Economics, Scarcity, and Choice

*Economics* is the study of choice under conditions of scarcity

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.

- *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.

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**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.

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**The World of Economics**

- Microeconomics
- Macroeconomics
- Positive Economics
- Normative Economics

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**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

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**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

**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.

### Table A.1

<table>
<thead>
<tr>
<th>Weeks Since Launch</th>
<th>Advertising ($1,000s per Month)</th>
<th>Sales ($1,000s per Month)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>46</td>
<td>46</td>
</tr>
<tr>
<td>3</td>
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</tbody>
</table>

### Table A.2

<table>
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<th>Weeks Since Launch</th>
<th>Stock Price ($ per Share)</th>
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</thead>
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<tr>
<td>10</td>
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<tr>
<td>25</td>
<td>20</td>
</tr>
<tr>
<td>30</td>
<td>75</td>
</tr>
</tbody>
</table>

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

- (a) $a > 0$, $b > 0$
- (b) $a < 0$, $b < 0$
Tables and Graphs

Figure A.4

Sales ($1,000 per Month) vs. Advertising ($1,000 per Month)

June

July

September

58

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