

Topic 1 – The Economic Framework

Big Question: What is the Economic Framework?

I. What is Economics?

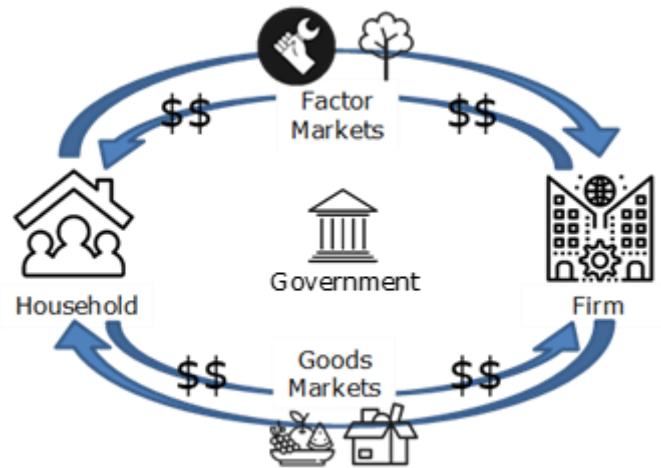
Economics is the study of how people _____ under conditions of _____ and of the results of those choices for society.

What makes economics different from other social sciences?

- 1.
- 2.
- 3.

Market Economy: An economy that allocates resources through the _____ decisions of many firms and households as they interact in a market.

Microeconomics vs. Macroeconomics



Positive Questions vs. Normative Questions

Example: Which of the following questions is positive?

1. Are tax rates in the US higher or lower than in other high income countries?
2. Would higher tax rates make the US a better place to live?

II. How do people make choices?

Cost Benefit Principle

An individual should take an action if and only if _____ \geq _____.

1. Utility is the word that economists use to describe _____ or value to consumers.
2. The opportunity cost of an action is the value of the next-best alternative that must be forgone in order to pursue an action.



Example: Imagine you have \$20. There are two things that you might want to buy. One is a tennis racket, which would bring you \$40 of happiness. The other is a new t-shirt, which would bring you \$25 of happiness. Both cost \$20, so you can only buy one.



Which one should you buy?

What is the opportunity cost of purchasing the tennis racket?

3. A sunk cost is a cost that was incurred in the past and cannot be recovered.

Example: Suppose that Anna bought a *non-refundable* movie ticket for tonight online for \$10. Seeing the movie tonight is worth \$20 to her. When she gets in her car, it doesn't start. She can get a Lyft to the movies and back for \$15. She can still make the movie. Should she go?



4. Thinking on the Margin

Marginal utility is the utility gained from consuming _____.



Example: It's slice night!

How many slices will you eat?

Slices of Pizza	Total Utility (1 util = \$1)	Marginal Utility
0	0.00	--
1	2.50	
2	4.00	
3	5.25	
4	6.00	
5	5.50	

Price = \$1

Price = \$2

Price = \$0

III. Assignments

- a. Log-on to Brightspace and explore the content areas
- b. Problem Set 1 due on Brightspace at 11:00pm on 1/21/20