What is Economics?

Read Topic 1, 2
Stand Up Economist
Economic Basics
- How resources are allocated to satisfy wants
    - Scarcity
        - Limited resources
        - Unlimited wants
    - Opportunity Cost
        - What are you willing to trade for what you want?
        - Cost – benefit analysis
            - thinking at the margin
    - Value
        - Created when needs are affected by scarcity
            - Scarcity must be in something of utility
    - Utility
        - The capacity to be useful and provide satisfaction
            - Principle of Diminishing Marginal Utility
    - Wealth
        - The accumulation of products that have value
        - Services are a source of wealth for societies

- Resources
    - Economic goods
        - Tangible products that you can touch
    - Economic services
        - Something of value that isn't tangible
    - Factors of Production
        - Natural resources
            - Occurring in the natural world w/o processing
        - Capital goods
            - Items used to produce other items
                - Not consumer goods
                    - Things produced to be used up
                - Human capital most valuable capital good
        - Labor
            - Work that humans put into the economy
            - Division of labor
                - Break production down into specific tasks
                    - Different people perform diff tasks
            - Specialization
                - People perform tasks that best suit their skills
        - Entrepreneurship
            - Someone willing to risk capital to start a business

- Economic Systems
  - Answers three basic questions
    - What goods and services will be produced?
    - How shall these goods and services be produced?
    - For whom shall these goods and services be produced?
  - Traditional Economies
    - Based on family structures
      - Mostly small, tribal societies
  - Command Economies
    - All decisions made by central government
      - Communist and dictatorships
  - Market Economies
    - Decisions made without government direction by individuals
      - Everything is privately owned
      - Private – property rights
  - Mixed Economies
    - No economies actually fit the models above
      - Most are some kind of mix of public and private sector

- The American Economy
  - Capitalism
    - Mixed Market Economy
      - Mostly private but some public sector decisions
      - Mostly self-regulating
  - Profit Motive
    - People work to make money
    - All people and businesses try to maximize profits
  - "Invisible Hand of the Market"
    - Adam Smith
      - Father of modern economics
      - 1776 – Wealth of Nations
      - individuals always act in their own self-interest
      - government should not interfere in those interactions
        - laissez-faire economics
      - This leads to most efficient allocation of resources
      - To survive, business must discover what people want
        - In order to maximize profits
  - Competition
    - Determines price, quality
    - Ensures quality and efficiency
  - Price System
    - Coordinates a market economy
    - Prices give buyers and sellers information
    - Gives info to employers and employees
    - Four pure price requirements
      - Many sellers

        - Standard product
        - Easy entry and exit
        - No artificial restrictions

Role of Government

- Set up rules for business
- Enforce rules of business
- Provide collective goods and services
- National defense, justice system
    - Should there be a national safety net?
- Regulation of price and quality

Consumer Sovereignty

- Consumers decide what will be produced
    - If they don't buy it, company out of business
- Entrepreneurs will fulfill needs
- Efficiency determines method of production
    - Lowest cost and highest quality
- Distribution is determined by income
- Very efficient
    - Is it fair and moral?