What Is Economics?
Economics, Scarcity, and Choice

Economics is the study of choice under conditions of scarcity

• 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.

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

<table>
<thead>
<tr>
<th>Advertising ($1,000s per Month)</th>
<th>Sales ($1,000s per Month)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>46</td>
</tr>
<tr>
<td>3</td>
<td>49</td>
</tr>
<tr>
<td>6</td>
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<td>61</td>
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<tr>
<td>11</td>
<td>73</td>
</tr>
<tr>
<td>12</td>
<td>76</td>
</tr>
</tbody>
</table>
Tables and Graphs

Figure A.1

Table A.2

<table>
<thead>
<tr>
<th>Weeks Since Launch</th>
<th>Stock Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>$20</td>
</tr>
<tr>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>18</td>
<td>35</td>
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<tr>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>40</td>
<td>75</td>
</tr>
</tbody>
</table>
Tables and Graphs

Figure A.2

Stock Price ($ per Share)

Weeks Since Launch

5 10 15 20 25 30 35 40

Tables and Graphs

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

Figure A.3

$Y$ $X$

(a)

$Y$ $X$

(b)

$0$ $a > 0$

$0$ $a < 0$
Tables and Graphs

Figure A.4

Sales ($1,000 per Month)

58

6

Advertising ($1,000 per Month)

July

June

September

Figure A.5

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

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