

Microeconomics (ECF1100)

Part 1: Introduction

Chapter 1: Ten principles of economics

Economics is the study of how society manages its scarce resources. It is the study of the choices people and societies make to attain their unlimited wants, given their scarce resources.

Scarcity is the limited nature of society's resources. It is where unlimited wants exceed the limited resources available to fulfil those wants.

Like a household, a society faces many decisions. A society must decide what jobs will be done and who will do them. Once society has allocated people (as well as land, buildings and machines) to various jobs, it just also allocate the output of the goods and services that they produce.

An **economy** is a group of people interacting with one another as they go about their lives.

Economists study how people make decisions and interact. They study how much people work, how much they save and how buyers and sellers interact to determine the price of a good.

Why should we think like an economist?

- helps us to understand the world we live in
- as you go about your life, you may make many economic decisions
- helps gain a better understanding of economic policy

3 fundamental choices:

1. What goods/services will be produced (when choosing between alternative options)
 - e.g. Australia is known for producing mining, livestock and education due to its available resources (exploiting (make full use of) resources)
2. How to produce those goods/services
 - e.g. should BMW produce cars in Germany or South Africa? What kind of technology is available? Decisions based on locations of goods/services
3. Who will receive those goods/services
 - e.g. developed countries (e.g. Aus) vs developing countries (e.g. Africa). It depends on how income is distributed throughout a country.

The 10 principles of economics are divided into three sections: How people make decisions, how people interact, and how the economy as a whole works.

HOW PEOPLE MAKE DECISIONS

Principle 1: People face trade-offs

- making decisions requires trading one goal against another
- a trade-off that society faces is between efficiency and equity. **Efficiency** is the property of society getting the most it can from its scarce resources. **Equity** is the property of distributing economic prosperity fairly among the members of society.
- recognising that people face trade-offs does not by itself tell us what decisions they will or should make
- e.g. going to a party the night before mid-term test = less time for studying
- e.g. work vs leisure, environment vs income, equity vs efficiency