

Chapter 1: The Five Foundations of Economics



Big Questions

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

2

Scarcity

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

3

The Scarcity Condition

- Which of these things are ?

4

Scarcity is Shortage

5

Unlimited Wants v Limited
Resources in *The Onion*

6

Five Foundations of Economics

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

7

Foundation #1: Incentives Matter

- People respond to positive & negative incentives!

8

Unintended Consequences

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

9

Incentives in *The Office*

10

Foundation #2: Life is about Tradeoffs

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

11

Trade-offs & Policy

12

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 _____

13

What's wrong with this meme?

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

14

Foundation #4: Marginal Thinking

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

15

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

16

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

17

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

18

Comparative Advantage in Beer Pong Champ

19

Trade & Comparative Advantage

Our economy depends on specialisation!

20

Does Trade Create Value?

- Watch this classroom demonstration!

21
