What is Economics All About

Goods and Bads

- GOOD: Anything from which individuals receive utility (happiness) or satisfaction. People will pay to get goods
- Examples include a car, a watch, or education.

- BAD: Anything from which individuals receive disutility or dissatisfaction from. People will pay to get RID OF bads.
- Examples include illness, pollution, or cigarettes.

- Hence both can be tangible and intangible

Resources

To produce goods, we need RESOURCES (or inputs, or factors of production). These are divided to broad four categories:

- Land: All natural resources, such as minerals, forests, water and unimproved land.
- Labour: The physical and mental talents people contribute to the production process.
- Capital: Produced goods that can be used as inputs for further production, such as factories, machineries, tools, etc
- Entrepreneurship: The particular talent that some people have for organizing the resources of land, labour, and capital to produce goods, seek new business and develop new ways of doing things.

Scarcity

- **Scarcity**: The condition in which our wants are greater than the limited resources available to satisfy them.

- **Economics**: Economics is the science of scarcity. It Is how individuals and societies deal with the fact that wants are greater than the limited resources available to satisfy those wants.

Does Scarcity have effects?

- CHOICE: the need to make choices

➔ Because resources are limited, hence goods are limited. Choice is mandatory because of this.

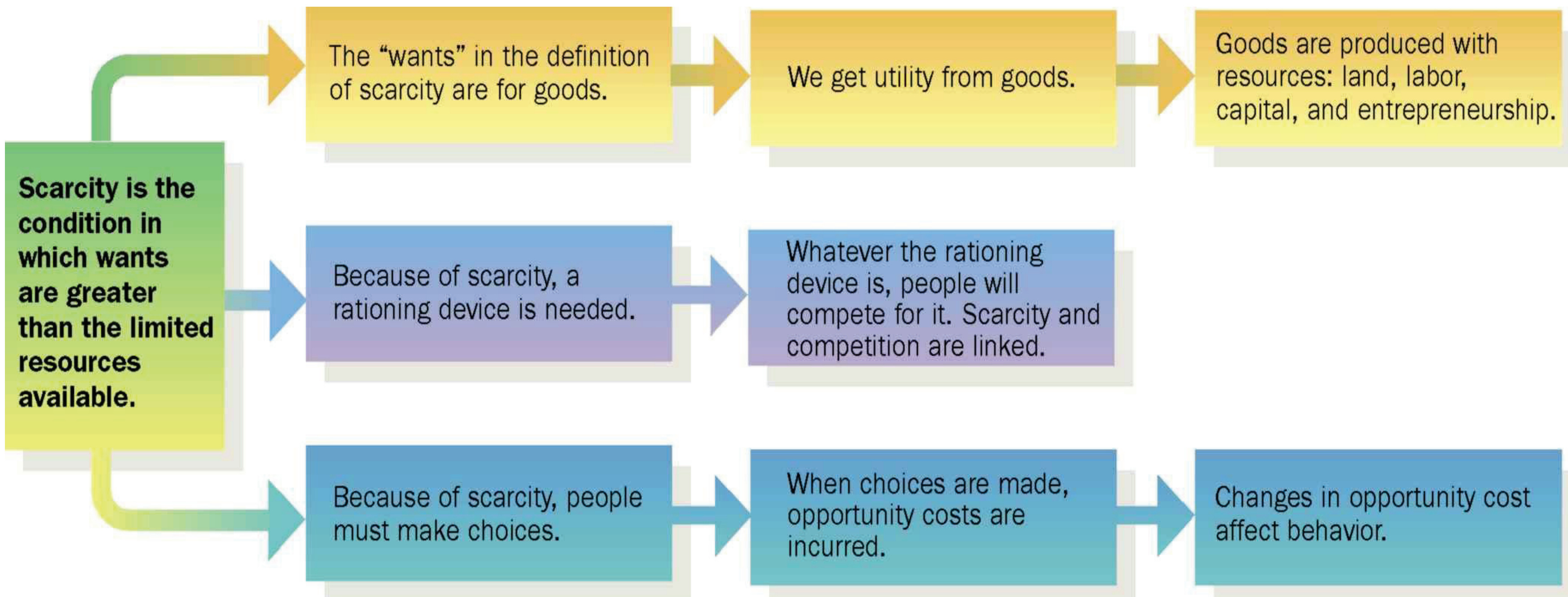
- RATIONING DEVICE: The need for a rationing device

➔ Dollar price is used as a way of deciding who gets what good since goods are limited. Is it a fair one though?

