

CH. 1

SCARCITY - LIMITS TO EVERYTHING

- ① TRADE OFFS - EVERYTHING HAS A COST
- ② OPPORTUNITY COST - WHATEVER IS GIVEN UP FOR AN ITEM SERVICE
- ③ RATIONAL DECISIONS OCCUR AT THE MARGIN
- ④ INCENTIVES + COSTS MATTER - WHATEVER INDUCES A PERSON TO ACT (USUALLY \$)
- ⑤ TRADE BENEFITS EVERYONE OVERALL

CH. 1 PRINCIPLES OF ECON

- ⑥ FREE MARKETS ARE GOOD AT EFFICIENT ALLOCATION
- PEOPLE BUY WHAT THEY VALUE
 - BIZ/PEOPLE SELL ~~WHAT~~ WHAT THEY DON'T VALUE
 - ADAM SMITH "WEALTH OF NATIONS"
 - INVISIBLE HAND
 - CENTRAL PLANNERS CAN'T EFFICIENTLY ALLOCATE

⑦ GOV'TS CAN IMPROVE SOME MARKET OUTCOMES

- ENFORCING PROPERTY RIGHTS
- INTERNALIZE EXTERNALITIES

←
IMPACT OF AN INDIVIDUAL'S ACTIONS ON A BYSTANDER

⑧ STANDARDS OF LIVING COMES FROM THE ABILITY TO PRODUCE MORE GOODS + SERVICES

- PRODUCTIVITY = \$ PRODUCTS MADE PER HOUR OF LABOR

⑨ PRINTING MONEY LEADS TO HIGHER PRICES

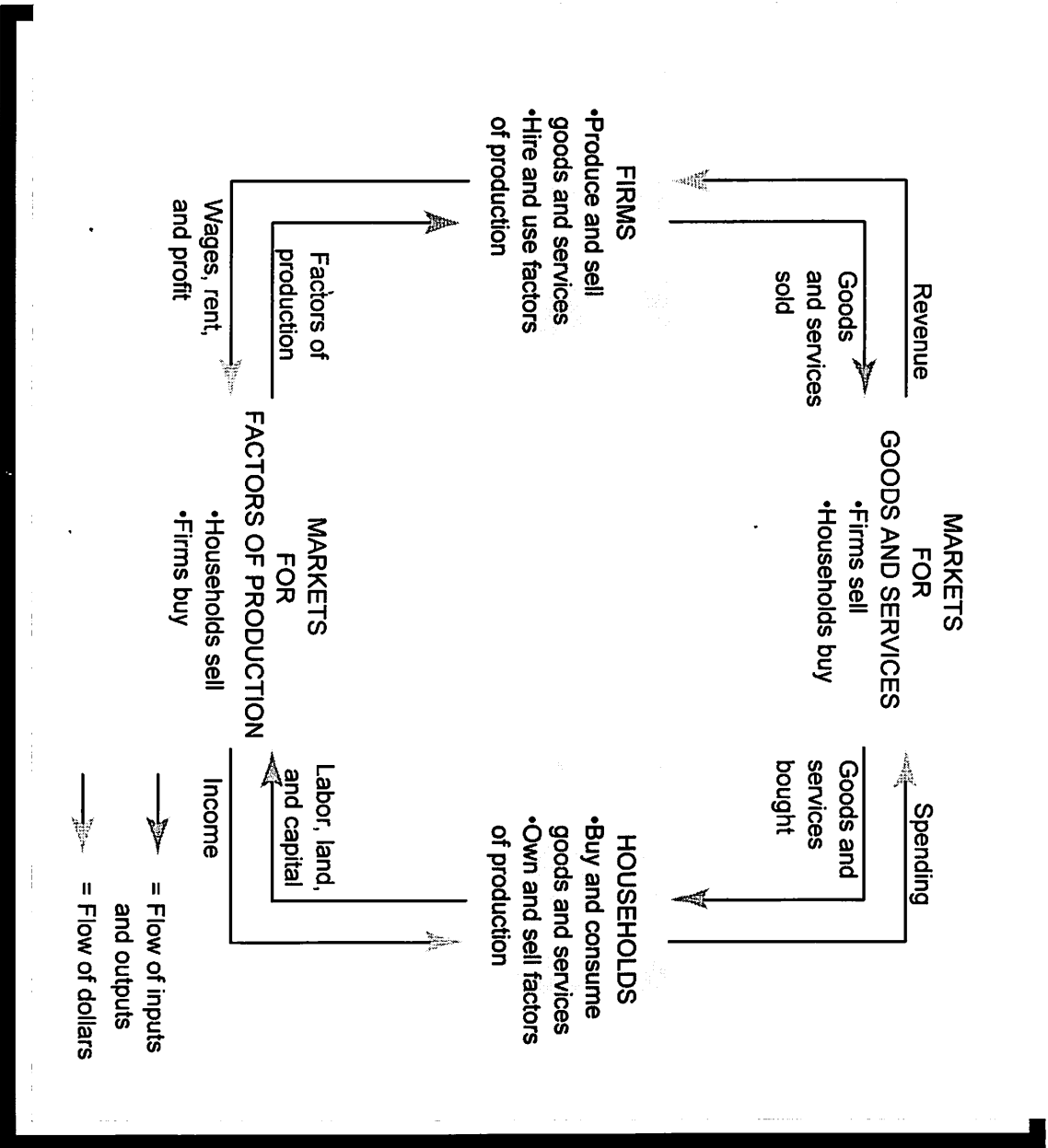
⇒ INFLATION - RATE AT WHICH PRICES CHANGE

