

Microeconomics – Week 1

- Economics
 - The study of the choices people and societies make to attain their unlimited wants
- Scarcity
 - Where unlimited wants exceed the limited resources available to fulfil those wants
- Choice
 - 3 fundamental questions
 - **What** goods or services will be provided?
 - When choosing between alternative options what should we produce or how much of something should we produce
 - **How** to produce those goods and services?
 - What kind of technology? Concentration production?
 - **Who** will receive those goods and services?
 - Largely depends on how income is distributed
- Lessons from microeconomics
 - People face trade-offs
 - Trading off one activity against another
 - Clothing v holiday
 - Equity v efficiency
 - Opportunity cost
 - The cost of something is what you have to give up to get
 - Cost of university
 - Fees, textbook, food and housing
 - Biggest cost it usually the cost of your time
 - Figure 1. Refer to book
 - Marginal analysis
 - Rational people think at the margin
 - Decisions are made comparing costs and benefits at the margin
 - They choose an action if $MB > MC$
 - MARGINAL BENEFIT V MARGINAL COST
 - Optimal decision $MB = MC$
 - People respond to incentives
 - Marginal changes to costs and benefits lead to decisions to choose one alternative over another
 - Trade can make everyone better off
 - Trade allows people to specialise in what they do best and this lies at the heart of gains from trade
 - Markets are usually a good way to organise an economic activity
 - Governments can sometimes improve market outcome
 - Market failure occurs when the market fails to allocate resources efficiently
 - The government can intervene to promote efficiency and equity
 - The standard of living depends on a country's production

- GDP per capita
- Basis for trade
 - Creating value

Tutorial Questions

Chapter 1:

1. Describe some of the trade-offs faced by each of the following:
 - a. A family buying a new car
 - i. The money can be spent on the luxury of a new car or saved up for food or a holiday
 - b. A politician increasing spending on a national park
 - i. Improved park conditions and keeping it clean and neat or money spent on better roads or schools
 - c. A company director deciding whether to build a new factory
 - i. Can have increased production or increase innovation or materials
 - d. A professor deciding whether to prepare for a lecture
 - i. Come prepared to help learning or spend longer on lunch or chatting with friend's
2. Family holiday, costs v benefits?
 - a. The cost of taking time off work and getting behind on the work that needs to be done or taking the kids out of school and missing out on their learning. Versus the benefits of having new experiences and relaxing.

Chapter 2:

3. Industry making goods such as 'guns' and 'butter'
 - a. Why does it have a bowed out curve
 - i. Because there is a trade-off between the two. Cannot spend the same amount of time creating the same amount of products. There will be a peak position for both which is consistent but changing consistently. Overworking staff can be above the line but will not be able to keep up that level of work and eventually it will drop below the line
 - ii. Easier for group H to get more butter as they will have lower costs in creating more butter, therefor have a bigger share/peace dividend
4.
 - a. Will income be affected if you have a clean environmental outlook
 - i. Shows a production possibility, therefore it is greater for the environment but effects the income. Therefore there will be two different lines, if the clean environment is raised there will be no extra impact on the income just on costs expended.

Chapter 3:

5. 10 million workers in south Korea can create 30 bags of wheat or 2 car in a year
 - a. Opportunity cost for producing one car

- i. You are giving up 15 million bags of wheat to create one million cars, meaning they are reciprocal. Create more cars wheat numbers goes down, create more wheat car numbers go down