ECON10004 - Microeconomics

Lecture 1 – Introduction

Microeconomics
1. Behavior of individual decision makers
2. Their interaction through exchange and in markets

Price Discrimination – Charging difference prices to different consumers i.e. those who have limited time are prepared to pay a higher price then consumers who are willing to search for a product. Bunning's 'beat them by 10%'

Lecture 2 – Key Concepts

What is economics about?

Economics considers that the number of goods and services possessed determines level of wellbeing.

The fundamental issue of economics is scarcity of resources

Scarcity of Resources – Unlimited wants and desires but limited resources which means we have to make decisions in order to maximize desires.

Resources – Time and capital; physical and financial assets; natural resources
Put simply:
1. Land
2. Labour
3. Capital

Scarcity of resources requires people and government to make decisions about how to allocate resources

Overall, economics studies the decisions of consumers on how they allocate resources in order to maximize wellbeing

The scientific method of economics

1. Develop theories and understand economic activity
2. Gather data + test theories
3. Verify and refute theories dependent on results

Scarcity – Limited resources unlimited desires and wants

A theory consists of:

1. A model of the situation (models highlight essential features of situation being studied. Often ignore factories which aren't of interest)
2. A hypotheses or prediction derived from that model

Key Economic assumption – Decision makers are rational

Rational Decision makers should:
- Have well defined objectives
- Make economic decisions based on achieving this objective

Fundamental Theory of economics – How we make decisions??

- Must make choice about the use of resources (due to scarcity of resources)
- A choice is made by summarizing in terms of costs and benefits of an allocation of resources
- Total Net Gain = Benefits – Costs
- The best decision = the one that maximizes total net gain

Who are decision makers?

Individual, Firms, Governments etc.

How do we measure cost? Use the Principle of opportunity cost

This is the main discretion in economics.

When a decision-maker makes an action he must consider:
1. Resources used in taking that action are not available for alternative uses
2. Cost of action should be measured in terms of the resources used in making a decision that are no longer available.

<u>How do we measure the value (cost of using) of resources?</u>

To measure cost you must consider the next best alternative use of resources used in an allocation

Opportunity Cost – The value of the *next best* alternative forgone in the allocation of resources

Sunk Cost – Resources used before making a choice about an action. Thus, they are invalid to a decision. They are not an opportunity cost. If resources are not recoverable they should not be brought into your decision making at that time.

<u>Key questions when answering</u>
1. What extra resources are being used
2. What is the value of these resources in their next best alternative