

Basic Principles I:

The Big Ideas

BECO-3310 Fall 2025

Create an image that is the graphic representation of economics

Image created





What is economics?

- The study of individual choice and human action.
 - How do individuals make decisions to cope with scarcity?
 - How do individuals respond to incentives?

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- The study of individual choice and human action.
 - How do individuals make decisions to cope with scarcity?
 - How do individuals respond to incentives?

Basically, Economics deals with Scarcity!

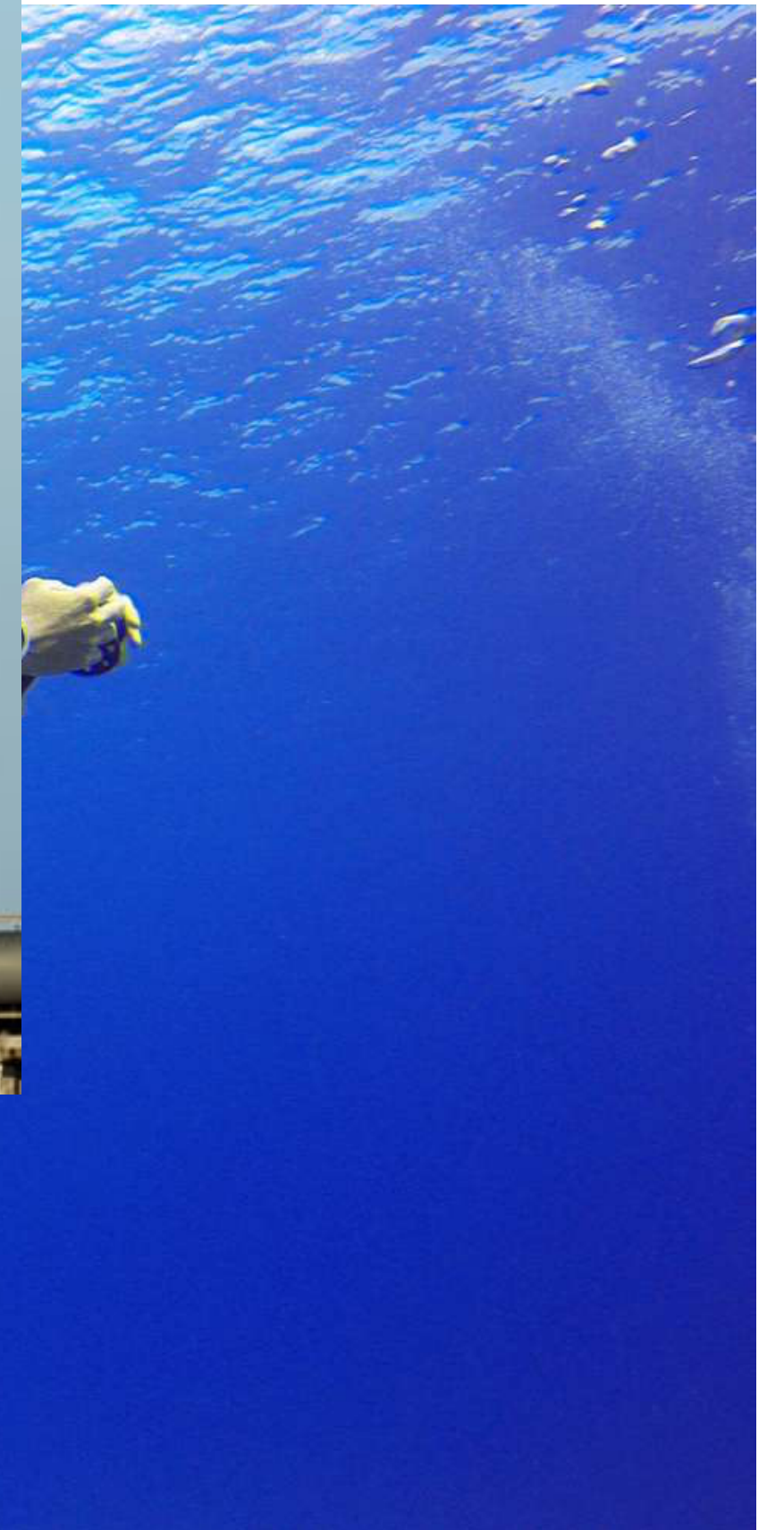


Scarcity

- Resources are limited, so people cannot satisfy all of their wants and needs.
- Scarcity is NOT poverty.
- ALL resources are scarce.







