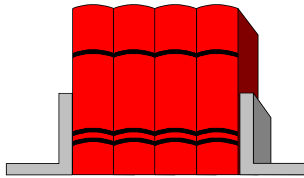
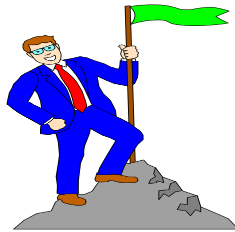
The economic organization of society:



What is economics?

- Economics is the study of how individuals or societies coordinate their wants and desires.

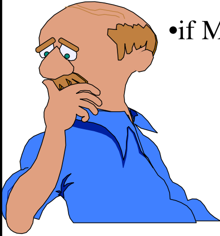


Five important things to learn in economics are:

- Economic reasoning- decisions based on costs vs benefits
- economic terminology
- economic insights
- information about economic institutions
- information about policy options

MC vs MB

- Comparing MC and MB will tell you how you should adjust your activity to be as well off as possible
  - if MB > MC then do it
  - if MB < MC do not do it



An economic institution:

- A physical or mental structure that significantly influences economic decisions
- ex. Corporations, governments,and cultural norms

Economic policy:

- An action(or inaction) taken by gov’t to influence economic events such as recessions or deficits

Economic forces:

•Invisible hand- price changes guide our actions in the market.

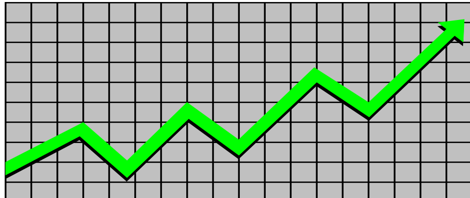
•The Invisible handshake- social and historical forces

•the invisible foot- political and legal forces

Macro vs Micro

•Microeconomics- the study of individual choice

•Macroeconomics- the study of inflation, unemployment, and business cycles



Positive vs Normative:

•Positive economics- the study of “what is”

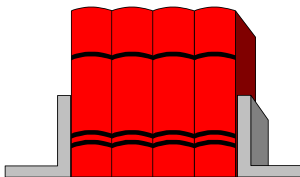
•Normative economics- the study of “what should be”

Sunk costs:

•Costs that have already occurred and therefor do not affect current decisions

Economic reasoning

The Scope and Method of Economics



Three important questions:

•What to produce?
•How to produce it?
•For whom to produce?

•How do you solve these coordination problems?

Capitalism:

•Individuals decide what, how and for whom.

•Market forces(invisible hand) coordinates economic activity

•distribution is according ability, effort, and inherited property

•private property rights must exist and be defended by the gov't

Socialism:

•Takes the needs of others into account

•lack of incentive to produce

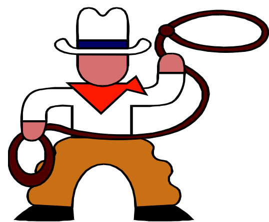
•Soviet-style socialism- used central planning to answer the questions what, how and for whom

Feudalism:

•Tradition ruled the manor (invisible handshake)

•serfs- did what their fathers did

•problem- son doesn't want fathers occupation



Feudalism to mercantilism:

•Some people left the manor
•they went to the city
•many became merchants
•markets broke down tradition
•merchants amassed fortunes that dwarfed feudal lords
•power in society shifted to towns
•traders supported a king

Mercantilism:

•Gov't determines the what, how, and for whom decisions by doling out the right to undertake certain activities(invisible foot)
•guilds- occupational organizations
•guilds- had financed the king, now expected him to protect their interest

Mercantilism to capitalism:

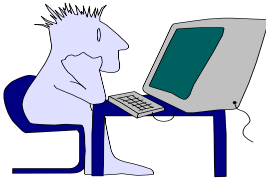
•Machines replaced hand production
•Machines produced goods cheaper
•craftsmen did not want to be replaced by machines
•the struggle raged in the 1700s and 1800s
•gov'ts themselves where changing
•revolutions were supported by the industrialist

