Welcome to ECON 201 Study Group

Made by: Chang Li

Date: sept. 2015

Introduction about…

1. Study Group:

Day	Time	Room
Mondays	10:15 am - 11:30 am 2:45 pm - 4:00 pm	MB 2.435 H-400-2
Tuesdays	10:15 am - 11:30 am	H-613
	2:45 pm - 4:00 pm	H-619
Wednesdays	10:15 am - 11:30 am	MB S2.455
	2:45 pm - 4:00 pm	MB S2.465
Thursdays	8:45 am - 10:00 am	MB 5.275
	11:45 am - 1:00 pm	MB 3.430
	2:45 pm - 4:00 pm	H-564

Above is the timetable in 2016 winter. For more information, please look at http://www.concordia.ca/students/success.html

Introduction about…

2. myself and my sessions

Name : Chang

Major : Finance (JMSB) – 3rd year

Experience in Study Group : 3 semesters

Expectation :

I hope I could be a good supporter in your Econ 201 studying. I'm here for solving your confusion. Please feel free to ask me questions in class.

We are a group, so we are the supporters for every student in our class. Please be helpful to our groupmates.

Please come as much as you can. The harder you study, the better results you get.

Introduction about…

3. Econ 201 --- Microeconomics: Markets, Methods and Models

Part 1 introduction of economics --- CH 1, 2, 3

Part 2 introduction to microeconomics --- CH 4, 5 (the characteristics of Supply/Demand)

Part 3 consumers and producers --- CH 6, 7, 8

Part 4 market structure --- CH 9, 10, 11

Part 5 the trading world --- CH 15

Chapter 1

Chapter 1 Introduction to Key Ideas

1.1 The big issues in Economics

1.2 The use of models in science

1.3 Opportunity cost

1.4 Exchange and specialization

1.5 Production possibilities for the economy

1.6 Output, growth and cycles

Chapter 1

Chapter 1 Introduction to Key Ideas

1.1 The big issues in Economics

1.2 The use of models in science

1.3 Opportunity cost (Identify the OC)

1.4 Exchange and specialization (chapter 15)

1.5 Production possibilities for the economy (PPF)

1.6 Output, growth and cycles (movement)

1.3 Opportunity Cost and the Market

What is opportunity cost???

Scenarios:

1. Your friends asked you to go to gym together, but you chose to come here to join Study Group.

2. you will have to a party this week in order to earn additional income for a hockey game ticket

3. You woke up and found you are sick. You chose to study at home rather than have the classes.

Conclusion:

There is no such thing as a free lunch, individuals face choices at every turn. In economics we say that these limits or constraints reflect opportunity cost.

The **opportunity cost** of a choice is what must be sacrificed when a choice is made. That cost may be financial; it may be measured in time, or simply the alternative foregone.

SO:

The **opportunity cost** of a choice is what must be sacrificed when a choice is made

Exercise!!!

(PAST MIDTERM)

When asked in an interview what she missed the most because of the time she spent training for the Olympics, a rower revealed that she had given up a job that paid $35,000 per year to train full-time. She received a grant of $7,000 per year from Sports Canada, but this could not cover all her training expenses. Her food and rent were $10,000 per year and training expenses were $12,000 per year. What is the annual opportunity cost, expressed in dollars, to this rower of "Going for Gold"?

A. $28,000

B. $35,000

C. $40,000

D. $52,000

E. $54,000.

Exercise!!!

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E. $54,000.

Process:
The cost because of training :
-35,000-12,000 = - 47,000
The earn of training:
+ 7,000
The food and rent are ALWAYS there no matter she works or trains, no business with the choice.
SO: -47,000 + 7,000 = -40,000

Exercise!!!

(Past midterm)

Amy is thinking about going to the movies tonight. A ticket costs $7 and she will have to cancel her baby-sitting job that pays $30. The cost of seeing the movie is therefore:

A) $7.

B) $30.

C) $37.

D) $37 minus the benefit of seeing the movie.

Exercise!!!

(Past midterm)

Amy is thinking about going to the movies tonight. A ticket costs $7 and she will have to cancel her baby-sitting job that pays $30. The cost of seeing the movie is therefore:

A) $7.

B) $30.

C) $37.

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Opportunity Cost

1. Someone gives up going to see a movie to study for a test in order to get a good grade.The opportunity cost is _____

2. If you decide not to go to work, the opportunity cost is ___

3. Tony buys a pizza and with that same amount of money he could have bought a Coke and a hot dog. The opportunity cost is ____

Opportunity Cost

1. Someone gives up going to see a movie to study for a test in order to get a good grade.The opportunity cost is the cost of the movie and the enjoyment of seeing it.

2. If you decide not to go to work, the opportunity cost is the lost wages.

3. Tony buys a pizza and with that same amount of money he could have bought a Coke and a hot dog. The opportunity cost is the Coke and hot dog.

Opportunity Cost

Anna could finish 2 pieces of homework in one hour. She also could clean one room in one hour. If Anna has 3 hours, what is the max. homework number she could finish? What's the max. room number she could clear? If she has 5 homework to take care of, how many room she could clean? What is the opportunity cost for having one more room being cleaned?

max. homework #: 6
max. room #: 3
5 homework and half room
opportunity cost for one room: 2 homework

Opportunity Cost

Consider the following situation and calculate the opportunity cost .

1. You can produce 3 apples or 10 bananas in one hour

2. Amy could produce 30 computers in 5 days or 5 TVs in one day

3. Jermy could transport 10 chairs or 3 tables in one time.

4. Alice could produce 50 computers in 5 days and 12 TVs in 2 days

1.4 A model of Exchange and Specialization

Country	Orange number	Orange hours	Apple number	Apple hours
A	3	2	12	18
B	2	4	18	9

We have two Countries and two goods: Country A and B produce oranges (O) and/or apples (A). Their production capabilities are defined as above.

If we only have 36 hours, what's the max. number of oranges that each of them can have? And apples? Who is specialized in orange and who is specialized in apples?

