Week 1: Opportunity Cost

Value of resources used in taking an action if there were used for the next best alternative instead

- Direct OC: cost of resources that will be used in the chosen alternative, excludes sunk costs
- Indirect OC: benefits minus explicit costs of the next best alternative

Absolute advantage: ability to produce a good using fewer inputs than another producer
Comparative advantage: ability to produce a good at a lower opportunity cost than another producer

- Possible for one person to have absolute advantage in both goods, not possible to have comparative advantage in both goods

Sunk costs: Costs incurred prior to deciding whether or not to take an action, shouldn't affect decision
Marginal benefit: additional benefits from one more unit of activity
Marginal costs: additional costs from one more unit of activity

Week 2: Perfectly Competitive Markets

Perfectly competitive markets have many buyers and sellers trading identical goods. Sellers do not have "market power" (ability to influence price/quantity), and are "price takers"

<u>Demand Curve</u>
- Movement along when price changes
- Shifts:

1. Income
    a. Normal good: positively related
    b. Inferior good: inversely related
2. Alternative goods
    a. Substitutes: positively related
    b. Complements: inversely related
3. Consumer Tastes
4. Opportunity costs
5. Price expectations
6. Number of buyers