¶ 1.1 – 1.2

Scarcity, Choice, and Opportunity Cost

ECON 120 B – Lecture 1 Framework

1. Scarcity & The Economic Lens

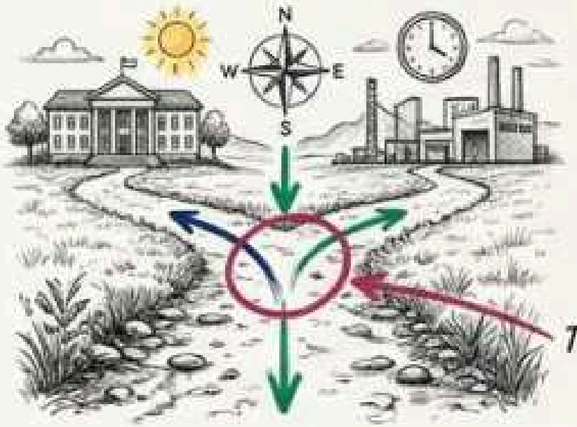
Unlimited wants vs. limited resources.



Finite Resource (Time)



2. Opportunity Cost



Cost is what you give up to get something.

The Trade-off Point: Foregone Best Alternative

3. The Margin & Incentives

Decisions made at the edge (one more unit).



4. The Mechanics of Trade



Specialization and gains from exchange.

¶ 1.3 – 1.4



Scarcity: The inescapable gap between what we want and the resources we have. Even billionaires face a 24-hour limit.

Microeconomics



Examines choices by individuals and businesses

Our Focus

Studies individual parts

Focuses on individual parts (households, workers, firms, markets).

Macroeconomics



Analyzes aggregate phenomena and national performance.

Studies the whole economy

Focuses on the whole economy (inflation, unemployment).

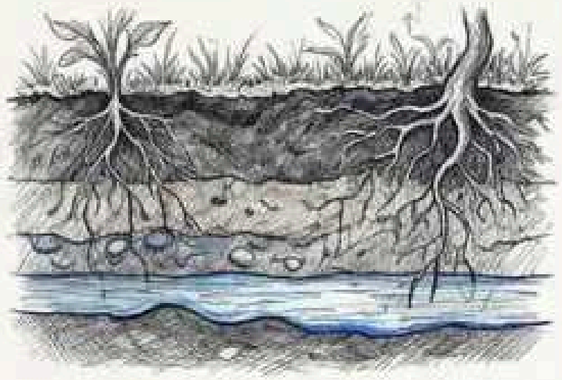
Factors of Production

¶ 1.5

Land (Natural)

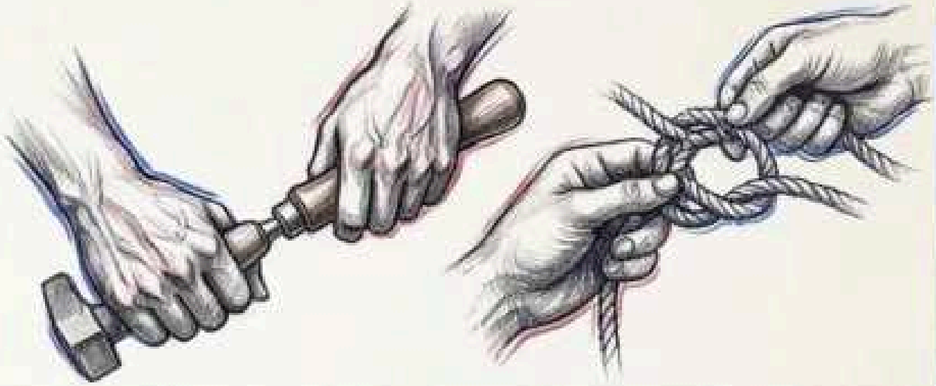
All natural resources.

All natural resources.



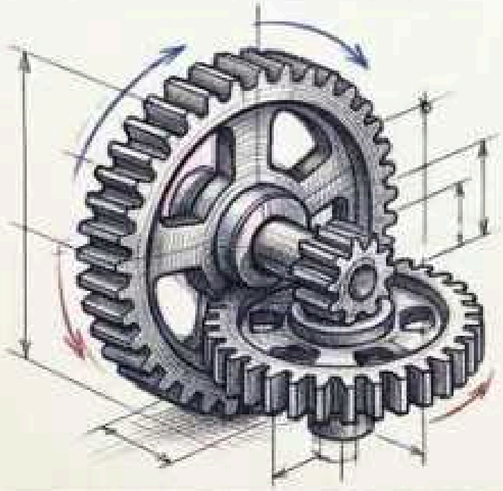
Labour (Human)

Human work and effort.



