

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.

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Principle 6: Markets Are Usually a Good Way to Organize Economic Activity – 2

- 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

How the economy as a whole works

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.

Principle 10: Society faces a short-run trade-off between inflation and unemployment.