

Basics of Economics

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Basics of Economics

Economics is a social science that studies how people relate to each other in a society. It studies how societies allocate scarce resources. If resources were unlimited and freely available, the problem would be trivial.

Fundamental Assumption

The Fundamental Assumption in economics is that people face the problem of scarcity. Scarcity arises when people have unlimited wants, but there are not enough resources to satisfy those wants. Unlimited wants is not required for a problem to arise, the problem exists when the total amount of a good desired exceeds the total amount that is available.

Rule of Thumb

A good is scarce if whenever the price of it is zero there is not enough of it provided to satisfy everyone's demand. Rarity is not the same as scarcity.

The Fundamental Problem of Economics

How *do* societies deal with problems of scarcity?

- We can find some answers by looking out into the world.

How *should* societies deal with the problem of scarcity?

- Should we train more nurses, or more lawyers?

- More food, or more weapons?
- Who gets the goods eventually?
- Should this be based on need or whether not the person can afford the good?

Scarcity involves tradeoffs. A society can invest more in education children, or in national defense, but perhaps not both. A individual can fix her car, or take a vacation, but not both.

6 Key Ideas

- **Tradeoffs:** Individuals face tradeoffs when making choices. This is because of scarcity, something must be given up in order to get something else.
- **Benefits:** The benefit to a person of an activity is the most that a person is willing to give up in order to undertake that activity.
- **Costs:** The opportunity cost is what a person actually sacrifices when choosing one option over the other.
- **Choosing at the Margin:** Choosing at the margin involves the cost-benefit analysis of an activity to determine how much of it one should undertake.
- **People Make Rational Choices:** The idea that people make cold rational calculations is an assumption of our economics model.
- **Choices Respond to Incentives:** Individuals take into account costs and benefits when making choices.

If any errors are found, please contact me at alvin.lin.dev@gmail.com