Capital (Physical)

Tools, machines, and buildings used to make things.



Entrepreneurship (Organizational)

The skill of organizing the other three and taking risk.



¶ 1.6

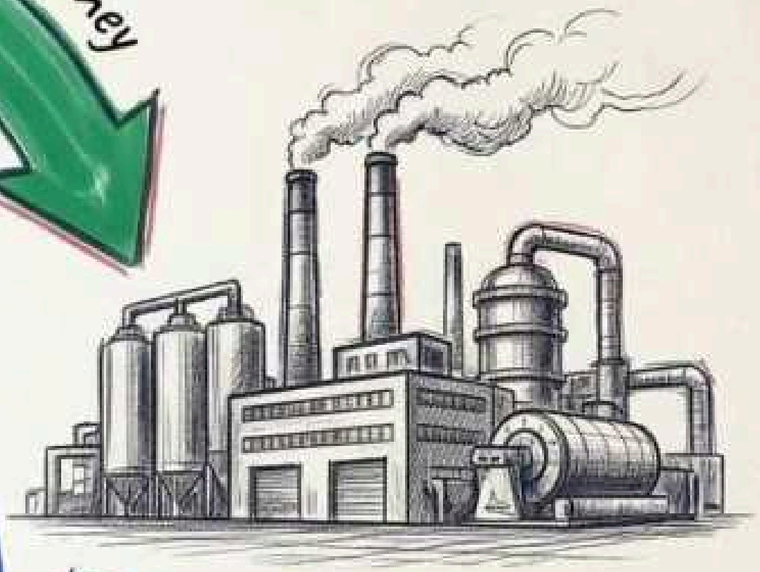
The Flow of Money

Spending on Goods

Goods & Services



Two Markets Linked:
Goods & Factors



Households

Firms

The Flow of Goods & Effort

Factors of Production

Wages, Rent, Profit

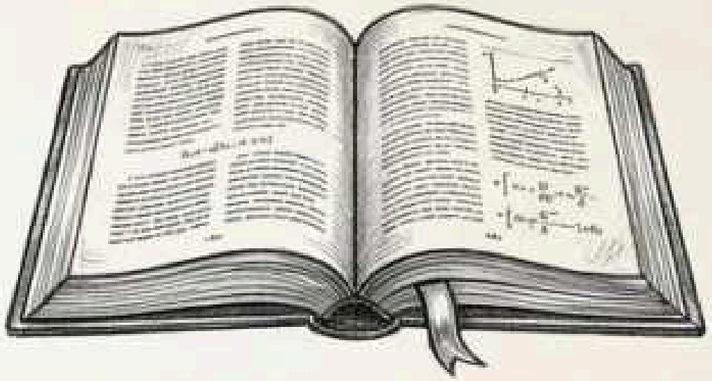
The Flow of Money

Opportunity Cost: The value of the best alternative you give up.

Maya has a free evening.



