Defining Economics

Resources are scarce

• Scarcity: the limited nature of society’s resources
  – Society has limited resources and cannot produce all the goods and services people wish to have.

• Economics
  – The study of how society manages its scarce resources
EXAMPLE 2: Opportunity cost

• What is the opportunity cost of going to college for a year?
  - Tuition, books, and fees
  - PLUS foregone earnings

• What is the opportunity cost of going to the movies?
  - The price of the movie ticket
  - PLUS the value of the time you spend in the theater
Active Learning 1: Answer

A. Netflix:

– Marginal benefit of watching one more movie:
  • The enjoyment you get from watching the movie

– Marginal cost of watching one more movie:
  • Monetary cost = $0
  • Opportunity cost of time

– Decision: If the marginal benefit exceeds the marginal cost, watch the movie.
• Market economy
  – Allocates resources through the decentralized decisions of many firms and households as they interact in markets
  – Proven remarkably successful in organizing economic activity to promote overall prosperity
Principle 8: A country’s standard of living depends on its ability to produce goods and services.

Principle 9: Prices rise when the government prints too much money.