- COMPETITION: The need for competition

➔ Because resources are limited, people have to compete for them to fulfil their wants

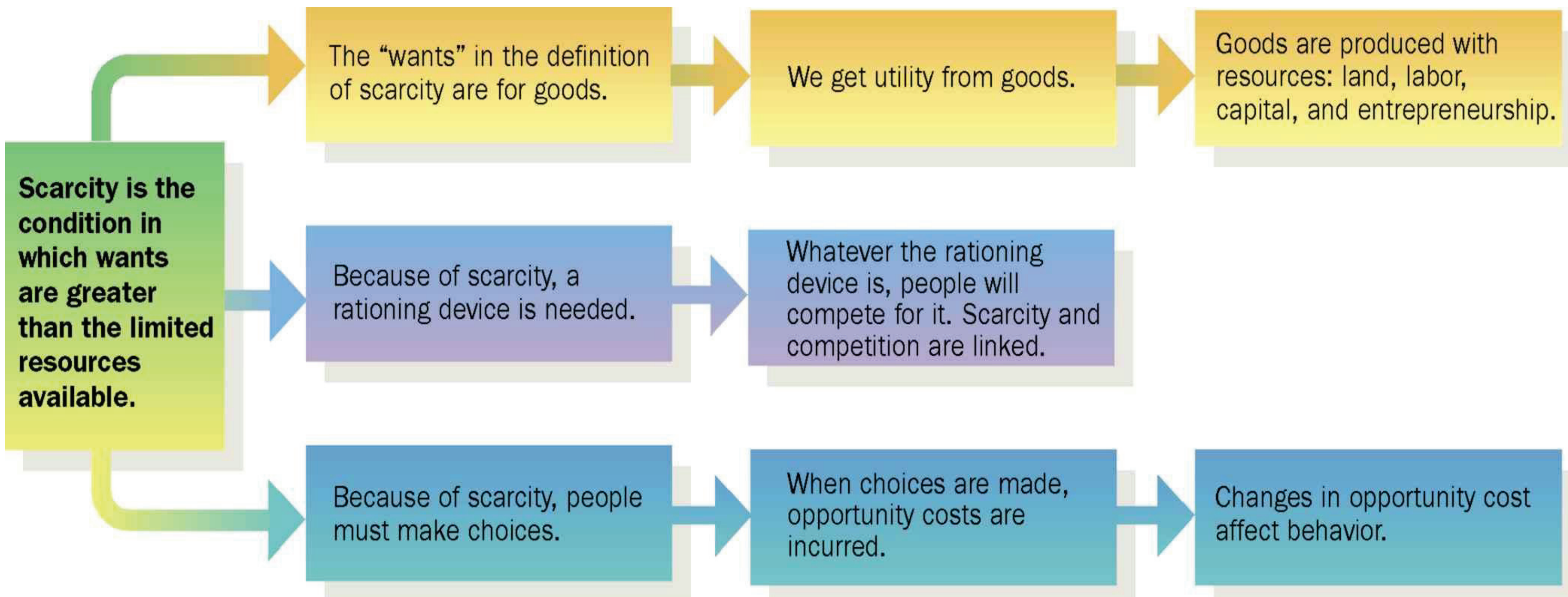
➔ Because the rationing device allows them to get the goods, there will be competition to get it.


Scarcity is the condition in which wants are greater than the limited resources available.
The "wants" in the definition of scarcity are for goods.
We get utility from goods.
Goods are produced with resources: land, labor, capital, and entrepreneurship.
Because of scarcity, a rationing device is needed.
Whatever the rationing device is, people will compete for it. Scarcity and competition are linked.
Because of scarcity, people must make choices.
When choices are made, opportunity costs are incurred.
Changes in opportunity cost affect behavior.

Opportunity Cost

- Opportunity Cost: The most highly valued opportunity or alternative forfeited when a choice is made.

- Why is opportunity cost important?
- → Because it impacts and alters human behaviour
- → Higher the opportunity cost of doing something, the less likely it will be done.



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Benefits and Costs: Decisions at Margin

- Every activity has both benefits and costs.
- Economics teaches you to think not only in terms of benefits but also costs.

- Marginal Benefit: Additional Benefits, the benefits connected to consuming an additional unit of a good or undertaking one more unit of an activity.

- Marginal Cost: Additional costs. The costs connected to consuming an additional unit of a good or undertaking one more unit of an activity.

Decisions at the Margin

- Decision making characterized by weighing the additional (marginal) benefits of a change against the marginal costs of a change with respect to current conditions

- If MB > MC ➔ ?
- If MB < MC ➔ ?

EFFICIENCY

- Economists what to determine what is the "right", "optimal", "efficient" amount of an activity.

- Decision made based on MB and MC.
- If MB > MC ➔ Activity goes up
- If MB < MC ➔ Activity goes down.
- Therefore MB = MC ➔ Efficient

- Efficiency: Exists when marginal benefit is equal to marginal costs.
- Efficiency ➔ Net Benefits maximized