

## Chapters 1&2

### Basic Concept #1

- Why aren't we all rich?
  - Scarcity
- People seem to have unlimited wants. Greed?
- Economies are born
- Define Economics

### Basic Concept #2

- People respond to incentives
- RATIONAL SELF-INTEREST WILL DICTATE YOUR DECISIONS
- Adam Smith
  - In working for your own gain, society benefits
  - Invisible hand

### Basic Concept #3

- Marginal Analysis
- You will make a decision based on the expectation that you will gain more than you give up. This is thinking marginally; you do this naturally.

### Basic Concept #3

- Continued
- You will continue to choose until your cost is larger than your benefit. Therefore, it is natural to choose (produce) until  $MB=MC$ .

### Basic Concept #4

- TINSTAAFL
- There is no such thing as a free lunch!
- Everything has its cost.

## Basic Concept #5

- Can I have my cake and eat it too?
- Trade-Offs
- Opportunity Cost
- Sunk Costs

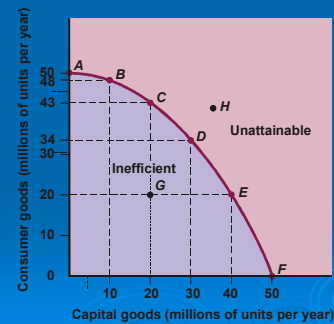
## Basic Concept #6

- Resources are limited
- Factors of Production
  - Labor
  - Land
  - Capital
  - Entrepreneurship

## PPC

- Production Possibilities Curve
- Demonstrates:
  - Trade-offs (#5)
  - Limited Resources (#6)
- Classic Case:
  - Guns v. Butter

Exhibit 2: The Economy's Production Possibilities Frontier



## More on PPC...

- Shifters of PPC
- Econ. Growth
  - $\Delta$  resources avail.
  - $\Delta$  capital stock
  - $\Delta$  technology

Exhibit 3a: Shifts in the Economy's Production Possibilities Frontier (Increase in Available Resources)

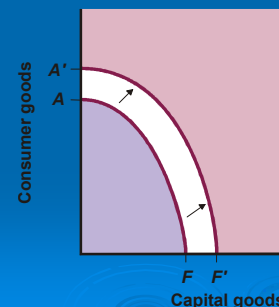


Exhibit 3b: Shifts in the Economy's Production Possibilities Frontier (Decrease in Available Resources)

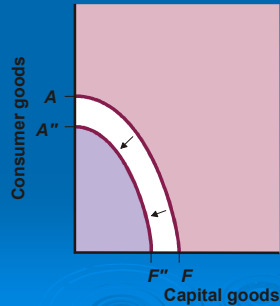


Exhibit 3c: Shifts in the Economy's Production Possibilities Frontier (Increase in Resources or Technological Advance that Benefits Consumer Goods)

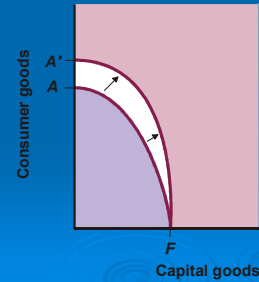
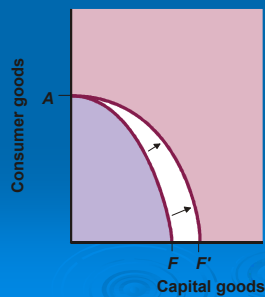


Exhibit 3d: Shifts in the Economy's Production Possibilities Frontier (Increase in Resources or Technological Advance that Benefits Capital Goods)



## Basic Concept #7

- Free Markets are good
  - Pure Market Eco.
  - Pure Command Eco.
  - Mixed Eco.
  - Traditional, custom, religion

## Basic Concept #8

- Trade Benefits
  - Absolute Advantage
  - Comparative Advantage
  - specialization
  - Trade, quotas, tariffs

## Potent Potables

- PARADOX OF VALUE
- MICRO V. MACRO
- POSITIVE ECONOMIC STATEMENT
- NORMATIVE ECON. STATEMENT
- CETERIS PARIBUS

## Potent P's cont.

- Economic systems must answer:
  - WHAT?
  - HOW?
  - FOR WHOM?
- THERORIZE, THEORIZE, THEORIZE
- REALITY IS ALL AROUND AND NEVER TO BE SEEN.