

# Chapter 1 Introduction

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## [1.1 Microeconomics: The Allocation of Scarce Resources](#)

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## From the textbook

1. Microeconomics: The Allocation of Scarce Resources.
  - **Microeconomics** is the study of the allocation of scarce resources.
2. Models.
  - Economists use models to make testable predictions.
3. Uses of Microeconomic Models.
  - Individuals, governments, and firms use microeconomic models and predictions in decision making.

## 1.1 Microeconomics: The Allocation of Scarce Resources

- **Microeconomics**: the study of how individuals and firms make themselves as well off as possible in a world of scarcity and the effects of their actions on markets and the entire economy
- ?
- Economics is **social science, limited resources to satisfy unlimited wants**
  - The study is about how to allocate (divided)
  - Limited resources like time, money
  - Scarcity means the yours resource is insufficient for the wants
  - How to solve: make choices (have to choose which one is more deserve to use)
  - In other words, Economics is the study of choices
  - Opportunity cost is what you give up
    - In order to do sth, you have to give up on sth.
    - Alternate choice
- Trade-offs
  - A society faces three key trade-offs:
    - **Which goods and services to produce**

- **How to produce**
    - Ex. Tim hortons choose use labor to produce instead of machines
  - **Who gets the goods and services**
    - How to determine? The best way is through **price mechanism**
    - Price mechanism is to ? The capitalism
    - capitalism produce the highest level of ?
- Who makes the decisions?

### 1.1 Microeconomics: The Allocation of Scarce Resources.

- Trade-offs
  - **A society faces three key trade-offs:**
    - Which good and services to produce
    - How to produce
    - Who gets the goods and services
- How makes the decisions
  - **Alternatively, the interaction of independent choices by many individual consumers and firms may determine society's allocation decision**
- Prices determine allocations
  - **Prices link the decisions about which goods and services to produce, how to produce them, and how gets them**
  - Prices influence the decisions of individual consumers and firms, and the interactions of those decisions by consumers, firms, and the government determine price
  - **Market is an exchange mechanism that allows buyers to trade with sellers**
  - Ps. Many American, Australian, British, Canadian, New Zealand, and Taiwanese jurisdictions are proposing a Twinkie tax on unhealthy fatty and sweet foods or a tax on sugary soft drinks to reduce obesity and cholesterol problems, particularly among children
    - These taxes will also influence who gets these goods as consumers, especially children, replace them with less expensive, untaxed products

### 1.2 Models

- Take complex reality into simpler models
- The models are oversimplify in this class
- The models are going to more complex and near to reality in the later studies

#### 1.2 Models

- Model is a description of the relationship between two or more economic

variables

- Economists also use models to predict how a change in one variable will affect another
- Ps. According to an income threshold model , no one who has an income level below a particular threshold buys a particular consumer durable
- Simplifications by Assumption
  - An economic model is a simplification of reality that contains only its most important features
- Testing theories
  - Economic theory is the development and use of a model to test hypotheses, which are predictions about cause and effect
  - Economists test theories by checking whether predictions are correct
- Maximizing subject to constraints
  - In most economic models, a decision maker maximizes an objective subject to a constraint.
    - The limit on resources plays a crucial role in these models
  - The maximizing behavior of individuals and firms determines society's three main allocation decisions: which goods are produced, how they are produced, and who gets them
- Positive versus normative
  - **Positive statement:** a testable hypothesis about cause and effect
    - "Positive" does not mean that we are certain about the truth of our statement—it only indicates that we can test the truth of the statement
  - Normative statement: a conclusion as to whether something is good or bad

### 1.3 Uses of Microeconomic Models

- Making hypotheses, assume what people would do
- People are selfish, they want profit from what they are doing,
  - All base on self interest
- Maximize something, is something objective with other thing
- The models are over simplifying
  
- Trade off
  - Efficiency vs. equality
    - Efficiency means using all the resource you have and get a good

result

- Equality means taking all of the resource and allocate them equally
- Efficiency and equality are kind of opposite factors to each other
- If nobody is working, the resource are not being used efficiency, people are not reach at their potential capability
- If we presume equality, the insufficient would come
- Efficiency: everything you works earn are belong to yourself
  - Not have to share
  - However if takes to equality, the results, the outcome from you work, have to be shared (kind of)

- Positive statement

- The statement of fact, not have to be correct
- Testable
- Ex. "today is Friday"
  - False, and testable
- Give no room for debate
- Ex. "professors are underpay" is a positive statement

- Normative statement

- Statement of opinions
- "I think ...."
- No testable
- Not have to be correct, or not correct
  - Doesn't matter

- Which statement is better is dependable

### 1.3 Uses Microeconomic Models

#### Summary

#### 1. Microeconomics: the allocation of scarce resources

- Microeconomics is the study of the allocation of scarce resources
- Consumers, firms, and governments must make allocation decision
- The three key trade-offs a society faces are witch goods and services to produce, how to produce them, and who gets them
- These decisions are interrelated and depend on the prices that consumers and firms face and on government actions
- Market prices affect the decisions of individual consumers and firms, and the interaction of the decisions of individual consumers and firms determines market prices.
- The organization of the market. especially the number of firms in the

- The organization of the market, especially the number of firms in the market and the information consumers and firms have, plays an important role in determining whether the market price is equal to or higher than marginal cost

## 2. Models

- Models based on economic theories are used to predict the future or to answer questions about how some change, such as a tax increase, will affect various sectors of the economy
- A good theory is simple to use and makes clear, testable predictions that are not refuted by evidence
- Most microeconomic models are based on maximizing behavior
- Economists use models to construct positive hypotheses concerning how a cause leads to an effect
- These positive questions can be tested
- In contrast, normative statements, which are value judgements, cannot be tested

## 3. Uses of microeconomic models

- Individuals, governments, and firms use microeconomic models and predictions to make decisions
- For example, to maximize its profits, a firm needs to know consumers' decision-making criteria, the trade-offs between various ways of producing and marketing its product, government regulations, and other factors
- For large companies, beliefs about how a firm's rivals will react to its actions play a critical role in how it forms its business strategies