Macroeconomics 1 Notes

Lecture 1
Basic economics principles…

Scarcity – the limited nature of society's resources
e.g. wishing you have more time to study but time is a scarce resource

- We encounter scarcity in every decision we make
- E.g. a household must decide who does the chores and how to allocate its scarce resources
- Society must decide what jobs will be done and who will do then, it must also allocate the goods and services that are produced
- Management of society's resources is important because we cannot produce all the goods and services people wish to have

Economics – the study of how society manages its scarce resources
e.g. economics helping understand the production, consumption, and transfer of wealth

- In most societies, resources are allocated through the combined choices of millions of household firms
- Economists study how people make decisions; how much they work, what they buy

Opportunity cost – is the best alternative that must be given up to obtain some item
e.g. opportunity cost of sitting through this lecture is sleeping, watching Netflix, eating lunch etc

The cost of something is what you give up to get it

The opportunity cost of an item is what you give up to obtain that item – this way of thinking about cost is only applicable in economics

Efficient decision making involves weighing up the opportunity cost by choosing what provides you the best benefit in relation to cost

Chapter 2

The economist as a scientist

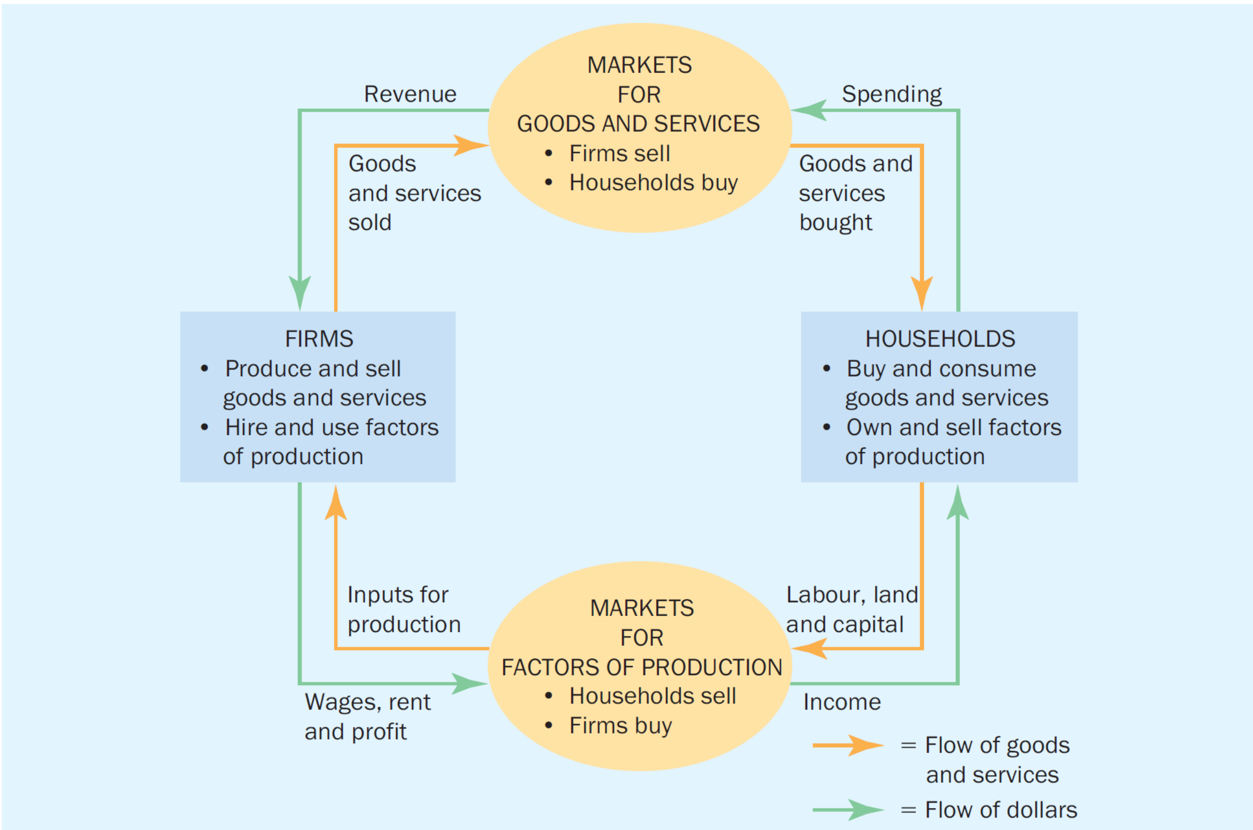
Economists try to approach problems with a scientist's objectivity

The role of assumptions in economics
Many economic models involve unrealistic assumptions

We might assume that there are only two goods in the world, or that the firms and consumers in a market are only concerned with what they buy and sell today

Assumptions help us simplify complex situations, focusing our attention on the details that are most relevant to the problem at hand

Using assumptions, we can construct economic models to learn about the world



Microeconomics – is the study of how households and firms make decisions and how they interact in markets
e.g. microeconomics focuses on individual markets, examining how incentives and trade-offs influence buyer and seller behaviour

Macroeconomics – is the study of economy-wide phenomena, including inflation, unemployment and economic growth
e.g. the setting of monetary policy depends primarily on macroeconomic factors

why some countries rich and some poor>
why prices change quickly in some period, but more stable in others>
why jobs grow in some years, but stagnate in others>

The economist as policy advisor
Economists are experts
In government, the advice of economist can have significant impact on the development of public policy

In business, the advice of economists is important for formulation corporate strategy

Positive statements are claims that attempt to describe the world as it is
e.g. minimum wage laws create unemployment

Normative statements are claims that attempt to prescribe how the world should be
e.g. the minimum wage should be raised

Why economists disagree?
- Positive statements are statements about facts
- Economists do disagree about facts from time to time: these are disagreements about scientific judgement
- Normative statements depend on both facts and values