Option A: Study for Exam



—> *Opportunity Cost: The $60 she didn't earn.*

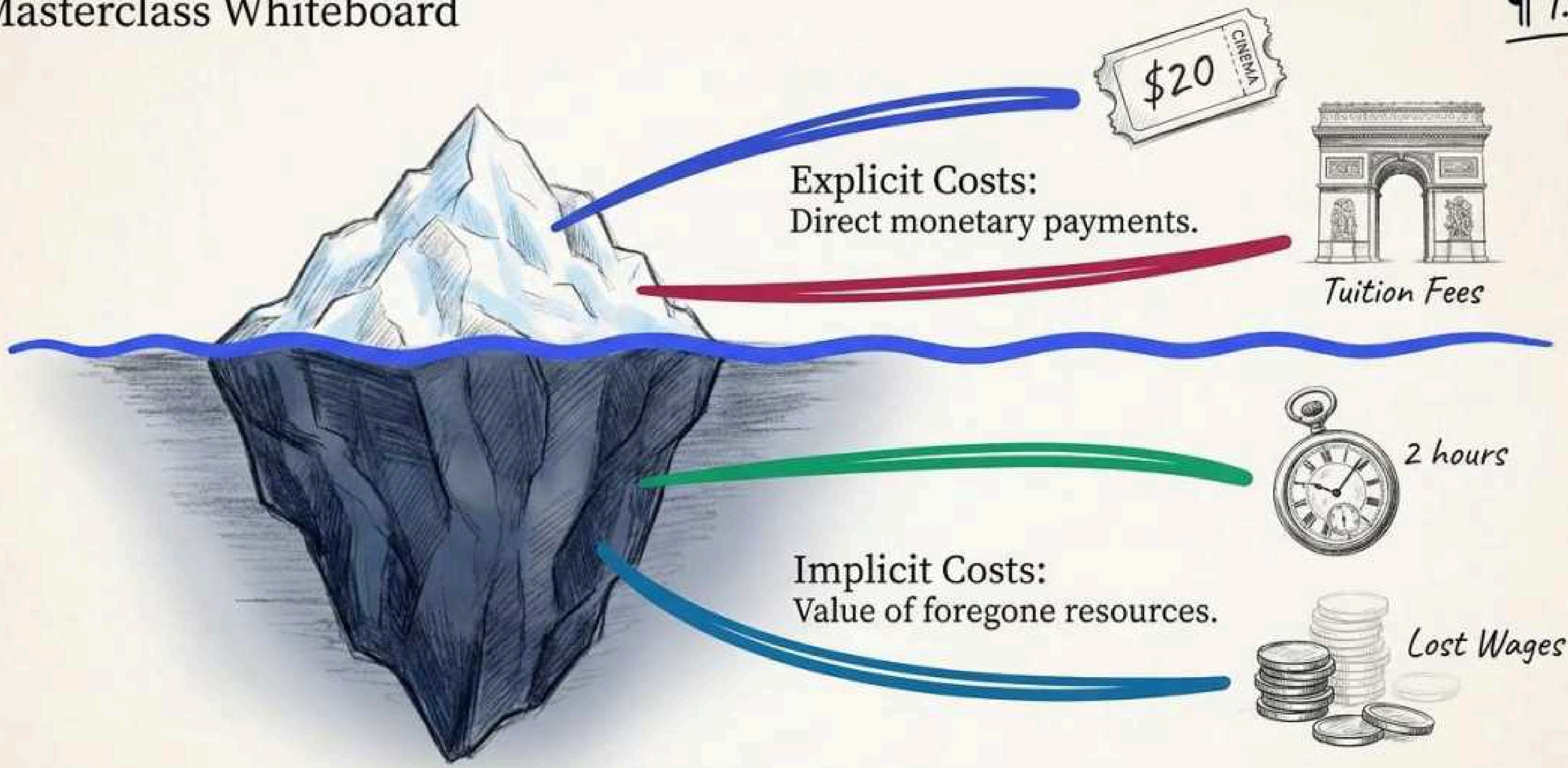
Option B: Work a Shift



—> *Opportunity Cost: The study time and resulting grades.*

Masterclass Whiteboard

¶ 1.8



Full Cost = Explicit Costs + Implicit Costs

The Trap



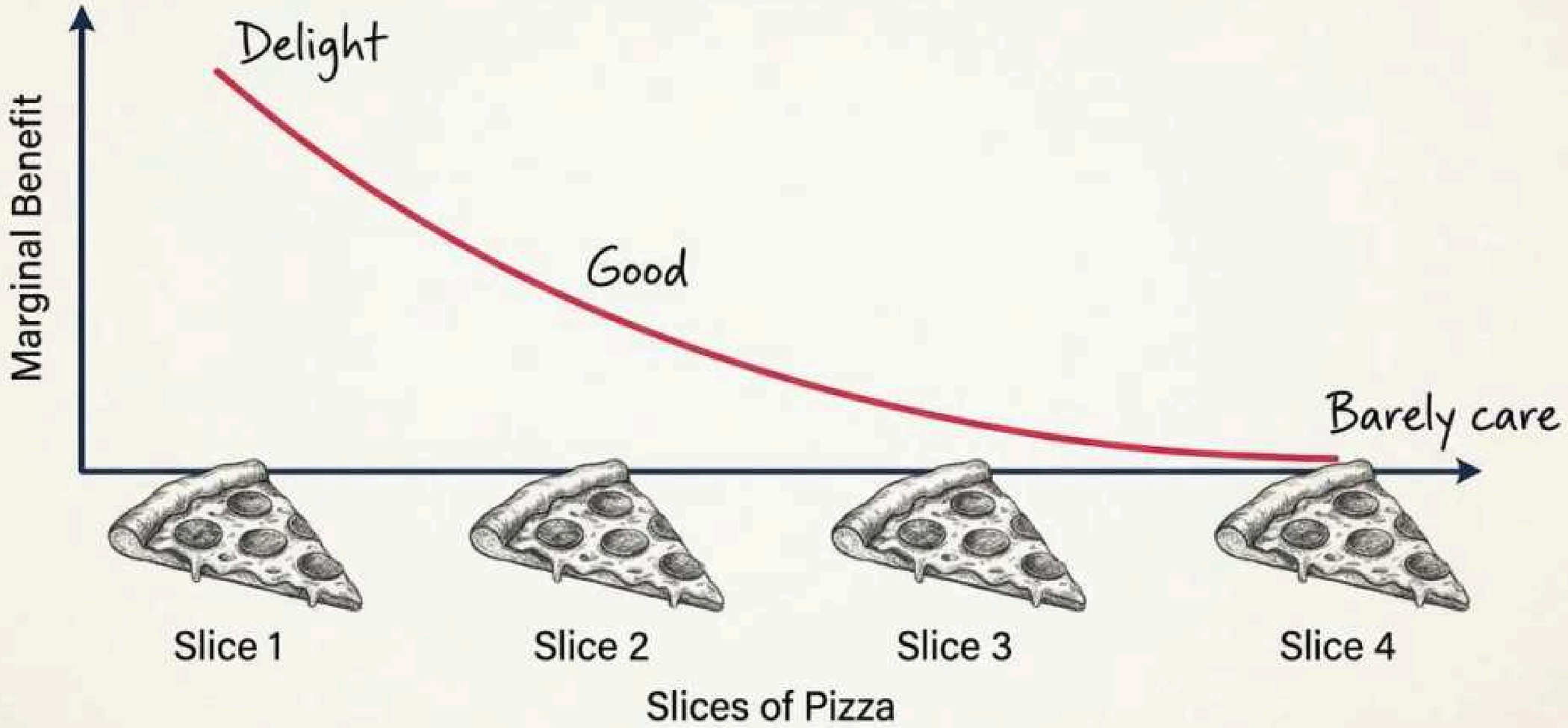
Sunk Costs: Money already spent that cannot be recovered. (The $40 is gone whether you attend or not).

The Solution



Rational decisions look only forward. Weigh only future costs against future benefits.

Thinking at the Margin: Decisions aren't all-or-nothing, but 'a little more vs. a little less.'" **Rule:** Do more if MB > MC.



Diminishing Marginal Benefit: Each extra unit is worth less than the last. Stop when Benefit falls below Cost.

The Architecture of Behavior: Incentives

¶ 1.12







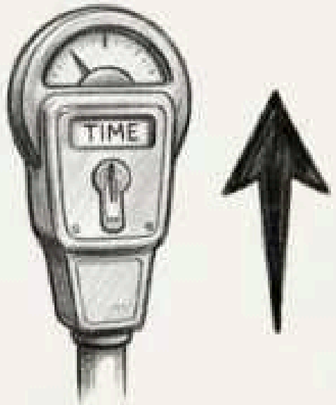
Price rises = Buy less.







Wage rises =
More willing to work.



