MICROECONOMICS : A STUDY OF HOW HOUSEHOLDS AND FIRMS MAKE DECISIONS.

HOUSEHOLD → PURCHASE DECISION

FIRM → OUTPUT DECISION

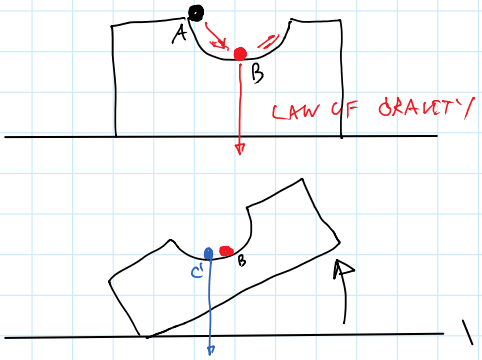
← LAND, LABOR, CAPITAL, ENTREPRENEURSHIP SKILL

↓ OUTPUTS (FOODS, MEDICINE, FURNITURE, ETC.)

TOOLS USED IN MICRO ECONOMICS (3)

(1) **EQUILIBRIUM ANALYSIS**

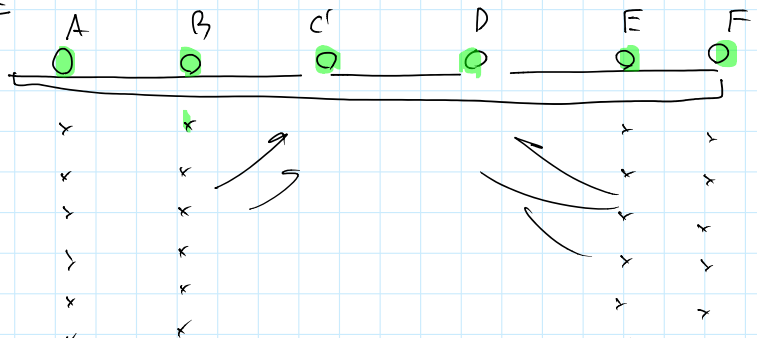
EQUILIBRIUM : A STATE OR CONDITION THAT WOULD CONTINUE INDEFINITELY AS LONG AS NO OUTSIDE FACTORS UPSET THE EQUILIBRIUM.



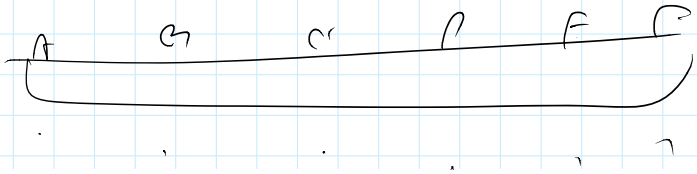
A BALL AT POINT B IS IN "AN EQUILIBRIUM" (WHY?)

- A BALL AT POINT B IS "NO LONGER" IN AN EQUILIBRIUM.
- A BALL AT POINT C' IS "IN AN EQUILIBRIUM".

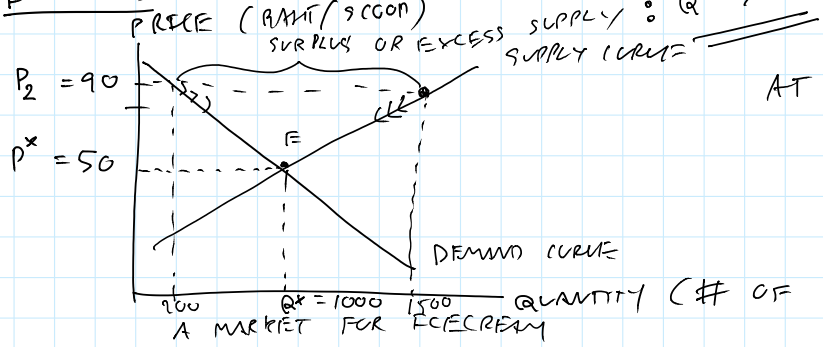
EXAMPLE 2



PASSPORT CONTROL AT AN AIRPORT



EXAMPLE 3

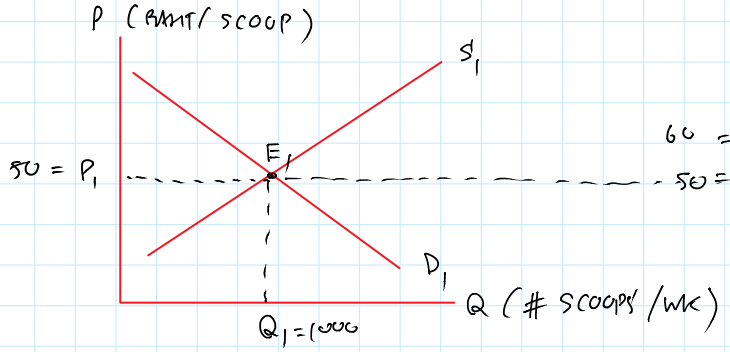


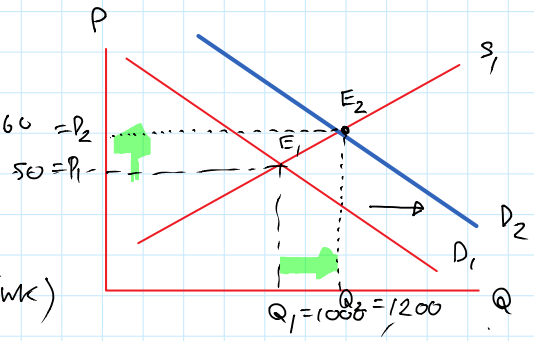
$\therefore Q^S > Q^D$

AT E, $P^* = 50$ BAHT/SCOOP

$Q^* = 1000$ SCOOPS/WK

COMPARATIVE STATIC ANALYSES (BEFORE-AND-AFTER ANALYSES)





$P_1 = 50$

$Q_1 = 1000$

MARKET OUTCOME

SUPPOSE THAT WEATHER BECOMES HOTTER...

