

Econ 323

Economic History of the U.S.

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Today's Topics

- Economics introduction/refresher

Five Economic Principles

(Text ch. 1)

- People choose and individuals are the source of social outcomes (society is just a collection of individuals)
- Choices impose costs (opportunity costs)
- Incentives matter (people respond to changes in costs)
- The “rules of the game” matter (institutions matter)
- Understanding based on knowledge and evidence imparts value to opinions (use data!)

Economics Review

Scarcity—Lack of resources to satisfy all desired uses of those resources

Individuals and society cannot have all of the goods and services that they want

Scarcity leads to opportunity cost

Economics Review

Every society must decide

What to produce (example: is tobacco or corn grown?)

How to produce (example: is paid labor or slave labor used?)

For whom to produce (example: can factory workers afford more than farm workers?)

Economics Review

Three things to keep in mind

1. How does a Market Economy operate?

- Adam Smith,
 - Profit motive, division of labor, Invisible Hand, competition and discipline

“Every individual...generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it...By directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.”

Adam Smith

The Wealth of Nations, Book IV Chapter II

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2. Why do we put a “price tag” on things?
- How to measure happiness? Use Money as a yardstick
 - willingness to pay AND ability to pay determine market allocation



- Supply and Demand and the gasoline market

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3. Efficiency versus Equality

Size of Pie versus How Pie is Sliced

