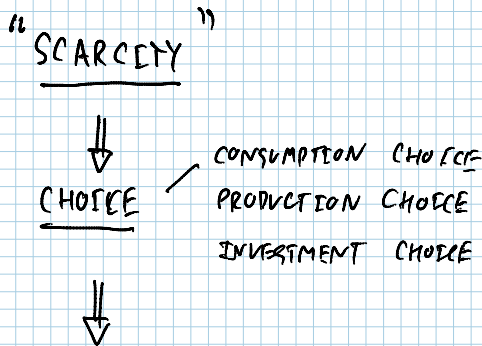


MICROECONOMICS : A STUDY OF HOW INDIVIDUAL
 MAKES CHOICES UNDER
SCARCITY
 ↓
 SCARCED RESOURCES
 (OR LIMITED RESOURCES)
 EX: TIME, MONEY, PHYSICAL RESOURCES
 HUMAN CAPITAL (SKILLS, KNOWLEDGE),
 NATURAL RESOURCES



OPPORTUNITY COST : **EVERYTHING** ONE MUST GIVE UP
 IN ORDER TO DO AN ACTIVITY.

EX: CHOICE 1 STUDYING AT BE. FOR 4 YRS VS. CHOICE 2 WORKING AT
 McDonald.

SUPPOSE YOU DECIDE TO TAKE CHOICE 1 : STUDY AT BE.

Q: WHAT ARE OPPORTUNITY COSTS OF CHOOSING CHOICE 1?

A: EXPLICIT COSTS
 TUITION FEES, BOOK EXPENSES, ACCOMMODATION, ETC.

+
 FORGONE SALARY, SKILLS & EXPERIENCE RECEIVED FROM
 (48 × 10,000 = 480,000
 (SALARY) WORKING
IMPLICIT COSTS
 (HIDDEN)

$\text{OPPORTUNITY COSTS} = \text{EXPLICIT COSTS} + \text{IMPLICIT COSTS}$
--

GOLDEN RULE OF MAKING AN INDIVIDUAL'S DECISION:

IF (EXPECTED) BENEFITS > COSTS, THEN DO ACTIVITY "X";

OTHERWISE, DON'T DO ACTIVITY "X".

IN SHORT,

WHEN $B > C$, DO X.
 WHEN $B < C$, DO NOT DO X.

SO FAR, $S \rightarrow C \rightarrow O$.
 # COCONUTS (UNITS / DAY)

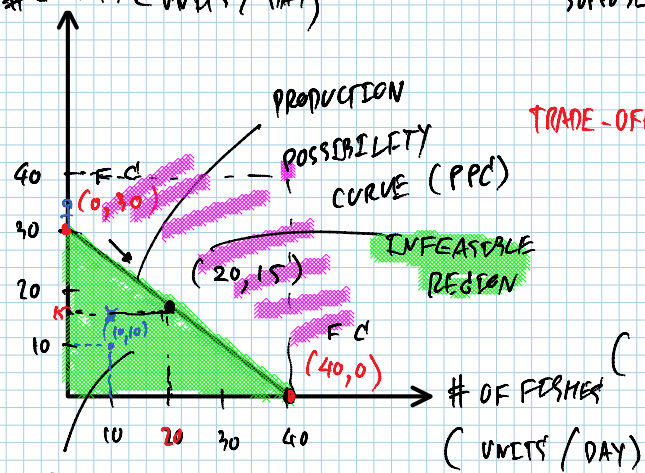
SUPPOSE: ① TOM HAS

$24 - 8 = 16$ HRS
 ↓ OF SLEEPING WORKING

② TWO ACTIVITIES:

① FISHING

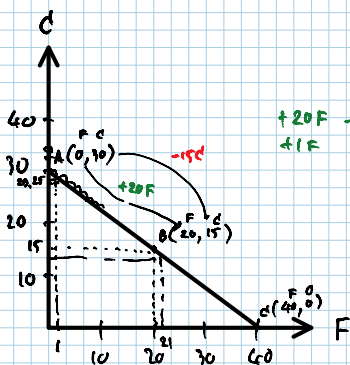
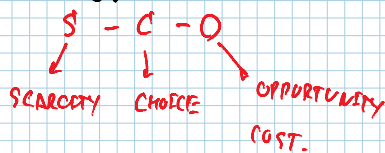
② COCONUT GATHERING.



(ALLOCATION PROBLEM)

FEASIBLE REGION
 BUT INEFFICIENT!