⑩ SHORT-TERM TRADEOFF:
INFLATION vs. UNEMPLOYMENT

- NO LONG-TERM RELATIONSHIP

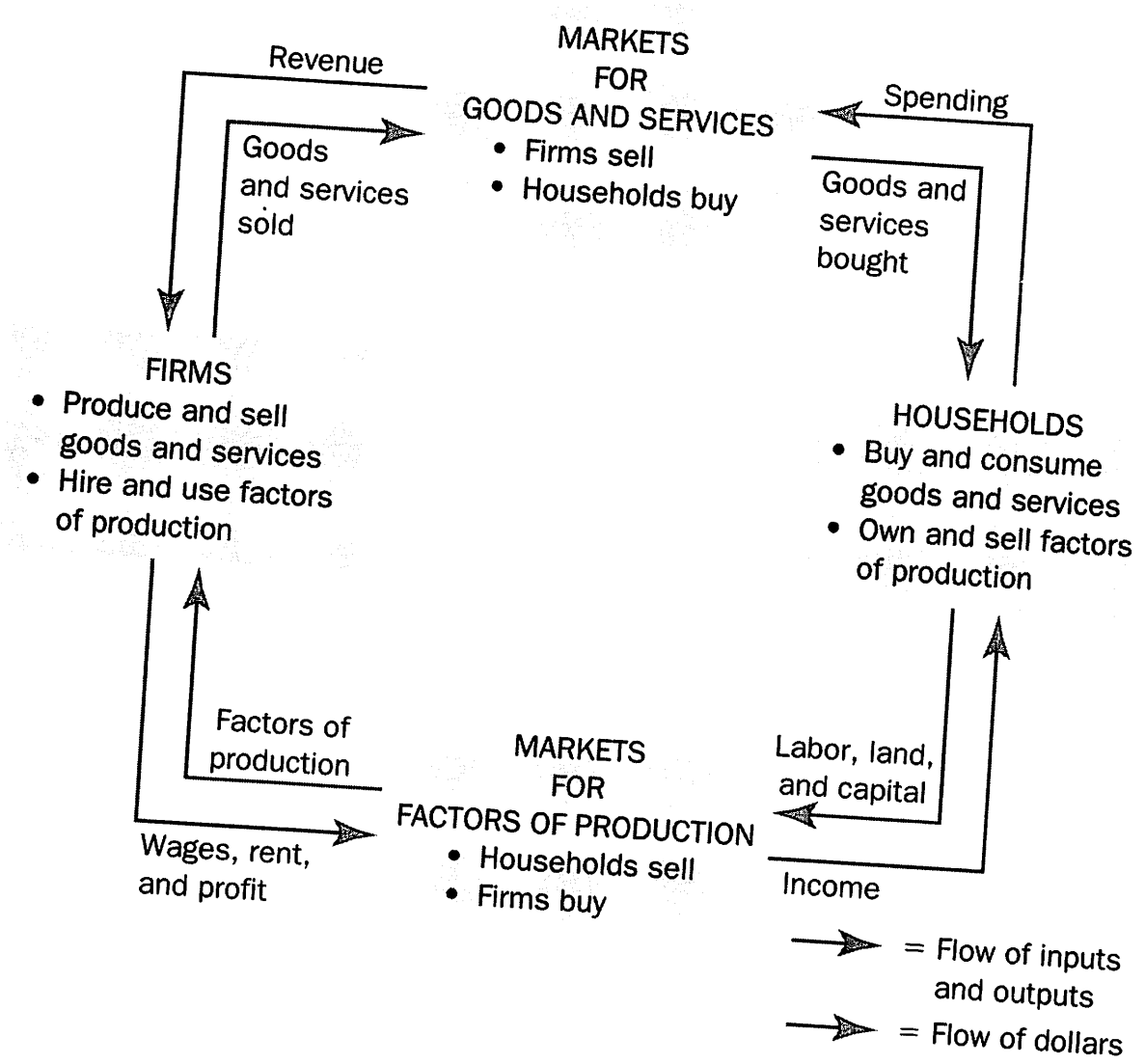
- BUSINESS CYCLE - FLUCTUATIONS
IN ECONOMIC ACTIVITY

