

INTRODUCTION TO
MACROECONOMICS

INTRODUCTION

Lecture 1

ECONOMY -

OIKONOMOS (GREEK WORD)

**ONE WHO MANAGES A
HOUSEHOLD**

**ECONOMY - THE STUDY OF HOW SOCIETY
MANAGES ITS SCARCE RESOURCES**

SCARCITY - THE LIMITED NATURE OF SOCIETY'S RESOURCES

**OVERVIEW OF WHAT
ECONOMICS IS ALL
ABOUT**

HOW PEOPLE MAKE DECISIONS

PEOPLE FACE TRADE-OFFS



**EFFICIENCY - THE PROPERTY OF SOCIETY
GETTING THE MOST IT CAN FROM ITS
SCARCE RESOURCES**

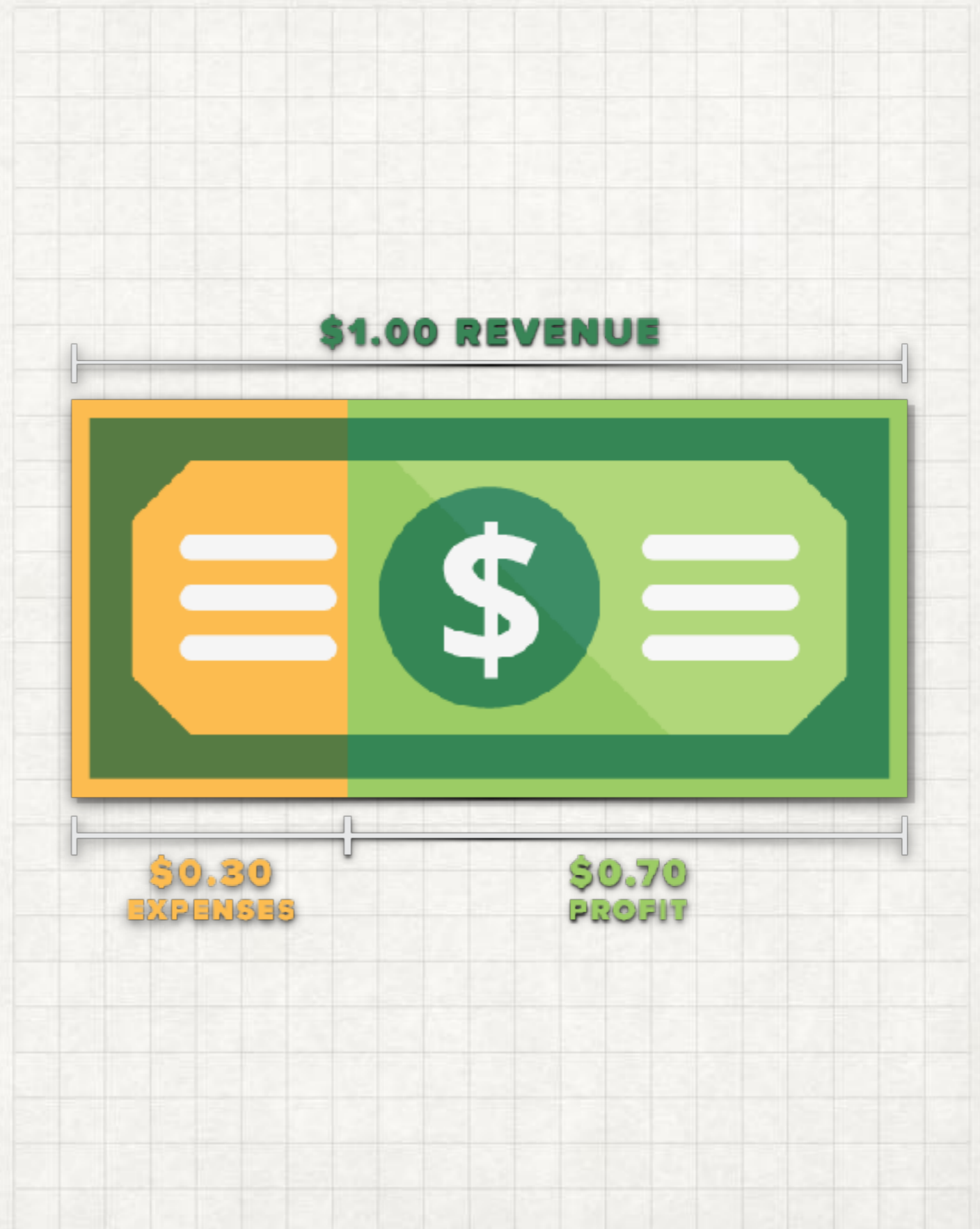
**EQUALITY - THE PROPERTY OF DISTRIBUTING ECONOMIC
PROSPERITY UNIFORMLY AMONG THE MEMBERS OF SOCIETY**

