

Introduction

economy = *oikonomos* (Greek)

“one who manages a household”



Resources are scarce.
(scarcity)



Therefore, choices are
available. (choice)



Then, decisions are to be
made. (decision)

*Who
needs to decide
on what?*

Ten principles of economics

- #1** People face trade-offs
- #2** The cost of something is what you give up to get it.
- #3** Rational people think at the margin.
- #4** People respond to incentives

1. Scarcity and choices

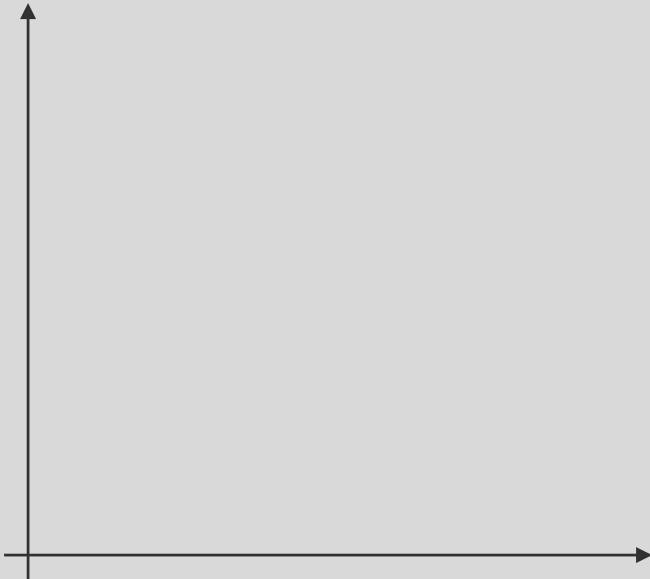
Economists use 'models' for various purposes such as

- (1) To describe or systematize social phenomena.
- (2) To grasp an understanding on social phenomena within a controlled circumstances.
- (3) To predict what would happen in a society.
- (4) To establish social policy in order to make an impact on a society.
- (5) To explain a distribution system that fits a society.

1. Scarcity and choices

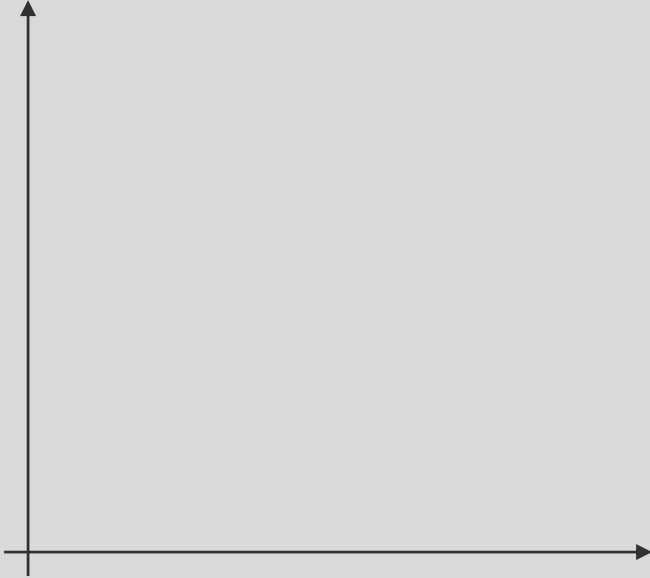
The second model in economics: Production Possibility Curve (PPC)

Supposed that there is a society with limited resources, a bundle of commodities comprises of cars and computers is to be decided. If all the resources are used up to produce car, **800 cars** can be produced. On the other hand, **2,000 computers** can be produced if total resources are used.



1. Scarcity and choices

If more resources are available, or technology of production progresses, how would it affect on the Curve?



1. Scarcity and choices

If the substitution rate is not linear, how would the Curve look like?



Proposition 1.1 – Production Possibility Curve

- The model represents scarcity of resources, and therefore choices are available for a decision to be made.

2. Choices and cost

Those are only 'explicit costs'. There are also 'implicit costs'.

The **opportunity cost** is what you give up to get that item, or to make that choice.

Reconsider previous activities, and these following choices.

- (1) Attending Principles of Microeconomics class **vs.** Sleeping at the dorm.
- (2) What a film **vs.** Having 'Bon-Chon' for a dinner.
- (3) Become a civil servant **vs.** Working in a private firm.
- (4) Practicing Microeconomics exercises **vs.** Playing PUBG.

