

"Introduction to Microeconomics"

Reynolds

I. Major issue is the prevalence of "scarcity." Scarcity results in the need to make choices.

- A. Concept of **opportunity cost**
- B. Social and individual techniques to deal with relative scarcity
 1. **Technology** is the knowledge about how humans interact with the natural and built environments to obtain the material requisites of life.
 2. **Social institutions** are the result of social interaction to collectively achieve objectives that cannot be attained by a single individual.

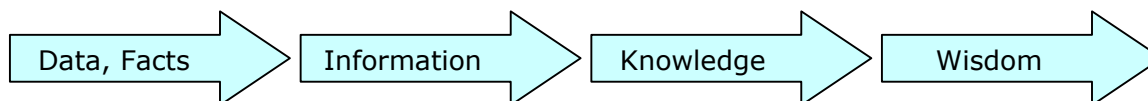
II. Cost Benefit or Benefit/Cost Approach to Decisions

- A. Costs (C_x , or MC) and Benefits (B_x or MB) are associated with "doing the activity" or the act or choice.
- B. Know the relationship of Totals, averages and marginals
- C. Know the concept of "**Reservation Price**"

- 1. **Reservation price of buyers** (RPB) is the maximum buyers are willing and able to pay for each unit of the good.
- 2. **Reservation price of the seller** (RPS) is the minimum the sellers are willing to accept for each unit of the good.

III. Role of Economic Theory

- A. A guide to the interpretation of "Facts"



- B. Friedman, Theory and Prediction

C. Objectives of "Science"

1. Prediction
2. Explanation
3. "Story Telling"

D. Methods

1. Epistemology
 - a) Popper
 - b) Kuhn
 - c) Lakatos
 - d) Feyerabend
2. McCloskey's "*Rhetoric of Economics*"
 - a) Rhetoric as literary criticism and economics
 - (1) Facts
 - (2) Logic
 - (3) Metaphor
 - (4) Story

IV. Pitfalls in Decision making

- A. Ignore implicit costs
- B. Ignore implicit benefits
- C. Inclusion of sunk costs
- D. To who do the benefits and costs accrue?
- E. Fallacy of composition
- F. *Post hoc ergo propter hoc* and the problem of "causality"

V. "Invisible Hand" and the Big Question

- A. The use and abuse of Adam Smith
- B. What is the structure and matrix of social institutions that will protect the autonomy of the individual and provide for the commonweal?**
- C. External costs and external benefits

D. Rationality

1. objective must be known
2. identify feasible alternatives
3. evaluate all feasible alternatives with respect to (wrt) the objective

E. "Self interest standard of rationality" – "*rational persons assign significant weight only to those costs and benefits that accrue directly to themselves.*"

F. "Present-aim standard of rationality" – "*persons act efficiently in the pursuit of whatever aims or objectives they happen to hold at the moment of action.*"

G. Smith – Ethics, markets and law – another approach

1. Individuals are constrained and their choices are shaped by more than "economic self interest."
2. Ethics and human behavior
 - a) Deontological ethics
 - b) Consequentialist ethics – Utilitarianism

VI. Marginal Analysis

A. Marginal values are used in decision making (averages and totals can get you into trouble)

B. Marginal cost (MC) is the costs that are associated with a particular act or choice.

C. Marginal Benefit (MB) is the benefits that are associated with a particular act or choice.

D. Marginal utility (MU), marginal product (MP), marginal revenue (MR), marginal value product (VMP or MRP) are other marginals you will have to know.

E. "Marginal" refers to:

1. rate of change
2. the change in a dependent variable caused by a change in an independent variable

3. When $Y = f(X)$, marginal is the slope of the line $\left(\frac{\Delta Y}{\Delta X}\right)$

4. the marginal is the first derivative of a function

F. the general rule for optimization:

MB > MC do it!

MB = MC that is the optimum

MB < MC don't do it!

VII. Positive and Normative issues

A. Positive analysis is generally defined as a "description of what is."

B. Normative analysis is defined as a "judgment of what ought to be."

C. Economists often convince themselves that they can "do" positive economics without dealing with normative issues.

1. Warren Samuels argues that the fundamental aspect of economic behavior and the economy is that it is a "process of valuation."

(Samuels, *The Economy as a Process of Valuation*, Elgar, 1997)

2. "To behave and to choose and to choose is to engage in valuation and thereby participate in the social, or socioeconomic process."

(ibid, p ix)

VIII. Micro and Macro

A. Macro deals with aggregates and is concerned with the structure and performance of an economic system

B. Micro deals with the interactions among individuals with in the built and natural environment.