Micro Economics
Abstracted From Michael Parkin, Roger R. Miller, and Others Relevant Sources

Sumber: Parkin, Miller, Quijano, Mankiw, Suherman Rosyidi & Karl Case, Ray Fair (Disesuaikan)
Chapter 1
Notes and Definitions
http://www.oswego.edu/~kane/eco101.htm

- Introduction (Chapters 1 and 2) - School vouchers
- Demand and supply (Chapter 3) - Do slave redemption programs reduce the problem of slavery? (revised topic)
- Private and public sectors (Chapters 4 and 5) - no supplemental readings
- Elasticity (Chapter 6) - no supplemental readings
- Consumer choice and demand - (Chapter 7) - Capital punishment
- Productivity and costs (Chapter 8) - no supplemental readings
- Product markets (Chapter 9) - no supplemental readings
- Perfect competition (Chapter 10) - Should there be a market for human organs?
- Monopoly (Chapter 11) - Is Microsoft a Monopolist?
- Monopolistic competition and oligopoly (Chapters 12 and 13) - No supplemental readings
- Resource markets (Chapter 14) - No supplemental readings
- Labor markets (Chapters 15 and 16) - No supplemental readings
- Capital, resource markets, and the environment (Chapters 17 and 18) - No supplemental reading
Perkembangan Ilmu Ekonomi

- Secara tidak formal, ilmu ekonomi muncul seiring dengan diturunkannya manusia di Bumi → seiring dengan adanya kebutuhan-kebutuhan manusia (kebutuhan akan makanan, pakaian, tempat tinggal, dsb.) → berkaitan dengan masalah ekonomi

Sumber : Parkin, Miller, Quijano, Mankiw, Suherman Rosyidi & Karl Case, Ray Fair (Disesuaikan)
Perkembangan Ilmu Ekonomi

Tahap-tahap kehidupan ekonomi manusia (George Frederich List, 1789-1846)

1. Tahap perburuan dan perikanan
2. Peternakan
3. Pertanian
4. Pertanian dan kerajinan setempat
5. Pertanian, industri, perniagaan internasional
6. Sekarang….? → Tugas Paper Singkat u presentasi Sore

Sumber : Parkin, Miller, Quijano, Mankiw, Suherman Rosyidi & Karl Case, Ray Fair (Disesuaikan)
A Definition of Economics

**Economics** is the *science of choice* — the science that explains the choices that we make and how those choices change as we cope with scarcity.
Defining Economics

• Economics
  – The study of how people allocate their limited resources to satisfy their unlimited wants
  – *The study of how people make choices*
Defining Economics

• **Resources**
  – Things used to produce other things to satisfy people’s wants

• **Wants**
  – What people would buy if their incomes were unlimited
Defining Economics

- With limited income (resources), people must make choices to satisfy their wants.
- Economics studies how these choices are made.
Resources and Wants

We have *limited resources.*

We have *unlimited wants.* → *mengapa bukan Needs?*

This leads to *scarcity.*

*Scarcity* exists when there are insufficient resources to satisfy people’s wants.
“There is no such thing as a free lunch!”
Scarcity

• Scarcity
  – Occurs when the ingredients (resources) for producing things that people desire are insufficient to satisfy all wants

• What scarcity is NOT:
  – It is *not* a shortage.
  – It is *not* the same thing as poverty → how about welfare ?.
Scarcity, Choice, and Opportunity Cost

Limited Resources & Unlimited Wants

- Scarcity
- Choices
- Opportunity Cost

Sumber: Parkin, Miller, Quijano, Mankiw, Suherman Rosyidi & Karl Case, Ray Fair (Disesuaikan)
Scarcity, Choice, and Opportunity Cost

• **Opportunity Cost**
  - The highest-valued, next-best alternative that must be sacrificed to attain something or satisfy a want
Scarcity, Choice, and Opportunity Cost

In economics, cost is always a forgone opportunity.
Scarcity, Choice, and Opportunity Cost

• Questions
  – What is the opportunity cost of attending this economics class?
  – What is the opportunity cost of attending a Rolling Stones concert?
Scarcity

• Production
  – Any activity that results in the conversion of resources into products that can be used in consumption

• Resources or Factors of Production
  – Inputs that are used to produce things that people want
Scarcity

• **Resources or Factors of Production**
  – Land
    • Natural resources or the gifts of nature
  – Labor
    • The human resource
Scarcity

• Resources or Factors of Production
  – Physical Capital
    • All manufactured resources
  – Human Capital
    • Accumulated training and education of workers
Scarcity

- Resources or Factors of Production
  - Entrepreneurship
    - Person who organizes, manages, and assembles the other resources
    - Risk taker
    - Maker of basic business policy decisions
Economic goods, free goods, and economic bads

- economic good (scarce good) - the quantity demanded exceeds the quantity supplied at a zero price.
- free good - the quantity supplied exceeds the quantity demanded at a zero price.
- economic bad - people are willing to pay to avoid the item
Definisi Ilmu Ekonomi Lainnya

Dalam hal ini Profesor Paul Anthony Samuelson, seorang ahli ekonomi dari Massachusetts Institute of Technology (MIT), telah mengumpulkan sekurang-katrangnya enam buah definisi dari berbagai ahli lain. Keenam definisi itu masing-masing adalah sebagai berikut.

