

EE211 Principles of Microeconomics

Economics—Principles of decision making under limitation of resources

Decision Making in

1. what/how much to buy, ✓
2. what/how much to produce,
3. how much and what price to sell
4. Etc.

no economics!
~~scarcity but no choice just one.~~

Limitation of resources ⇒ Scarcity

Scarcity—A resource is scarce only in relation to the amount wanted/needed to use.

Economic Resources and their compensations:

- 1) Land - *all natural resources.* — *rent.*
- 2) Labor - *both { blue collar white collar.* — *wage*
- 3) Capital - *anything that has been produced previously and is used in the production.* — *interest*

- Entrepreneur is the person who bring together all economic resources and receives profit as compensation.

Scarcity ⇒ Choices ⇒ Opportunity Cost

Opportunity Cost of a choice is the value (benefit, profit, etc.) of the next best thing that the decision maker has to forego due to the choice made.

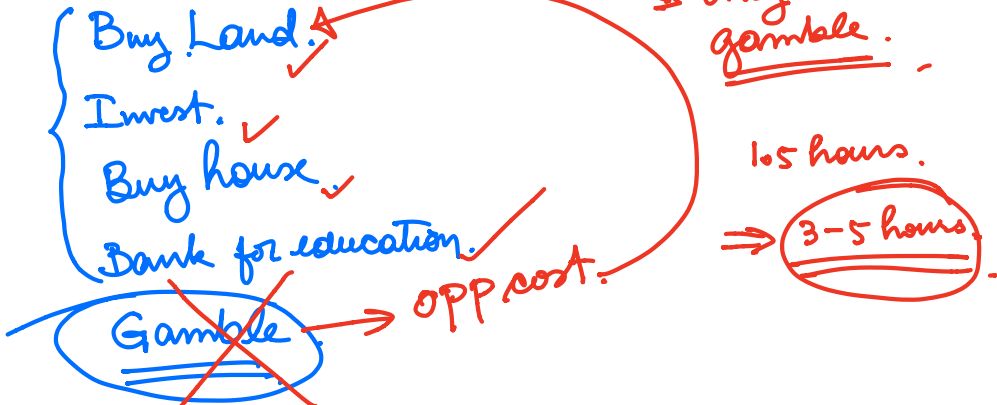
Example Choices and their opportunity costs.

Choice	Value	Opportunity Cost
A. ✓	100 ✓	70 ✓
B. ✓	70 ✓	100 ✓
C. ✓	40 ✓	100 ✓

max *min.*
max (Value benefit) ⇔ min (opp cost)

Accounting Cost. — recording of history.
Economic Cost.

Example If a billionaire gave you 10 million bahts for free, how will you spend it?



Example A coffee shop owner

- makes a revenue of 200,000 bahts/month
- pays costs of land, labor and capital = 150,000 bahts/month
- Profit = 50,000/month

Accounting Profit: = 50,000 B.

Economic Profit: What if the owner could earn 30,000 bahts/month working for an advertising company?

$$\text{Economic Profit} = 200,000 - (150,000 + 30,000)$$

$$= 20,000 \text{ B}$$

Excess Profit = profit earned higher than the total opp cost.

$$\text{Economic Profit} = 0.$$

Normal Profit

