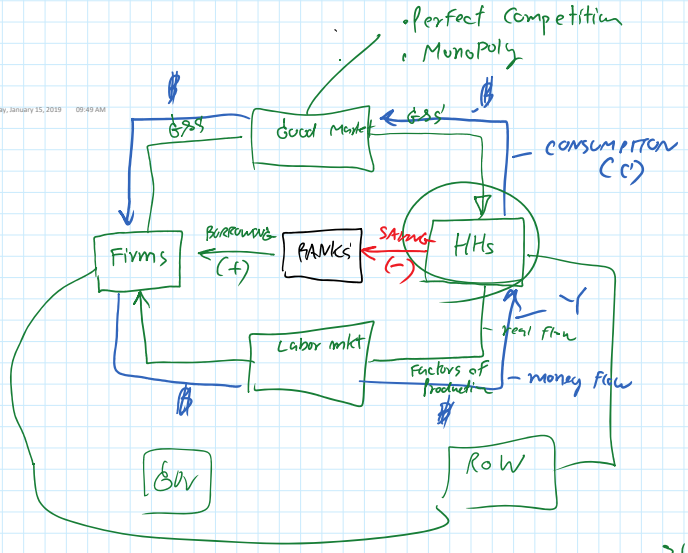
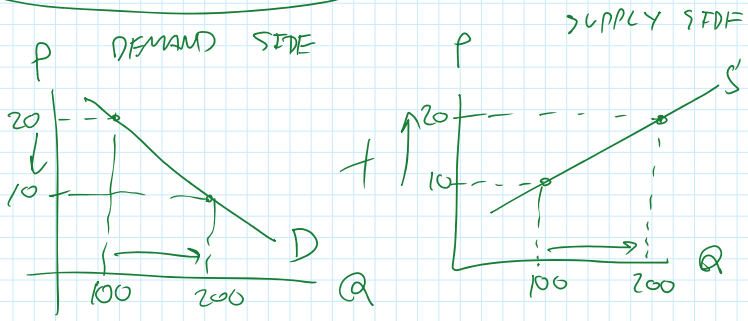
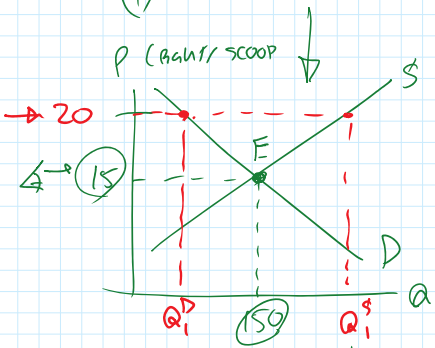
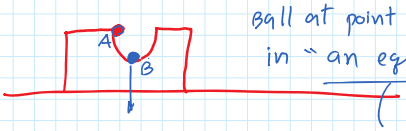




① ②



Equilibrium



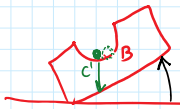
Ball at point B is in "an equilibrium"

a state or condition that would continue forever as long as no outside factors upset this equilibrium.

$Q^D = Q^S$ — quantity supplied

quantity demanded ⇒ quantity supply

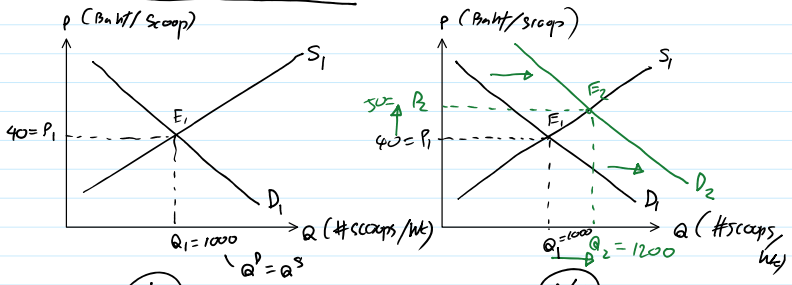
quantity demanded ⇒ quantity supply



⇒
- Ball at B is no longer in an equilibrium
- Ball at C is now in an equilibrium.