1. Ilmu ekonomi, atau ekonomi politik (political economy), adalah suatu studi tentang kegiatan-kegiatan yang dengan atau tanpa menggunakan uang, mencakup atau melibatkan transaksi-transaksip ertukaran antarmanusia.

2. Ilmu ekonomi adalah suatu studi mengenai bagaimana orang menjatuhkan pilihan yang tepat untuk memanfaatkan sumber-sumber produktif (tanah, tenaga kerja, barang-barang modal semisal mesin, dan pengetahuan teknik) yang langka dan terbatas jumlahnya, untuk menghasilkan berbagai barang (misalnya gandum, daging, mantel, perahu layar, konser musik, jalan raya, pesawat pembom) serta mendistribusikan (membagikan)nya kepada pelbagai anggota masyarakat untuk mereka pakai/konsumsi.

3. Ilmu ekonomi adalah studi tentang manusia dalam kegiatan hidup mereka seharihari, (untuk) mendapat dan menikmati kehidupan.

4. Ilmu ekonomi adalah studi tentang bagaimana manusia bertingkah pekerti untuk mengorganisasi kegiatan-kegiatan konsumsi dan produksinya.

5. Ilmu ekonomi adalah suatu studi tentang kekayaan.

6. Ilmu ekonomi adalah suatu studi tentang cara-cara memperbaiki masyarakat.

Sumber : Parkin, Miller, Quijano, Mankiw, Suherman Rosyidi & Karl Case, Ray Fair (Disesuaikan)
Pembagian Ilmu Ekonomi
(Alferd W. Stonier dan Douglas C. Hague)

**Descriptive Economics** (ilmu ekonomi deskriptif). Di sini dikumpulkan semua kenyataan yang penting tentang pokok pembicaraan (topik) yang tertentu, misalnya: sistem pertanian di Bali, atau industri katun di India.

**Economic Theory** (ilmu ekonomi teori atau teori ekonomi atau analisise konomi). Di sini kita memberikan penjelasan yang disederhanakan tentang caranya suatu sistem ekonomi bekerja dan ciri-ciri yang penting dari sistem seperti itu.

**Applied Economics** (ilmu ekonomi terapan). Di sini kita mencoba mempergunakan rangka dasar umum dan analisis yang diberikan oleh ekonomi teori untuk menerangkan sebab-sebab dan arti pentingnya kejadian-kejadian yang dilaporkan oleh para ahli ekonomi deskriptif.

Sumber : Parkin, Miller, Quijano, Mankiw, Suherman Rosyidi & Karl Case, Ray Fair (Disesuaikan)
The Method of Economics

- *Positive economics* studies economic behavior without making judgments. It describes what exists and how it works.
The Method of Economics

- **Normative economics**, also called policy economics, analyzes outcomes of economic behavior, evaluates them as good or bad, and may prescribe courses of action.
The Method of Economics

• **Positive economics** includes:
  
  – *Descriptive economics*, which involves the compilation of data that describe phenomena and facts.
  
  – *Economic theory*, which involves building models of behavior.
  
  • An **economic theory** is a general statement of cause and effect, action and reaction.
What Economists Do

Microeconomics and Macroeconomics

**Microeconomics** is the study of individual people and businesses and the interaction of those decisions in markets.

Studies:

- Prices and Quantities
- Effects of government regulation and taxes
What Economists Do

Microeconomics and Macroeconomics

Macroeconomics is the study of the national economy and the global economy as a whole.

Studies:
- Average prices and total employment, income, and production
- Effects of taxes, government spending, a budget deficits on total jobs and incomes
- Effects of money and interest rates
Poverty is not just a financial state. Being poor affects life in many ways. The human poverty index uses indicators that capture non-financial elements of poverty, such as life expectancy, adult literacy, water quality, and children that are underweight. The 30 territories of the Organisation for Economic Cooperation and Development use a different index which includes income and long-term unemployment; and not water quality or underweight children. This implies that the poor in richer territories are materially better off.

The highest human poverty index scores are in Central Africa, the lowest are in Japan.

Territory size shows the proportion of the world population living in poverty living there (calculated by multiplying population by one of two poverty indices).

“My field experience of the complexity and variety of country situations made me chary of stylised generalisations about ‘the third world’.”