THE COST OF
SOMETHING IS
WHAT YOU GIVE
UP TO GET IT



**OPPORTUNITY COST - WHATEVER MUST BE
GIVEN UP TO OBTAIN SOME ITEM**

RATIONAL
PEOPLE
THINK AT THE
MARGIN



**RATIONAL PEOPLE - PEOPLE WHO
SYSTEMATICALLY AND PURPOSEFULLY DO THE
BEST THEY CAN TO ACHIEVE THEIR OBJECTIVES**

**MARGINAL CHANGE - A SMALL
INCREMENTAL ADJUSTMENT TO A PLAN
OF ACTION**

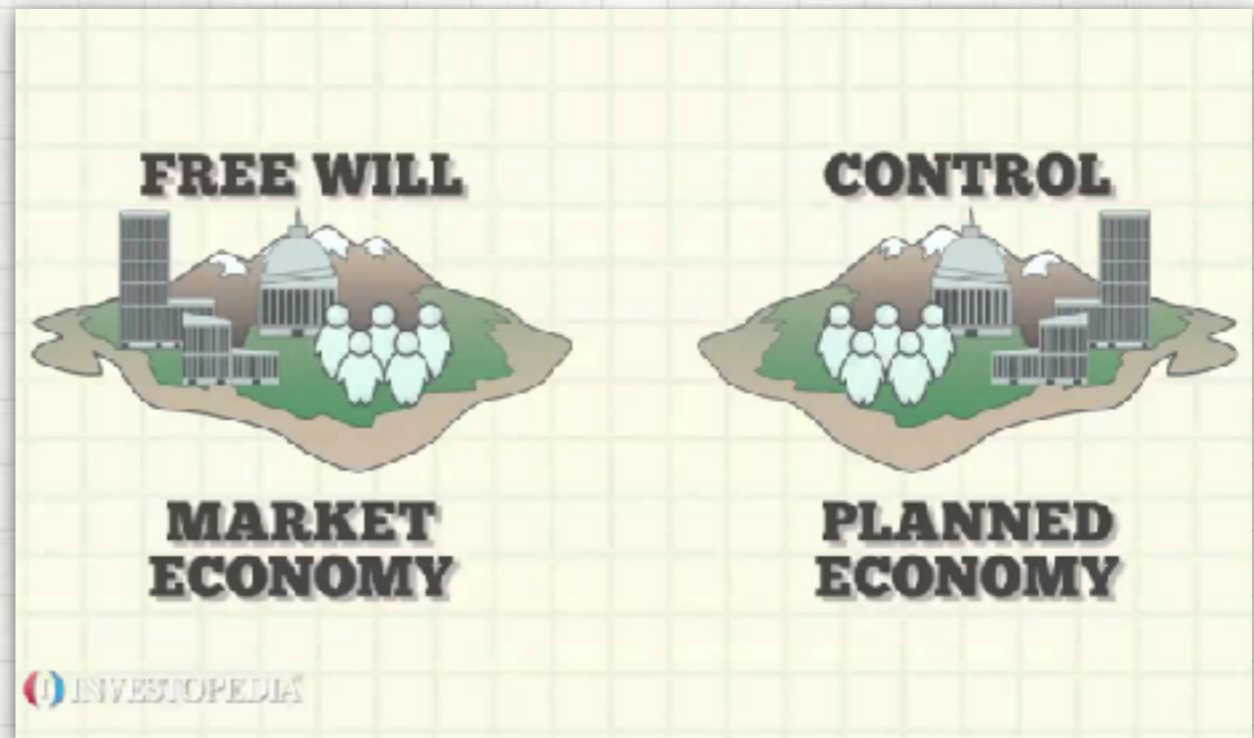
PEOPLE RESPOND TO INCENTIVES



**TRADE CAN
MAKE
EVERYONE
BETTER OFF**



MARKETS ARE
USUALLY A GOOD
WAY TO ORGANIZE
ECONOMIC
ACTIVITY

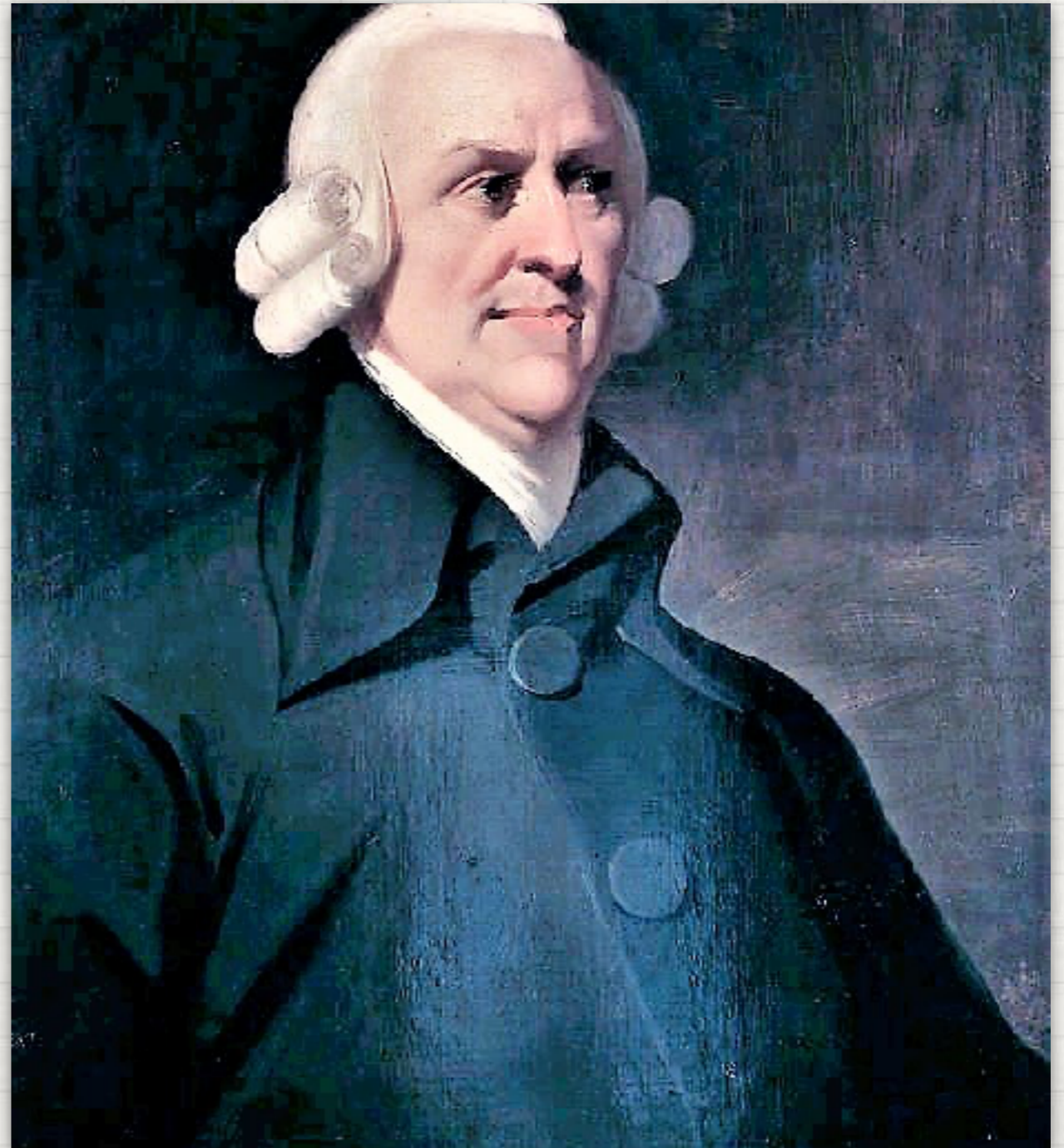


MARKET ECONOMY - AN ECONOMY
THAT ALLOCATES RESOURCES THROUGH
THE DECENTRALIZED DECISIONS
OF MANY FIRMS AND HOUSEHOLDS AS
THEY INTERACT IN MARKETS FOR
GOODS AND SERVICES

