

**ECNS 204**

**Principles of Microeconomics**

**Chapter 1 – Silberberg and Ellis**

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# What is economics NOT about?

- NOT an accounting class (I still can't balance my checkbook)
- Do NOT ask me questions about the stock market!
- We can try to identify reasons why some individuals rather than others (or nations) accumulate wealth, but economics is NOT about how to get rich (otherwise, I would not be a college professor)

# What is economics about?

- It takes a scientific approach to answering questions of interest.
  - It seeks explanations of events that take place in the real world.
  - An important aspect of a science is the ability to predict when certain events will occur
    - Prediction is the best test of a theory's explanatory powers
- Economists believe in objectivity
  - It is important to separate one's own beliefs about what is desirable from what we believe to be true or false

# What is economics about?

- Economics should consist of “positive” statements, not “normative” ones
  - Positive: A statement of what “is”
  - Normative: A statement of what “ought” to be (these are just opinions about the desirability of, say, some policy)
  - For example,
    - The minimum wage increases unemployment (positive statement)
    - We should not impose a minimum wage b/c it increases unemployment (normative statement)
- Economics is a “social” science in that it focuses on studying human behavior
  - More difficult to set up lab experiments to test economic theories than theories in the physical sciences (although experimental economics is becoming quite popular)
- Disciplines that are considered scientific are interested in “refutable propositions” (i.e., testable hypotheses)
  - Sciences are based on conceptual frameworks, which consist of assertions or propositions that we consider to be universally true.
  - The explanations that are most interesting and useful are those that could be wrong and turn out to be correct
  - Refutable propositions that could in principle be wrong are the most useful in science b/c they are *testable*.

# What is economics about?

- Consider the following: *Is it useful to predict that if prices go up that quantity demanded could go up or it could go down?*
  - No! Whatever happens the prediction comes true.
- The following statement would be considered a refutable proposition: *If prices go up, then quantity demanded goes down.*

# Economic Paradigm

- The science of economics would not exist unless goods were *scarce*
  - Scarcity means that there are not enough items humans find desirable to satisfy everyone's wants
  - Scarcity does not mean limited. By our definition, for something to be scarce, it must be valued by humans.
- Economics is concerned with the central issue:
  - “Economics is the study of how scarce resources, that have alternative uses, are allocated amongst competing ends.”
  - Problem can be separated into two parts
    - Production: Deciding what and how much to produce
    - Allocation: Deciding who gets the goods society produces

# Cost

- Because of scarcity, every human action has a cost associated with it. What do we mean by this?
  - In the economic sense, cost means a forgone alternative resulting from a decision (aka *opportunity cost*)
- Example 1
  - Suppose digging around your backyard, you come across a diamond. You take it to a jeweler who informs you it is worth approximately \$4,000 and he is prepared to pay you for it. However, you decide to have the diamond cut into a gem and set in a ring. This costs you \$1,000.
  - Q. How much does the ring cost you?
  - Ans. \$5,000. You give up \$5,000 worth of other goods in order to consume the ring.
- Example 2
  - You've purchased a concert ticket for \$20. At the gate, a scalper offers you \$50 for the ticket. You decline the offer and go to the concert.
  - Q. What is the cost of the ticket to you?
  - Ans. \$50. Just before you enter the concert you are in possession of either of two assets:
    - A right to the concert (i.e., the ticket), or
    - \$50 of other goods
    - To receive one, means to forgo the other.