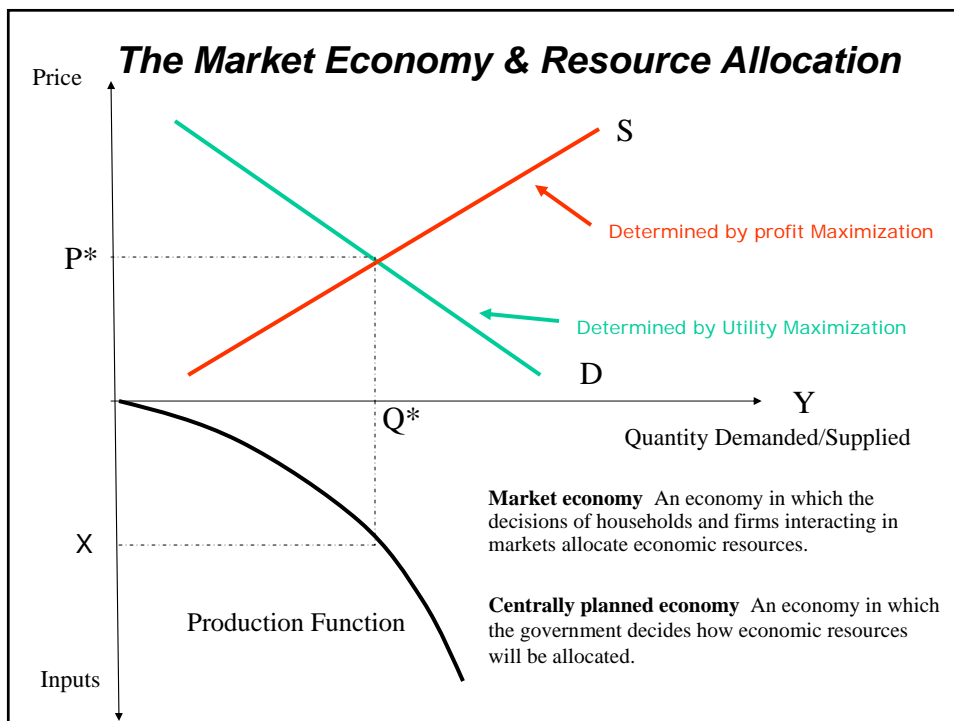
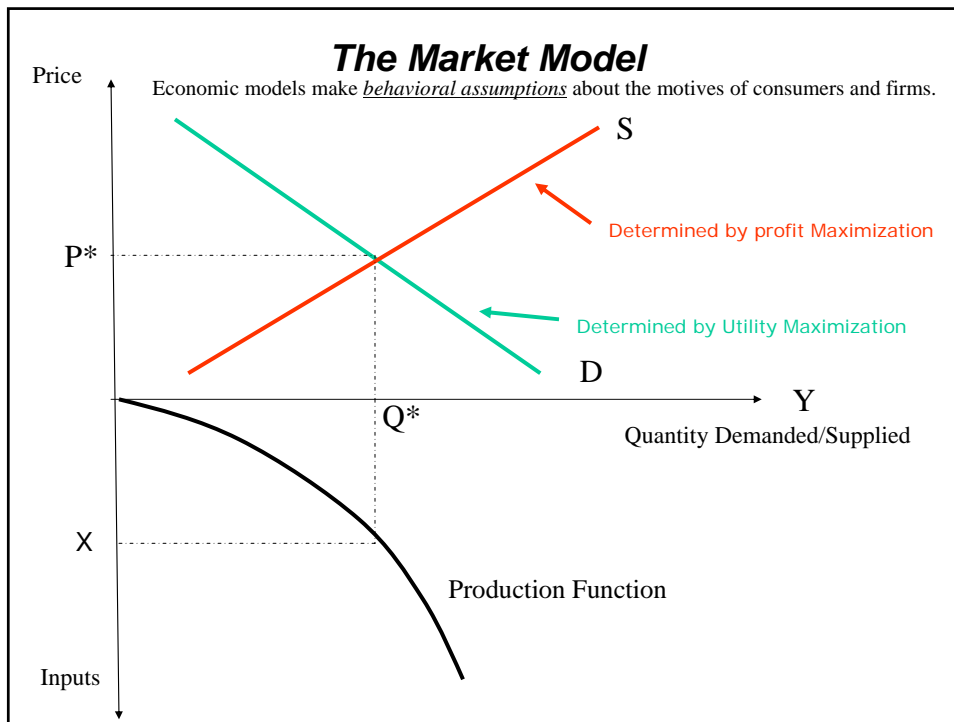
## 8 Principles of Economic Thinking

