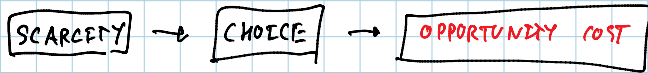


MICROECONOMICS: A STUDY OF HOW PEOPLE MAKE CHOICE UNDER "SCARCITY"

WHAT IS SCARCITY?

- RESOURCES ARE LIMITED: YOU CANNOT DO EVERYTHING YOU WANT TO WITH YOUR RESOURCES
- (TIME)
- INCOME/WEALTH
- ENERGY
- PHYSICAL SPACE



ALL RESOURCES YOU MUST GIVE UP / SACRIFICE / FOR GO IN ORDER TO DO AN ACTION / AN ACTIVITY.

EX: WHAT IS OPPORTUNITY COST OF STUDYING AT BE FOR 4 YEARS?

- TUITION FEES (70,000 THB/ SEMESTER)
- BOOKS / STATIONARIES / MATERIALS
- ACCOMMODATION COST
- TRANSPORTATION COST

"EXPLICIT COSTS"  
(REQUIRE DIRECT PAYMENT)

∩

- FORGONE SALARY / INCOME THAT YOU COULD HAVE EARNED IF YOU DECIDE TO WORK INSTEAD

IMPLICIT COSTS  
(HIDDEN COSTS)

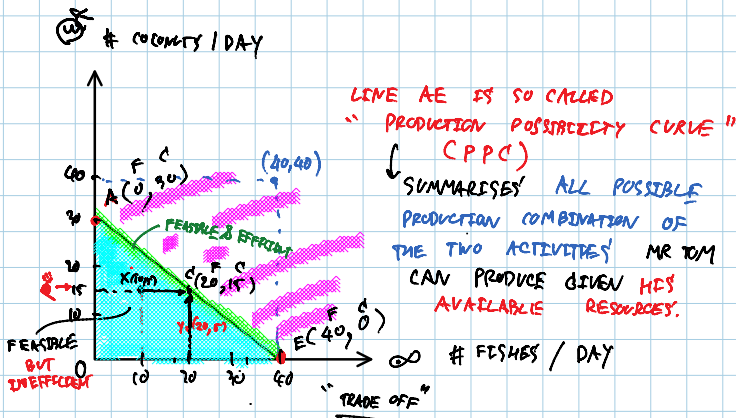
$$\text{OPPORTUNITY COST} = \text{EXPLICIT COST} + \text{IMPLICIT COST}$$

A SIMPLE MODEL OF S-C-O

SCARCITY - CHOICE - OPPORTUNITY COST  
SIMPLIFIED REPRESENTATION OF REALITY

BASIC SETUP

- CONSIDER MR. TOM WHO LIVES IN A SMALL ISLAND.
- MR. TOM ACTS AS A CONSUMER & A PRODUCER.
- HE HAS  $24 - 8 = 16$  WORKING HOURS.
- THERE ARE 2 PRODUCTION POSSIBILITIES:
  - ∞ FISH CATCHING
  - 10 COCONUT GATHERING.



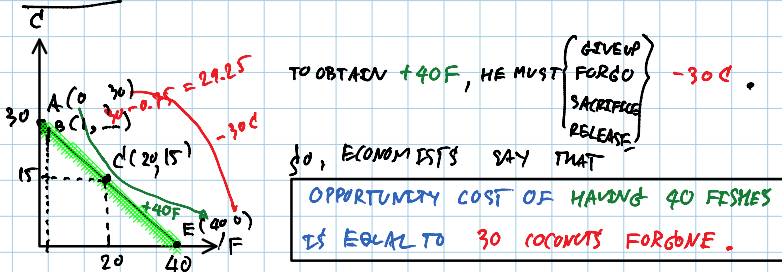
MELTON FRIEDMAN: "THERE IS NO SUCH THING AS A FREE LUNCH"

FACT #1: LINE AE IS PPC OR PPF: SHOWING ALL PRODUCTION POSSIBILITIES TO PRODUCE GIVEN HIS AVAILABLE RESOURCES.

FACT #2: CHOICES "ON" THE PPC  $\Rightarrow$  FEASIBLE & EFFICIENT  
 CHOICES "INSIDE" THE PPC  $\Rightarrow$  FEASIBLE & INEFFICIENT  
 CHOICES "OUTSIDE" THE PPC  $\Rightarrow$  INFEASIBLE

FACT #3 THE PPC SHOWS "TRADE-OFF":  
 TO GET MORE OF FISHES, # OF COCONUTS MUST BE GIVEN UP. ALSO, TO GET MORE OF COCONUTS, # OF FISHES MUST BE FORGONE.