Figure 1 The Circular Flow



MARK COPY

Figure 1 The Circular Flow



(H. 2) MODELS

ASSUMPTIONS - SIMPLIFY SO AS
UNDERSTAND

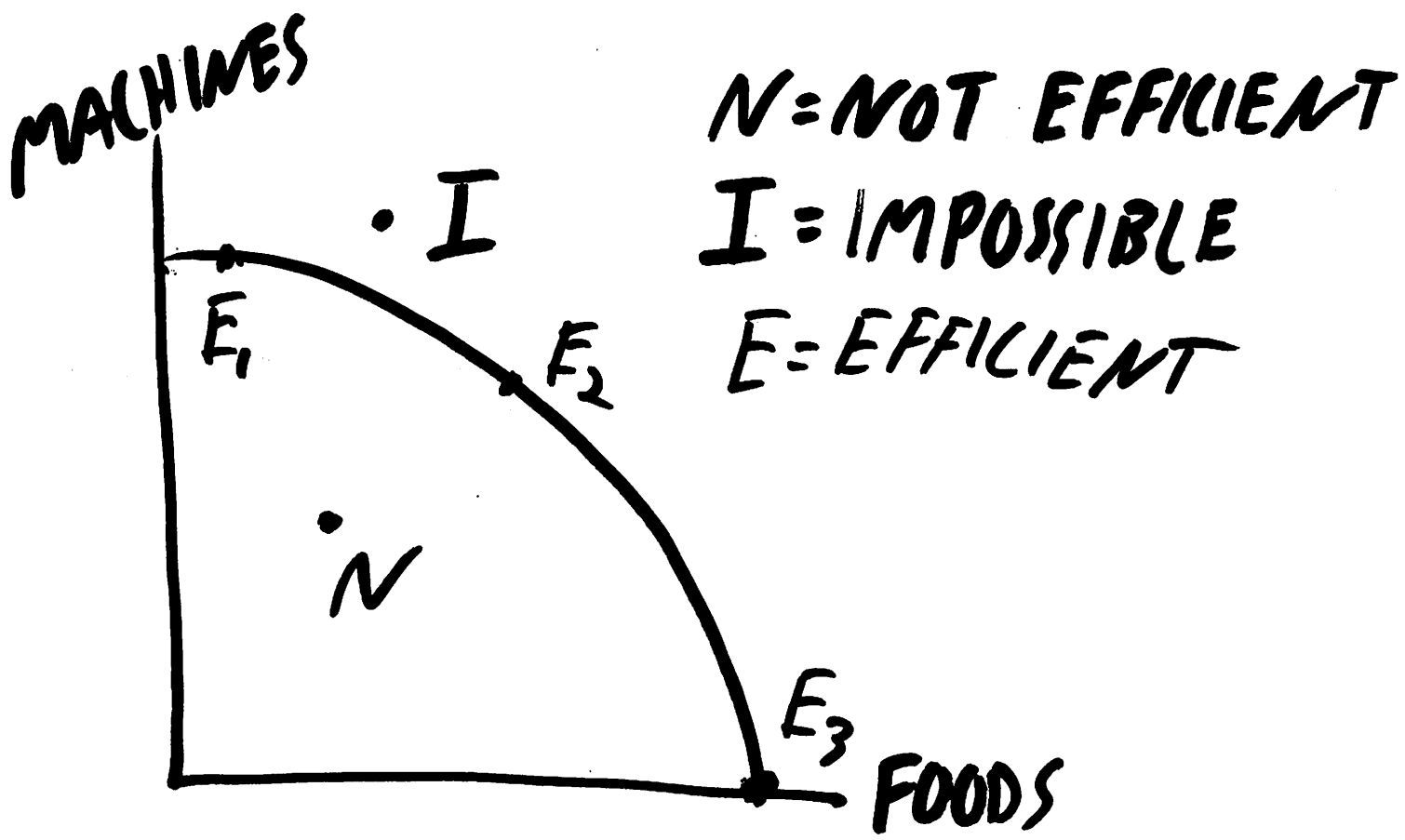
-> FURTHER IN ECON -> LESS

ASSUMPTIONS -> MORE COMPLICATED
MODELS

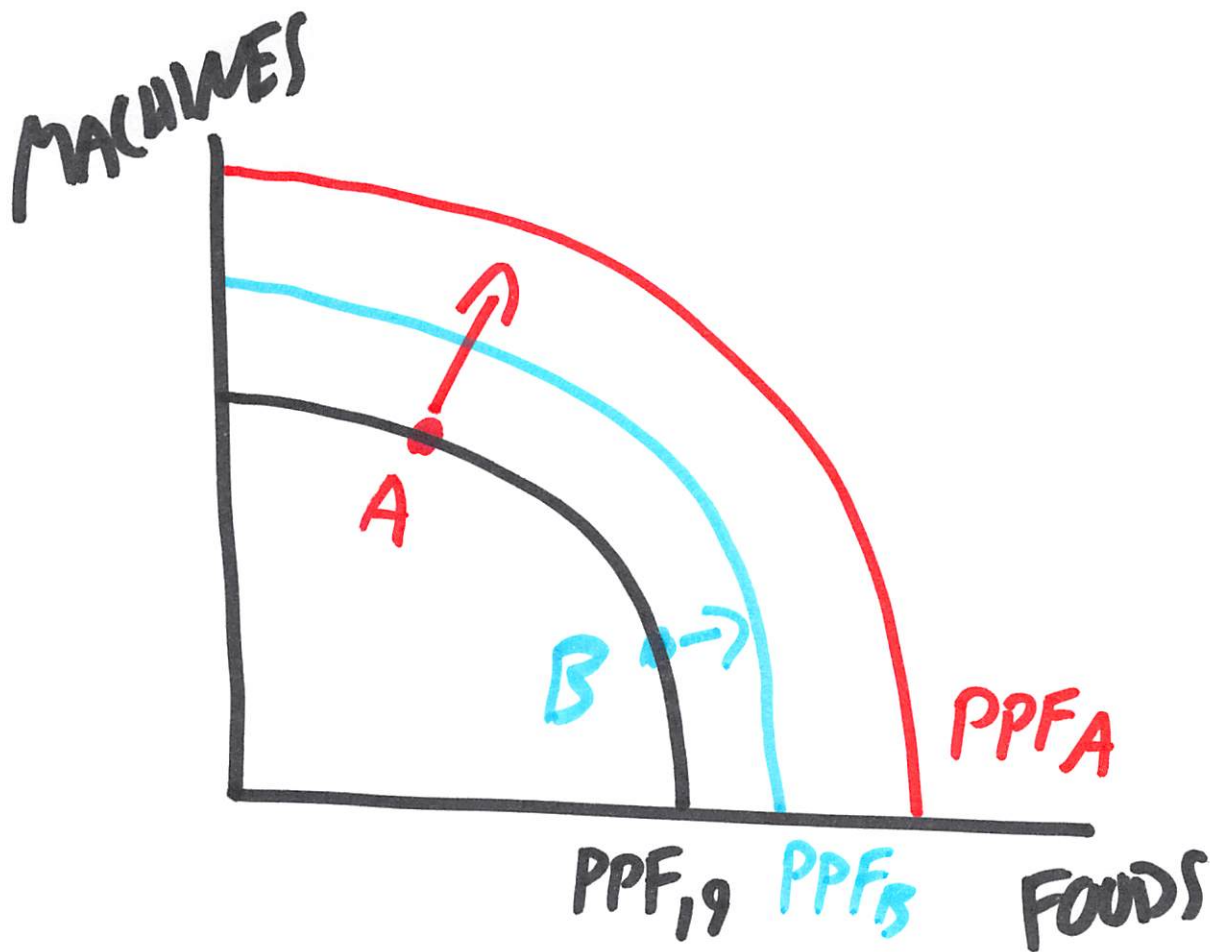
MODEL 1 (CIRCULAR FLOW

**(H.2) MODEL 2: PRODUCTION
POSSIBILITIES
FRONTIER (PPF)**

- REPRESENTATION OF THE
POSSIBLE CHOICES OF GOODS
THAT CAN BE PRODUCED



PPF'S ARE SLOPED DUE TO DIMIN-
ISHING MARGINAL RETURNS
- NOT ALL RESOURCES ARE GOOD
AT EVERYTHING



MACHINES → CAPITAL GOODS

GOODS THAT MAKE OTHER GOODS

FOODS → CONSUMER GOODS

GOODS THAT GET USED UP (OR GO BAD)

