ECON1000 Introductory Economics

Learning Module 1: What is economics?

- Study of choices people and society make to attain their unlimited wants, given finite resources → SOCIAL SCIENCE

Part A: Economics: Foundations and Models

- Offshoring means moving production of goods and services to other countries where wages are lower
  - Business-process outsourcing (BPO)
- People must make choices to attain their goals
- Sacristy arises as we have limited resources, in comparison to wants
- Economic models simplified versions of reality, used to analyse real-world situations
- A market is a group of buyers and sellers, and arrangement of how they come together

THREE KEY ECONOMICS IDEAS

People are rational

- Individuals weigh benefits and costs of each action, to choose an action where **benefits outweigh costs** (based off information available)

People respond to economic incentives

- Extra cost must be worth-it to business/government
- **Example:** Pharmaceutical Benefits Scheme. Government subsides costs. But also gives incentive for people to use medicines wisely. Reduces spread of disease etc.

Optimal decisions are made at the margin

- Doing a little more, a little less
- Marginal is additional benefits or costs of decisions
- Marginal benefit (MB) is perks, marginal costs (MC) is downside
- Economists reasons that optimal decision is to continue any activity up to point where marginal benefit equals marginal cost
  - MB = MC
- Marginal analysis involves comparing benefits and costs

SCARCITY, TRADE-OFFS AND THE ECONOMIC PROBLEM THAT EVERY SOCIETY MUST SOLVE

- The economic problem is one society's face due to limited amounts of resources – workers, machines and natural resources. Can't fulfil all desires. Result = trade-offs
- **Trade-offs is the understanding in producing more of one good and service, means we produce less of another**

Trade-offs force society to make three fundamental choices:

What goods and services will be produced?

- Consumers, firms and governments answer ^
- Economists use concept of opportunity cost to choose between alternative options
    - **Opportunity-cost = highest-valued alternative that must be given up**

How will the goods and services be produced?

- Businesses face trade-offs

Who will receive the goods produced?

- Depends largely on income distribution
    - Individuals highest income ability to buy most goods and services
- **QUESTION:** should government intervene to make distribution of income more equal?

Centrally planned vs. market economies

- Centrally planned economies are where government decided how economic resources allocated
    - Employees follow governments orders
    - Unsuccessful in producing low-cost, high-quality
    - Standard of living low (due to income distribution)
- Market economies are ones where decisions of households and firms, interacting in markets, result in allocation of resources
    - Consumer sovereignty = consumer decides what will be produced
    - Rewards hard-work

"Who receives the goods and services produced?"

"Those who are most willing and able to buy them"