1 Consumer Theory

1.1 Lecture 1: Introduction to Microeconomics

1.1.1 What is microeconomics?

- Microeconomics is the study of how individuals and firms maximize their well-being in a world of **scarcity**.
- The core of microeconomics is the study of **constrained optimization** and assessing **tradeoffs**.
- The key concept behind tradeoffs is **opportunity cost**: every action or inaction has a cost in terms of what could have been done instead.

1.1.2 Modeling in microeconomics

- A model is any description of the relationship between two or more economic variables.
- Economic models are simplified representations of relationships between variables.

Supply and Demand Model:

- **Demand curve** is downward-sloping. It shows the relationship between price and quantity demanded. It measures the willingness of consumers to buy a certain good.
- **Supply curve** is upward-slowing. It shows the relationship between price and quantity supplied. It measures the willingness of producers to sell.
- The intersection of supply and demand curve is the **market equilibrium**. Each point on the demand curve shows how much consumers will demand at a given price. Each point on the supply curve shows how much producers will supply at a given price. At the equilibrium price, suppliers are willing to supply as much as demanders will demand.

1.1.3 Positive vs. normative economics

- **Positive analysis** is the study of the way things are (e.g. eBay auctions).
- **Normative analysis** is the study of the way that things should be (e.g. should organ sales be legal?).

1.1.4 Market economy

- **Capitalistic economy**: individuals and firms decide what to produce and consume, subject to limited restrictions by the government (similar to laissez-faire).

- **Command economy**: government in control with production and allocation (e.g. inefficiency and corruption of Soviet Union).
- **Invisible hand**: Adam Smith's concept, self-regulating nature of markets and self-interest

1.1.5 TO KNOW – Conceptual Understanding

- Microeconomics studies how individuals and firms make optimal choices under scarcity, focusing on trade-offs and opportunity cost
- Models are simplified tools to understand behavior; positive economics explains what is, while normative economics debates what should be