For country A: it produces 3 oranges in 2 hours → so 1.5 oranges in each hours
→36hours * 1.5oranges = 54; apples (12/18) * 36 = 24
For country B : oranges (2/4) * 36 = 18; apples: (18/9) * 36 = 72

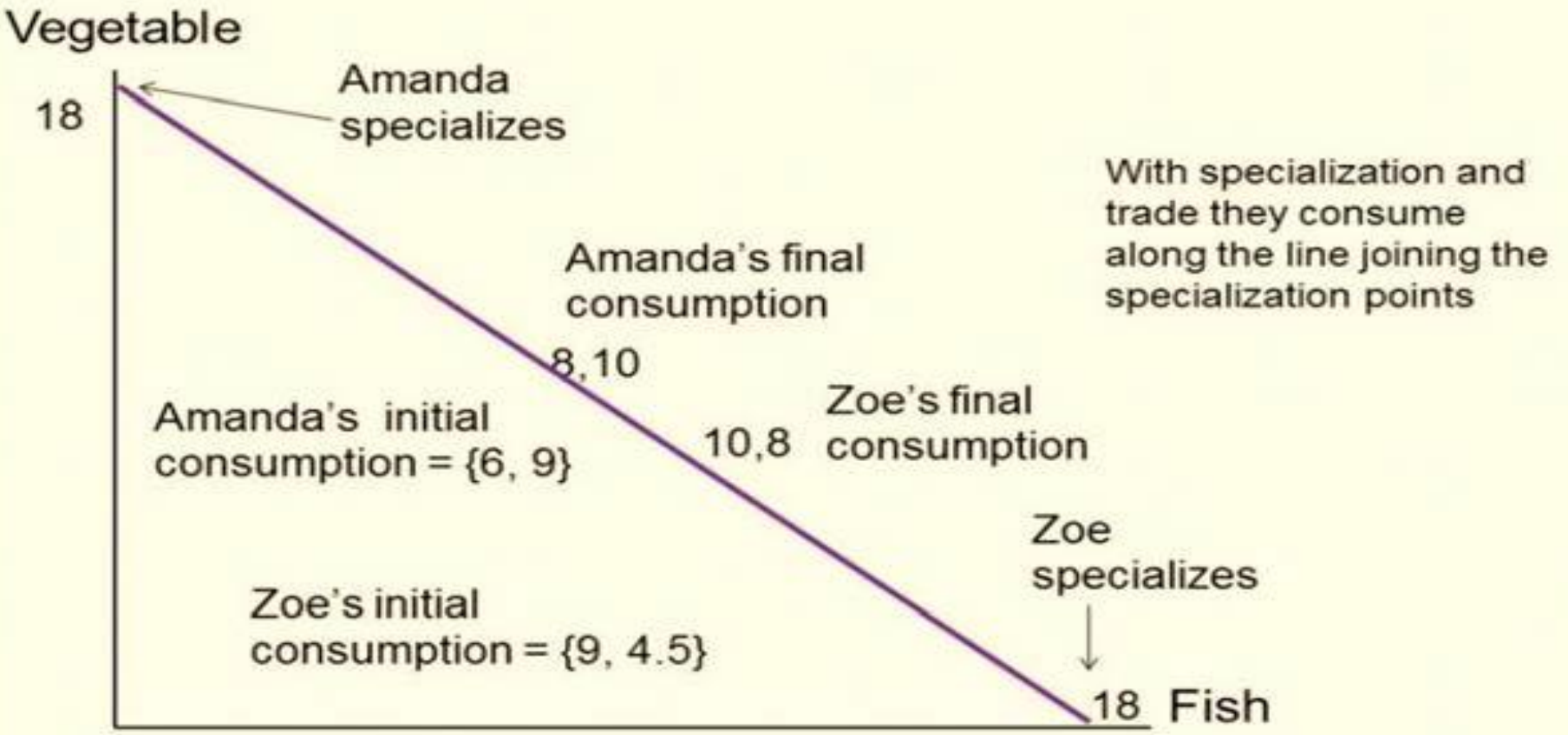
The PPF

As the scenario above, country A could produce 54 oranges in maximum if it use all the time available in producing oranges. But it, actually, could allocate its time to producing some of each good. For example, by dividing its 36 hours equally she could produce 6 units of oranges and 9 units of apples. Different allocations of her time will lead to combinations of the two goods that lie along a straight line joining the specialization points.

We will call this straight line the **production possibility frontier (PPF)**

The production possibility frontier (PPF) defines the combination of goods that can be produced using all of the resources available.

Figure 1.2 Absolute Advantage - Consumption



With specialization and trade they consume along the line joining the specialization points

If Amanda trades 8V to Zoe in return for 8F Amanda moves to the point {8, 10} and Zoe to {10, 8}. Both consume more after specialization

Exercise!!!

Employee	Paper work/ #	Paper work/hours	Reception / #	Reception /hours
Sam	5	2	20	4
Alice	3	1	18	3

If we want to evaluate the work of these 2 employees, known 60 hours per month. Who is better at what? Draw the PPF for Sam and Alice.

Competitive vs Absolute Adv.

Absolute advantage refers to a country's ability to produce a certain good more efficiently than another country.

Comparative advantage refers to a country's ability to produce a particular good with a lower opportunity cost than another country.

Fuction:largely influence how and why nations devote limited resources to the production of particular goods

Example:Assume France can produce 20 units of wine or 10 units of cheese.

Italy is able to produce 30 units of wine or 22 units of cheese.

--> **Italy** has an **absolute advantage** for the production of **both wine and cheese**; but, **France's** opportunity cost for the production of **wine** is lower than Italy's, so it has the **comparative advantage** despite Italy being the more efficient producer. **Italy's** opportunity cost for **cheese** is lower, giving it both absolute and **comparative advantage.**

Exercise!!!

Suppose that one day's labor in Chile and Argentina has productivities in making beef and wine given in the table at right. Then we can conclude that

	Beef	Wine
Chile	4	12
Argentina	2	5

(a) Chile has a comparative advantage in beef production.

(b) Argentina has an absolute advantage in wine production.

(c) Argentina has an absolute advantage in beef production.

(d) Argentina has a comparative advantage in beef production.

Exercise!!!

Suppose that one day's labor in Chile and Argentina has productivities in making beef and wine given in the table at right. Then we can conclude that

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Suppose that labor productivity in Chile and Argentina in making beef and wine is described by the table in the previous question. Assume also that each country is initially producing some of each good. Then we can conclude that

(a) Both Chile and Argentina can gain from trade if Chile exports beef and Argentina exports wine.

(b) Both Chile and Argentina can gain from trade if Argentina exports beef and Chile exports wine.

(c) Neither Chile and Argentina can gain from trade.

(d) Chile can gain from trade but Argentina cannot gain from trade.

