

Outline for lecture 1

ECON 1a, Spring 2008, Warren Gibson

- Economics: the study of people making choices under scarcity.
- Economics is more than just:
 - The stock market
 - People trying to maximize income or wealth
 - Exchange (isolated people make choices too)
- Scarce goods and free goods
 - You can only get scarce goods if you give up something else
 - You can get free goods without giving up anything
- Goods and services:
 - Goods are scarce physical resources (cars, potatoes, cell phones, locomotives).
 - Services are valuable activities that require labor (economics lectures, shoe shines, taxi rides).
- Goods are classified as
 - *Durable* goods, which provide services over a long period of time (refrigerators, cars, bridges).
 - *Non-durable* goods which are used up in short order (food, gasoline, ink).
- In economics there are “bads,” things we would be better off without, like rotten apples.
- Four ways to acquire scarce goods or services.
 1. Produce them yourself:
 - Grow your own vegetables.
 - Prepare your own tax return.
 2. Request a gift

- Ask your parents for tuition money
- Beg for quarters on the street
- 3. Offer an exchange:
 - Offer to trade a wristwatch for a textbook
 - Purchase a textbook
- 4. Threaten physical violence
 - Steal a textbook
 - Impose a tax
- More on exchange:
 - Direct exchange or barter: Smith has what Jones want and Jones has what Smith wants. They trade, each expecting to be better off as a result.
 - It is often difficult to find trading partners for direct exchange.
 - Indirect exchange: A has what B wants, B has what C wants, C has what A wants. They do a three-way trade.
- Property titles
 - When we acquire goods or services, we really acquire *title* to those goods or services. Title is the legal right to use and dispose of property.
 - When I leave the room do not take my laptop with me, I still hold title to the laptop even though I momentarily give up physical possession.
 - Titles to valuable objects are recorded in legal documents:
 - * Real estate
 - * Cars (“pink slip”)
 - * Shares of stock (stock certificates formerly used)
 - We can hold title to partial uses of a good.
 - * By renting an apartment you may acquire title to certain actions:
 - Occupy the apartment as your dwelling

- Conduct limited business activities there (prepare lectures, etc.)
 - * But you may not be entitled to other actions:
 - Keep a dog in the apartment
 - Paint the interior
 - Deny the landlord reasonable access
- More on coerced exchange:
 - Categories of forced or coercive exchange:
 - * Direct: robbery, taxation
 - * Indirect: fraud, extortion
 - Forms of force other than coerced exchange:
 - * Preventive force (shooting a burglar)
 - * Retaliatory force (imprisonment)
 - Secondary beneficiaries of coerced exchange:
 - * Pawnbrokers who “fence” stolen property
 - * Government employees whose salaries come from tax revenue
- We classify societies according to their *property system*, i.e. the way in which titles to scarce resources are held or exchanged:
 1. Primitive societies: gifts predominate
 2. Command economies: coercion predominates
 - Soviet Russia
 - Nazi Germany
 3. Market economies: trade predominates
 - Nineteenth century Britain
 - Nineteenth century U.S.
 4. Mixed economies: part market, part command
 - Contemporary U.S. or Britain
- Comments on Mankiw’s ten principles of economics:
 1. People face tradeoffs.

2. The cost of something is what you give up to get it: *opportunity cost*
3. Rational people think at the margin
4. Rational people respond to incentives
5. Trade can make everyone better off. (Comment: both parties *expect* to gain when they engage, whether between countries or not. It's incorrect to say "The U.S. trades with Japan.")
6. Markets are usually a good way to organize economic activity. (Comment: markets are what arise when *no one* does any central organizing.)
7. Governments can sometimes improve market outcomes. (Comment: not nearly as often or successfully as most people think.)
8. A country's standard of living depends on its ability to produce goods and services.
9. Prices rise when the government prints too much money.
10. Society faces a short-run trade-off between inflation and unemployment.