- PRODUCTION CHOICES ALONG THE PPC ARE BOTH FEASIBLE AND EFFICIENT.
- PRODUCTION CHOICES INSIDE THE CURVE ARE FEASIBLE BUT INEFFICIENT.
- PRODUCTION CHOICES OUTSIDE THE CURVE ARE NOT FEASIBLE.
- HE FACES "TRADE-OFF": TO GET MORE OF A THING HE MUST FORGO OR GIVE UP OR SACRIFICE ANOTHER THING.
- IN SHORT, PPC REFLECTS



$$\begin{aligned} +20F &\rightarrow -15C \\ +1F &\rightarrow -15C = -\frac{3}{4} \\ \frac{+20F}{+1F} &= -\frac{3}{4} \\ &= -0.75 \end{aligned}$$

$-\frac{3}{4} \Rightarrow$ REPRESENT OPPORTUNITY COST OF GETTING AN ADDITIONAL UNIT OF FISH MEASURED IN TERM OF FORGONE UNITS

- $-\frac{3}{4} \Rightarrow$ REPRESENT OPPORTUNITY COST OF GETTING AN ADDITIONAL UNIT OF FISH MEASURED IN TERM OF FORGONE UNITS OF COCONUTS.

- SLOPE OF PPC REFLECTS THE ABOVE OPPORTUNITY COST.
- THIS CASE W/ A STRAIGHT LINE PPC REFLECTS CONSTANT OPPORTUNITY COST ($= \frac{3}{4}$ ALWAYS ALONG THE PPC).

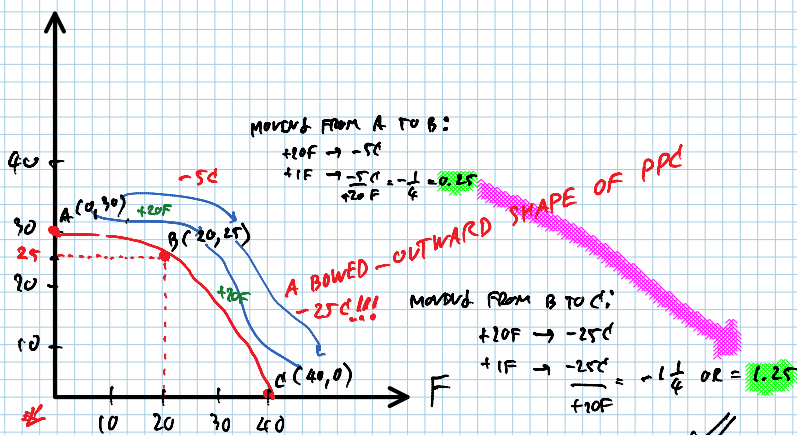
EE211

[3-0-9]

LECTURE 3 HRS

SECT STUDY 9 HRS A WEEK!

a HOWEVER, IN REAL WORLD, OPPORTUNITY COST IS TYPICALLY NOT CONSTANT. LET'S SEE...



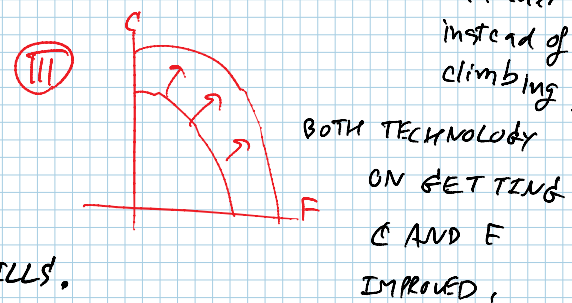
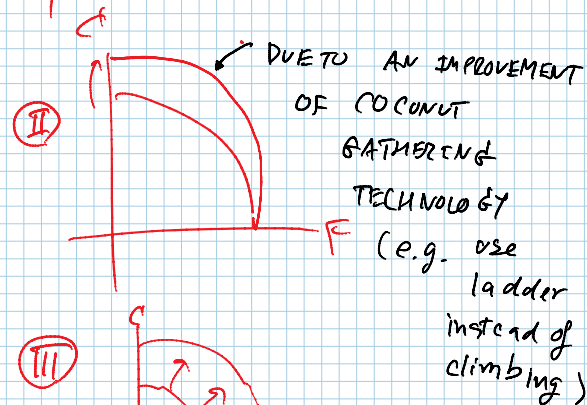
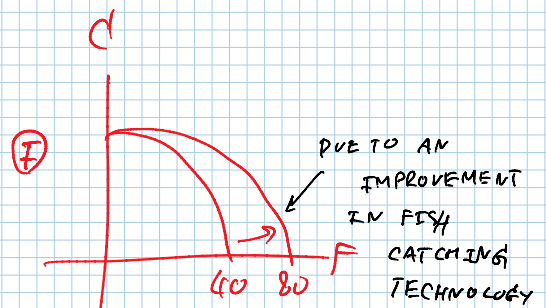
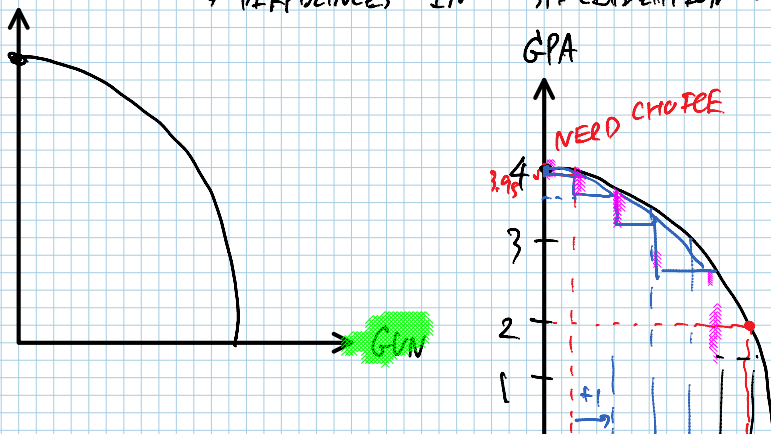
THIS IMPLIES THAT OPP. COST OF OBTAINING AN ADDITIONAL UNIT OF FISH (MEASURED IN TERM OF COCONUT FORGONE) IS