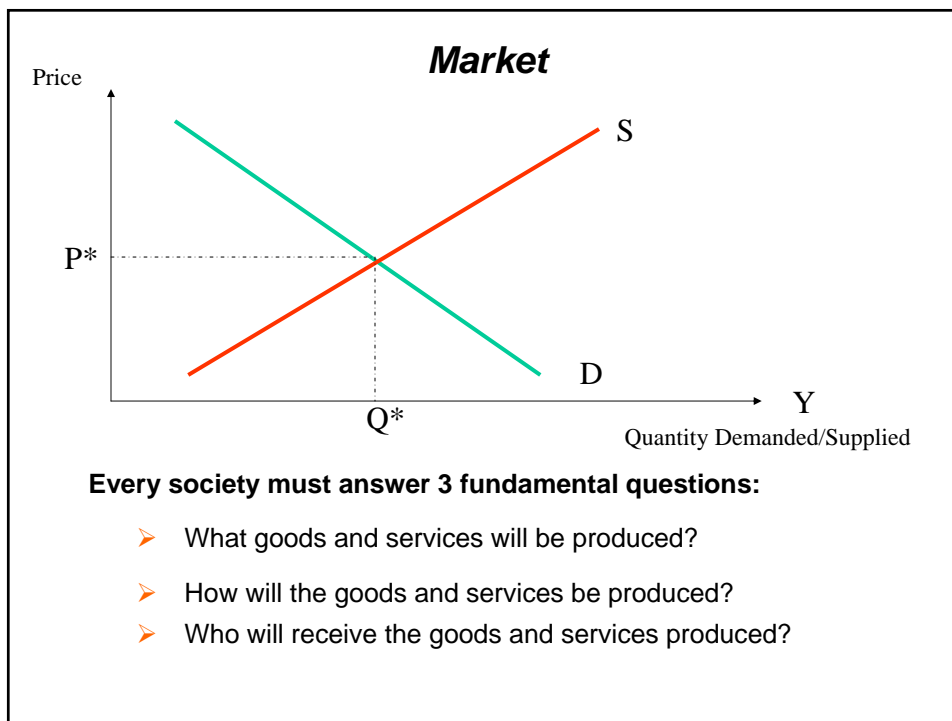
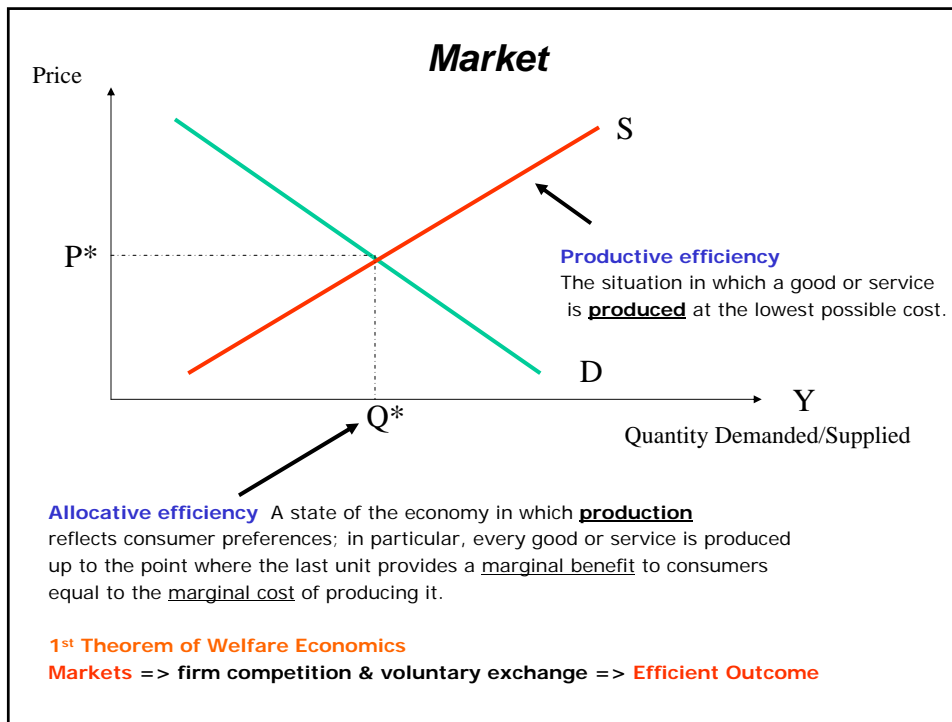
5. *Information is scarce => **uncertainty** is fact of life*
6. *Economic events => **primary** and **secondary effects***
  - Law of unintended consequences
  - Effective policy evaluation looks for indirect effects
7. *Value of goods/services are **subjective***
8. *The test of an economic theory is its ability to **predict** and **explain** events in the real world*
  - **Positive analysis:** Analysis concerned with what is.
  - **Normative analysis:** Analysis concerned with what ought to be.
    - **Equity:** The fair distribution of economic benefits.
    - **Equity Tradeoff:** Increase equity => decrease efficiency