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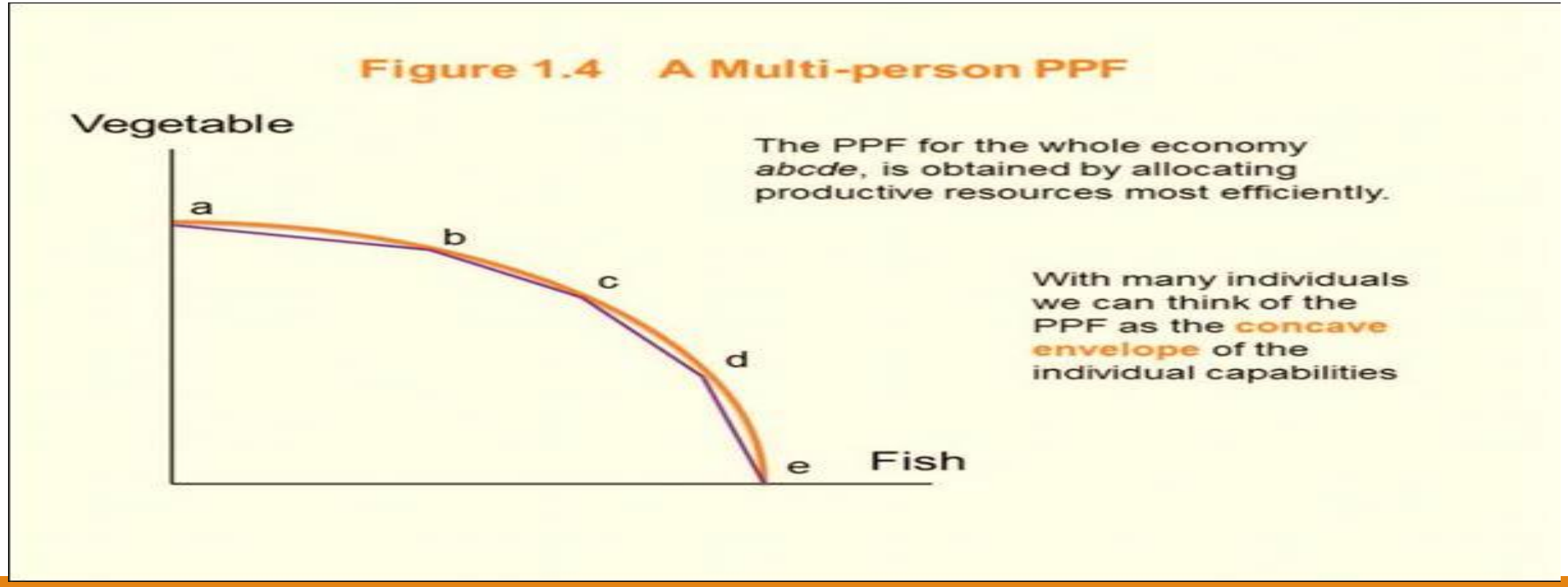
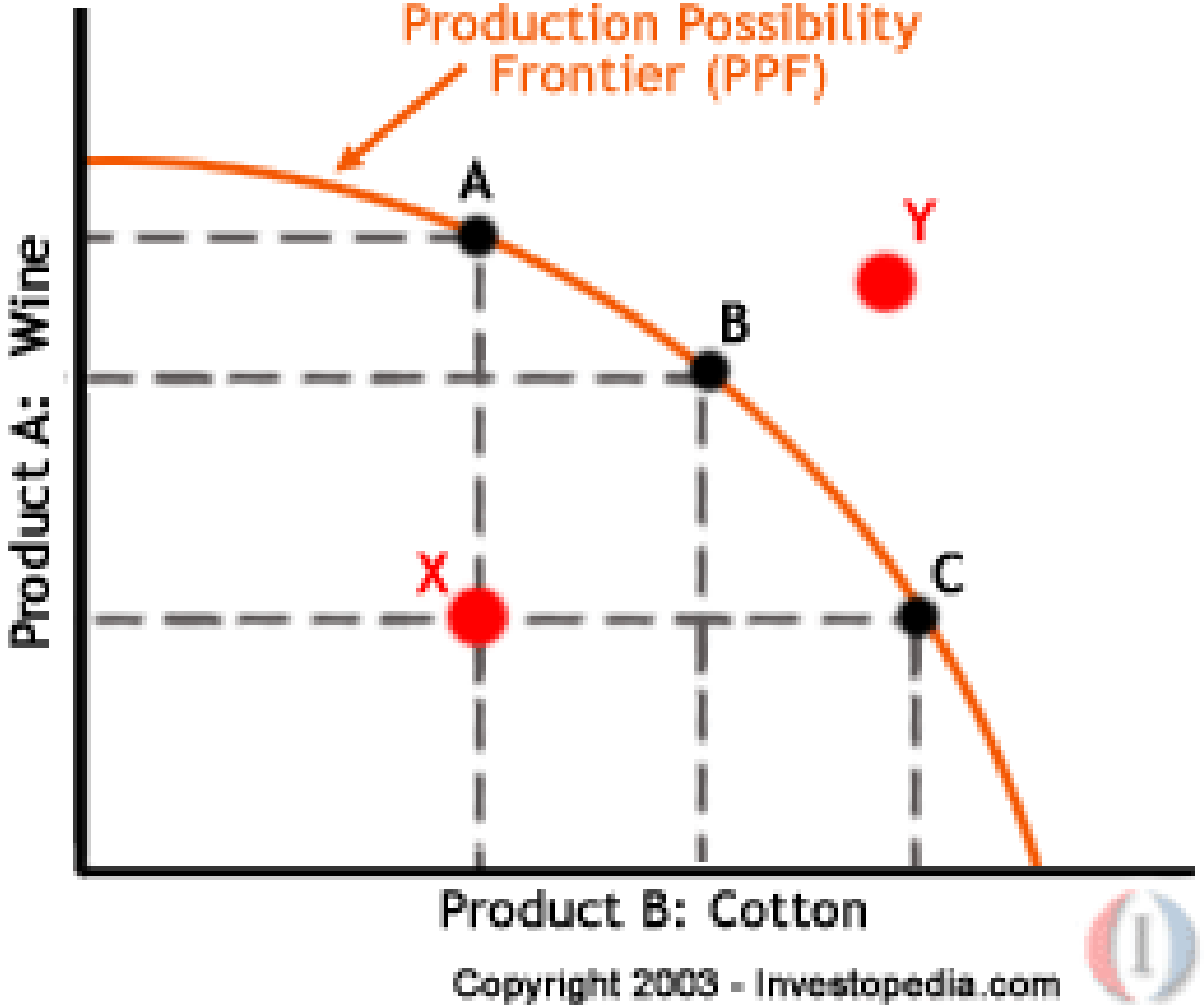
1.5 Economy-wide Production Possibilities

The **economy-wide PPF** is the set of goods combinations that can be produced in the economy when all available productive resources are in use.




