

1 The Study of Economics

2 Models and the Circular Flow

3 The Production Possibility Frontier Model

4 Comparative Advantage and Trade



Choice: The Core of Economics

- **Economics** is the study of scarcity and choice.
- **Choice** is the decision by an individual of what to do.



Resources Are Scarce

- A **resource** is anything that can be used to produce something else (e.g., land, labor, physical capital & human capital).



Resources Are Scarce

Physical Capital



Human Capital



Opportunity Cost

- **Opportunity cost:** The real cost of something is what you must give up in order to get it.



Mark Zuckerberg understood the concept of opportunity cost—and dropped out of Harvard.

LeBron James skipped college to earn millions of dollars in the NBA.



Macroeconomics vs. Microeconomics

- **Microeconomics** focuses on how decisions are made by individuals and firms and the consequences of those decisions.
- **Macroeconomics** examines the *aggregate* behavior of the economy.
 - The macroeconomy is indeed the collection of all individual actions and market outcomes, but it is ***greater than the sum*** of the parts.
 - Macroeconomics tends to be more concerned with policy.

Macroeconomics vs. Microeconomics

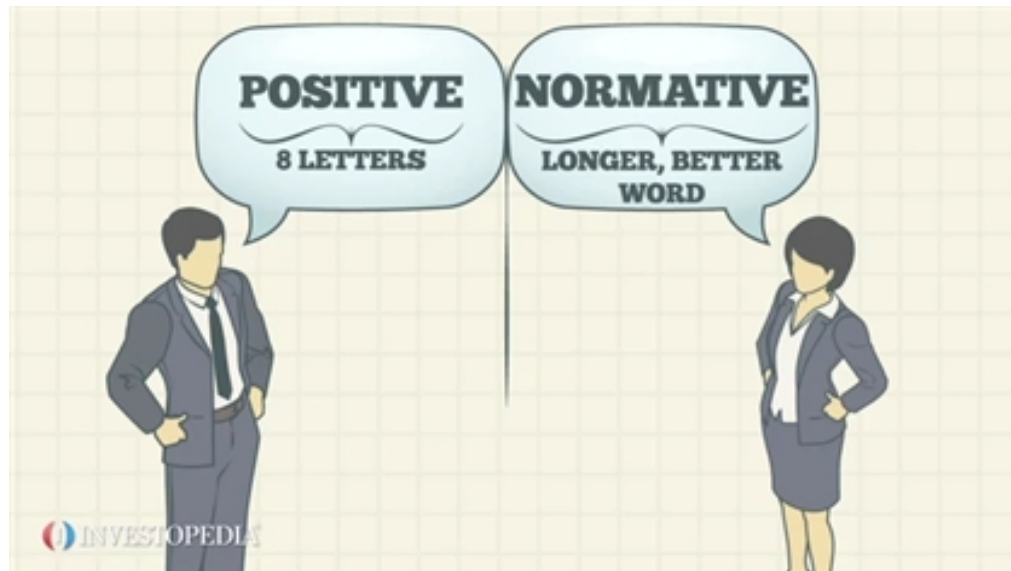
MICROECONOMIC QUESTIONS	MACROECONOMIC QUESTIONS
What determines the cost to a university of offering a new course?	What determines the overall level of prices in the economy as a whole?
What government policies should be adopted to make it easier for low-income students to attend college?	What government policies should be adopted to promote full employment and growth in the economy as a whole?
What determines whether First Interstate Bank will open a new branch in Laramie?	What determines the level of trade in goods, services and financial assets between the U.S. and the rest of the world?

Macroeconomics: Theory and Policy

- Before the 1930s, economists regarded the economy as self-regulating.
- The Great Depression changed all that.
- According to Keynesian economics, the economy can be made better off by monetary and fiscal policy.
 - **Monetary policy** uses the quantity of money to alter interest rates, which affect overall spending.
 - **Fiscal policy** uses changes in taxes and government spending to affect overall spending.
- Many believe that monetary and fiscal policy kept the recent 2008 financial crisis from turning into a Depression.

Positive vs. Normative Economics

- **Positive economics** is the branch of economic analysis that describes the way the economy actually works.
- **Normative economics** makes prescriptions about the way the economy *should* work.



Why Do Economists Disagree?

- Economists agree more than you think. However, there are two main reasons economists disagree:

- Model assumptions
- Core beliefs & values