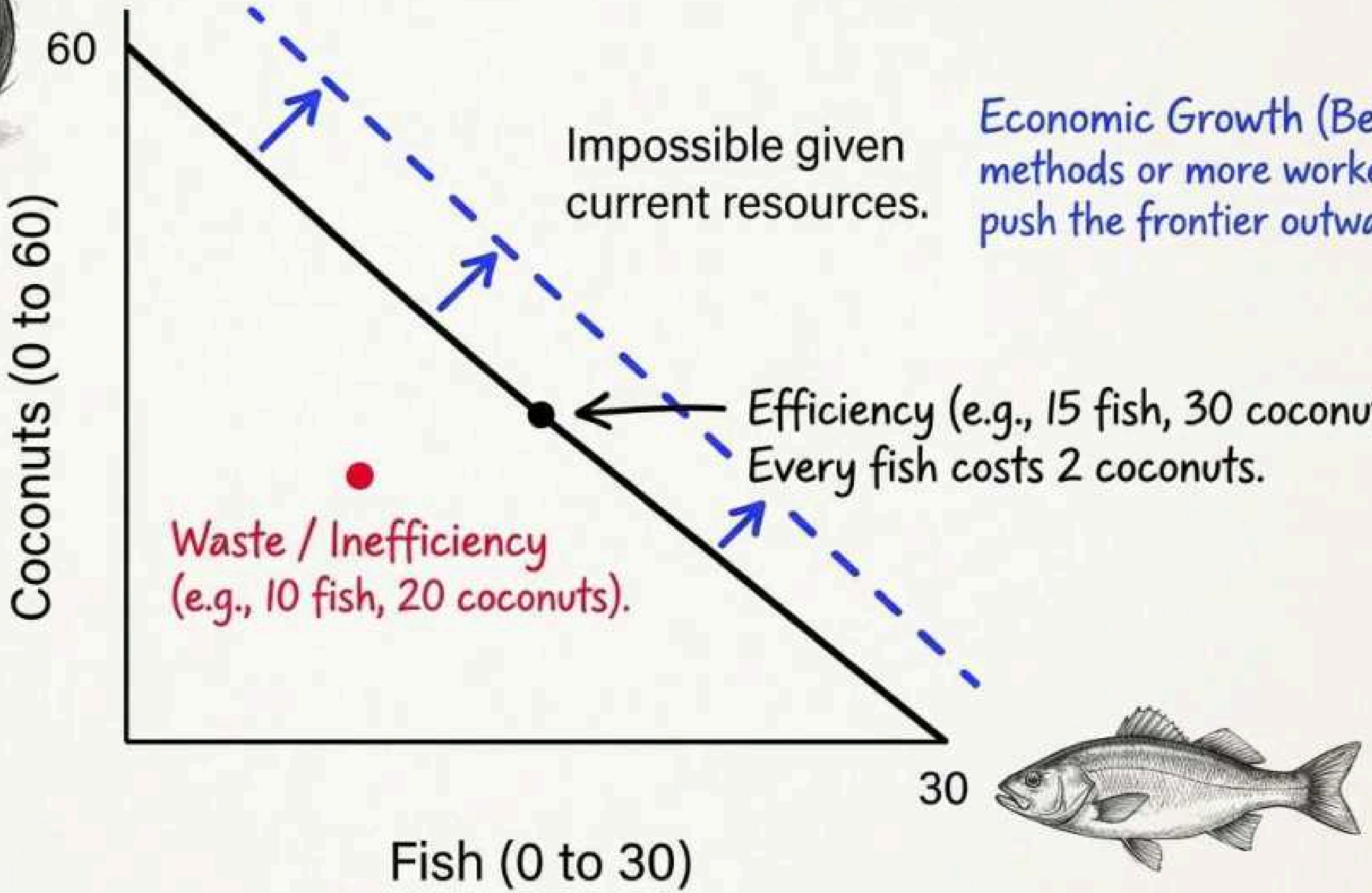




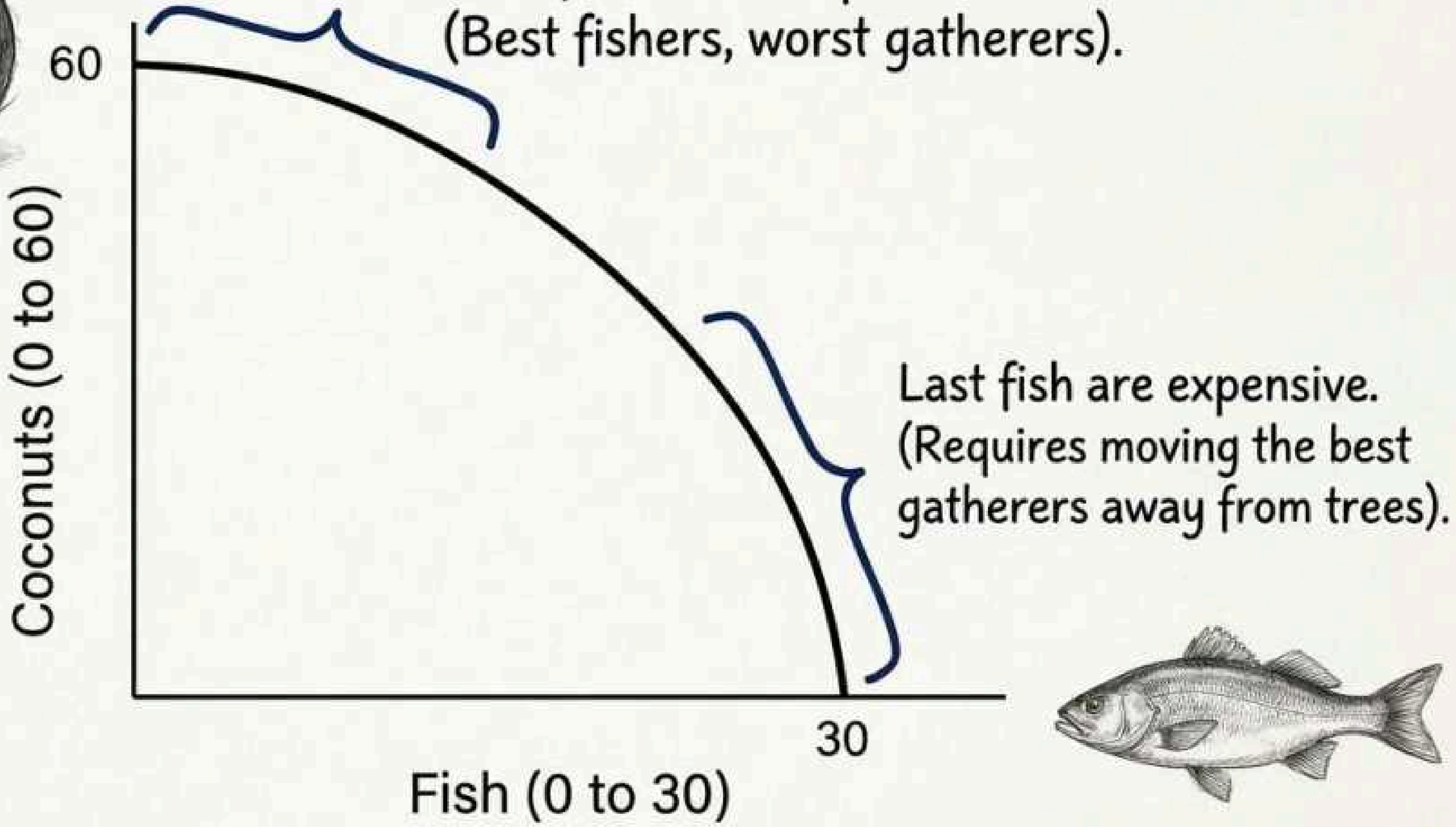
Add parking fee =
Fewer drivers downtown.

¶ 1.13 – 1.14




60
Coconuts (0 to 60)
Impossible given current resources.
Economic Growth (Better methods or more workers push the frontier outward).
Efficiency (e.g., 15 fish, 30 coconuts).
Every fish costs 2 coconuts.
Waste / Inefficiency
(e.g., 10 fish, 20 coconuts).
30
Fish (0 to 30)





The **Law of Increasing Opportunity Cost:** Because resources (workers/land) are not equally adaptable, real frontiers **bow outward**.



Ana
(Works 6-hour days)



Ben
(Works 6-hour days)

Ana makes more of both (Absolute Advantage). Does trade still make sense?

1	Ana's Production (1 hr):	6 bowls	OR	2 chairs
	Ana's Cost: 1 chair costs 3 bowls.			
2	Ben's Production (1 hr):	2 bowls	OR	1 chair
	Ben's Cost: 1 chair costs 2 bowls.			

Comparative Advantage: Who gives up the least?
Ben has the lower opportunity cost for chairs. Ana has the lower opportunity cost for bowls.
Specialization is based on who sacrifices less.

