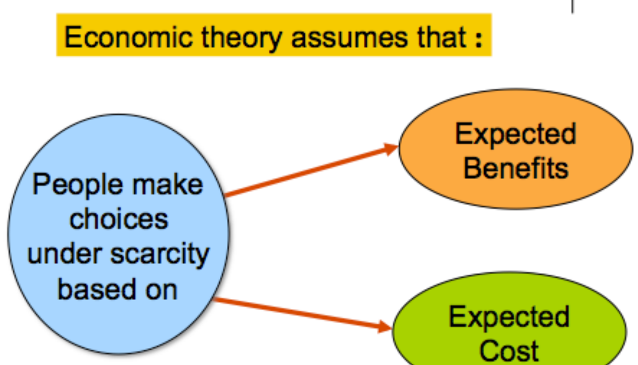
<table>
<tr><th colspan="2">BS100 - Economics</th></tr>
<tr><th>Chapter</th><th>Notes</th></tr>
<tr><td rowspan="4">Introduction to Economics</td><td>Economic Thinking</td></tr>
<tr><td>

Resources are scarce, but desires are non-scarce
Economic calculation exists even in a community of one
We benefit from relative scarcity in goods if we produce them
Our physical body and time are scarce – we must economise
Useful for determining the best means to achieve our ends
Civilization depends on cooperation
Rush hour traffic requires unspoken communication
All social phenomena resulting from actions and interactions of individuals who are choosing in response to expected additional benefits and costs to them
Actions + interactions → consequences

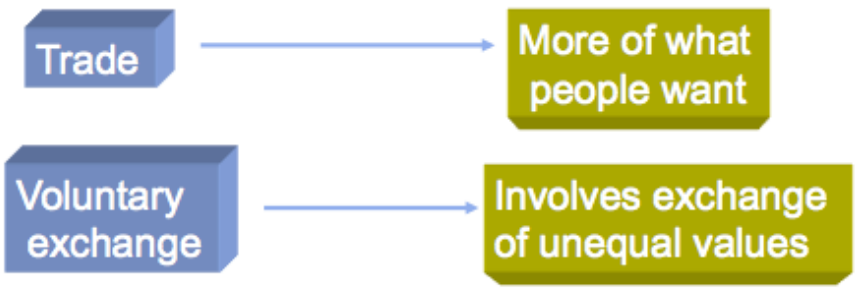


Rationalism
Asserts that knowledge is acquired by reasoning and logic
People generally prefer to lower their perceived costs and perceived benefits
Empiricism
Asserts that knowledge is acquired by experimentation and measurement
Potato prices were higher last month that the month before, therefore prices are rising
No you cannot predict the decisions people make → they may not grow potatoes
No fixed proportions between economic variables (e.g. prices and quantities)
Economics focuses on the choices of individuals and their consequences

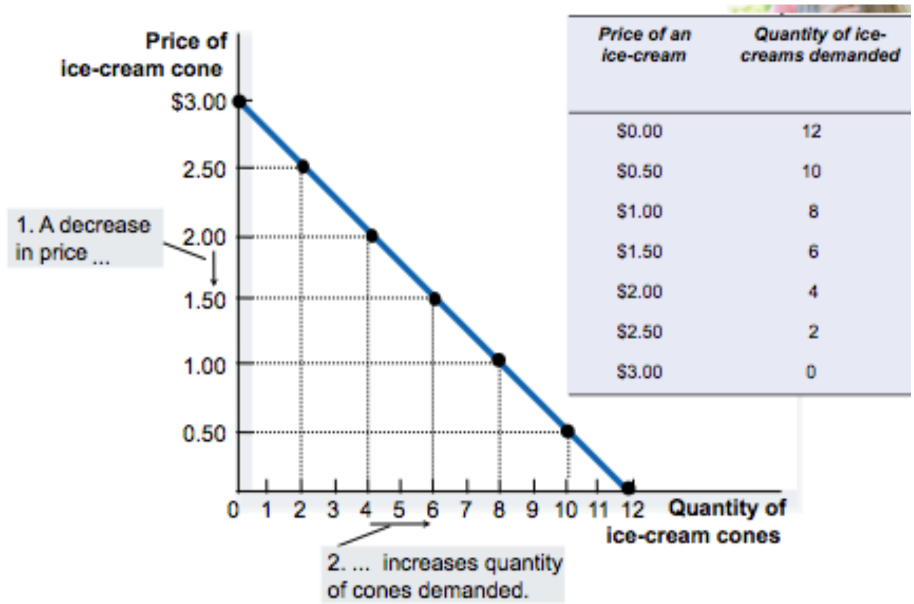
</td></tr>
<tr><td>Specialisation and Trade</td></tr>
<tr><td>

Specialisation is what distinguished every wealthy society
Economic interactions take place in a world with the solution being specialisation → division of labour
Producers specialise so that they can expand their possibilities by trading with something that is more costly to produce on their own
Specialisation → Law of Comparative Advantage
Transaction costs are costs of arranging exchanges
Middlemen help interested parties find one another