2. Choices and cost

Example: A nerd guy

Choice	Activity	Benefit	Opportunity cost
1	Practicing Microeconomics exercises	320	
2	Playing PUBG	200	

Example: A gamer

Choice	Activity	Benefit	Opportunity cost
1	Practicing Microeconomics exercises	150	
2	Playing PUBG	200	

2. Choices and cost

Example: A wealthy gal

Choice	Activity	Revenue	Opportunity cost
1	Selling online whitening	80,000	
2	Drawing LINE sticker	20,000	
3	Create a funny Facebook page	35,000	
4	Developing an application on App Store	47,000	

Example: Resources allocation

Choice	Product	Amount	Opportunity cost
1	Cars	800	
2	Computers	2,000	

2. Choices and cost

Proposition 1.2 – Opportunity Cost

- Each individual has a different preference and capability, hence the opportunity cost varies from person to person.
- Decision making is not perfect due to imperfect information. Responding to incentive (self-interest) is also based on an assumption of rationality.

Question 1.1

Read the following lines and consider if ‘self-interest’ is identical to ‘selfishness’ or not

‘It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest. We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities, but of their advantages’

3. Basic economic problems

#1 What to produce?



#2 How to produce?



#3 To produce for whom?



Every society needs a
‘system of resources allocation’
to fulfil these problems

4. Systems of resources allocation

Central planning

- A centralized institution decides what, how to produce and holds the authority to allocate all the resources

Mixed

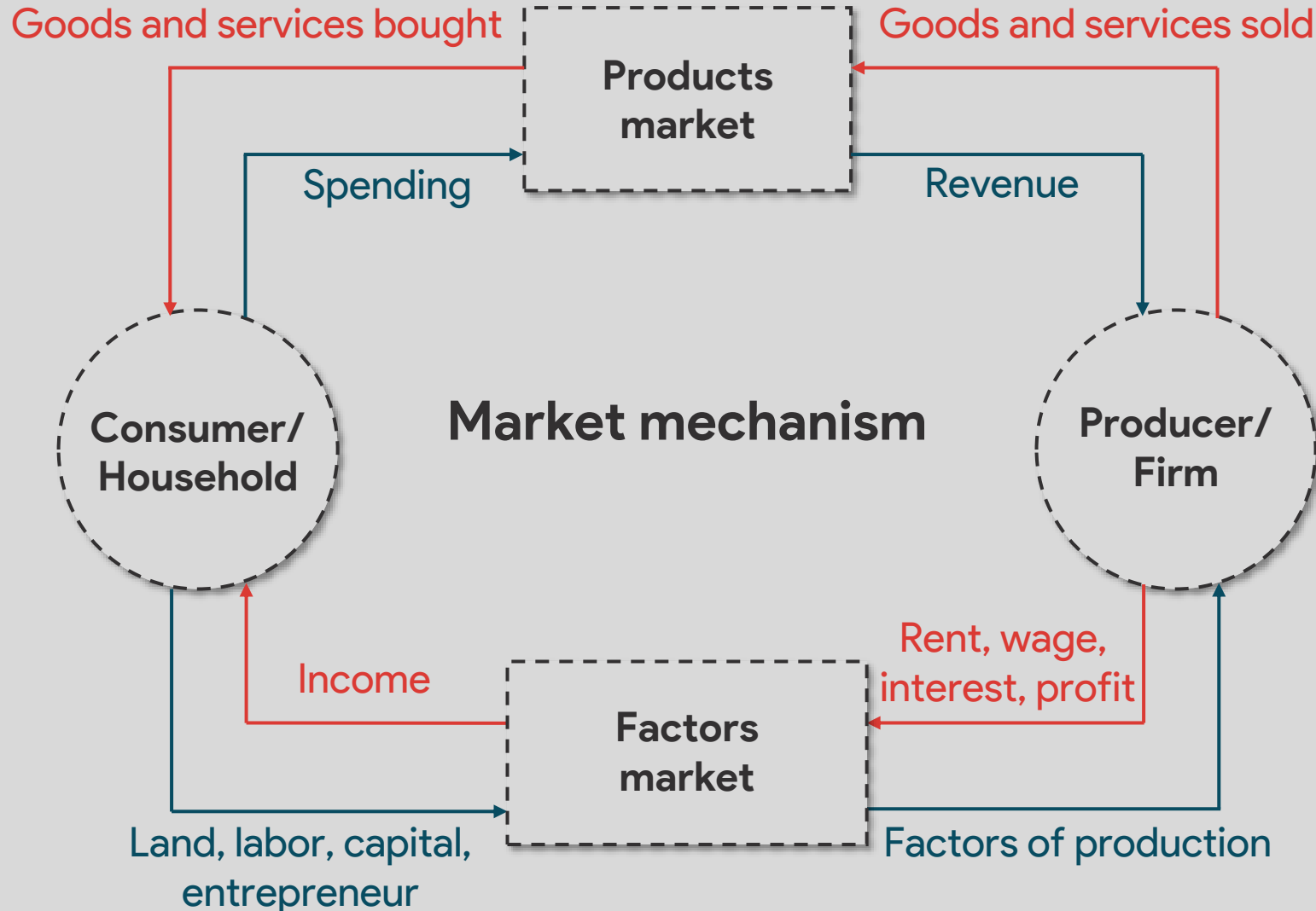
- Private firms decide what and how to produce.
- Market mechanism is the tool for resource allocation.
- Economic and political institution can interfere for specific reasons.