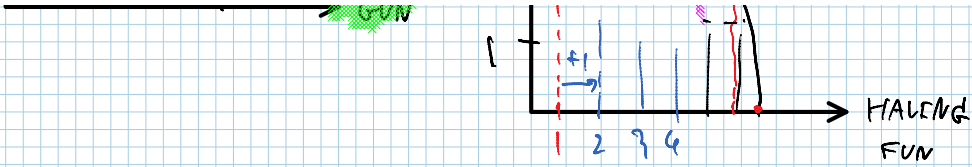
INCREASING!!!

- A NATURAL QUESTION OF WHY? ARISES.
- THIS NEEDS AN EXPLANATION.

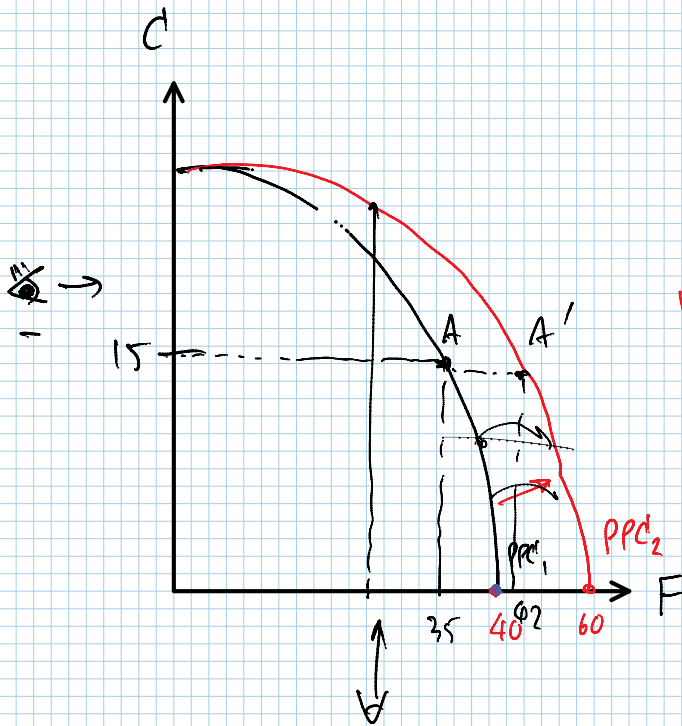
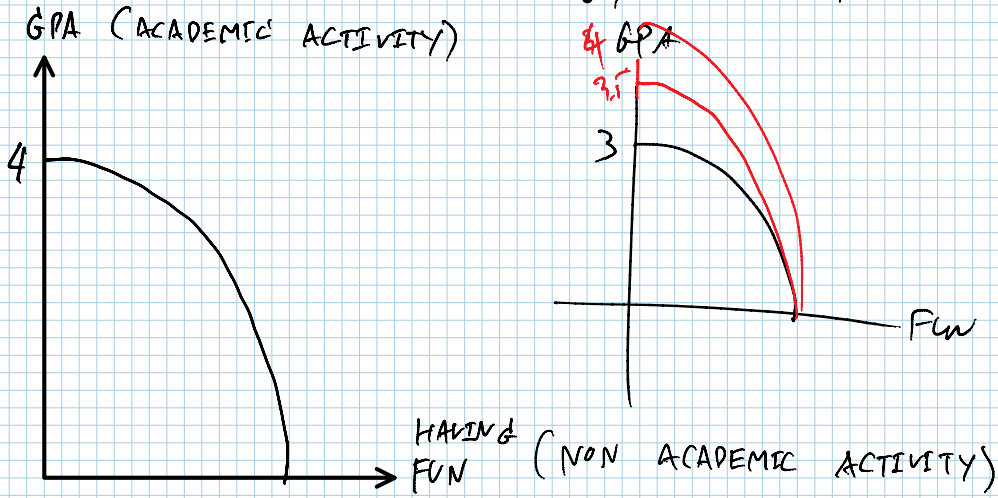
ANSWER: DIFFERENCES IN SPECIALIZATION OR SKILLS, DIFFERENCES IN SPECIALIZATION OF RESOURCES.

BUTTER





• INNOVATION AND TECHNOLOGY CAN IMPROVE PPC. (HOW?)



WHEN TECHNOLOGY OF CATCHING FISH IS INTRODUCED.