Gregory mankiw principles of economics notes

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The cost of an opportunity when you go to college is the money you could have earned if you used that time for work. Rational people Think that margin change at the border is a small, gradual change to the existing Action Plan Ex. The decision to produce another pencil or not People will only handle marginal benefits that go beyond marginal costs People respond to stimulus incentives is something that forces a person to act. As people use cost-benefit analysis, they also respond to incentives for Ex. Higher taxes on cigarettes to prevent smoking Trade Can make any better of trade allows countries to specialize according to their comparative advantages and enjoy a larger range of goods and services Markets are usually a good way to organize economic activity Adam Smith made the observation that when households and businesses interact in markets run by the invisible hand. , they will generate the most surpluses for the economy Governments can sometimes improve economic performance Market failures occur when the market is unable to allocate resources efficiently. Governments can intervene and intervene to promote efficiency and fairness. The standard of living depends on the country's production The more goods and services are produced in the country, the higher the standard of living. As people consume more goods and services, their standard of living will push up price hikes when the government prints too much money When too much money floats in the economy, there will be more demand for goods and services. This will lead to long-term increases in company prices, leading to inflation. The public faces a short-term trade-off between inflation and unemployment In the short term, when prices rise, suppliers will want to increase the production of their goods and services. To achieve this, they need to hire more staff to produce these goods and services. Higher hiring means lower unemployment while inflation persists. In the long term, however, this is not the case. Back to EconHelp Gregory Mankiw Harvard University N. Gregory Mankiw is Robert M. Beren Professor of Economics at Harvard University. For 14 years, he taught ec10 principles, the most popular course at Harvard. He studied economics at Princeton University and MIT. Prof Mankiw is a prolific writer and regular participant in academic and political debates. His research includes work on price adjustment, consumer behaviour, financial markets, monetary and fiscal policy and economic growth. Articles he published have appeared in academic journals such as the American Economic Review, the Journal of Political Economy and the Quarterly Journal of Economics. His work has also appeared in more widely available forums, including The New York Times, The Washington Post, The Wall Street Journal and Fortune. Prof. Mankiw has been a research fellow at the National Bureau of Economic Research, an adviser to the Federal Reserve Bank of Boston and the Congressional Budget Office, and a member of the ETS test development committee for the advanced practice exam in economics. From 2003 to 2005, he was President of the President's Council of Economic Advisers. N. Gregory Mankiv at Harvard University N. Gregory Mankiv is Robert M. Beren Professor of Economics at Harvard University. For 14 years, he taught ec10 principles, the most popular course at Harvard. He studied economics at Princeton University and MIT. Prof Mankiw is a prolific writer and regular participant in academic and political debates. His research includes work on price adjustment, consumer behaviour, financial markets, monetary and fiscal policy and economic growth. Articles he published have appeared in academic journals such as the American Economic Review, the Journal of Political Economy and the Quarterly Journal of Economics. His work has also appeared in more widely available forums, including The New York Times, The Washington Post, The Wall Street Journal and Fortune. Prof. Mankiw has been a research fellow at the National Bureau of Economic Research, an adviser to the Federal Reserve Bank of Boston and the Congressional Budget Office, and a member of the ETS test development committee for the advanced practice exam in economics. From 2003 to 2005, he was President of the President's Council of Economic Advisers. Economics, 5th edition Microeconomics, 5th edition Macroeconomics, 5th edition Edition 9 Economic Fundamentals, 9th Edition Microeconomic Principles, 9th Edition Short Macroeconomic Principles, 9th Edition Brief Macroeconomic Principles, 8th Edition Economic Fundamentals, 8th Edition Macroeconomic Principles, 7th Edition Brief Macroeconomic Principles, 7th Edition of wikiversity Jump to Jump navigation to search Gregory Mankiw outlines ten economic principles in his economic principles, which we will repeat here , these are: People face compromises Something is what you give up to get it Rational people think people are responding to incentives Trade make all the better Markets is usually a good way to organize economic activity Governments can sometimes improve market outcomes The country's standard of living depends on its ability to produce goods and services Prices rise when the government prints too much money The Company faces a temporary trade-off between inflation and unemployment. How users make decisions[edit | edit source] 1. People face compromises[edit and | source] There is no such thing as a free lunch (TINSTAAFL). To get one thing we like, we usually have to give back another thing we like. Decision-making requires trading one goal with another. Examples include how students spend time, how a family decides to spend their income, how the government spends revenue, and how rules can protect the environment at cost to business owners. A particular example of compromise is the compromise between efficiency and equality. Definition of effectiveness: public property that derives maximum benefit from its limited resources. Definition of equality: property that is a fair distribution of economic prosperity among members of society. For example, taxes paid by wealthy people and then distributed to the poor can improve equality, but reduce incentives for hard work and thus reduce the level of output of our resources. This means that the cost of this increased equality is a reduction in the efficient use of our resources. Another example is guns and butter: the more we spend on national defence (weapons) to protect our borders, the less we can spend on consumer goods (butter) to raise our standard of living at home. Acknowledging that there are compromises does not indicate what decisions would or will be taken. 