Opportunity cost:

- The value of the next best forgone alternative

Assumptions of the production possibilities curve:

- All natural resources are fixed
- technology is constant
- full employment



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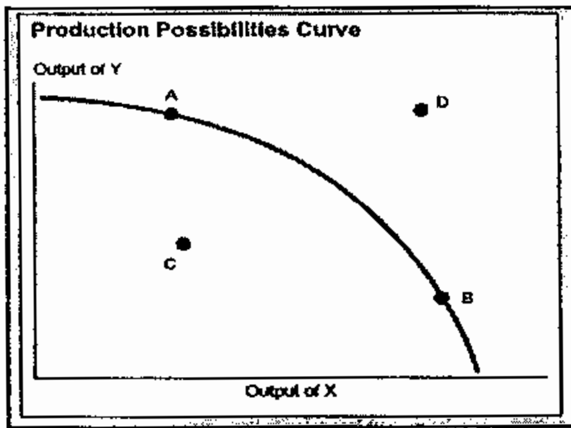
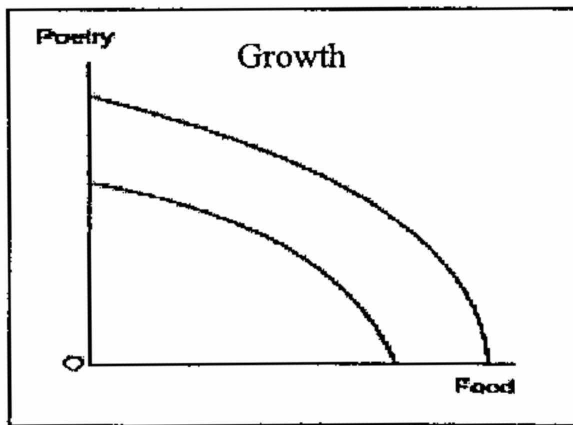
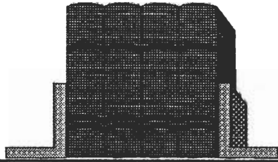




Supply and Demand



Two Sides

Like a good controversy, every market has two sides. In this case, the two sides are (obviously?) buyers and sellers.

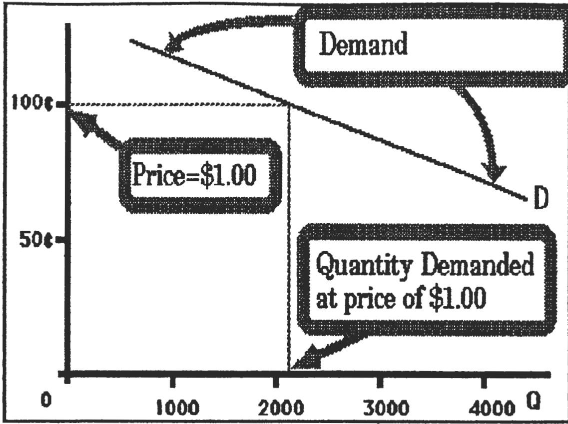
The buyers are the "demand side" of the market.

Sellers are the "supply side" of the market.

Alfred Marshall compared the supply and demand sides to the two blades of scissors -- one won't cut. You have to have both.

The law of demand:

- There is an inverse or negative relationship between price and quantity demanded
- Price does not change demand!!!