Production Possibility Frontier (PPF)
A
B
C
X
Y
Product A: Wine
Product B: Cotton
Copyright 2003 - Investopedia.com

Exercise!!!

6. By engaging in international trade, nations can, in effect,

(a) consume at any point on their production possibility curves.

(b) consume inside their production possibility curves.

(c) consume outside their production possibility curves.

(d) shift their production possibility curves outward.

7. Production possibility curves are concave (bowed outward) because

(a) opportunity costs are always positive.

(b) resources are not equally well suited to the production of all goods and services.

(c) the problem of scarcity is ever-present.

(d) producing more of one good always entails producing less of another.

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10. In the previous question, Dystopia's production possibility curve is a straight line because in this instance

(a) there are only two goods in the model.

(b) resources are limited and Dystopia thus faces tradeoffs.

(c) all workers are equally productive in producing the two goods.

(d) this model is only an approximation, and closeness only counts in horseshoes and hand grenades.

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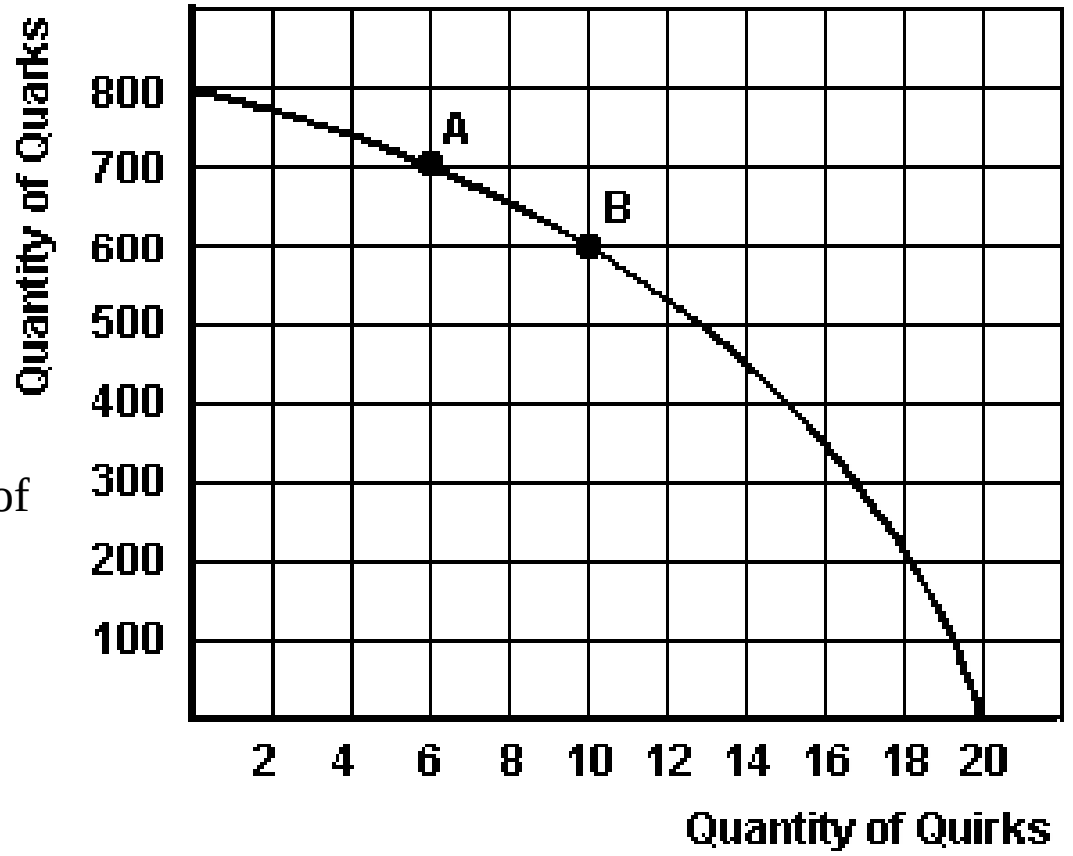
Exercise!!!

1. Referring to the figure above, if production is currently that indicated by point A, what is the (approximate) cost of producing one more quirk?
A) 100 quarks.
B) 50 quarks.
C) 25 quarks.
D) One more quark.

2. Referring to figure, if new technology increased the output of quirks by 50%, how many quirks could be produced if 600 quarks were produced?
A) 18 quirks.
B) 20 quirks.
C) 15 quirks.
D) No quirks.



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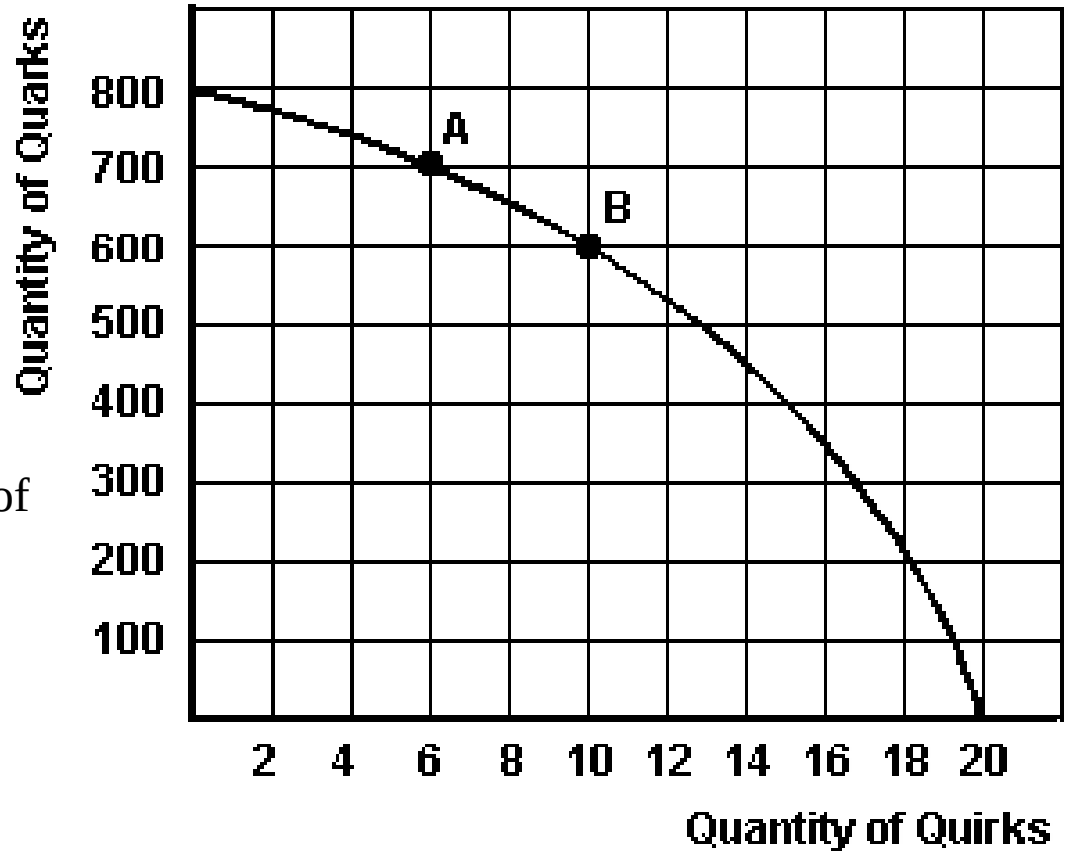

