A Definition of Economics

• **Economics** is the social science that studies the choices that individuals, business, governments, and entire societies make as they cope with **scarcity**, and the incentives that influence and reconcile those choices.

  » Parkin (p.2)

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**2008 Democratic and Republican Party Platforms**

**2008 Republican Party Platform**

Republicans will uphold and defend our party’s core principles: Constrain the federal government to its legitimate constitutional functions. Let it empower people, while limiting its reach into their lives. Spend only what is necessary, and tax only to raise revenue for essential government functions. The other party wants more government control over people’s lives and earnings; Republicans do not.

**2008 Democratic Party Platform**

We Democrats want—and we hereby pledge—a government led by Barack Obama that looks out for families in the new economy with health care, retirement security, and help, especially in bad times. Investment in our country—in energy, education, infrastructure, science.

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**Example**

**The Big 10 Ticket Book**

Coupon Makeup: A-10¢ (1), B-25¢ (1), C-35¢ (2), D-45¢ (3), E-60¢ (3)

- Tickets were eliminated in June 1982, when all-inclusive passports became the only form of Disneyland admission.
- Why?
A Definition of Economics

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  > Parkin (p.2)

- **Microeconomics** is the study of individual people and businesses and the interaction of those decisions in the market.
  - Studies:
    - Prices and Quantities
    - Effects of government regulation and taxes

- **Macroeconomics** is the study of the national economy and the global economy as a whole.
  - Studies
    - Average prices and total employment, income, and production
    - Effects of taxes, government spending, a budget deficit on total jobs and incomes
    - Effects of money and interest rates

- **Theory**
  - model of how the world works
  - abstract
  - equations represent real world ideas
  - e.g. employer-provided health insurance reduces job mobility

- **Empiricism**
  - use statistics, data, computers to measure and test theory
  - e.g. gather data on quits by workers with and without employer-provided health insurance

- **Positive statements** are about what is.
  - can be proven right or wrong
  - can be tested by comparing it to facts

- **Normative statements** are about what ought to be.
  - depend upon personal values and cannot be tested

- **Microeconomics**
  - tradeoffs
  - margins and incentives
  - voluntary exchange is efficient
  - market failures

- **Macroeconomics**
  - for the whole economy expenditure = production
  - productivity
  - inflation
  - unemployment
DN: Opportunity Cost

Opportunity Cost = value of the best foregone alternative

Note: relate this to "scarcity" and the definition of "economics."

Examples of opportunity cost
1. One semester of college.
2. Rose bowl tickets.
3. Georgetown faculty tuition assistance.
4. Lost theater tickets.
5. Farmer choosing wheat or corn.
   - 0 corn & 65,000 wheat
   - 10,000 corn & 60,000 wheat
   - 20,000 corn & 52,000 wheat
   - 30,000 corn & 38000 wheat
   - 40,000 corn & 20,000 wheat
   - 50,000 corn & 0 wheat

DN: Production Efficiency

Cannot produce more of one good without
(1) producing less of another
(2) using more inputs

Production Possibility Frontier (PPF)

The set of production efficient output combinations.

3 important points about the PPF
1) The slope
   - |slope| = opportunity cost of good on bottom axis, in terms of good on left axis.

2) The slope is negative.
   - can PPF slope up?

3) The PPF is bowed outwards.
A farmer’s PPF below depicts his tradeoffs between bananas and pineapples (three line segments). What is his opportunity cost, per banana, of expanding production from 12 to 13 bananas?

A. 0.5 pineapples
B. 2 pineapples
C. 5 pineapples
D. 10 pineapples
A farmer’s PPF below depicts his tradeoffs between bananas and pineapples. What is his opportunity cost, per pineapple, of expanding production from 22 to 23 pineapples?

A. 0.5 bananas  
B. 2 bananas  
C. 5 bananas  
D. 10 bananas

Syllabus -- texts

• Aplia web site
  – http://www.aplia.com/
  – Use course code

• Parkin Microeconomics

• Levinson's Web page
  – www.georgetown.edu/faculty/aml6/econ001/

Requirements

• Homework assignments, experiments
• Two in-class exams
  – multiple choice and short-answer questions
• One final exam (cumulative).
• iClicker
  – register your clicker at www.iclicker.com

Grades

• Best homework and experiments = 10 %
• i-Clicker = 1 %

• Option (A)
  – Midterms 25 % each
  – Final 39 %

• Option (B)
  – Best midterm 39 %
  – Final 50 %