MICROECON

vs

MACROECON

FIRMS +
INDIVIDUALS

SOCIETY +
COUNTRIES

POSITIVE

vs

NORMATIVE

DESCRIPTIONS

-FACTS

OPINIONS

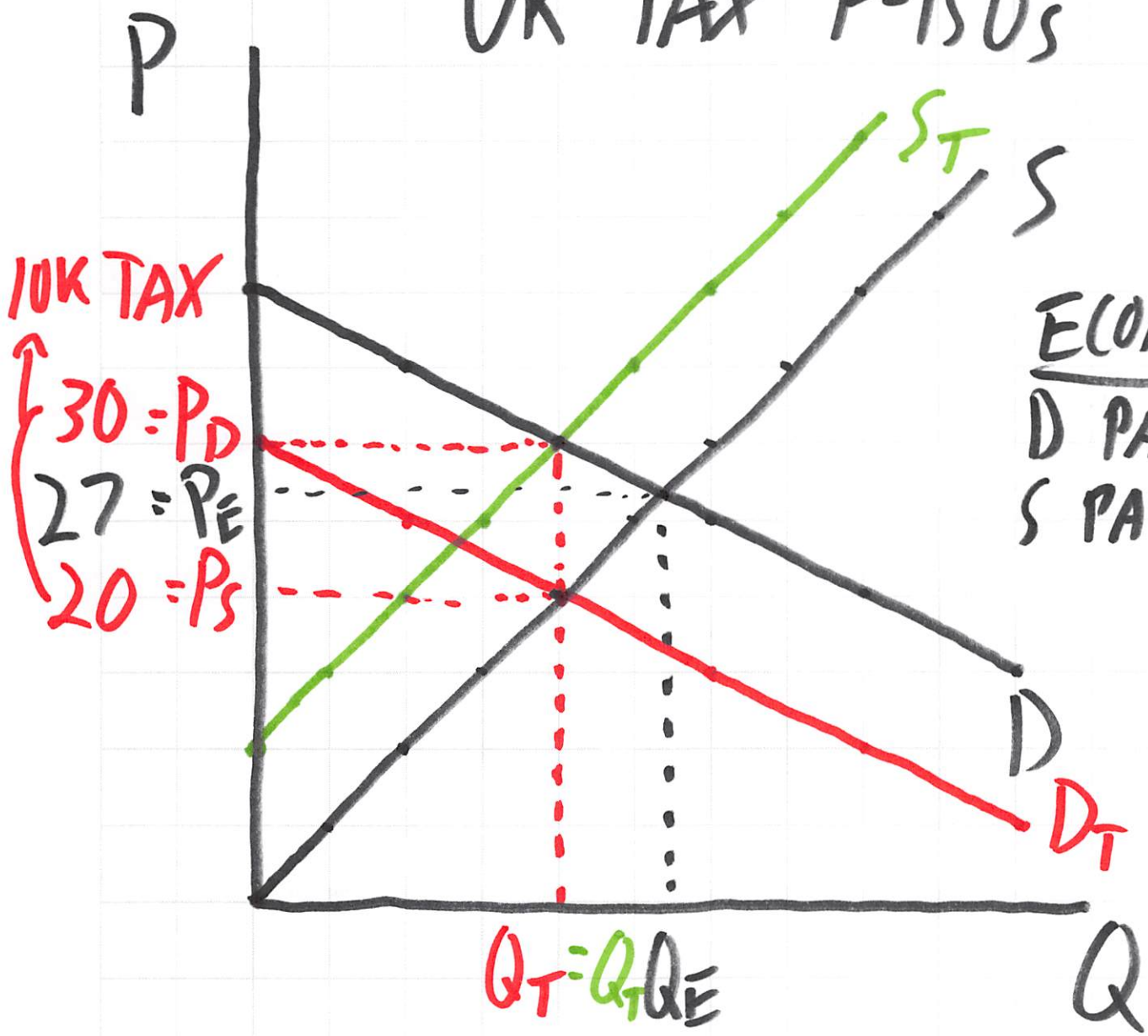
-BASED ON
FACTS

CH. 8 TAXES

- TAXES ARE LEVIED ON CONSUMERS OR PRODUCERS
- LEGAL INCIDENCE