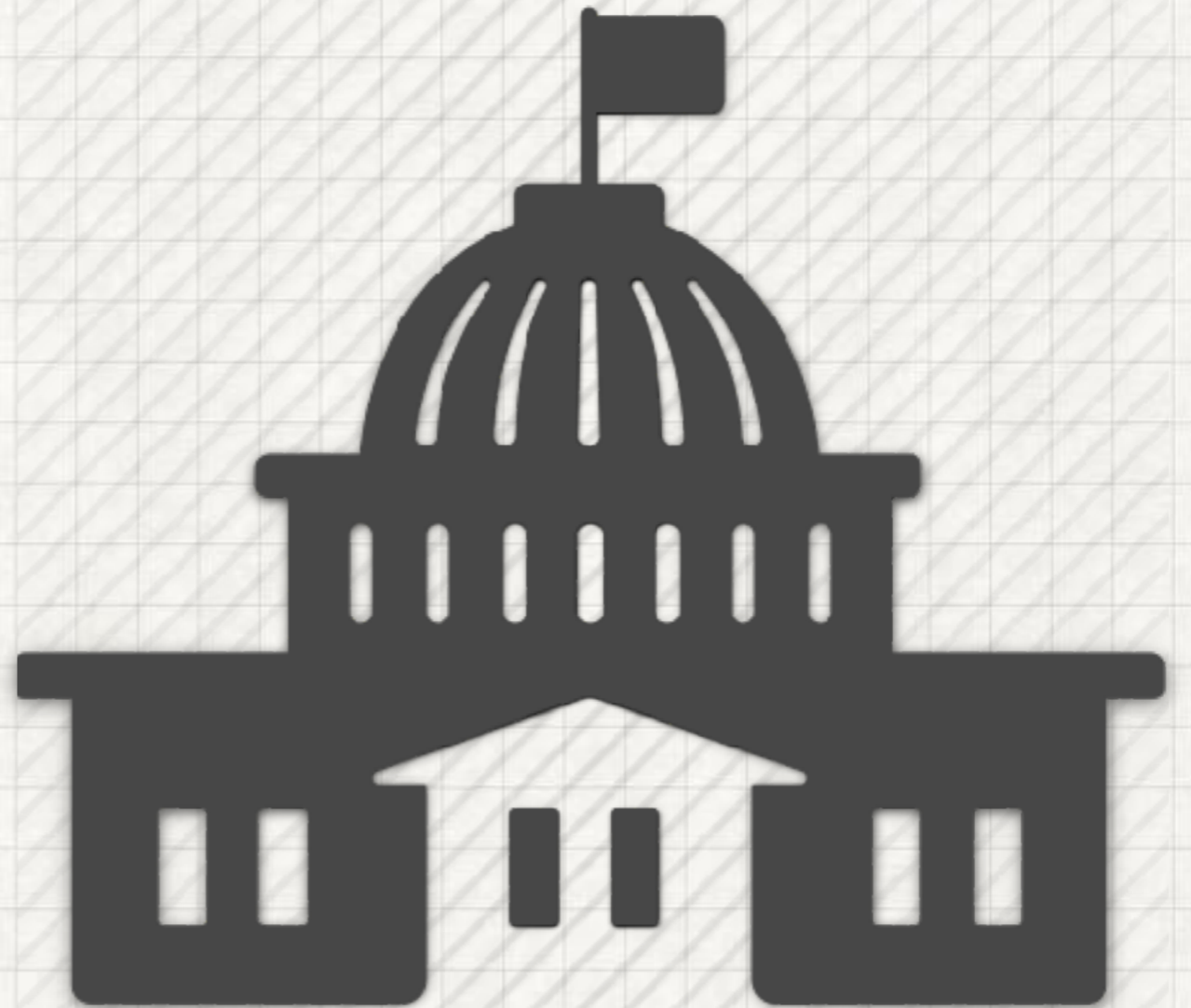
ADAM SMITH AND THE INVISIBLE HAND

- Invisible hand is a metaphor for how, in a **free market economy**, self-interested individuals operate through a system of mutual interdependence to promote the general benefit of society at large.

Source: [investopedia.com](https://www.investopedia.com)



**GOVERNMENTS
CAN SOMETIMES
IMPROVE
MARKET
OUTCOMES**



PROPERTY RIGHTS - THE ABILITY OF AN INDIVIDUAL TO OWN AND EXERCISE CONTROL OVER SCARCE RESOURCES

MARKET FAILURE - A SITUATION IN WHICH A MARKET LEFT ON ITS OWN FAILS TO ALLOCATE RESOURCES EFFICIENTLY

EXTERNALITY - THE IMPACT OF ONE PERSON'S ACTIONS ON THE WELL-BEING OF A BYSTANDER

MARKET POWER - THE ABILITY OF A SINGLE ECONOMIC ACTOR (OR SMALL GROUP OF ACTORS) TO HAVE A SUBSTANTIAL INFLUENCE ON MARKET PRICES

**HOW THE ECONOMY
AS A WHOLE WORKS**

A COUNTRY'S
STANDARD OF
LIVING DEPENDS
ON ITS ABILITY TO
PRODUCE GOODS
AND SERVICES



Productivity - the quantity of goods and services produced from each unit of labor input