OUTCOME P ↑ FROM P_1 TO P_2

Q ↓ FROM Q_1 TO Q_2.

CONSTRAINED OPTIMIZATION

THE CONTRAINT YOU ARE FACING

MAKE THE BEST USE OF YOUR AVAILABLE RESOURCES

CONSIDER A BUYER...

THIS GUY HAS 10000 BAHT / WEEK

HE WOULD LIKE TO BUY FOODS AND CLOTHES.

- PRICE OF FOODS = 50 BAHT / UNIT
- PRICE OF CLOTHES = 100 BAHT / UNIT

HIS OBJECTIVE: MAXIMIZE HIS SATISFACTION FROM PURCHASE

HIS CONSTRAINT: THE BUDGET OF 1000 BAHT / WK.

HIS CONSTRAINT : THE BUDGET OF 1000 BAHT / WK.

MATHEMATICALLY,

MAXIMIZE U (FOODS, CLOTHES)
SUBJECT TO BUDGET CONSTRAINT

Q_{FOODS} = ? ⟶ MAXIMIZE UTILITY
$Q_{CLOTHES}$ = ?

SCARCITY → CHOICE → OPPORTUNITY COST (S − C − O)

= ALL RESOURCES ONE MUST GIVE UP TO ENGAGE IN ACTIVITY.

= EXPLICIT COSTS + IMPLICIT COSTS (OR HIDDEN COSTS)

↓ OBVIOUS OUTFLOWS OF MONEY FROM YOUR POCKET

EX: AN ACTIVITY : STUDYING AT BIE FOR 4 YRS

Q: WHAT ARE OPPORTUNITY COSTS OF DOING THIS ACTIVITY ?

A: OPPORTUNITY COSTS = EXPLICIT COSTS + IMPLICIT COSTS

EX:
- TUITION FEES
  150,000 × 4 = 600,000
- ACCOMODATION COST
  5000 × 48 = 240,000
- LIVING EXPENSES

FORGONE INCOME THAT YOU COULD HAVE EARNED IF YOU DECIDE TO WORK INSTEAD (EX: 10000 × 48 = 480,000)

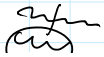
PRODUCTION POSSIBILITY CURVE (PPC)

- WE USE PPC TO REPRESENT S − C − O CONCEPTS GRAPHICALLY.
- PPC SHOWS ALL POSSIBLE PRODUCTION CHOICES ONE CAN CHOOSE TO PRODUCE GIVEN HIS / HER AVAILABLE RESOURCES.

LET'S CONSIDER MR. TOM HANK. NOW HE LIVES IN A REMOTED ISLAND.
HE HAS 2 PRODUCTION ACTIVITIES:

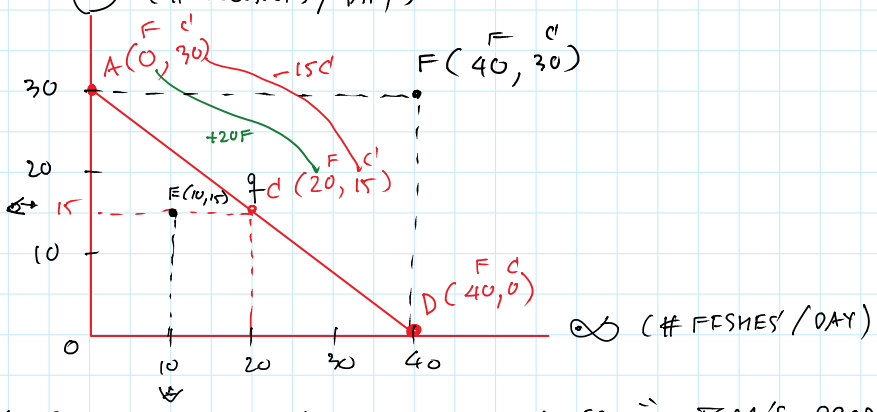
① CATCHING FISHES

②



(2) GATHERING COCONUTS

HE HAS $24 - 8 = 16$ WORKING HOURS.



FACT#1 : LINE AD IS SO CALLED "TOM'S PRODUCTION POSSIBILITY CURVE"

FACT#2 :

- ALL PRODUCTION CHOICES "INSIDE" THE PPC ARE FEASIBLE (TO PRODUCE) BUT "INEFFICIENT"! (HE COULD DO BETTER)
- ALL PRODUCTION CHOICES "OUTSIDE" THE PPC ARE "INFEASIBLE TO PRODUCE"! (WHY?)
- ALL PRODUCTION CHOICES "ON" THE PPC ARE BOTH FEASIBLE AND EFFICIENT. :)

FACT#3 WHEN MR. TOM MAKES CHOICE, HE FACE WITH "TRADE-OFFS": TO GET MORE OF FISHES, SOME COCONUTS MUST BE RELEASED. VICE VERSA.

FACT#4 : OPPORTUNITY COST OF HAVING A FISH = $\frac{3}{4}$ UNIT OF COCONUT FORGONE.