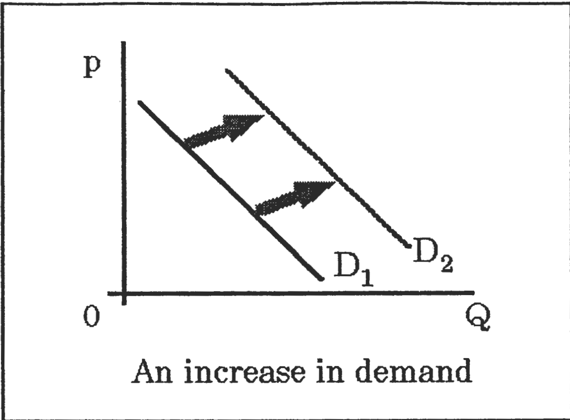


Reasons for a downward sloping demand curve:

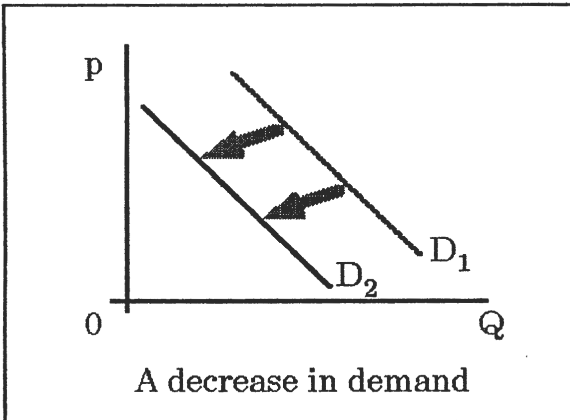
- Substitution effect
- Income effect
- Diminishing marginal utility

Demand shift Factors:

- Income- normal vs. inferior
- Price of related goods- Substitute vs. complement
- Taste and preferences
- Expectations
- # of buyers



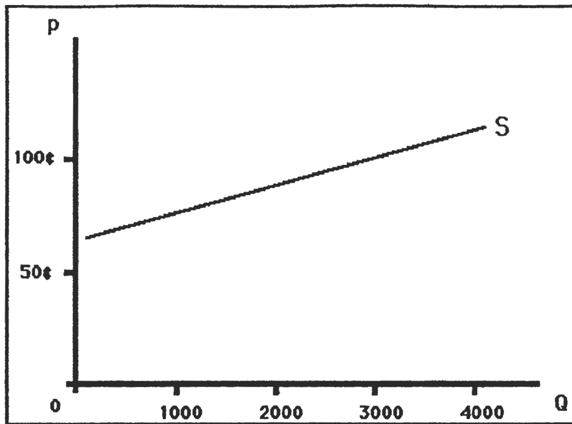
An increase in demand



A decrease in demand

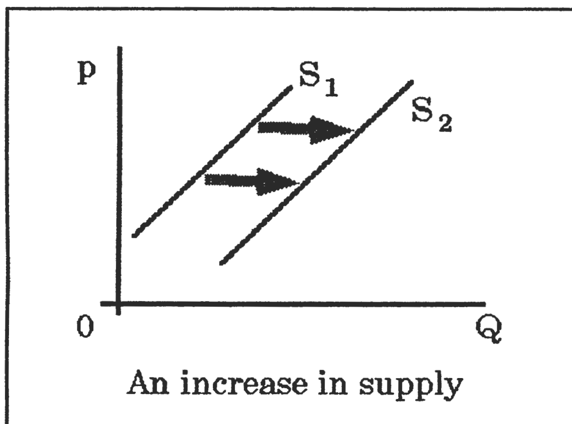
Law of supply:

- There is a direct or positive relationship between price and quantity supplied
- Price does not change supply!!!

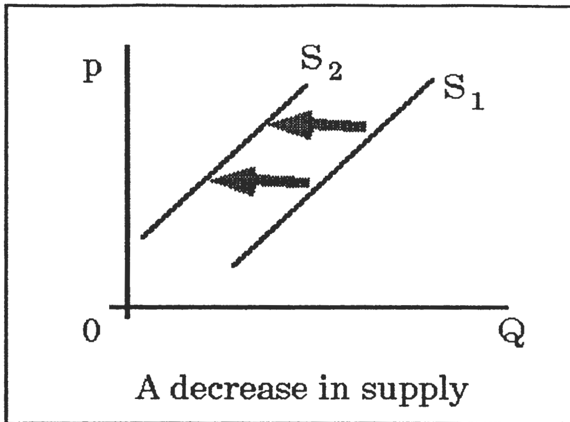


Supply shift factors:

