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

Semester

Overview

Econ – Art

or Science

- About me
- Emails
- Permission Numbers
- Disabilities
- Academic Dishonesty

Micro vs

Macro

- Aplia

 Homeworks
- Moodle
 - Forums
- Grading
- Recitations
- Other Resources

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- tutors

Textbook

Introduction

Syllabus

What is economics and why do we study it?

Syllabus

Introduction

Micro vs Macro

Econ – Art or Science

Semester Overview



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What is economics?

- Social Science i.e. studies human behavior
- Examines the interactions and decisions that form an economy

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• Key condition: Scarcity

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Micro vs

Macro

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Introduction

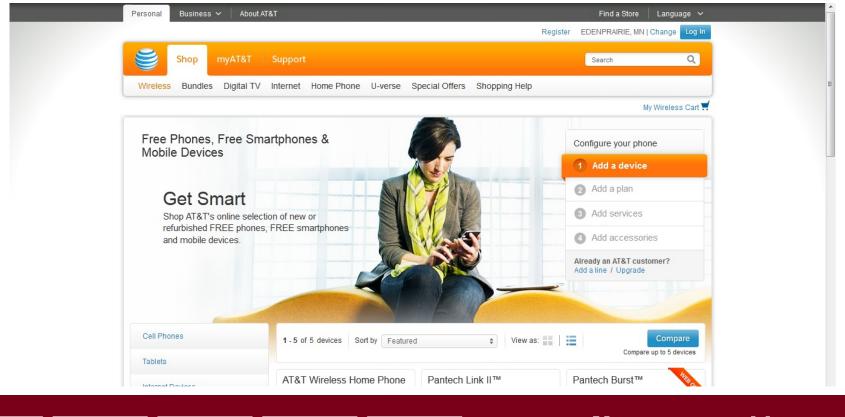
A couple of definitions

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

Syllabus Introduction Micro vs Macro Science Semester Overview Overview Driven to Discover⁵⁴

Why do we care about scarcity?

What are the costs of a "free" cell phone?



Syllabus

Introduction Micro vs Macro Econ – Art or Science

Semester Overview



Okay, but then why micro and macro?

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



Micro vs Macro

Microeconomics

 The study of how individual consumers, households, and firms make decisions and behave in a market.

Macroeconomics

 The study of economicwide phenomena such as inflation, unemployment, and economic growth

- Intuition: By studying individual bees, we can understand a swarm
- Intuition: A tornado and a thousand fans are very different things



Introduction

Micro vs Macro Semester Overview

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So how good are the predictions?

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



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

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Then what's the point?

• Even with simplifications, can accurately describe (model) the economy

Semester

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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."

Micro vs

Macro

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- Normative Statements: Claims that prescribe how the world should be (can't measure)
 - i.e. Here's what you should be doing

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- Ex. "You should study 40 hours per week"

Semester

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What types of economies are there?

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



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

Micro vs

Macro

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Types of

Economies

5. Active but limited government

Introduction

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

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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)

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What are we going to do this semester

A high level overview



Model the economy

- Who participates in the economy?
 - People
 - Firms
 - Government
 - Rest of the world

- How do they interact?
 - Through Markets
 - Financial
 - Factor
 - Output

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We will examine each of the agents in detail

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- People and Firms:
 - Aggregate Supply and Demand
 - Prices and Inflation
 - Improving lifestyles (GDP)
- Governments

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- Fiscal Policy
- Monetary Policy

Micro vs

Macro

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Rest of the World
 Trade

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