FACT #4:



Q: HOW ABOUT OPPORTUNITY COST OF HAVING 1 MORE UNIT OF FISH?

A: TO GET 40F, HE MUST FORGO 30C  
 $\frac{-30}{40} = -\frac{3}{4} = -0.75$

ECONOMISTS SAY "OPPORTUNITY COST OF GETTING 1 UNIT OF FISH =  $\frac{3}{4}$  UNITS OF COCONUT FORGONE"

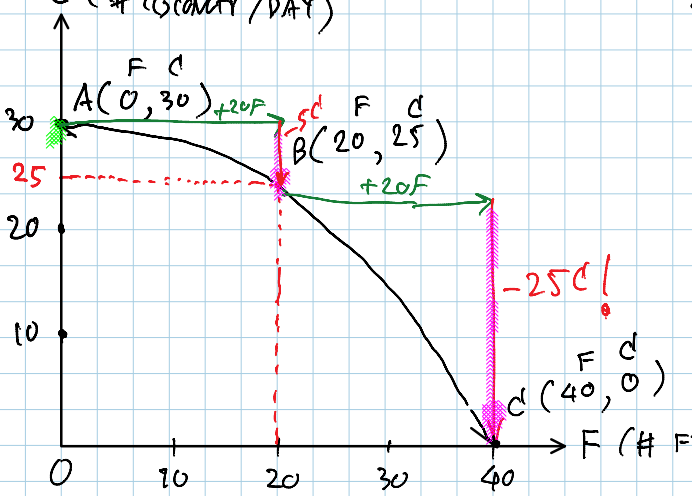
$$\begin{aligned} \infty &\rightarrow -\frac{3}{4} \\ \infty + 20 &\rightarrow -\frac{3}{4} \\ \infty + 20 + 20 &\rightarrow -3 \end{aligned}$$

4.2

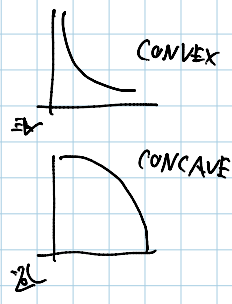
THE SLOPE OF THE PPC REFLECTS THE OPPORTUNITY COST OF HAVING GETTING OBTAINING ONE EXTRA ADDITIONAL UNIT OF FISH MEASURED IN TERM OF # OF COCONUT FORGONE. (HERE,  $-\frac{3}{4}$ )

FACT # 5 MOST OF THE TIME, IN PRACTICE, OPP. COST IS NOT CONSTANT, BUT INCREASING. ☹️

LET'S TAKE A LOOK...



- PPC IS CONCAVE OF BOWED OUT FROM THE ORIGIN.
- FROM A → B: GETTING 20F COSTS HIM 5C FORGONE.
- FROM B → C: GETTING ADDITIONAL 20F COSTS HIM 25C FORGONE.
- OPPORTUNITY COST OF THE SECOND LOT OF 20F IS HIGHER THAN THAT OF THE FIRST LOT OF 20F.



• DIFFERENCE IN SKILLS & SPECIALIZATION OF YOUR RESOURCES

(EXAMPLE IN THE CLASS: MR TOM W/ 100 WORKERS W/ DIFFERENCE IN SKILLS.)

● LOW-HANGING FRUIT PRINCIPLE



Week	Course Content	Reading References
1	<p>What is Economics All About? 1.1)</p> <p>What is Economics?</p> <p>1.2) The Basic Economic Problems</p> <p>1.3) Production Possibility Curve (PPC)</p> <p>1.3.1) Assumptions</p> <p>1.3.2) An Illustration of Scarcity, Choice and Opportunity Costs Using the PPC</p> <p>1.3.3) Economic Growth and Changes in the PPC</p> <p>1.3.4) Exchange and Gains from Trade, Explained by the PPC</p> <p>1.4) Tools used in Microeconomics</p> <p>1.4.1) Equilibrium Analysis</p> <p>1.4.2) Comparative Static Analysis</p> <p>1.4.3) Constrained Optimization</p> <p>1.5) Methodology of Studying Economics</p> <p>1.5.1) Economics as a Science</p> <p>1.5.2) How Theories are Developed</p> <p>1.5.3) Positive Vs. Normative Statements</p>	<p>Frank, ch. 1; KW, chs. 1-2; Lipsey, chs. 1-2; Mankiw, chs. 1-2</p> <p>⇒ READING FOR NOW</p> <p>⇒ WEEK 2.</p> <p>READING IN ADVANCE</p> <p>⇒ SELF STUDY</p> <p><i>Phuong M.</i> 21 Aug 2014</p>