 - ENTITY RESPONSIBLE FOR PAYING THE TAX
- ECONOMIC INCIDENCE
 - WHO ACTUALLY PAYS THE TAX

ECONOMIC INCIDENCE OF A TAX IS UNRELATED TO LEGAL INCIDENCE

UK TAX F-150s

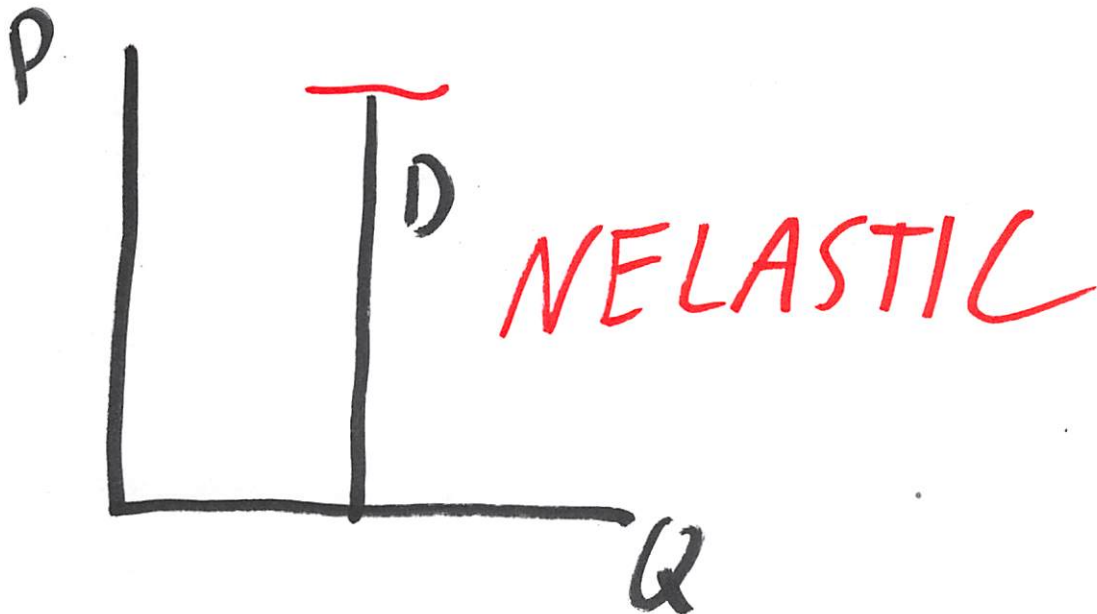
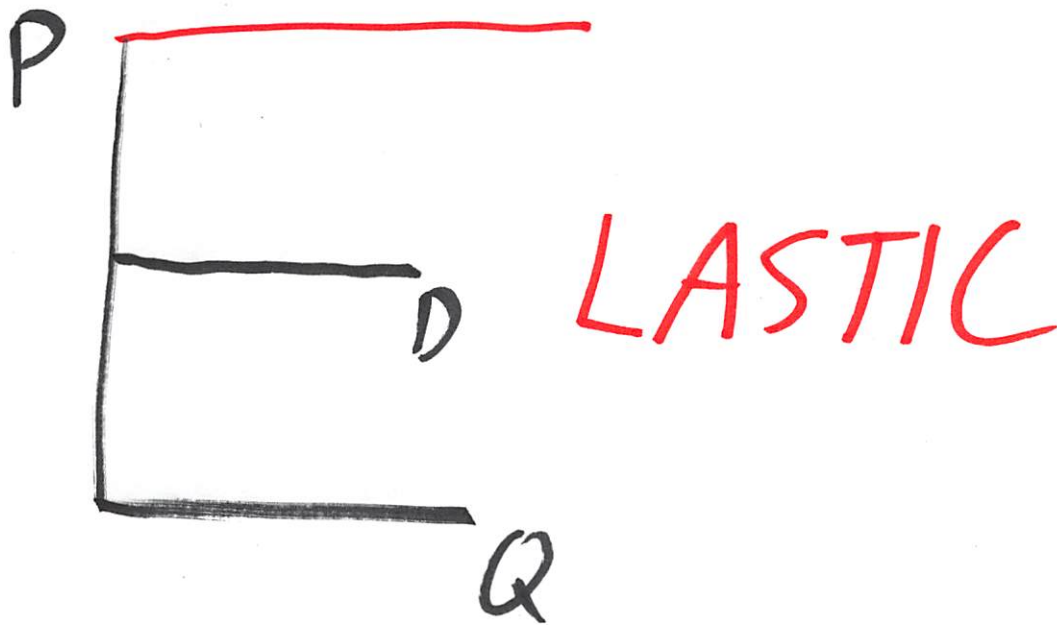


