

slide 7

- $MB > MC$
- one more unit benefits the profit, the firm will produce one more

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4. people respond to incentives

- incentives alter our behaviour, motivates you to do things
- govt does this all the time
- ex. seatbelt laws

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How people interact

5. trade can make everyone better off

- in a market economy people trade with one another
- rely on different families to eat, get dressed
- benefits of trade outweigh the costs
 - ex. ontario manufacturing has been declining in the last 20 years. employees (workers working straight out of high school there with no other education and now must invest in education to find another high paying job). now we purchase electronics overseas since it is cheaper to purchase there, consumers benefit from this due to less price, but small amount over a large mass is a benefit. however, many lost their jobs, i.e. this cost < benefits.

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6. markets are a good way to organize economic activity

- online market, eBay, amazon, kijiji
- not up to the government, they don't control our decisions, little regulation of govt
- free markets (market economy)

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- invisible hand
 - all of us are guided, telling households and consumers how much to buy/pay, telling firms how much to produce
 - if everyone is greedy and looks out for themselves, optimal results are made

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7. govts can improve market outcomes (sometimes)\

- still need some govt regulation
 - market failure
- property rights allow for you to own a resource and control it

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- efficiency - more goods and services, bigger pie, more products
 - free markets lead to efficiency
- equity - are goods and services distributed fairly
 - policies in place to enhance equity
- efficiency/equity tradeoff (never perfect balance)
- if you tax the richer people, they will stop working as much and efficiency will go down since we try to increase equity