Introduction to Economics 1.Economic models are abstractions that use logic to establish cause-and-effect relationships among economic variables.The phrase other things being equal, or its Latin equivalent, ceteris paribus, is used to acknowledge that influences other than the one whose effect is being analyzed must be controlled for testing the hypothesis.Positive Analysis versus Normative Analysis Positive analysis seeks to predict the impact of changes in economic policy on observable items such as production and income, then tries to determine who gains and who loses as a result of the changes.Microeconomics analyzes the ways individuals choose among various courses of action by weighing the benefits and costs of alternatives available to them.Economics is the study of how human beings make choices to use scarce resources as they seek to satisfy their seemingly unlimited wants.Two Basic Concepts 2.MICROECONOMICS Analyzes choices made by individual participants in an economy, with special emphasis on how prices are determined and how prices influence decisions.MACROECONOMICS Analyzes the overall performance of an economy--its total production, price level, rate of inflation, employment, unemployment, and rate of growth.Normative analysis evaluates the desirability of alternative outcomes according to value judgments about what is good or bad.A theory is a framework that helps us understand the relationships between cause and effect.Behavioral assumptions establish the motivations of individuals so we can understand cause-and-effect relationships among economic variables.The Economic Way of reasoning: Models and Marginal analysis The Economy ?.The unemployment rate is the number of jobless workers who are actively looking for work or who have been laid off from a job and are looking for work, expressed as a percentage of the total labor force.An economic model is a simplified way of expressing how some sector of the economy functions.The economy is the mechanism through which resource use is organized to satisfy the desires of people living together in a society.Macroeconomists seek to explain the causes of economic fluctuations and to suggest policies that will make the fluctuations less abrupt.The wants we seek to satisfy are seemingly unlimited.Two Basic Concepts 1.SCARCITY The imbalance between our desires and the means of satisfying those desires.Inflation is a general yearly increase in the average level of prices for a broad spectrum of goods and services.Economic variables are quantities or Economic variables are quantities or dollar amounts that can have more than one value.An economic model is a means of explaining how a sector of the economy functions.Scarcity and Opportunity cost and the Basic tasks of an Economy 2.Microeconomics versus Macroeconomics.Positive analysis versus Normative analysis 3.The economic resources are all in some way limited.In any economy, decisions must be made to determine: 1.HOWit will be produced 3.TO WHOM People with higher incomes will enjoy more and better products and services than people with lower incomes.Two Main Branches of Economics ?.Two Main Branches of Economics ?Economic Models ?Models consist of: 1.Economic variables 2.OPPORTUNITY COST The sacrifice of the next best alternative use of resources when those resources are used for a specific purpose.Economic Decisions ?WHAT will be produced 2.TO WHOM it will it be distributedEconomic Decisions 1.WHAT Choices must be made about which goods and services to make available and which to forgo 2.HOW There's more than one way to accomplish any given objective 3.Microeconomics is sometimes called price theory.Assumptions 2.Assumptions 3.Implications.The distribution of material well-being is never perfectly equal.??Marginal