More examples?

Scarcity

- Resources are limited, so people cannot satisfy all of their wants and needs.
- Scarcity is NOT poverty.
- ALL resources are scarce.
 - Scarcity forces us to make choices.

Individual choice

Basic Assumptions

Individual choice/action

- Individuals are *rational*
- Individuals are *self-interested*.
- Individuals make choices *at the margin*.

1. Rational Behavior

- Individuals behave in a manner, using all available information, that is consistent with maximizing their objective.
 - Systemic and predictable.
- Individuals respond to the costs and benefits of their actions.
 - When these change, actions change.

2. Self-interest

- Individual's desired ends are subjective.
 - They do things that interest them.
- Their actions are taken to achieve those desired ends
- The *Invisible Hand* of the marketplace guides the self-interest of individuals into social well-being.

3. Marginal Choice

- The process of making choices in increments.
- Looking at the benefits and costs of doing a little bit more, or less, of an activity.
 - Should I produce one more unit of output?
 - Should I study one more hour for the exam?
 - Should I get one more



Opportunity Costs

Opportunity Costs

- Most powerful concept in economics.
- The value of the *next best alternative* forgone from making a choice.
 - What you give up in order to obtain something else.

Opportunity Costs

- NOT just monetary costs!
 - Monetary costs are just one component of costs.
 - Costs are subjective (time, pleasure, “psychic value”)
 - NOTHING is really free.

FREE HOUSE!

(Valued in \$500,000)



A modern, two-story house with a dark roof and light-colored siding is shown at dusk. The house has a large garage and a front porch. The sky is a mix of blue and orange, suggesting sunset. A colorful hot air balloon with yellow, orange, and red segments is visible in the upper right corner of the image. The house is surrounded by a well-maintained lawn and some landscaping.

FREE HOUSE!

(Valued in \$500,000)

What can you
do with 500k?

**Opportunity cost of coming to
class?**

“Tradeoffs are everywhere!”

-Me

Tradeoffs

- Tradeoffs exist because of scarcity.
- Choice involve sacrifice —> doing less of something else.
 - Studying for an exam, less time watching Netflix.
 - Spending money on food, less money for V-Bucks.

Big examples

- FDA Safety regulations - Keep new medications from reaching the market.
 - Different levels of regulation lead to different results.
- Covid Lockdowns
 - Less deaths from covid, but lead to more depression, addiction, domestic abuse, less access to routine medical screenings.

Incentives

- Rewards and penalties that motivate behavior.
 - If the benefit of doing something increases, people will do more of it.
 - If the cost of doing something increases, people will do less of it.
- If the price of a good rises...
 - Consumers will...
 - Producers will...

