

Built Environment Economics
Study Notes

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Chapter 1 – Thinking like an Economist

Topic	Notes
The problem of scarcity	<ul style="list-style-type: none"> - The condition in which human wants are forever greater than the available supply of time, goods, services and resources. - <u>Examples:</u> <ul style="list-style-type: none"> o Individuals: bigger flat-screen TV, more restaurant meals, more leisure time. o Governments: highways and defense.
Scarce resources and production	<ul style="list-style-type: none"> - Because of the economic problem of scarcity, no society has enough resources to produce all the goods and services necessary to satisfy all human wants. - Economists divide resources into three categories: land, labour and capital. <div data-bbox="347 784 1268 1296" data-label="Diagram"> <p>EXHIBIT 1.1 Three categories of resources</p> <pre> graph TD Land[Land] --> Entrepreneurship[Entrepreneurship organises resources to produce goods and services] Labour[Labour] --> Entrepreneurship Capital[Capital] --> Entrepreneurship </pre> <p>Resources are the basic categories of inputs organised by entrepreneurship (a special type of labour) to produce goods and services. Economists divide resources into three categories: land, labour and capital.</p> </div> <p>Land:</p> <ul style="list-style-type: none"> - Any resource provided by nature. - Includes anything natural above or below the ground <ul style="list-style-type: none"> o <u>Examples:</u> Forests, minerals, oil, wildlife, rivers, lakes and oceans. - May be renewable or non-renewable. <p>Labour:</p> <ul style="list-style-type: none"> - The mental and physical human capacity of workers to produce goods and services. - <u>Examples:</u> services of farmers, factory workers, lawyers, professional football players and economists. <p>Capital:</p> <ul style="list-style-type: none"> - The physical plant, machinery and equipment used to produce other goods. - They are human-made goods that do not directly satisfy human wants. - In economics, money is NOT capital. It simply gives a measure of the value of assets, including capital goods.

	<p>Entrepreneurship:</p> <ul style="list-style-type: none"> - Entrepreneurship is the creative ability of individuals to seek profits by combining resources to produce new or existing products. 	
The study of scarcity and choice	<ul style="list-style-type: none"> - The problem of scarcity forces people to make choices. - Economics is the study of how society chooses to allocate its scarce resources to the production of goods and services in order to satisfy unlimited wants. 	
Macro-economics and micro-economics	<div> <div>Microeconomics</div> <ul style="list-style-type: none"> • studies decision-making by a single individual, household, firm or industry </div> <div> <div>Macroeconomics</div> <ul style="list-style-type: none"> • studies the performance of, and decision-making in, the economy as a whole </div>	
Methodology of economics	<div> <div>EXHIBIT 1.2</div> <div>The steps in the model-building process</div> </div> <div> <div>Identify the problem</div> <div>↓</div> <div>Develop a model based on simplified assumptions</div> <div>↓</div> <div>Collect data and test the model</div> </div> <div> <p>The first step in developing a model is to identify the problem. The second step is to select the critical variables necessary to formulate a model that explains the problem under study. Eliminating other variables that complicate the analysis requires simplifying assumptions. In the third step, the researcher collects data and tests the model. If the evidence supports the model, the model is accepted. If not, the model is rejected.</p> </div>	

	<div>Identifying the problem</div> <ul style="list-style-type: none"> • Petrol consumption by motorists has fallen. Why? <div>Developing a model</div> <ul style="list-style-type: none"> • Identify the variables - petrol price, car prices. • Express them verbally, graphically or mathematically. <div>Testing the model</div> <ul style="list-style-type: none"> • Gather data that tells us how well the model estimates or predicts relationships.
Hazards of the economic way of thinking	<p><i>Ceteris paribus:</i></p> <ul style="list-style-type: none"> - Latin phrase: means that while certain variables change, ‘all other things remain unchanged’. - The assumption holds everything else constant and therefore allows us to concentrate on the study of the relationship between two key variables. <p><i>Association versus causation:</i></p> <ul style="list-style-type: none"> - Cannot assume that when one event follows another, the first caused the second. - <u>For example</u>, assume exports from Indonesia rose last month. Two events might be associated: <ul style="list-style-type: none"> ○ The hole in the ozone layer grew last month. ○ Currency movements reduced the cost to Australians of buying Indonesian goods. ○ But are they both possible causes?
Why do economists disagree?	<ul style="list-style-type: none"> - A major reason for disagreements in economics is due to the assumptions made about human nature. - Modeling more elaborate assumptions about human nature has resulted in the growth of behavioral economics. <p><i>Behavioural economics:</i></p> <ul style="list-style-type: none"> - Outcome of a particular set of circumstances is more comprehensive. - Why do people choose a certain g/s? (psychological, emotional, social factors and the consequence for market prices, returns, resource allocation). - Determined by: <ul style="list-style-type: none"> ○ Pleasure/pain principle. ○ Ethical and moral beliefs. ○ Social mores. ○ Class relationships.