PRICES RISE
WHEN THE
GOVERNMENT
PRINTS TOO
MUCH MONEY



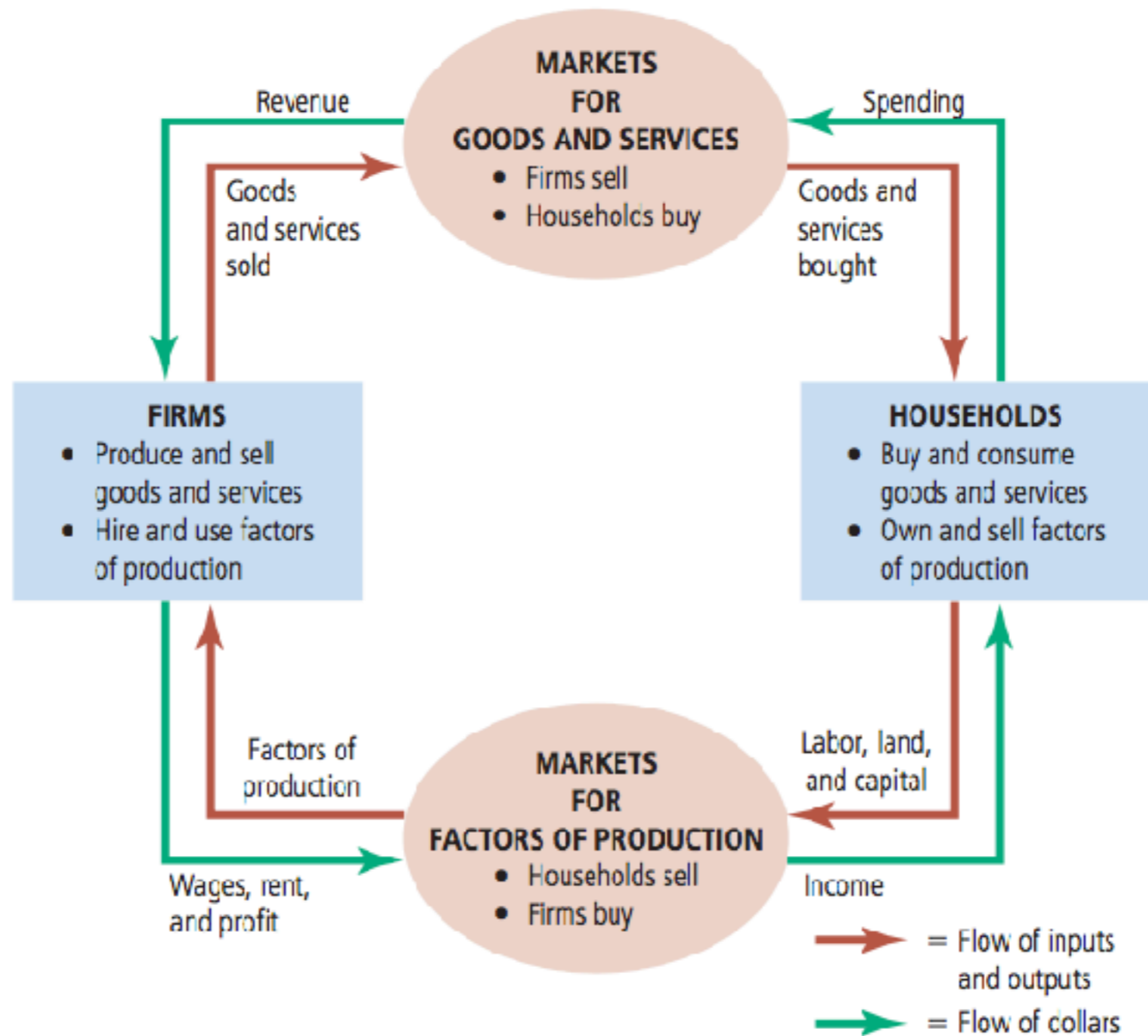
Inflation - an increase in the overall level of prices in the economy