Incentives

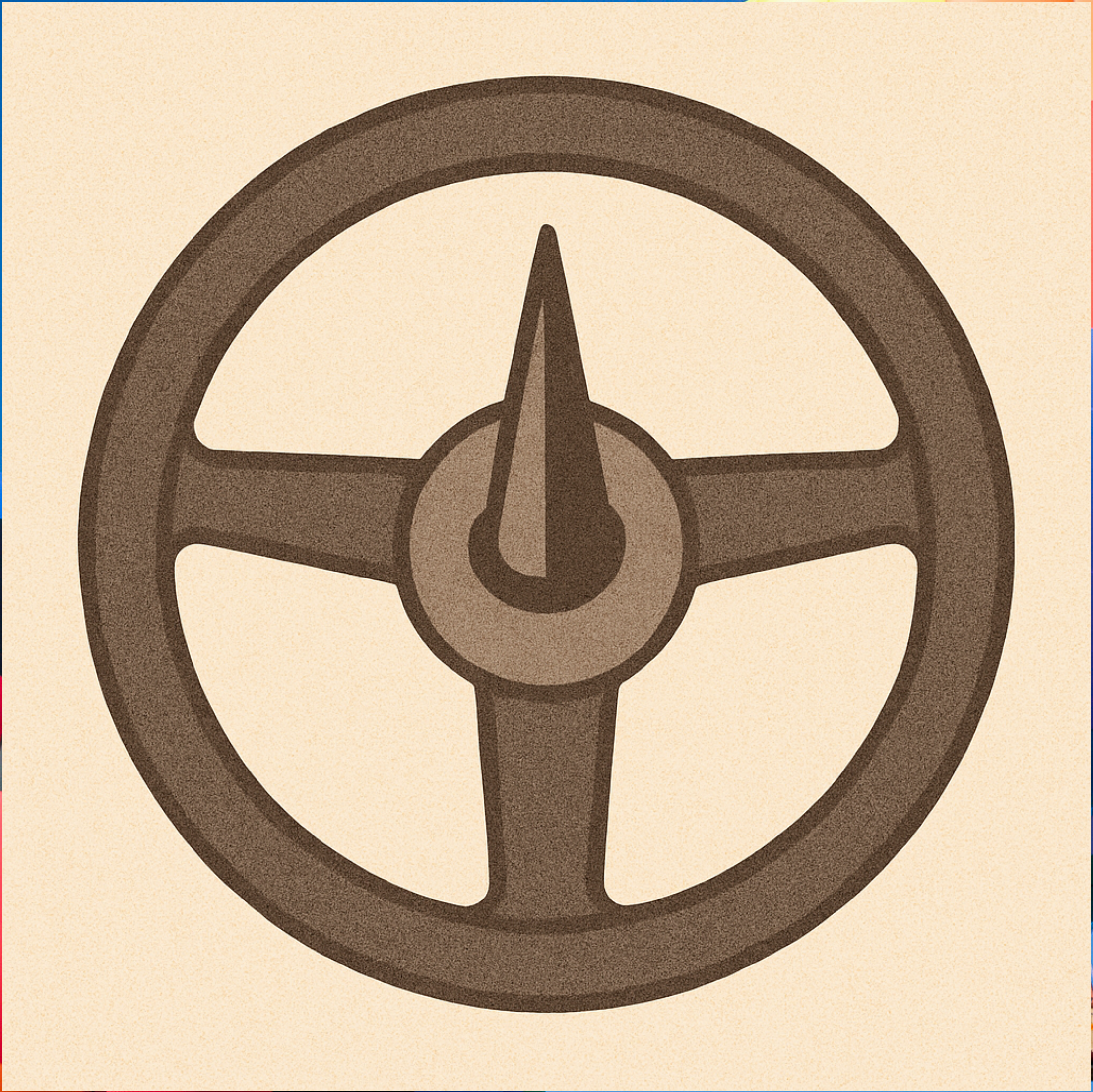
- Rewards and penalties that motivate behavior.
 - If the benefit of doing something increases, people will do more of it.
 - If the cost of doing something increases, people will do less of it.
 - If the price of a good rises...
 - Consumers will want to buy less
 - Producers will want to produce more
- Incentives are not just prices: laws, rules, etc.