2. The importance of the alternative cost in decision-making[| source] As people face trade-offs, it is necessary to compare the costs and benefits of alternative modes of operation. Costs... going to college for a year is not only tuition, books and fees, but also the aforementioned salaries. ... the sight of the film is not just the price of the ticket, but the value of the time spent in the theater It is called the alternative cost of resources Definition of the cost of the opportunity: no matter what needs to be thudded to get some next best alternative that is given away. 3. Rational people think at the edge [edit | source] Economists usually assume that people are rational. Rational definition: systematically and purposefully doing the best you can to achieve your goals. Consumers want to buy the package of goods and services that gives them the highest level of satisfaction, given their income and the prices they face. Companies want to produce a level of production that increases profits. Many life decisions are about gradual decisions: Should I stay in school this semester? Should I take another course this semester? Should I be studying extra hour for tomorrow's exam? Rational people often make decisions comparing marginal benefits and marginal costs. If the additional satisfaction gained by adding units of goods is equal to the price that the consumer is willing to pay for the product, he achieves maximum satisfaction, which is the main purpose of each rational consumer. Example: Suppose flying an airplane with 200 seats nationwide costs the airline $1,000,000, which means the average cost of each seat has to pay out $5,000 to break them up. Suppose the plane is minutes away from departure and the passenger is willing to pay $3000 per seat. Should the airline sell the seat for $3000? In this case, the additional passenger's marginal costs are very small. Another example: Why is water so cheap while diamonds are expensive? Since there is a lot of water, the meagre benefit of the extra bucket is small. Since diamonds are rare, the meagre benefit of an additional diamond is high. 4. People respond to incentives [edit | edit source] The incentive is something that encourages the person to act [by offering rewards to people who change their behavior]. Because rational people make decisions by comparing costs and benefits, they respond to stimuli. Incentives may have negative or positive intent. This can be in a positive or negative way. For example, offering a pay rise to those who work harder can encourage people to work hard, which is a positive incentive. While taxation for the benefit of, say, fuel can encourage people to consume less of it, which is a negative incentive. How users interact with each other[edit | edit source] 5. Trade can make anyone better[edit | edit source] Trading is not like a sports competition where one side gets and the other side loses. Consider the trade that is happening in your home. Your family is more likely to engage in trade with other families on a daily basis. Most families do not build their own homes, do not build their own clothes or grow their own food. Countries also benefit from trade among themselves. Trade allows you to specialise in products that benefit countries (or families) For example, for centuries it was widely believed that in international trade, the benefits of exchange for one country should be the loss of another. 6. Markets are usually a good way of organising economic activity[edit | edit source] Many countries that once had centrally planned economies have abandoned this system and are trying | develop a market economy. Definition of a market economy: an economy that allocates resources through decentralised decisions by many businesses and households as they interact in the markets for goods and services. Market prices reflect both the value of a product to consumers and the cost of the resources used in its production. Centrally planned economies have failed because they prevented the market from operating. Adam Smith and Invisible Hand Adam Smith's 1776 work that while individuals a self-interest-motivated, invisible hand directs these self-interests in promoting the economic well-being of society. Markets are a place where buyers and sellers can meet to get goods and exchange goods. 7. The government can sometimes improve market outcomes[edit | edit source] The government has two broad reasons to intervene in the economy: promoting efficiency and equality. Government policy can be most useful when there are market failures. Definition of a market failure: a situation where a market left alone is unable to allocate resources efficiently. Examples of market failures Definition of external influences: the impact of one person's actions on the well-being of passers-by. (E.g.: Pollution) Definition of market power: one economic operator (or a small group of players) is able to have a significant impact on market prices. As the market economy rewards people for their ability to produce things that other people are willing to pay for, there will be an unequal distribution of economic prosperity. Note that the principle dictates that the government can improve market outcomes. This does not mean that the government always improves market outcomes. Forces and trends affecting how the economy as a whole works[edit | edit source] 8. The country's standard of living depends on national production[edit | edit source] Differences in living standards from one country to another are quite large. Changes in living standards over time are also quite large. The explanation for the differences in living standards is the differences in productivity. Definition of productivity: the quantity of goods and services produced per hour of a worker's time. High productivity means a high standard of living. Thus, policymakers need to understand the impact of any policy on our ability to produce goods and services. In order to raise living standards, policy-makers need to increase productivity by ensuring that workers are well educated, have the tools they need to produce goods and services, and have access to the best available technology. National income per capita 9. Prices rise when the government prints too much money[| source] Definition of inflation: a sustained increase in the overall price level in the economy. When a government generates a large amount of money, the value of money falls. Examples include Germany after World War I (early 1920s), the US in the 1970s, Zimbabwe in the 2000s and Venezuela in the 2010s. The public faces short-term trade between inflation and unemployment[edit | edit source] Most economists believe that the short-term impact of monetary injection (injecting/adding money into the economy) is lower unemployment and higher prices. The increase in money in the economy stimulates spending and increases the demand for goods and services in the economy. Higher demand over time may force companies to raise prices, but in the meantime it also encourages them the quantity of goods and services they produce and to hire more staff to produce those goods and services. More hiring means lower unemployment. Some economists question whether this relationship still exists. The short-term trade-off between inflation and unemployment plays a key role in the analysis of the business cycle. Definition of the business cycle: fluctuations in economic activity, such as employment and production. Policymakers can use this compromise through various policy instruments, but the scope and desit preferredness of these interventions are the subject of continuous debate. Classification of the subject: it is an economic resource. Resource.