SOCIETY FACES A
SHORT-RUN
TRADE-OFF
BETWEEN
INFLATION AND
UNEMPLOYMENT

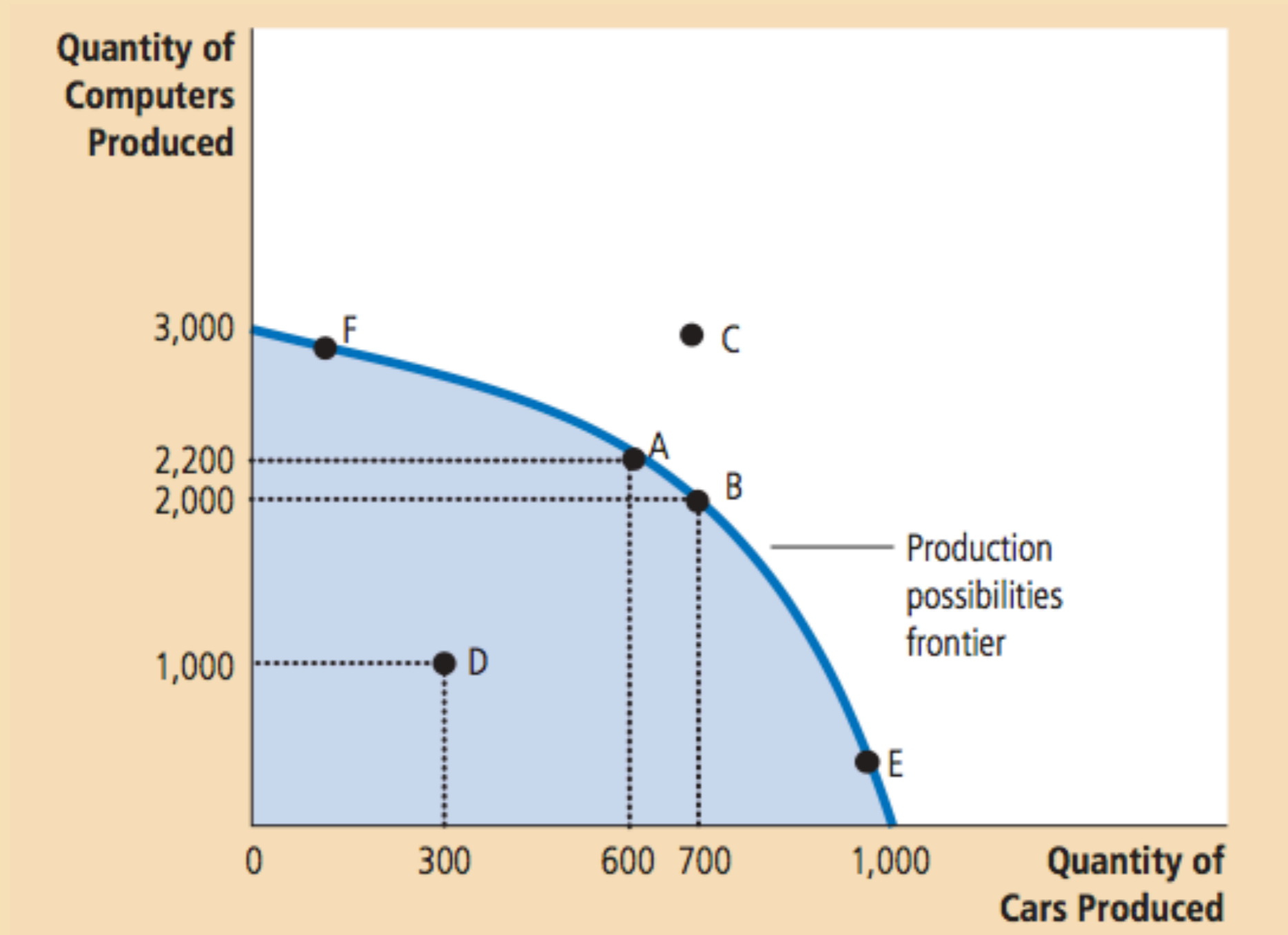


Business cycle - fluctuations in economic activity, such as employment and production

