

# 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

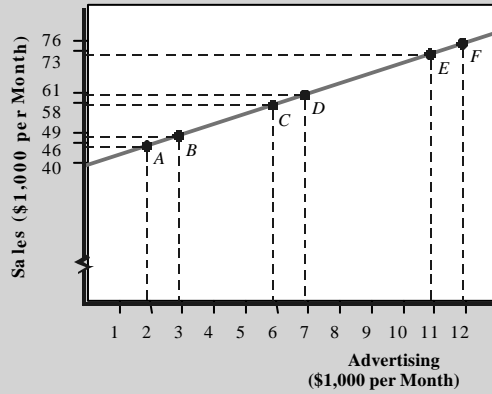
## Tables and Graphs

**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



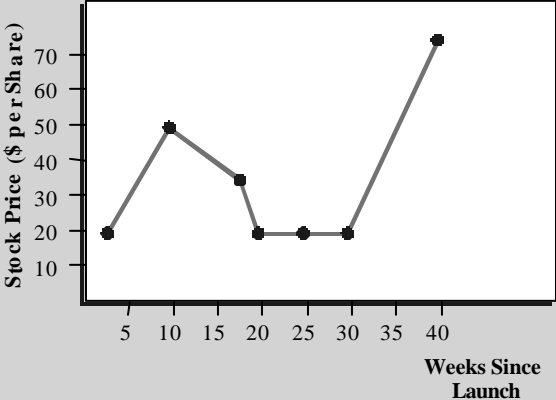
# Tables and Graphs

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:  $Y = a + bX$

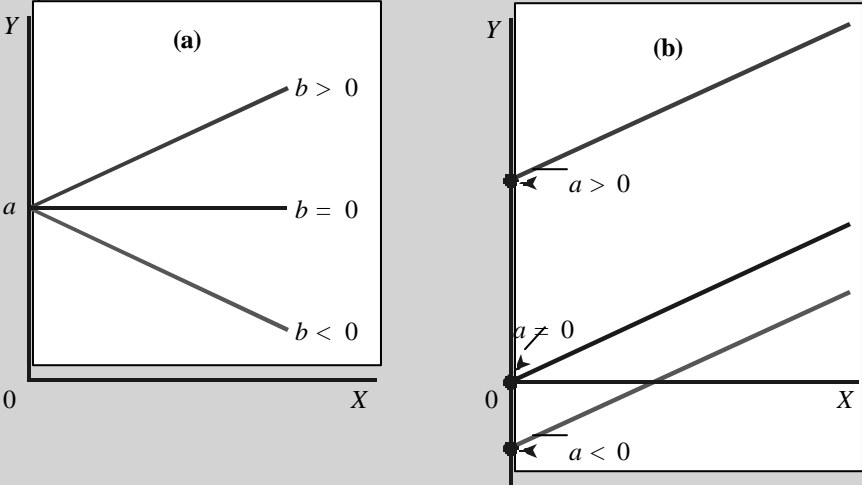
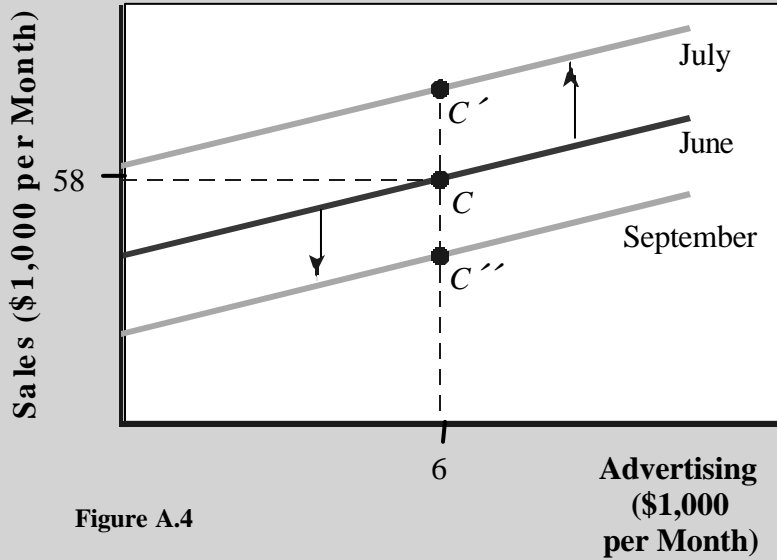


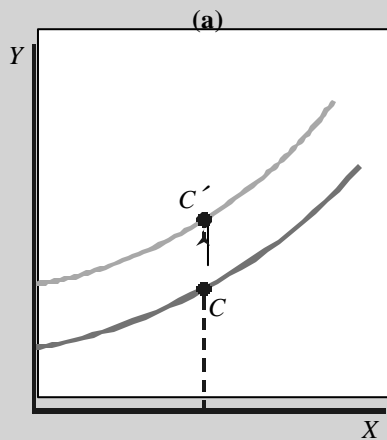
Figure A.3

# Tables and Graphs

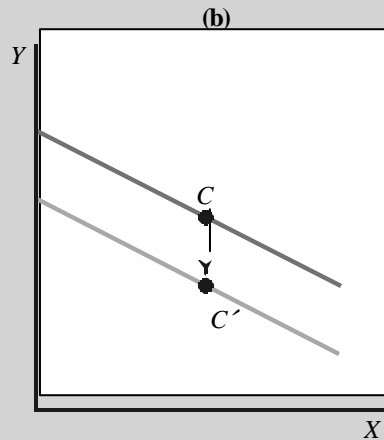


# Tables and Graphs

Figure A.5



An increase in Z causes an increase in Y at any value of X



An increase in Z causes a decrease in Y at any value of X