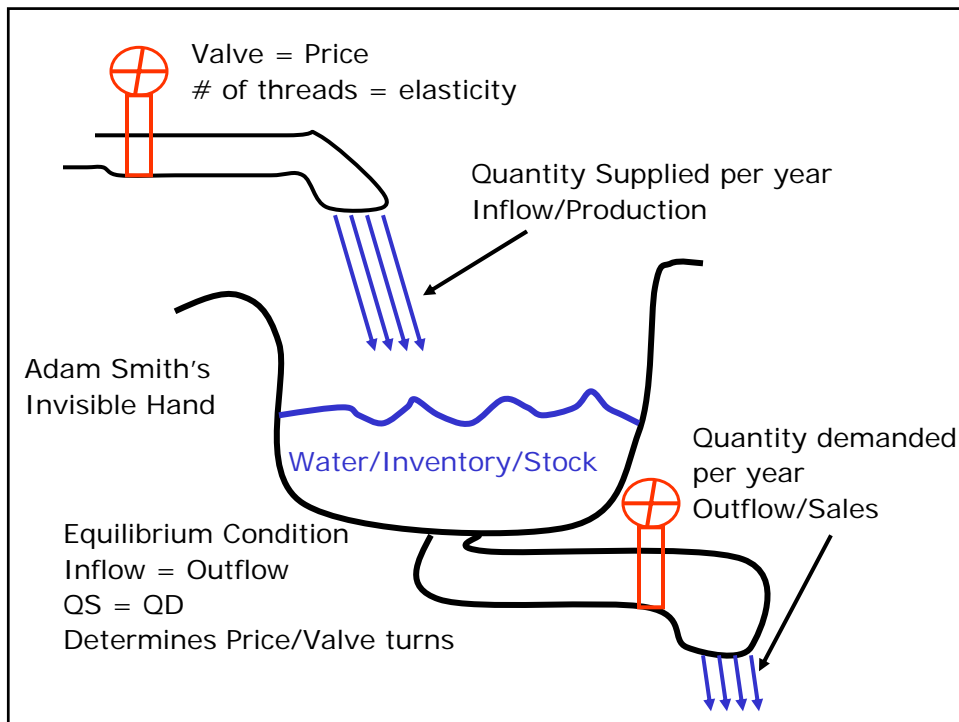
## 4 Pitfalls to avoid in Economic Thinking

1. Violation of *Ceteris Paribus*.
  - Hold “other things equal”
2. *Good intentions* do not guarantee desirable outcomes
  - Unsound proposal => undesirable outcomes
  - Political games
3. Fallacy of *Composition*
  - Erroneous view that what is true for the individual is also true for the whole
  - Micro vs Macro Economics
4. Association is not *Causation*
  - Logical fallacy: Post Hoc Ergo Propter Hoc









***Homework 1***  
***Due Friday February 2***

Problems and Applications,.... pages 19-20  
Problems 5,11,13,15

Problems and Applications,.... pages 29-30  
Problems 1,3,5