Market

- Private firms decide what and how to produce.
- Market mechanism is mainly the tool for the allocation.
- There is no interference, or very few.

4. Systems of resources allocation

The first model in economics: **Circular flow**



5. Theorization



Empirical phenomenon

Economists observe social phenomena and pick a subject of interest for specific reasons, such as attempting to provide conclusive explanation on relationship between economic development and poverty eradication.



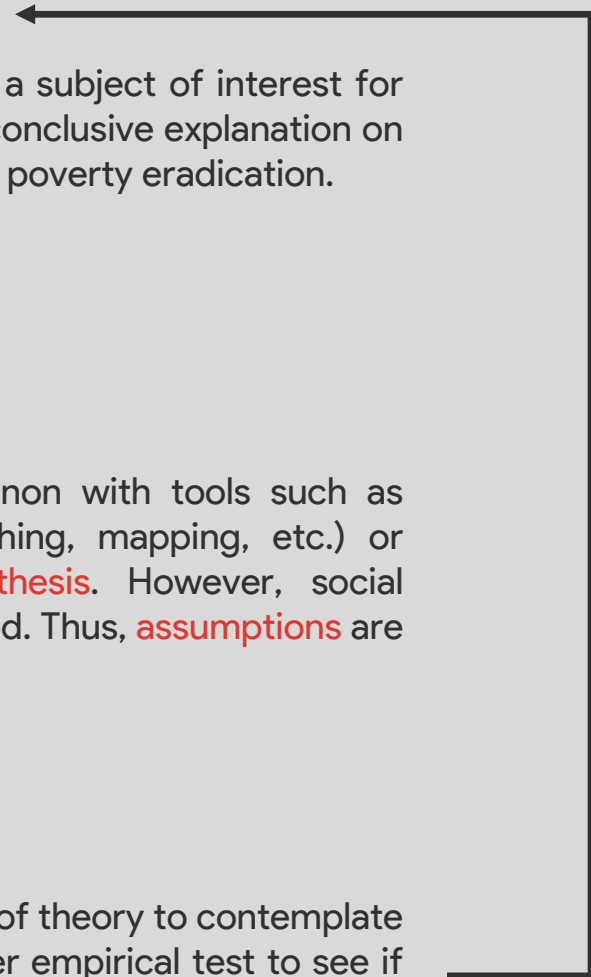
Modeling

Then they would try to 'model' that phenomenon with tools such as mathematics (deriving solution equation, graphing, mapping, etc.) or other descriptive tools with a set of **hypothesis**. However, social interactions and occurrences are very complicated. Thus, **assumptions** are usually imposed to ease the difficulties.



Theory

The result from the attempt of deduction is a set of theory to contemplate our society. There might be (or should be) further empirical test to see if the theory fits with the real-world scenario.



5. Theorization



Mathematical tools (and assumptions) for modeling

- (1) Equilibrium analysis
- (2) Static analysis
- (3) Constraint optimization

6. Economics as a social science

(1) Positive economics

Studying economics **without** any value or personal judgement (objective).

- The Ministry of Defence are increasingly financed every year.
- People with bachelor degree has the highest unemployment rate.

(2) Normative economics

Studying economics **with** value or personal judgement (subjective).

- Thailand 4.0 Policy should be a pillar of Thailand development.
- To become a high-income country, educational improvement is the first priority.

7. Defining the study of 'Economics'

There is no consensus or formal definition.

- **Focusing on economic welfare**

- Economics is a study of human well-being.
- Economics is a study of economic welfare.

- **Focusing on scarcity**

- Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.

8. Conclusion

Proposition 1.3 – Studying Microeconomics

- Mathematics is only a tool to study economics, not the core part.
- Since human interactions are very complicated, assumptions are usually imposed to systematically analyze economic problems.
- Microeconomics usually highlights economic agents' incentive and how it induce them to result in 'efficient' resources allocation with market mechanism.

Question 1.2

- What is the employed system of distribution in Thailand?
- Can other systems be as 'efficient' as market mechanism and why?
- Are methods of studying economics the same or different from natural sciences?