Ch. 1 Exploring Economics: Basics

- **Economics → scarcity**: We have unlimited wants and needs but our resources to get those wants and needs are limited.
  - Economics is the study of how we decide to allocate our limited resources to meet unlimited wants and needs.
  - We study who makes these decisions by assuming people are rational, self-interested, and respond to incentives.
- **Microeconomics**: Studies individual decision making
  - People, businesses, industries, individual sectors of the economy
- **Macroeconomics**: Studies how economics of a whole works
- **Ceteris Paribus**: An assumption used in econ models where all relevant factors or variables are held constant so that there is only one changing variable
- **Efficiency**: How well resources are used and allocated
- **Equity**: The fairness of various issues and policies
- To increase one (efficiency / equity) sometimes we have to decrease the other
- **The opportunity cost is the next best alternative**
- **Absolute Advantage**: When one country can produce more of a good than another country
- **Comparative Advantage**: When a country's opportunity cost to produce a good is lower than another country's
- Trade is always beneficial, countries should focus their resources on goods in which they have the comparative advantage
- Key ideas
  - Scarcity forces trade-offs
  - Opportunity costs dominate our lives
  - Rational thinking requires thinking at the margin
  - Government must deal with market failure