- Input prices
- Technology
- expectations
- taxes or subsidies
- # of sellers



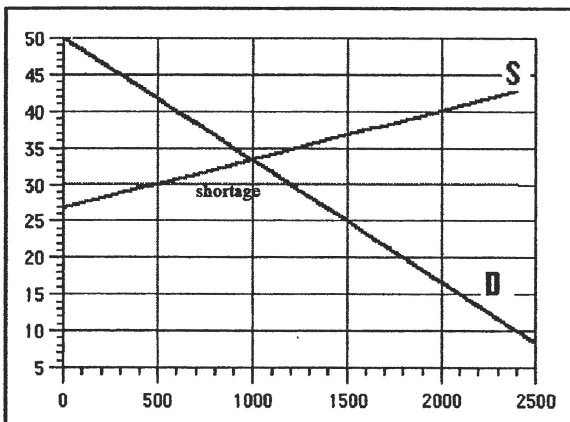
An increase in supply

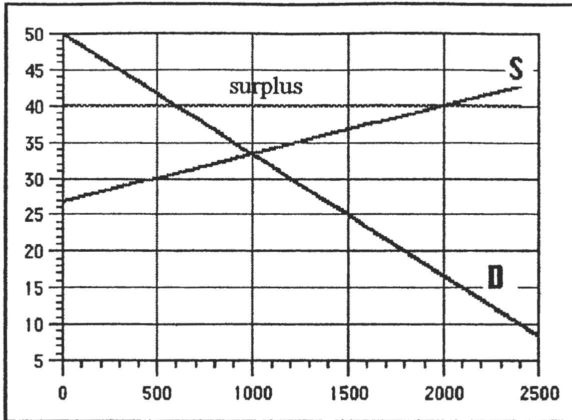


A decrease in supply

First dynamic law of supply and demand:

- If Qd > Qs then price will rise
- If Qs > Qd price will fall





Second dynamic law of supply and demand:

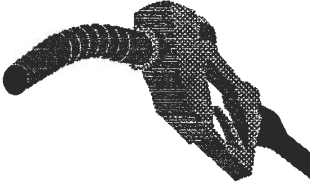
- The greater difference between Qd and Qs the greater the pressure for price to change

Third dynamic law of supply and demand:

- When Qd = Qs there is no tendency for price to change

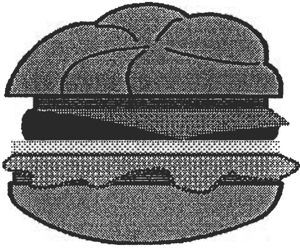
Price ceiling:

- Maximum legal Price



Price floor:

- Minimum legal price



SANTA MONICA, Calif. (AP) The battle over the nation's first "living wage" law that applies to private business has moved from the city's council chambers to its seaside streets.

After several years of debate, the city this week adopted an ordinance that will require the city and its contractors, plus businesses in the downtown and beach areas, to pay workers $12.25 an hour, or $10.50 an hour if they provide health benefits. California's minimum wage is $6.25 an hour.

The ordinance, which passed by a vote of 5-2, takes effect next July.

While a number of municipalities across the country have adopted similar ordinances covering city workers and employees of private companies that have government contracts, Santa Monica is the first community to extend the requirement to private businesses. The law affects resort hotels, restaurants, retail stores and other

Price ceiling:

Price ceilings are maximum prices imposed on the market. A price ceiling below the equilibrium price will cause a shortage as quantity demanded is greater than quantity supplied.

Price controls are imposed by government.

Price floor:

A price floor is a minimum price imposed on the market. A price floor above the equilibrium price will cause a surplus as quantity demanded is less than quantity supplied.

Price controls are imposed by government.