**BUCKLE
UP**



**IT'S THE
LAW!**





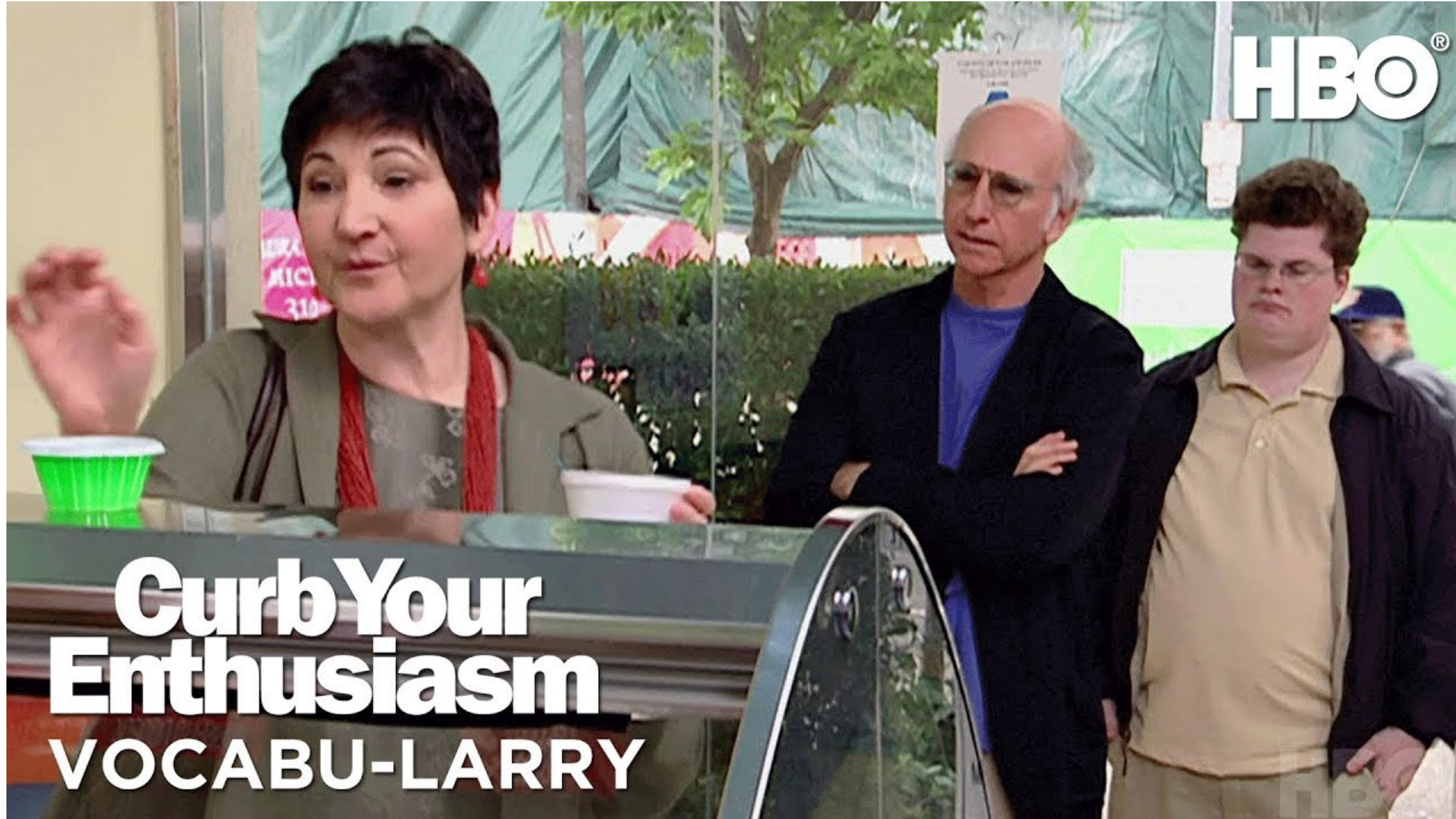
Institutions

Institutions

- “Rules of the Game” of Society
- Humanly Devised Constraints that govern our social interaction
 - Can shape our incentives for better or worse.

Institutions

- Two types of institutions:
 - Formal
 - Explicitly stated or codified (legal codes and regulations)
 - Informal
 - Norms or patterns of behavior (not written)



**Curb Your
Enthusiasm
VOCABU-LARRY**

Institutions

- Property rights
 - The ability of individuals to own and control their own scarce resources.
 - Can be both formal and informal.
- Governments (formal institutions) can sometimes protect property rights
 - Protecting property rights incentivizes productive, profit-seeking behavior that echoes throughout the economy.

Institutions

- Productivity
 - The quantity of goods and services produced from each unit of labor output.
- Higher productivity leads to more wealth and higher standards of living.
 - Both formal and informal institutions can affect productivity.

Government vs Private

- Post Office vs. Fedex?
 - The Post Office is slow, costly, and inefficient.
 - Fedex is fast, cheap, and efficient
 - Markets tend to do a better job of providing goods and services.

What are markets?

- Decentralized institutions through which individuals voluntarily exchange their goods and/or services for other individuals' property or services.
- Private companies tend to be efficient, since they're subject to market forces and better equipped to meet the demands of consumers.
- Businesses want to make money!
 - The only way to do this is by satisfying consumers — improving people's lives!

**End of class.
Thanks for your attention!**