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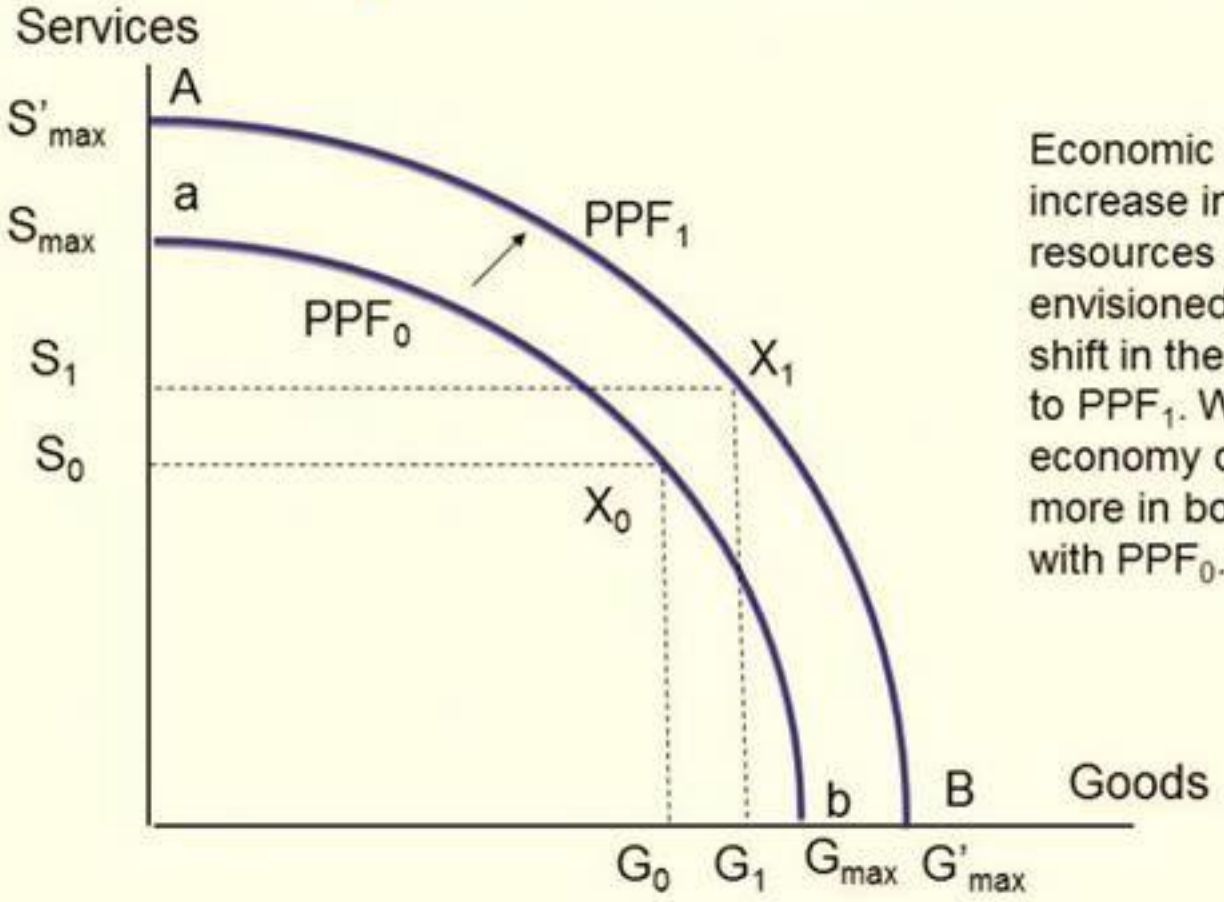
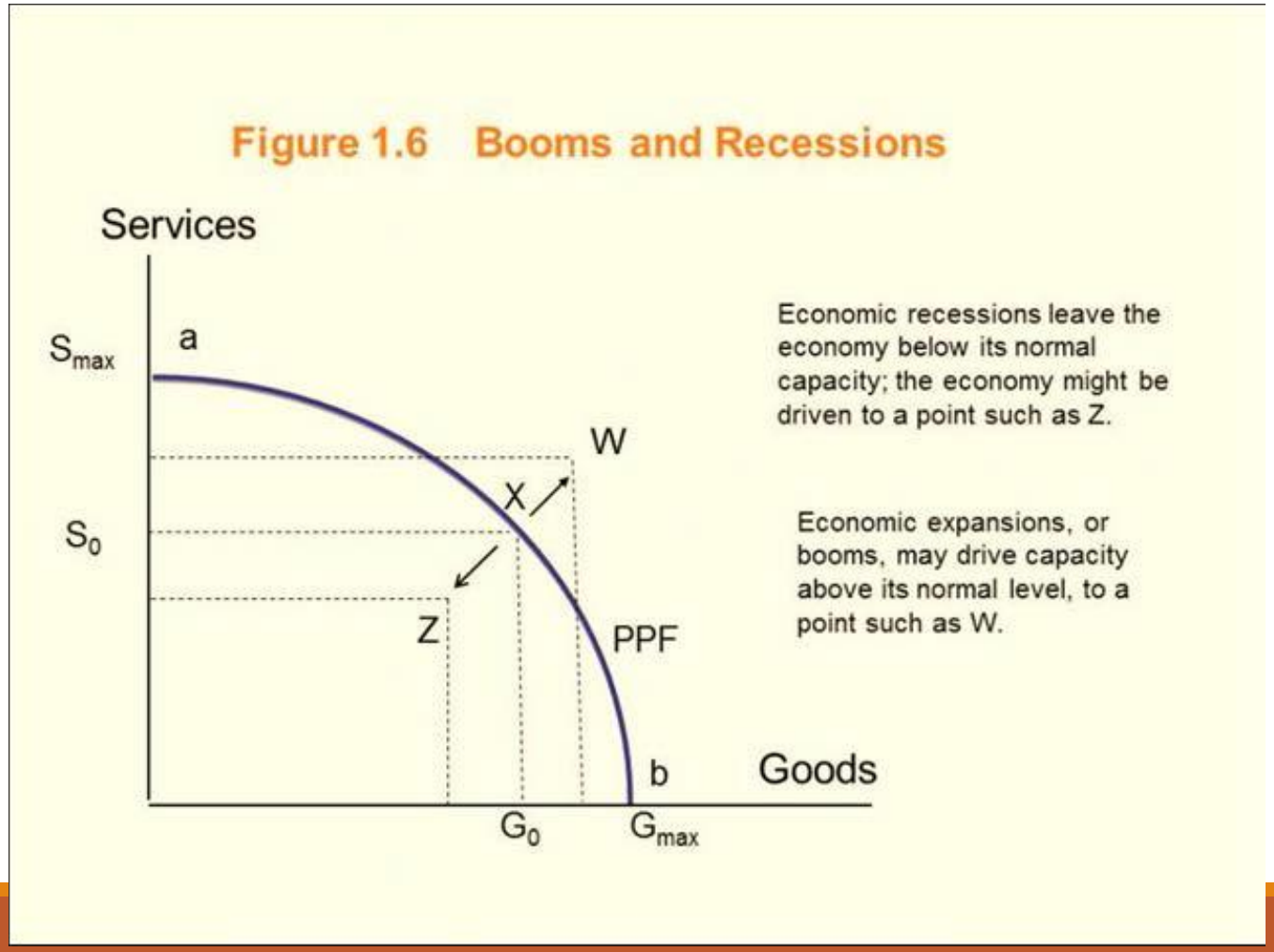
Figure 1.5 Growth and the PPF