ECON INC.
 D PAY $\frac{3}{10}$
 S PAY $\frac{7}{10}$

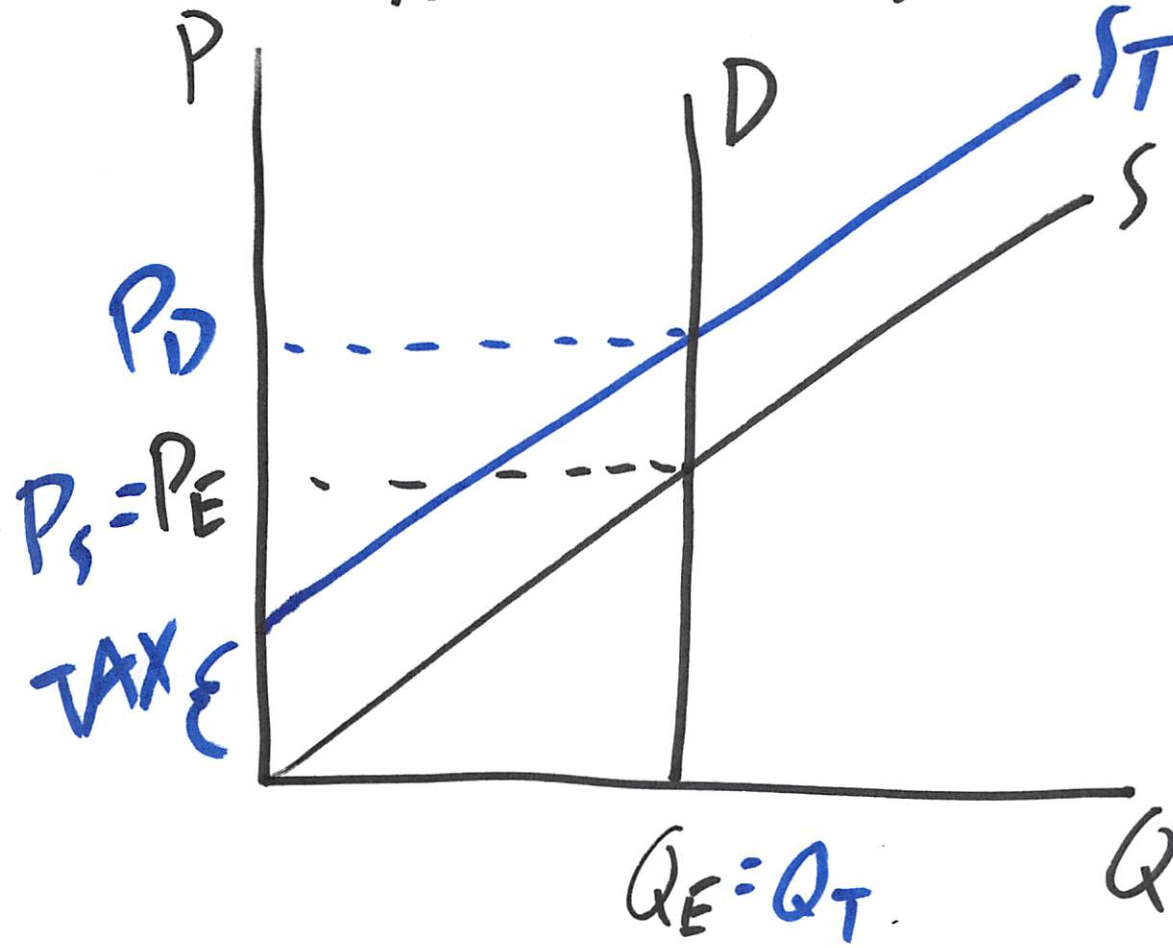
10K TAX ON DEMANDERS
10K TAX ON SUPPLIERS

