Table of Contents

Week 1: Key Concepts and Comparative Advantage (Ch.1 and 4) 2

Week 2: Firm Behaviour: Production, Costs (Ch.7) .... **Error! Bookmark not defined.**

Week 3: Supply and Demand (Ch. 8) .... **Error! Bookmark not defined.**

Week 4: Market Equilibrium and Welfare Analysis (Ch.9 and 10) .... **Error! Bookmark not defined.**

Week 5 Elasticity (Ch.10-12) .... **Error! Bookmark not defined.**

Week 5 and 6 Introduction to Markets (Ch.12 and 13) .... **Error! Bookmark not defined.**

Week 6 and 7 Monopoly markets (Ch.13) .... **Error! Bookmark not defined.**

Week 7 Monopolistic Competition (Ch.14) .... **Error! Bookmark not defined.**

Week 8 Oligopoly Market and Game theory Strategic Interaction and Business Strategy I (Ch. 3, 5 and 15). **Error! Bookmark not defined.**

Week 9 Strategic Interaction and Business Strategy II (Ch.15.5) .... **Error! Bookmark not defined.**

Week 11 Externalities and Public Goods (Ch.17-18) .... **Error! Bookmark not defined.**

Week 12 International Trade (Ch.20) .... **Error! Bookmark not defined.**

Week 1: Key Concepts and Comparative Advantage (Ch.1 and 4)

What is Economics:

- Economics is the study of choice under scarcity.
- This entails **what to produce**, **how to produce it** and **who should get what is produced.**
- These questions are resolved in a market.
- A **market** is a place where buyers and sellers of a particular good or service meet.
- **Microeconomics** focuses on the **behavior** of **individuals** (consumers, firms and governments) within the market.

Scarcity and opportunity cost:

- **Scarcity** - Resources are limited, so that not all wants and needs can be met
- **Opportunity cost** of any choice is the value of the next best foregone alternative. NOT THE SECOND OR THIRD BEST.
- Opportunity costs include both **explicit** and **implicit** costs
  - **Explicit costs** are costs that involve direct payment or costs considered by accountants. **' Out of pocket costs '.**
  - **Implicit costs** are opportunities foregone that do not involve explicit costs.
- Opportunity cost **does not** include sunk costs (costs that have been **incurred** and cannot be recovered no matter what) or uncoverable costs.
  - E.g. a business spent $100m on advertising last year, it cannot get that money or effort spent back now by making a different decision.

Marginal Analysis:

- **Marginal** means additional or extra.
- **Marginal benefit** (additional benefit received from consuming an extra unit)
- **Marginal cost** (additional cost of buying one more unit)
- **Marginal analysis** examines the behavior of individuals in markets.
- If the marginal benefit (MB) of an activity is greater than its marginal cost (MC), an agent is better of doing that than when MB<MC as they are worse off if they do.
- Microeconomics is thinking at the margin

Ceteris Paribus

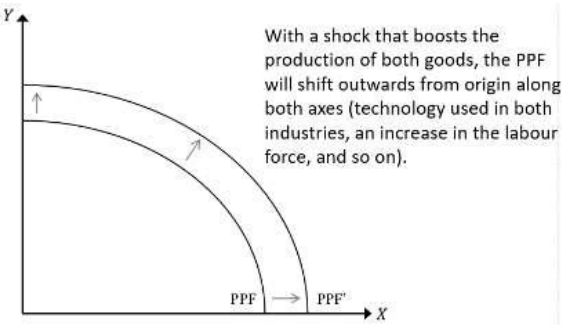
- Ceteris paribus roughly means **'other things equal'**
- To isolate the impact of one factor, economists examine the impact of one change at a time, holding everything else constant – **Ceteris Paribus**

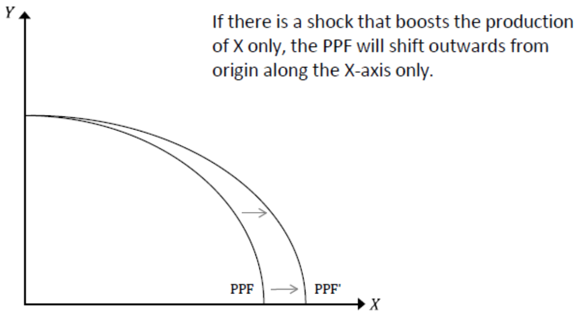
Correlation and Causation

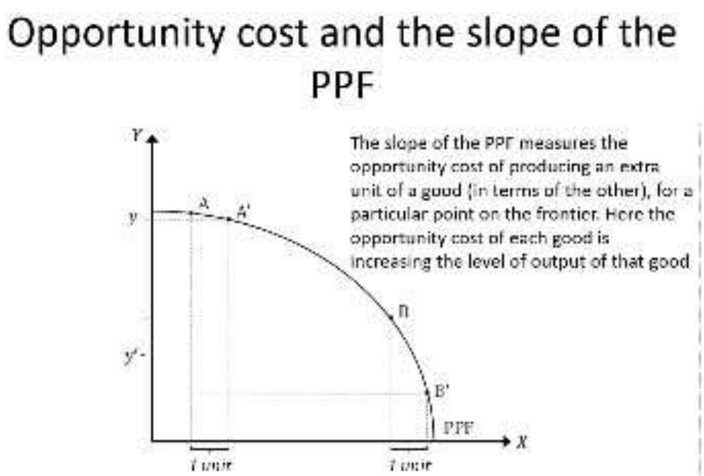
- **Correlation**: When two or more factors are observed to be increasing/decreasing together or moving in opposite directions.
- **Causation**: A change in one variable brings about, or causes, a change in another variable.
- **Correlation does NOT imply causation**.

Trade and the Production Possibility Frontier (PPF)

- A PPF graphs the output that an individual (or a country) can produce with a particular set of resources.
- A **country's PPF** shows all the combinations of goods and services that a country can produce *given its resources and its current state of technology***.**
- The concave shape of the production possibilities frontier implies that the opportunity cost of each good is increasing in the level of output of that good.
- The **slope** of the PPF is the **opportunity cost** of producing an additional unit of a good in terms of the other.
- Linear graphs = constant opportunity cost







Gains from Trade:

- Trade = economic interaction
- Trade can make everyone better off by allocating goods to those who value them most. This is **gains from exchange.**
- Trade also allows people to take advantage of gains from specialization, reducing overall costs of pricing and output.
- **Pareto improving** – both agents are better off after a **voluntary** trade.
- **By trade**, parties can consume outside their PPF

Absolute and Comparative Advantage:

- A has an **absolute advantage** over B if A can produce a greater number of goods with the same resources than B
- A has a **comparative advantage** over B if A's opportunity costs of producing that good is lower than B's opportunity cost.
- In Absolute and Comparative advantage questions, make sure to draw a table for both production and opportunity cost
    - For opportunity cost (o.c), we want the opportunity cost of producing a **SINGULAR** unit of each product when drawing a table. O.C = $\frac{Cost}{Gain} = \frac{Don't}{Do}$

Gains from Specialization:

- Include increased production, increased output, increased consumption (better for everyone involved in the long wrong)
- Trade allows parties to specialize in producing the good in which they have the lower opportunity cost.
- Principle holds even if one party has the absolute advantage in the production of both golds; what matters are the comparative and opportunity cost of the parties.
- Occurs in the beginning of a production and cost curve (efficient production and low cost initially).