

Chapter 1: The Five Foundations of Economics



Big Questions

- 1. What is economics?
- 2. What are the foundations of economics?

Scarcity

- Economics is the study of how people allocate their _____ to satisfy their _____

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The Scarcity Condition

- Which of these things are _____ ?

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Scarcity is Shortage

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**Unlimited Wants v Limited
Resources in *The Onion***

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Five Foundations of Economics

- 1. Incentives matter
- 2. Life is about trade-offs
- 3. Opportunity costs
- 4. Marginal thinking
- 5. Trade creates value

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Foundation #1: Incentives Matter

- People respond to positive & negative incentives!

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Unintended Consequences

- An unplanned result (usually **negative** and **undesired**) of an incentive.

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Incentives in *The Office*

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Foundation #2: Life is about Tradeoffs

- Scarcity implies
- Every decision incurs a
- To have one thing, you have to give up another

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Trade-offs & Policy

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Foundation #3: Opportunity Cost

- Opportunity Cost: highest-valued alternative that must be _____ to get something else.
- Scarcity → Choice →
- Value of the trade-off is represented by the

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What's wrong with this meme?

Nothing is _____ in life. What about the value of _____ ?

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Foundation #4: Marginal Thinking

- Marginal thinking: is the of of something greater than the

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Life and Death Trade-Offs in *Grey's Anatomy*

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Foundation #5: Trade Creates Value

- Markets
 - Bring buyers and sellers together to goods and services
- Trade
 - The exchange of goods and services between two or more parties

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Trade Creates Value

- **Which of the following statements is correct?**
- A market trade will result in:
 - A) Both persons being better off
 - B) One person better off, the other worse off
 - C) Both persons worse off

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Comparative Advantage in Beer Pong Champ

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Trade & Comparative Advantage

Our economy depends on specialisation!

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Does Trade Create Value?

- Watch this classroom demonstration!

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