Tools (continued)

Before-and-After Analysis



B/F

P_1 = 40 baht/scoop

Q_1 = 1000 scoops/wk

A/F

P_2 = 50 baht/scoop

Q_2 = 1200 scoops/wk

Effect on P: P ⇧

Effect on Q: Q ⇧

- Constrained Optimization

For consumers

Objective: Maximize Utility/Satisfaction

Constraint: Budget Constraint

Utility Maximization Problem

For Producers

objective: Maximize Profit (π = Revenue − cost)

constraint: Firm's Resources

Profit maximization Problem

Production Activity

Minimize Total cost of production

constraint → amount of output required.

Cost Minimization Problem

- Scarcity → Choice → Opportunity Cost

Scarcity: arises when unlimited wants meet w/ limited resources

ex: • time
• money
• physical capability

Choice: must be made

Opportunity Cost: every decision/choice involve w/ opportunity cost

↓

EVERYTHING ONE MUST GIVE UP TO DO AN ACTIVITY

Ex: opp. costs of studying at B.E for 4 yrs are ...

①	TUITION FEE	$80,000 \times 8$	$= 640,000$ Baht	Explicit Costs
②	ALLOWANCE	$10,000 \times 48$	$= 480,000$ Baht	
③	ACCOMODATION FEE	$10,000 \times 48$	$= 480,000$ Baht	
			$1,600,000$ Baht	

④ FORGONE SALARY/INCOME YOU COULD HAVE EARNED IF YOU WORK INSTEAD

$10,000 \times 48 = 480,000$ Baht → Implicit Costs (hidden costs)

Opportunity cost = EXPLICIT costs + IMPLICIT COSTS

① + ② + ③ ④

$= 1,600,000$ $480,000$

$= 2,080,000$ baht !!!

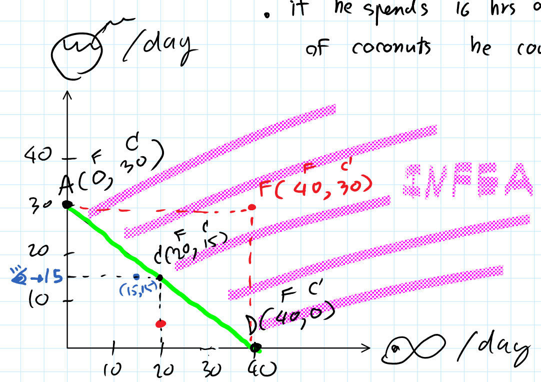
- IF EXPECTED Benefit (B) > costs (C), let's do the activity.
- IF B < C, let's don't do it.

Production Possibility Curve (PPC)

shows us various combinations of production choices one could obtain given his/her available resources.

Ex:

- Mr. Hank has 24 − 8 = 16 working hours / day.
- Two production activities: catching fishes / gathering coconuts
- Suppose
  - if he spends all 16 working hr on catching fishes, the maximum amount of fishes he could obtain = 40 fishes/day.
  - if he spends 16 hrs on the trees, max amount of coconuts he could gather = 30 units/day.



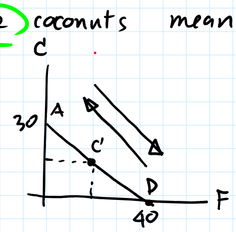
Fact#1 Line AD is so called "Production Possibility Curve" (PPC)

A, C, D are examples of his production choices or his production baskets

Fact#2

- Choices "outside" the PPC "infeasble" to produce!
- Choices "on" the PPC are feasible and efficient.
- Choices "inside" the PPC are feasible but inefficiant. (why?)

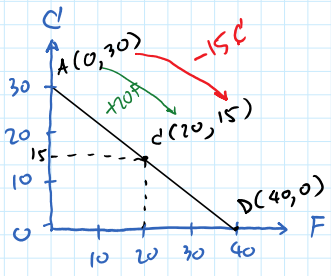
Fact#3 More Fishes mean less coconuts; More coconuts mean less Fishes } TRADE-OFF



Let's compute the slope of the PPC...

$$\text{Slope} = -\frac{30}{40} = -\frac{3}{4} \text{ or } -0.75$$

slope of PPC tells us about opportunity cost of having an additional unit of Fish measured in term of how many coconut(s) forgone.



To get 20F, he must give up 15C

IF, he must give up $\frac{-15}{+20} = -\frac{3}{4}$ COCONUT