

Handout for Microeconomics

Introduction to Economics

Why do study we economics?

- ✓ make money
- ✓ understand the law of supply and demand (mechanism of pricing)
- ✓ how recession or rising oil price will affect their future
- ✓ use economic lesson in your life
 - Choosing your occupation elaborate on this, wages, labor, production, demand

What is economic?

The effect of government budget deficit, the rich and the poor, socialism, domestic worker vs. immigrants, how much does it really cost to go to college?

- ✓ **Adam Smith** – classical economics, political economics
 - Analyze the way that markets organized economic life and produced rapid economic growth.
 - The systems of prices and markets are able to coordinate people and businesses without any central direction.
- ✓ **Karl Marx**
 - Proclaimed that capitalism was doomed and would soon be followed by business depressions, revolutionary upheavals and socialism
- ✓ **John Maynard Keynes**
 - The general theory of employment, interest and money. This is about government policies and how gov't can regulate business cycle

The power of the market , capitalism Vs. Socialism

Definition of Economics

- ✓ Economics asks what goods are produced, how these goods are produced and for whom they are produced
- ✓ Economic analyzes movements in the overall economy – trend in price, output, unemployment, foreign trade, and government policies
- ✓ Study of commerce among nations, analyze and explain why some nations import goods and export others.
- ✓ Science of choice, how people choose to use scarce or limited productive resources (labor, equipment, technical, knowledge) to produce various commodities (such as wheat, overcoats, concerts, and missiles) and the distribution of these goods
- ✓ Economics is the study of money, banking, capital and wealt
- ✓ Economics is the study of how societies use scarce resources to produce valuable commodities and distribute them among different people.

- ✓ Macroeconomics: the study of functioning of economy as a whole
- ✓ Microeconomics: analyze the behavior of individual components like industries, firms, and households+

Scientific Approach

Why Japan has grown so rapidly in 1960s and currently it is stagnant, compare with Russia and China?

Economists and other scientists have developed techniques – sometimes called the scientific approach

- 1) **Observation:** we people learn a lot by observing
 - Example inflation, how do we come to understand it.
 - History of inflation in 1920 Germany has inflation rate of 100000% in 2 years.
- 2) **Economic analysis:** this is an approach that starts with a set of assumptions and then deduces logically certain predictions about the economic behavior of people, firm or overall economic
 - Ex. Attempt to restrict the import of foreign goods in order to protect domestic workers and firms from foreign competition
 - Cause of effect of an incident
- 3) **Statistical analyses:** a complete understanding of economic activity relies upon the use of economic data and statistical analysis.
 - Who is richer, male or female and explain why?
 - On average women earn only 60% as much as men in United States in 1990s
- 4) **Experiments:** controlled experiments, a scientist sets up a controlled experiment by dividing a population into 2 or more groups. They are being treated the same way except for the impact factor.
 - It is difficult to perform experiment in economics than in laboratory science
 - Economist measured people's reactions to different kinds of government programs to raise the incomes of the poor.
 - This showed how changes in gov't programs might affect people's work habits and saving behavior.