

MID-TERMS AND EXAM NOTES:

CHAPTER 1: LIFE AND ECONOMICS

- **Economics**: the study of how people manage resources. Decisions about how to allocate resources can be made by the individuals but also by groups of people in families, firms, governments and other organizations. Resources are not always physical, they can also be described as time, labour, ideas, technologies, experiences and personal relationships
- There are 2 main broad fields of economics; macroeconomics and microeconomics:
 - **Microeconomics**: the study of how individuals and firms manage resources.
 - **Macroeconomics**: the study of the economy on a regional, national and international scale
 - The 2 types are highly related and interdependent: both are crucially important to really understand Economics
- Economics start with the idea that people compare the choices available to them and purposefully behave in the way they will best achieve their goals
- When people make choices to achieve their goals in the most effective way possible, economists say they are exhibiting **rational behaviour**
- Economists tend to break down problems by asking a set of 4 questions:
 1. What are the wants and constraints of these involved?
 2. What are the trade offs ?
 3. How will others respond?
 4. Why isn't everyone already doing it?

1. What are the wants and constraints of these involved? (scarcity)

- People make decisions that are aimed at getting the things they want, but you can't always get what you want. People want a lot of things but they are constrained by limited resources.
- **Scarcity**: the condition of wanting more than we can get with available resources (you have only so much time and so much money). You can arrange resources in a lot of different ways but at any time, you have a fixed range of possibilities. It also describes the world on a collective level: as a society, we can produce only so many things, and we have to decide how those things are divided among many people
- Given both rational behaviour and scarcity, we can expect people to work to get what they want but to be constrained in their choices by the limited resources available to them
 - ex: suppose you want to spend as much time as possible this summer to travel and take a road trip around the country. But you are constrained by the 4 months of summer vacation and the lack of money to pay for gas , food and places to stay. Behaving rationally, you might choose to work double shifts for 3 months to earn enough to spend