Economic growth or an increase in the available resources can be envisioned as an outward shift in the PPF from PPF_0 to PPF_1. With PPF_1 the economy can produce more in both sectors than with PPF_0.

1.6 Aggregate Output, Growth and Business Cycles



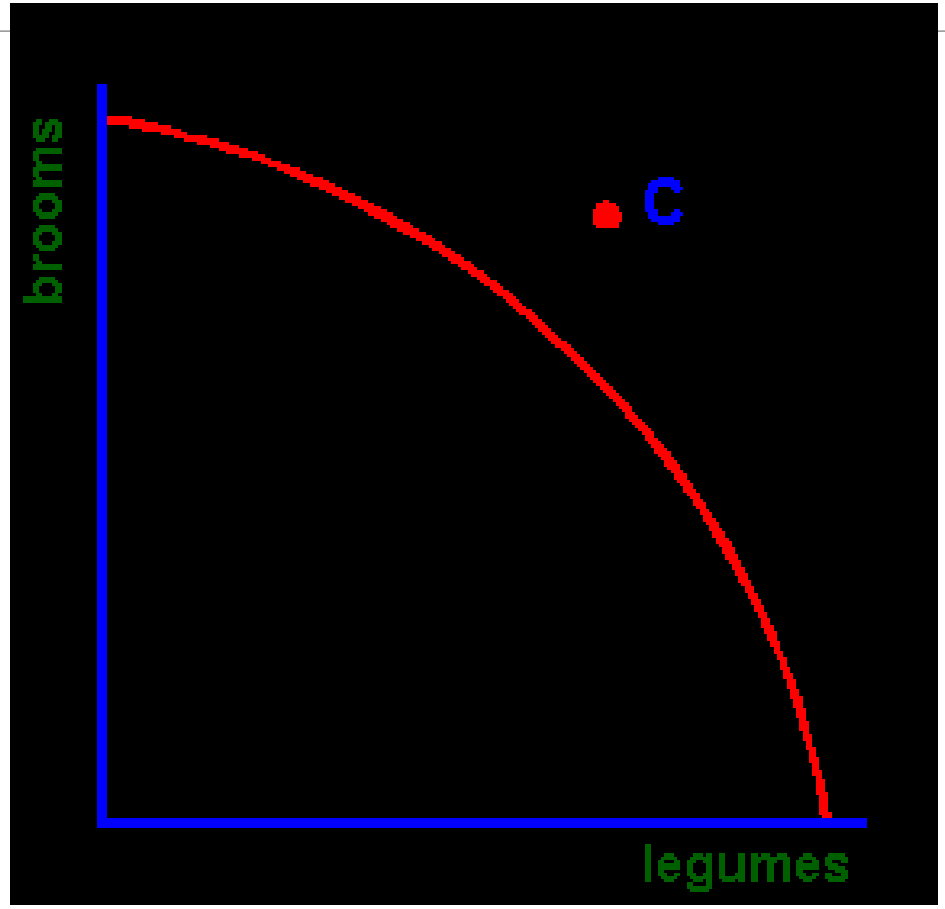
11. To move to a point like C, this economy should

(a) raise wages.

(b) reduce efficiency.

(c) encourage emigration by its citizens.

(d) engage in research and development.