</td></tr>
</table>

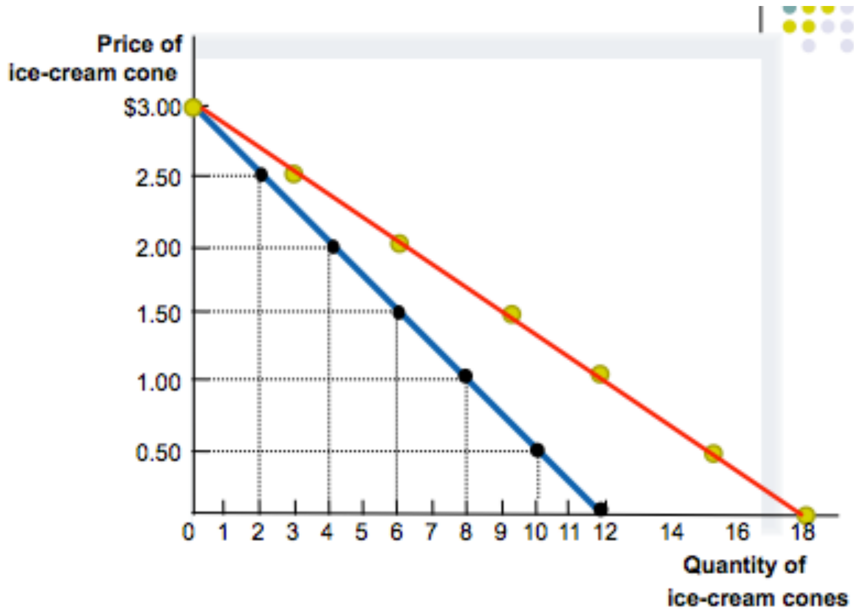
	• Economic systems and social interaction are directed and coordinated by the rules participants know and follow
	Value and Wealth?
	• A commodity is a good if **more** of it is preferred • A commodity is a bad if **less** of it is preferred • A free good can be acquired without sacrifice • A scarce good requires sacrifice • Wealth in the economic way of thinking is whatever people value • The opportunity cost of an item is the greatest thing you give up to obtain that item • Marginal changes are small adjustments to an existing plan • A person makes decisions based on expected marginal **benefits** versus expected marginal **costs** • The economic way of thinking rejects the all-or-nothing approach • In a free market, scarce goods will be assigned to their highest marginal use first → purely subjective as it is a personal decision • Wealth is not always material as it omits key aspects of economic life → subjective valuations  • People have different value scales • A voluntary transaction results in a "win-win" → trade creates wealth • With trade, each party trades a less valued good for a more valued good
Demand and Supply	**Trade-offs**
	• To enhance wealth people pursue their comparative advantage → specialisation • Things have no value on their own, they can only be valued by a person • Peoples subjective valuations are only discovered when they exchange • Most goods are scarce → sacrifices are necessary • Higher prices lead people to seek sacrifices • The fact goods and services are scarce entails trade-offs • When prices rise, people respond by economizing in their demand
	The Demand Curve
	• Demand analysis predicts the price and quantity people will be willing to purchase at each price • As the opportunity cost of an action increases, the chooser will tend to undertake less of that action, and visa versa • Using the data we can draw a chart where, o Vertical axis shows possible prices

- Horizontal axis shows possible quantities purchased at those



  prices

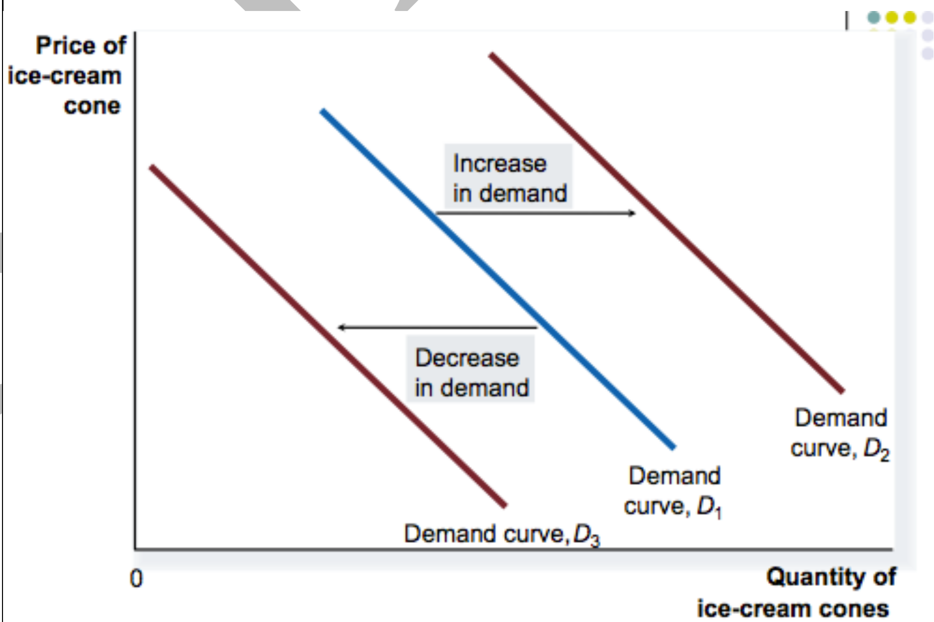
- Market demand refers to all individuals demands for a particular good or service



- The **law of demand** states that an inverse relationship exists between the amount of anything that people want to purchase and the price they must pay

Changes in Demand

- A change in demand is not the same as a change in quantity demanded
- **Change in quantity demanded** is a movement from one point on a demand curve to another point on the same curve due to price
- **Change in demand** is a shift in the entire curve due to a non-price factor that makes buyers buy more or less at every price



- Influences that can cause a **change in demand**:
    - Number of customers
    - Change in customers taste
    - Change in income

	• When an increase in the price of one good increases the demand for another good, the two goods are called substitutes • When an increase in the price of one good decreases the demand for another good, the two goods are called complements • **Inflation** is an increase in the average money price of goods o If the money of all goods increased, then no good (except money) will have changed in real price