1 The Study of Economics

2 Models and the Circular Flow

3 The Production Possibility Frontier Model

4 Comparative Advantage and Trade
Choice: The Core of Economics

- **Economics** is the study of scarcity and choice.
- **Choice** is the decision by an individual of what to do.
Resources Are Scarce

- A **resource** is anything that can be used to produce something else (e.g., land, labor, physical capital & human capital).
Resources Are Scarce

Physical Capital

Human Capital
Opportunity Cost

- **Opportunity cost**: The real cost of something is what you must give up in order to get it.

**Mark Zuckerberg** understood the concept of opportunity cost—and dropped out of Harvard.

**LeBron James** skipped college to earn millions of dollars in the NBA.
Macroeconomics vs. Microeconomics

- **Microeconomics** focuses on how decisions are made by individuals and firms and the consequences of those decisions.

- **Macroeconomics** examines the *aggregate* behavior of the economy.
  - The macroeconomy is indeed the collection of all individual actions and market outcomes, but it is *greater than the sum* of the parts.
  - Macroeconomics tends to be more concerned with policy.
## Macroeconomics vs. Microeconomics

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<thead>
<tr>
<th>MICROECONOMIC QUESTIONS</th>
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<td>What determines the cost to a university of offering a new course?</td>
<td>What determines the overall level of prices in the economy as a whole?</td>
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<td>What government policies should be adopted to make it easier for low-income students to attend college?</td>
<td>What government policies should be adopted to promote full employment and growth in the economy as a whole?</td>
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<tr>
<td>What determines whether First Interstate Bank will open a new branch in Laramie?</td>
<td>What determines the level of trade in goods, services and financial assets between the U.S. and the rest of the world?</td>
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Macroeconomics: Theory and Policy

- Before the 1930s, economists regarded the economy as self-regulating.
- The Great Depression changed all that.
- According to Keynesian economics, the economy can be made better off by monetary and fiscal policy.
  - **Monetary policy** uses the quantity of money to alter interest rates, which affect overall spending.
  - **Fiscal policy** uses changes in taxes and government spending to affect overall spending.
- Many believe that monetary and fiscal policy kept the recent 2008 financial crisis from turning into a Depression.
Positive vs. Normative Economics

- **Positive economics** is the branch of economic analysis that describes the way the economy actually works.

- **Normative economics** makes prescriptions about the way the economy *should* work.
Why Do Economists Disagree?

- Economists agree more than you think. However, there are two main reasons economists disagree:

  - Model assumptions
  - Core beliefs & values