Chapter i: economics: foundation and models

Business, Entrepreneurship

Chapter I: Economics: foundation and models Scarcity: A situation in which unlimited wants exceed limited resources available to fulfill those wants. Human wants are unlimited, but resources (such as time) are not. So people must make choice as they pursue their goals. Economics: the study of the choices people makes to obtain their goals given their scarce resource. 1. 1~Three key economics ideas 1. 2~The economic problem that every society must solve. 1. 3~Economics models The scientific method is the dispassionate development and testing of hypothesis about how the world works. Economists are social scientists who apply the scientific method to the study of interactions among individuals. Economic model: A simplified version of a reality used to analyze real-world economics situation. Like other scientists, economists use models, such as diagrams and equations, to answer questions about the real world. Economics models are often based on unrealistic assumption that simplifies the problem at hand without substantially affecting the validity of the answer. No one model can address every important topic, so we will learn different models as we learn different topics. Positive analysis: An analysis concerned with what it is. Positive statement can be evaluated as true or false using data. Example: " After spending cameras were installed on I-380. The average spend of motorists decreased. " Normative analysis: Analysis concerned with what it is ought to be. Normative statements involve personal values as well as facts, so they cannot easily be evaluated false or true. Example: the government should install additional speeding cameras on I-380. ! We focus on positive analysis. 1. 4~microeconomics¯oeconomics Economics is studied on two levels: Microeconomics: The study on how households and firm makes choices, how they interact in markets, and how the government attempts affect their decisions. Macroeconomics: The study of the economy as a whole including topics such as inflation, unemployment, and economic growth. Micro and macro are closely interacted, because changes in the overall economy arise from the decision of individual households and firms. 1. 5~Preview of important economics term Entrepreneur: An entrepreneur is someone who operates a business. Innovation: The practical application of an invention; an invention is the development of a new good or a new process for making a good. Invention sometimes means a significant improvement in a good or in the production of the good. Technology: A firm’s technology is the processes it uses to produce goods and services. Firm, company or business: A firm is an organization that produces a good or service. Goods: Goods are tangible merchandises. Service: services are activities done for others. Revenue: A firm’s revenue is the total amount received by selling goods or services. Profits: accounting profits: we exclude the costs of some economic resources that firm does not pay explicitly. (without opportunity cost) Economic profits: we include opportunity cost of all resources used by the firm. (including opportunity cost) Household: who supplies factor of production. Factor of production or economic resources: labor/ capital/ natural resource (land)/ entrepreneurial ability. Capital: financial capital: stocks and bonds issued by firms, banks accounts, and holding of money. In economics, capital refers to physical capital, which includes manufactured goods that are used to produce other goods and services. Human capital: accumulated training and skills that workers possess.