EE211 Principles of Microeconomics

Economics—Principles of decision making under limitation of resources

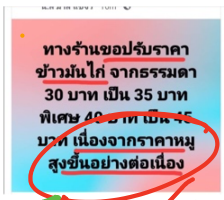
how and how much.

Decision Making in
1. what/how much to buy, – consumption
2. what/how much to produce, – production
3. how much and what price to sell – markets.
4. Etc.

not as news reporters or politicians.

From this class, you will be able to answer the following questions as an economist:

1) Why the price of pork is so high? 120-150 250 ฿+/kg.



Substitution Effect. after midterm

2) Why the government lottery price is so high?--Much higher than its official price of 80 bahts. 90 – 150....

3) COVID 19 causes the price of gasoline to decrease? Why?

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 / white} collars (wage)
3) Capital – anything that has been produced previously and is used in the production. (interest). – machines. – rice. car.

- 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	50	~~70~~ 100

max. min. equivalent.

The decision to max value ⟺ the decision to min opp. cost.

H.W. Repeat when we can choose 2 options.

Choice	Value	opp cost
A+B		
A+C		
B+C		

Crazy.

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

go to Las Vegas and gamble all 10m. in a roulette.

- invest
- real estate
- saving.
- gold.
- house/land.
- bitcoin.

sensible!

Economic Costs & Accounting Cost.

only opp. cost. historical records.

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.

Economic Profit: What if the owner could earn ~~30,000~~ 80,000 bahts/month working for an advertising company?

highest.

Economic Profit = 50,000 − 30,000 = 20,000.

Economic Profit = 50,000 − 80,000 = −30,000 < 0.

profit above the opp cost of entrepreneur

Excess Profit

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

If salary = 50,000.

Then Economic Profit = 50,000 − 50,000 = 0.

⟹ Normal profit.

Normal Profit is earned when the profit earned is equal to the opportunity cost of the entrepreneur. That is the Economic Profit received is zero.

This does not mean the entrepreneur receives nothing
It means he receives profit equal to the next best thing he could have done.

Opp cost –

do social media during the class.

2.0 GPA. → 20,000 ฿ less income/month.
→ over 40 years.
→ discounted stream of future income ⇒ 4 m. ฿
present value