

Topic 1 – Overview of Economics



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Agenda

- Syllabus Review
- Introduction to Economics
- ***Microeconomics*** versus ***Macroeconomics***
- Economics – Art or Science?
- Semester Overview



Syllabus Review

- About me
- Emails
- Permission Numbers
- Disabilities
- Academic Dishonesty
- Textbook
- Aplia
 - Homeworks
- Moodle
 - Forums
- Grading
- Recitations
- Other Resources
 - tutors



What is economics and why do we study it?

Syllabus

Introduction

Micro vs
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What is economics?

- Social Science – i.e. studies human behavior
- Examines the interactions and decisions that form an economy
- **Key condition:** Scarcity



A couple of definitions

- Scarcity
 - The observation that people have *unlimited* wants but *limited* resources
- Economics:
 - The study of how society manages its scarce resources



Why do we care about scarcity?

What are the costs of a “free” cell phone?

The screenshot shows the AT&T website's mobile device section. At the top, there are navigation tabs for 'Personal', 'Business', and 'About AT&T'. A search bar is located in the top right. Below the navigation, there are links for 'Shop', 'myAT&T', and 'Support'. The main content area features a large image of a woman sitting on a yellow bench, looking at her phone. To the left of the image, the text reads 'Free Phones, Free Smartphones & Mobile Devices' and 'Get Smart'. Below this, it says 'Shop AT&T's online selection of new or refurbished FREE phones, FREE smartphones and mobile devices.' To the right of the image, there is a 'Configure your phone' section with a numbered list: 1. Add a device (highlighted in orange), 2. Add a plan, 3. Add services, and 4. Add accessories. Below this list, there is a link for 'Already an AT&T customer? Add a line / Upgrade'. At the bottom of the page, there are product listings for 'AT&T Wireless Home Phone', 'Pantech Link II™', and 'Pantech Burst™'. A 'Compare' button is also visible.

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Okay, but then why micro and macro?

i.e. Isn't there a single correct way?

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Micro vs Macro

Microeconomics

- The study of how individual consumers, households, and firms make decisions and behave in a market.
- Intuition: By studying individual bees, we can understand a swarm

Macroeconomics

- The study of economic-wide phenomena such as inflation, unemployment, and economic growth
- Intuition: A tornado and a thousand fans are very different things



So how good are the predictions?

And why can't we solve the problems facing us today?

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This isn't rocket science (but it can be just as hard)

- Can't run tests on the entire US economy
- People's behavior and preferences are constantly changing
- How do we measure how much someone (dis)likes Justin Bieber?
- We will make a lot of simplifications



Then what's the point?

- Even with simplifications, can accurately describe (model) the economy
- Question: What does everyone give freely but no one wants to receive?

Advice

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“Hi Mom, what’s going on?”

- Positive Statements: Claims that describe the world as it is (can measure this)
 - i.e. Here’s what you are doing wrong
 - Ex. “You party too much.”
- Normative Statements: Claims that prescribe how the world should be (can’t measure)
 - i.e. Here’s what you should be doing
 - Ex. “You should study 40 hours per week”



What types of economies are there?

Warning: I'm a socialist but I believe in capitalism

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Types of
Economies



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Two general systems

- Command System: Government owns most resources, central planning board makes decisions
 - Ex. Communism (Note: NOT Socialism)
- Market System: Resources are privately owned, goods allocated according to profit motive and markets
 - Ex. Capitalism



Capitalism or Communism (or something else)?

Market Pros

1. Private Property Rights
 - You choose how to use resources you own
2. Freedom of Enterprise
 - You choose what goods to produce
3. Competition
 - Free entry/exit regulates market
4. Existence of market prices
5. Active but limited government

Command Pros

1. Public Property
 - Government chooses resource use for greatest benefit
2. Limited Enterprise
 - Only produce goods with “value”
3. Limited Competition
 - Stability in employment and production
4. Command prices
 - Those who need it can afford it
5. Active government



An Economic System answers the following questions

Questions	Market	Command
What goods and services produced?	Anything (legal) that someone wants to buy	Central Planning Board chooses
How will they be produced?	To generate maximum profits for firms	Most beneficial way for country and citizenry
Who gets them?	Whoever can afford it	People who need them (as determined by the government)
What if preferences change?	New firms created to meet new demand	Takes a long time to change
What about technological progress?	Automatically used to reduce prices	May not be used if negative impact (i.e. reduces employment)



What are we going to do this semester

A high level overview

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Model the economy

- Who participates in the economy?
 - People
 - Firms
 - Government
 - Rest of the world
- How do they interact?
 - Through Markets
 - Financial
 - Factor
 - Output



We will examine each of the agents in detail

- People and Firms:
 - Aggregate Supply and Demand
 - Prices and Inflation
 - Improving lifestyles (GDP)
- Governments
 - Fiscal Policy
 - Monetary Policy
- Rest of the World
 - Trade