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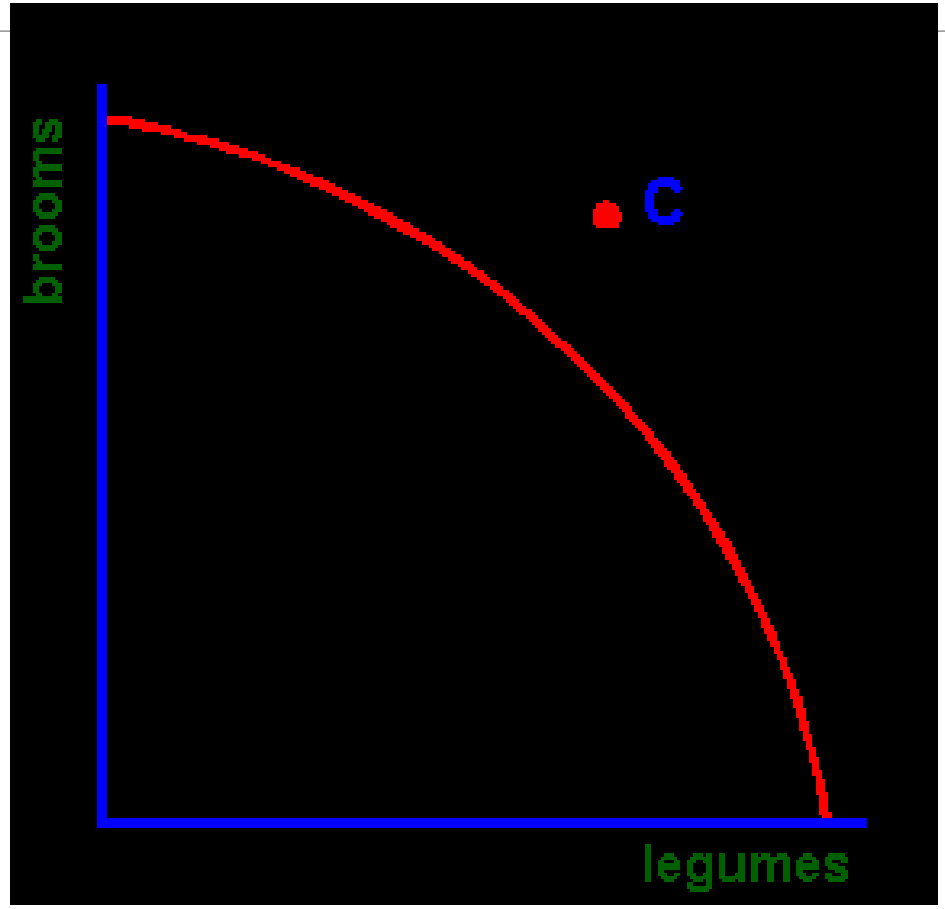

More Exercise!!!

4. Jodi and Amy both attend the same college and have the same expenses for tuition, books, and supplies. However, Jodi is a famous actress who could earn $10 million per year if she were not attending college, while Amy could earn $15,000 a year serving hamburgers if she were not attending college. It follows that:

a. The opportunity cost of attending college is the same for both Jodi and Amy.

b. The opportunity cost of attending college is greater for Jodi than Amy.

c. The opportunity cost of attending college is greater for Amy than Jodi.

d. The opportunity cost of attending college for Jodi and Amy cannot be compared.

More Exercise!!!

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d. The opportunity cost of attending college for Jodi and Amy cannot be compared.

More Exercise!!!

The following is the combinations of corn and beef can be produced annually from a piece of land of given acreage.

Corn (bushels)	0	900	1,200	1,400	1,475	1,500
Beef (pounds)	10,000	8,000	6,000	4,000	2,000	0

1)What is the opportunity cost of changing production from 2,000 pounds of beef and 1,475 bushels of corn, to 4,000 pounds of beef and 1,400 bushels of corn?

2)What is the opportunity cost of changing production from 4,000 pounds of beef and 1,400 bushels of corn, to 6,000 pounds of beef and 1,200 bushels of corn?

3)What is happening to the opportunity cost of producing more and more beef? Why?

More Exercise!!!

1) The amount of beef being gained is 4,000 - 2,000 = 2,000 pounds. The amount of corn being given up is 1,475 - 1,400 = 75 bushels. The opportunity cost = 75 ÷ 2,000 = 0.0375 bushels of corn per pound of beef.

2)The amount of beef being gained is 6,000 - 4,000 = 2,000 pounds. The amount of corn being given up is 1,400 - 1,200 = 200 bushels. The opportunity cost = 200 ÷ 2,000 = 0.10 bushels of corn per pound of beef.

3)The opportunity cost of producing more beef has increased from 0.0375 bushels of corn to 0.10 bushes of corn per pound of beef. The opportunity cost is increasing because the resources used in producing corn are not all equally suited to producing beef.

More Exercise!!!

1. During the time when she took this quiz, Susannah could instead have practiced her violin or done her French homework. She thinks that if she hadn't taken the quiz, she would have done her French homework. Her opportunity cost of taking the quiz is the value of

(a) practicing her violin

(b) doing her French homework

(c) practicing her violin and doing her French homework

(d) the time it took to do the quiz

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3. Which of the following statements concerning opportunity cost and the pattern of international trade is correct?

(a) Absolute advantage implies comparative advantage.

(b) Raritania has a comparative advantage over Hudsonia in the production of brickbats if it can produce a brickbat with fewer of all inputs.

(c) When opportunity costs are the same in Raritania as in Hudsonia for all commodities, no mutual gains from specialization and trade are possible between the two countries.

(d) If Raritania is more productive than Hudsonia in producing all goods and services, then there are no possible mutual gains from trade between the two countries.

2. Suppose that there are only two countries, Atlantis and Mu, and two goods, snorkels and submarines. If Atlantis has a comparative advantage in snorkels, then

(a) Atlantis has an absolute advantage in snorkels.

(b) Mu has an absolute advantage in snorkels.

(c) Mu has a comparative advantage in submarines.

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13. When we move from C to B along the production possibility curve illustrated at right, the opportunity cost of spittoons in terms of bassoons is:

(a) 35/68

(b) 54/50

(c) 14/15

(d) 15/14

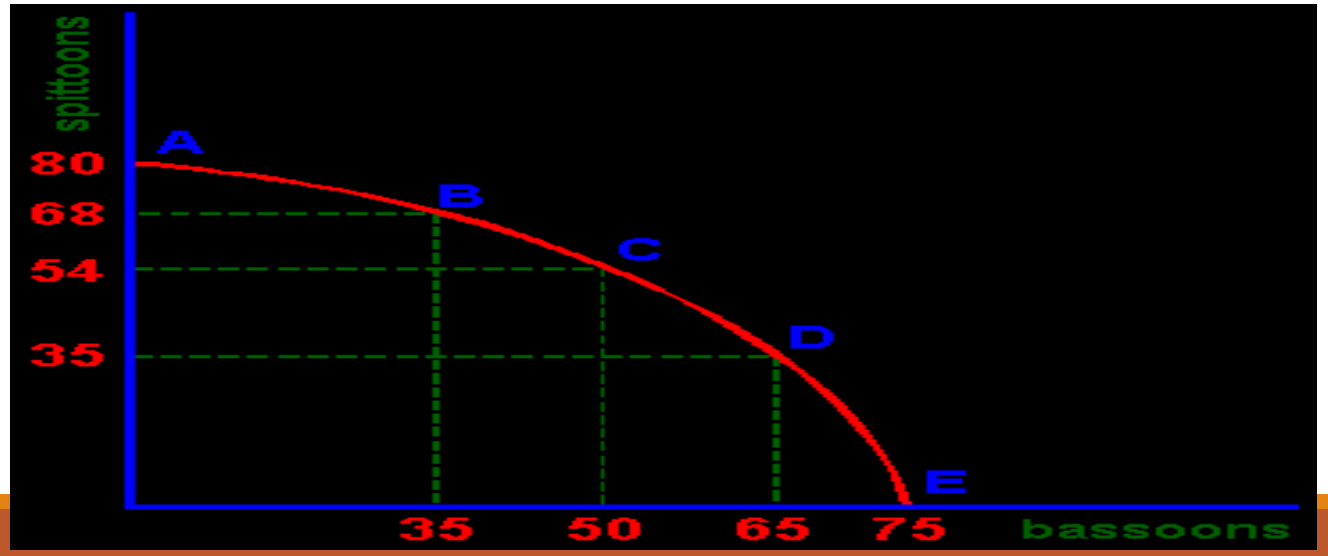
14. When we move along the production possibility curve in the previous question from D to E, the opportunity cost of bassoons in terms of spittoons is