CH. 8 TAXES

- ECONOMIC INCIDENCE IS MOSTLY PAID BY THE MOST INELASTIC

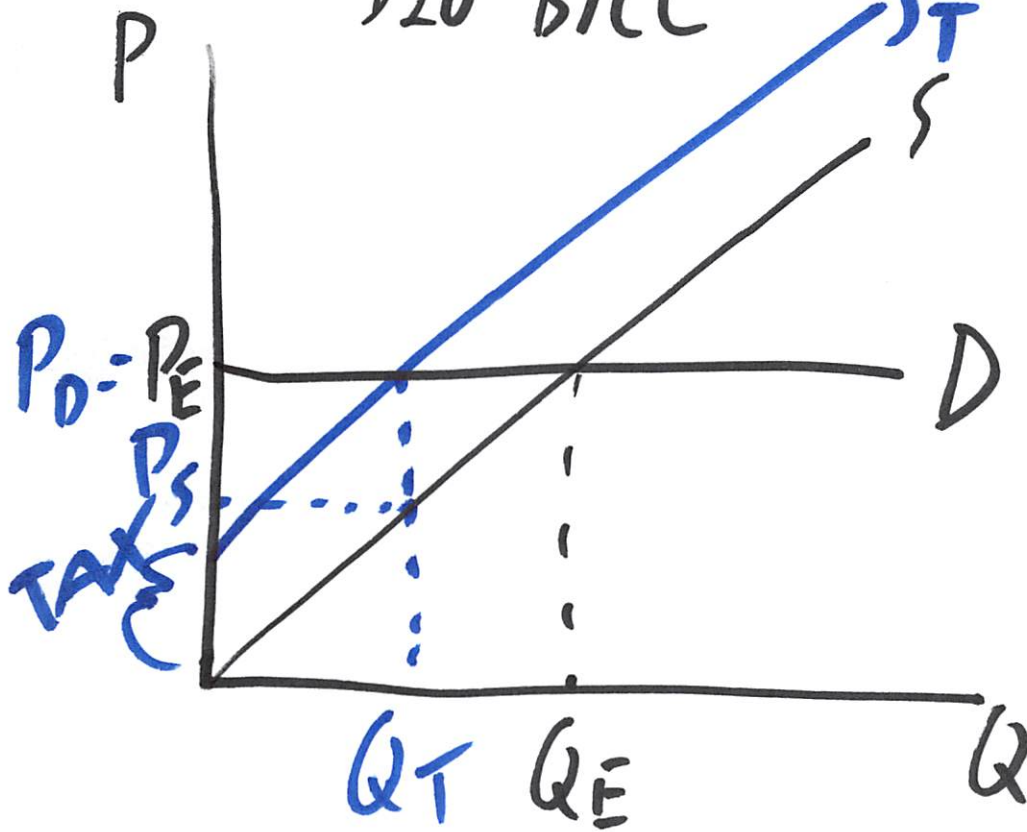


AIR ON MARS



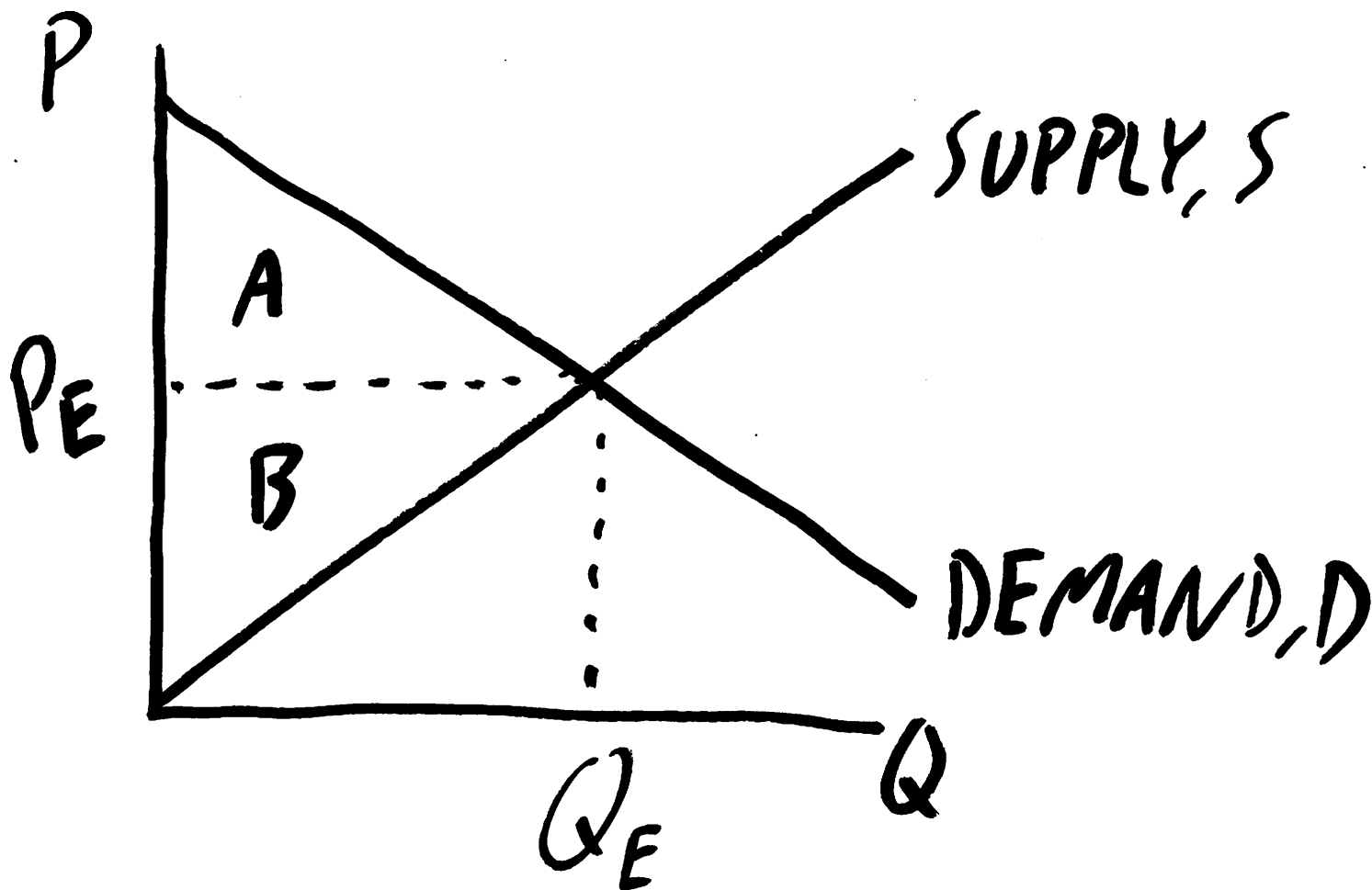
LEGAL INC.
 OF TAX ON
 SUPPLIERS
BUT ALL
 ECON. INC.
 IS PAID BY
 DEMANDERS

\$20 BILL



LEGAL INC.
 OF TAX ON
 SUPPLIERS
 AND ALL
ECON INC.
 IS PAID BY
 SUPPLIERS

CH. 8 REVIEW



A = CONSUMER SURPLUS (CS)