Masterclass Whiteboard

¶ 1.18 – 1.19

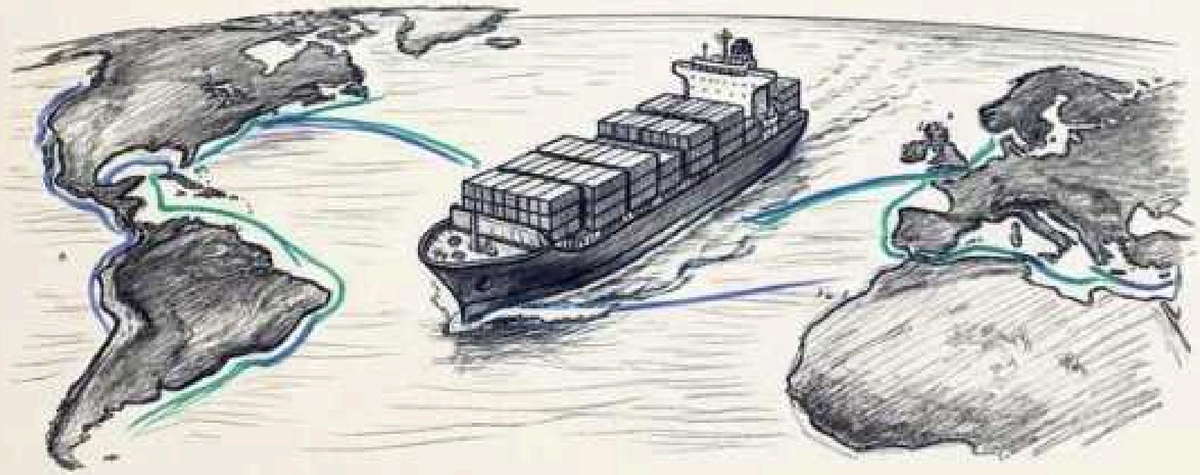
Without Specialization (Split time):
24 bowls, 9 chairs.



With Specialization & Trade (Ben trades 4 chairs for 10 bowls)**:** Higher totals for both.



Trade works for countries exactly as it does for individuals.
You only need to give up less, not be the best.





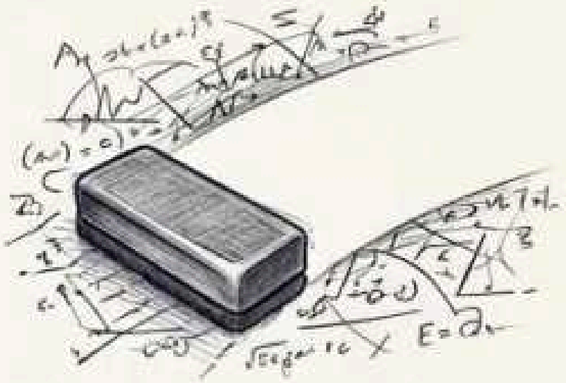
The Lawyer & Assistant: A lawyer may type faster than her assistant, but typing costs her $1,000/hr in legal fees. She should hire the assistant.

Trade Realities



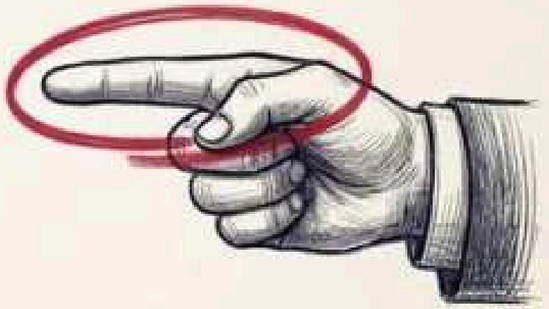
The **Nuance of Trade**: Total gains exceed total losses, but gains are not shared equally. The case for trade rests on net opportunity cost, not a lack of harm.

Methodology



Models strip away detail. *Ceteris paribus* = holding all other things equal.





Positive vs. Normative:
Positive: Testable facts (The data chart).
Normative: What ought to be (The pointing finger).



Think of a big decision you made recently.

What was the best alternative you gave up?

Money? Time?

Would you make the same choice if you counted that cost honestly?

Next in Lecture 2:

The Engine of the Market — Demand and Supply.

