

Economics 101
Section 5

Lecture 1
An Introduction to Economics

January 13, 2004

What Is Economics?

Economics, Scarcity,
and Choice

Economics
is the study of choice under
conditions of scarcity

Economics, Scarcity,
and Choice

- Scarcity and Individual Choice
- Scarcity and Social Choice
- Scarcity and Economics

Economics, Scarcity,
and Choice

As individuals, we face a scarcity of time
and spending power.
Given more of either, we could each have
more of the goods and services that we
desire.

Scarcity and Social Choice

Labor is the time human beings
spend producing goods and services.

Scarcity and Social Choice

- *Capital* consists of the long-lasting tools people use to produce goods and services, including
 - *physical capital* - buildings, machinery, and equipment
 - *human capital* - the skills and training that workers possess.

–Your pursuit of a degree at ISU is an example of investment in your own human capital

Scarcity and Social Choice

Land is the physical space on which production takes place, as well as the natural resources found under it or on it, such as oil, iron, coal, and lumber.

Scarcity and Social Choice

Our resources are insufficient to produce all the goods and services we might desire. In other words, society faces a scarcity of resources.

The World of Economics

- Microeconomics
- Macroeconomics
- Positive Economics
- Normative Economics

The World of Economics

Microeconomics

The study of the behavior of individual households, firms, and governments; the choices they make; and their interaction in specific markets

The World of Economics

Macroeconomics

The study of the economy as a whole

The World of Economics

Positive Economics

The study of what *is* -
of how the economy actually works

The World of Economics

Normative Economics

The study of what *should be*; it is used
to make value judgments, identify
problems, and prescribe solutions

Why Study Economics?

- To Understand the World Better
 - To Gain Self-Confidence
 - To Achieve Social Change
- To Help Prepare for Other Careers
 - To Become an Economist

The Methods of Economics

- The Art of Building Economic Models
 - Assumptions and Other Conclusions
 - Math and Economics Jargon

Building Economic Models

The Art of Building Economic Models

- Model*: abstract representation of reality
 - A model should be as simple as possible to accomplish its purpose.

Assumptions and Other Conclusions

Simplifying assumption: makes a model simpler without affecting its important conclusions

Critical assumption: affects the conclusions of a model in a critical way

A Review on Tables and Graphs

- Economists often use tables to present information
- Graphs are often used to present a “picture” of what is happening

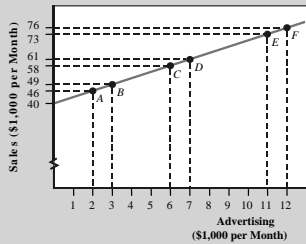
Tables and Graphs

Table A.1
Advertising and Sales at Lenny & Carl's Premium Ice Cream

Advertising (\$1,000s per Month)	Sales (\$1,000s per Month)
2	46
3	49
6	58
7	61
11	73
12	76

Tables and Graphs

Figure A.1



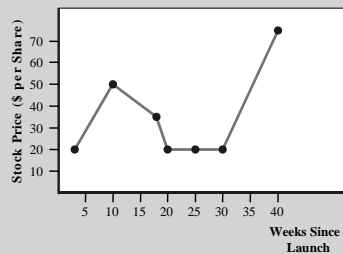
Tables and Graphs

Table A.2
Price of Lenny & Carl's Stock Since Launch

Weeks Since Launch	Stock Price
3	\$20
10	50
18	35
20	20
25	20
30	20
40	75

Tables and Graphs

Figure A.2



Tables and Graphs

Equation of a line: $Y = a + bX$

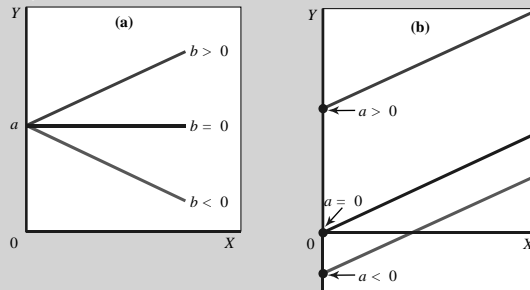


Figure A.3