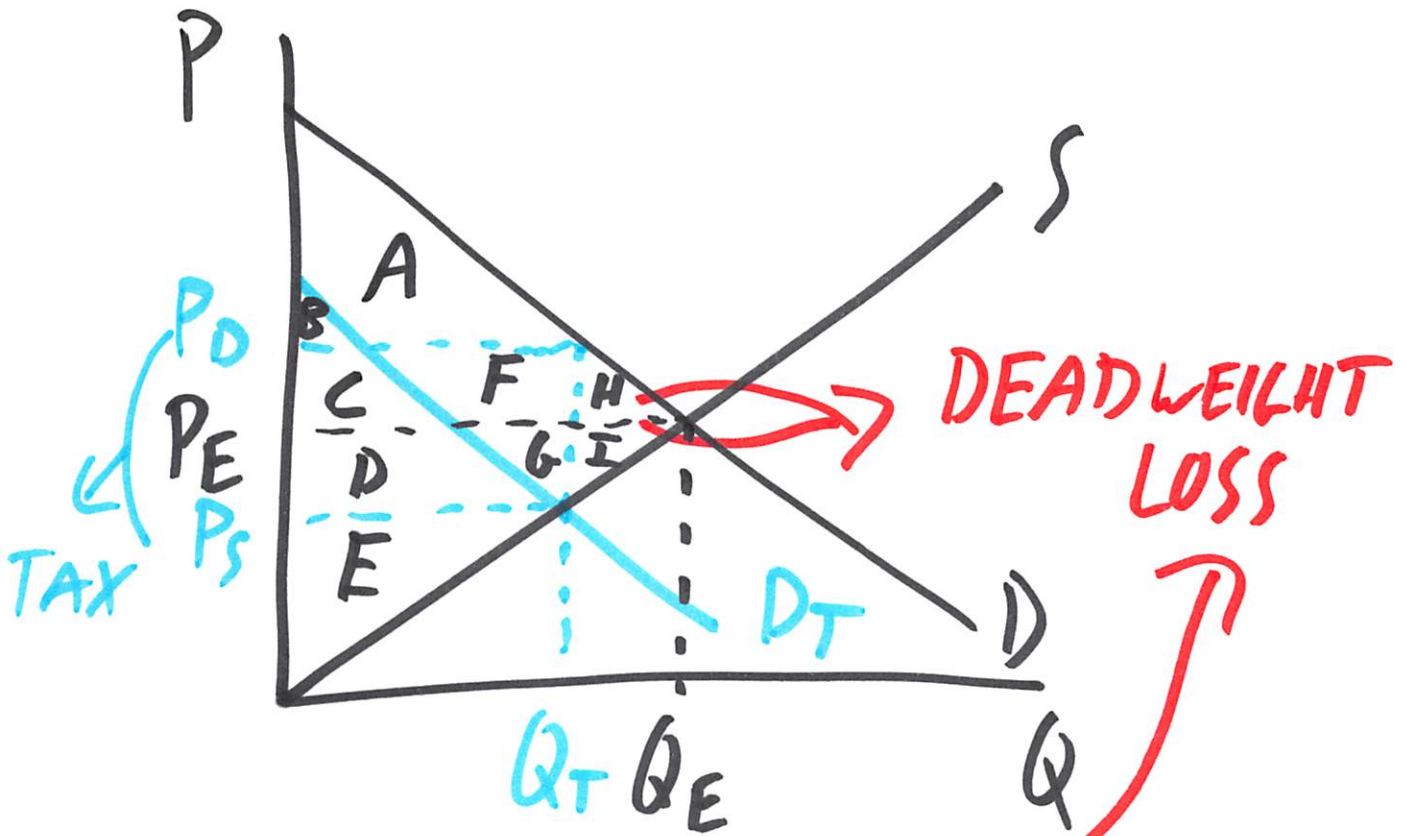
VALUE TO BUYER - PRICE PAID

B = PRODUCER SURPLUS (PS)

PRICE RECEIVED - WILLING TO SELL

TOTAL SURPLUS = TS = PS + CS

\$1,400 TAX ON TUITION



NO TAX

$$CS: A+B+C+F+H$$

$$PS: D+E+G+I$$

$$TS: A+B+(C+D)+E+F+G+H+I$$

WITH TAX

$$CS: A+B \quad \text{😞}$$

$$PS: E \quad \text{😞}$$

$$TAX \text{ REV.} = Q_T \times TAX = C+D+F+G$$

$$TS: A+B+(C+D)+E+F+G$$

Laffer Curve