(a) 35/65

(b) 65/35

(c) 2/7

(d) 7/2



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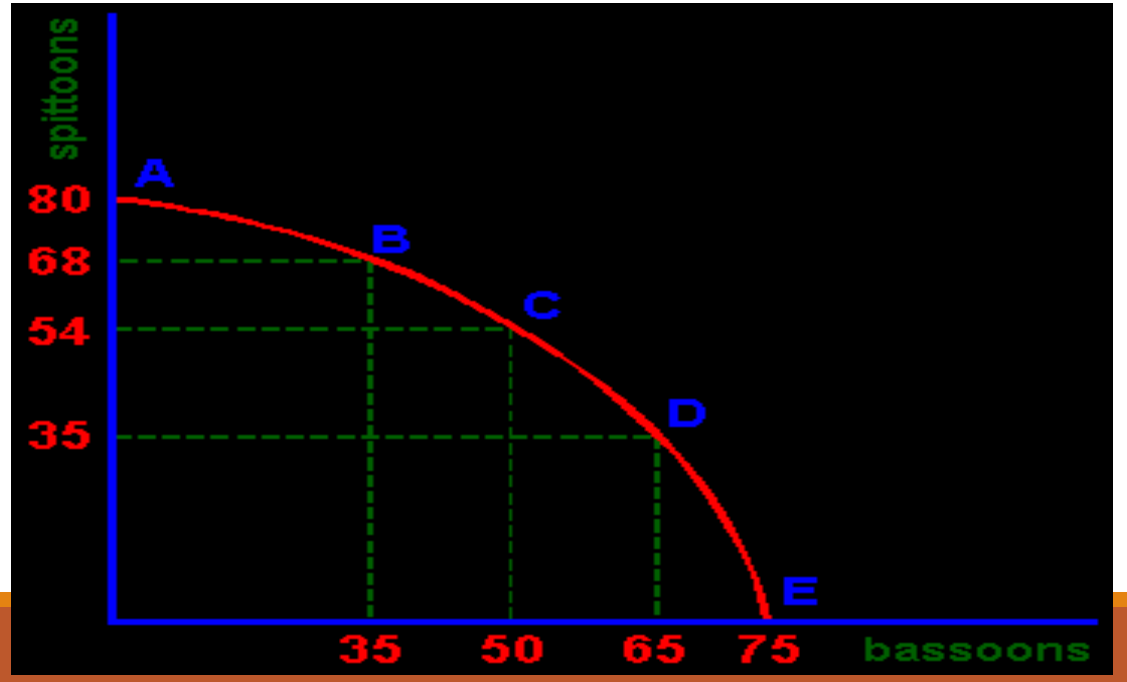


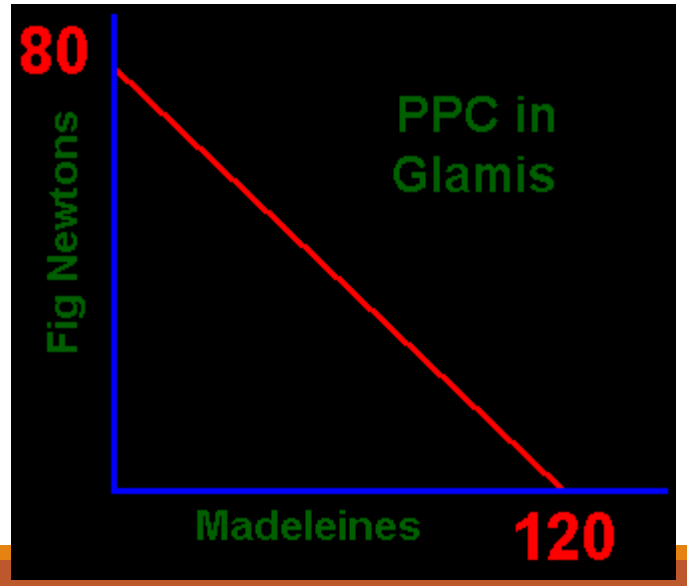
15. Production possibility curves for Glamis and Cawdor are illustrated below:

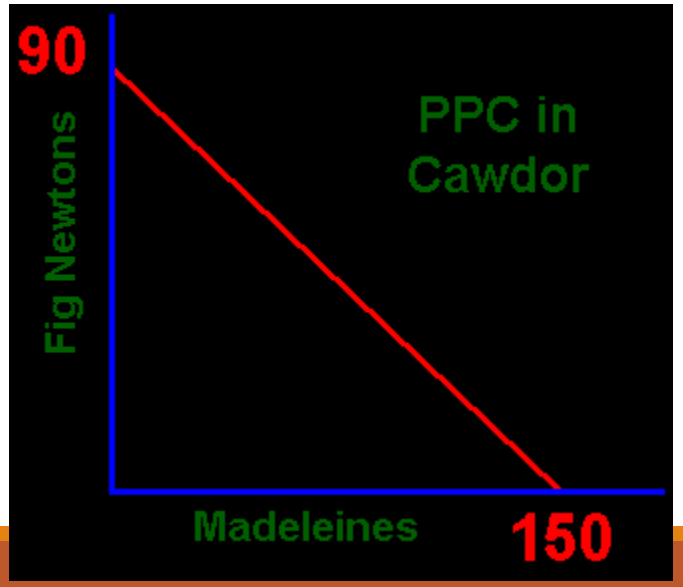
(a) Glamis has a comparative advantage in madeleines.

(b) Cawdor has a comparative advantage in madeleines.

(c) Glamis has an absolute advantage in madeleines.

(d) Cawdor has an absolute advantage in madeleines.





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