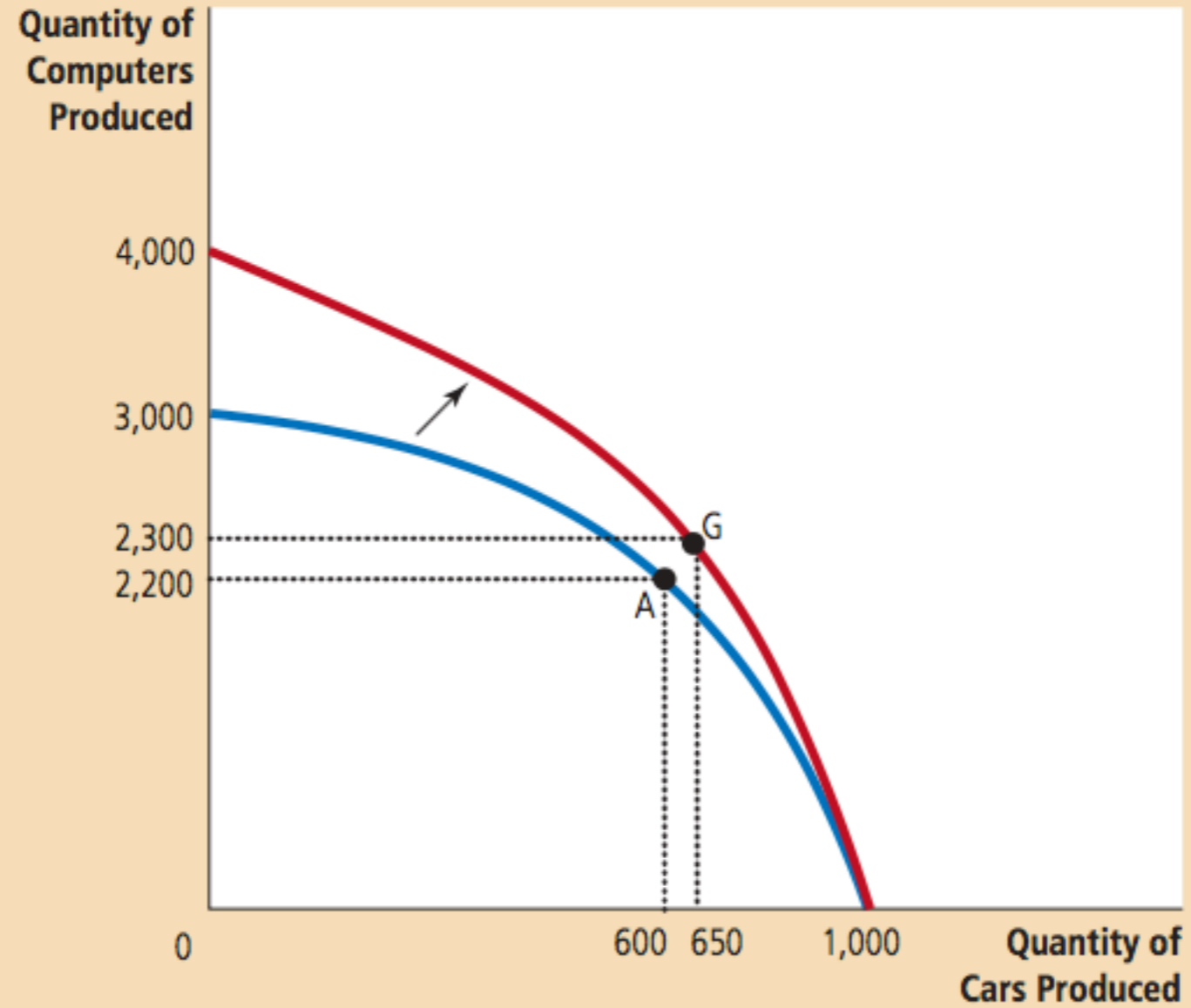
CIRCULAR FLOW DIAGRAM



THE PRODUCTION POSSIBILITIES FRONTIER



THE PRODUCTION POSSIBILITIES FRONTIER



MICROECONOMICS

MACROECONOMICS

POSITIVE VS NORMATIVE STATEMENTS

MINIMUM-WAGE LAWS CAUSE UNEMPLOYMENT

Abbas

THE GOVERNMENT SHOULD RAISE THE MINIMUM WAGE

Musa

**ABSOLUTE
ADVANTAGE**

**OPPORTUNITY
COST**

COMPARATIVE ADVANTAGE

IMPORT

EXPORT

END OF LECTURE