Angus Maddison, 2002
Tingkat Penggangguran di Dunia
### The Scope of Economics

<table>
<thead>
<tr>
<th>Microeconomics</th>
<th>Prices</th>
<th>Income</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production/Output in Individual Industries and Businesses</td>
<td>Price of Individual Goods and Services</td>
<td>Distribution of Income and Wealth</td>
<td>Employment by Individual Businesses &amp; Industries</td>
</tr>
<tr>
<td>How much steel</td>
<td>Price of medical care</td>
<td>Wages in the auto industry</td>
<td>Jobs in the steel industry</td>
</tr>
<tr>
<td>How many offices</td>
<td>Price of gasoline</td>
<td>Minimum wages</td>
<td>Number of employees in a firm</td>
</tr>
<tr>
<td>How many cars</td>
<td>Food prices</td>
<td>Executive salaries</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Apartment rents</td>
<td>Poverty</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Macroeconomics</th>
<th>Aggregate Price Level</th>
<th>National Income</th>
<th>Employment and Unemployment in the Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Production/Output</td>
<td>Consumer prices</td>
<td>Total wages and salaries</td>
<td>Total number of jobs</td>
</tr>
<tr>
<td>Total Industrial Output</td>
<td>Producer Prices</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Domestic Product</td>
<td>Rate of Inflation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth of Output</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Examples of microeconomic and macroeconomic concerns

- **Production**
  - Production/Output in Individual Industries and Businesses
  - How much steel
  - How many offices
  - How many cars

- **Prices**
  - Price of Individual Goods and Services
  - Price of medical care
  - Price of gasoline
  - Food prices
  - Apartment rents

- **Income**
  - Distribution of Income and Wealth
  - Wages in the auto industry
  - Minimum wages
  - Executive salaries
  - Poverty

- **Employment**
  - Employment by Individual Businesses & Industries
  - Jobs in the steel industry
  - Number of employees in a firm

---

Sumber: Parkin, Miller, Quijano, Mankiw, Suherman Rosyidi & Karl Case, Ray Fair (Disesuaikan)
Five Big Economic Questions

What?  What goods and services are produced and in what quantities? Do we produce houses or camping vehicles?

How?  How are goods and services produced? Do we use humans or machines to produce the goods we want?

When?  When are goods and services produced? Do we increase or decrease production?

Where?  Where are goods and services produced? Do we produce the goods in the U.S. or in Canada?

Who?  Who consumes the goods and services that are produced? Do we sell our goods to the wealthy, or the non-wealthy?
# Production Possibilities Frontier

<table>
<thead>
<tr>
<th>Possibility</th>
<th>Tapes (millions per month)</th>
<th>Soda (millions of bottles per month)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>0</td>
<td>and 15</td>
</tr>
<tr>
<td>b</td>
<td>1</td>
<td>and 14</td>
</tr>
<tr>
<td>c</td>
<td>2</td>
<td>and 12</td>
</tr>
<tr>
<td>d</td>
<td>3</td>
<td>and 9</td>
</tr>
<tr>
<td>e</td>
<td>4</td>
<td>and 5</td>
</tr>
<tr>
<td>f</td>
<td>5</td>
<td>and 0</td>
</tr>
</tbody>
</table>
Production Possibility Frontier

[Graph showing Production Possibility Frontier with points a, b, c, d, e, and f, and axes labeled Tapes (millions per month) and Soda (millions of bottles per month).]
The Production Possibility Frontier

- Points inside of the curve are inefficient.
- At point $H$, resources are either unemployed, or are used inefficiently.
The Production Possibility Frontier

- Point $F$ is desirable because it yields more of both goods, but it is not attainable given the amount of resources available in the economy.
The Production Possibility Frontier

- Point $C$ is one of the possible combinations of goods produced when resources are fully and efficiently employed.
The Production Possibility Frontier

- A move along the curve illustrates the concept of opportunity cost.
- From point D, an increase in the production of capital goods requires a decrease in the amount of consumer goods.
Opportunity Cost and Marginal Cost

Increasing opportunity cost of tapes...
Economic Growth

- Outward shifts of the curve represent economic growth.
- An outward shift means that it is possible to increase the production of one good without decreasing the production of the other.
Economic Growth

• From point D, the economy can choose any combination of output between F and G.
Economic Growth

- Not every sector of the economy grows at the same rate.
- In this historic example, productivity increases were more dramatic for corn than for wheat over this time period.
Capital Goods and Growth in Poor and Rich Countries

- Rich countries devote more resources to capital production than poor countries.
- As more resources flow into capital production, the rate of economic growth in rich countries increases, and so does the gap between rich and poor countries.
Economic Growth in the United States and Hong Kong

- Consumption goods (per person)
- Capital goods (per person)

United States in 1960
Hong Kong in 1960
United States and Hong Kong in 1998

Sumber: Parkin, Miller, Quijano, Mankiw, Suherman Rosyidi & Karl Case, Ray Fair (Diseduaikan)
Circular Flows in the Market Economy

Sumber: Parkin, Miller, Quijano, Mankiw, Suherman Rosyidi & Karl Case, Ray Fair (Disesuaikan)
The Circular Flow of Income and Expenditure

Sumber: Parkin, Miller, Quijano, Mankiw, Suherman Rosyidi & Karl Case, Ray Fair (Disesuaikan)
Economics as a Science

• Models or Theories
  – Simplified representations of the real world used as the basis for predictions or explanations
    • A map and getting directions are examples of models
    • Function, Figure, etc
Economics as a Science

• Assumptions
  - The set of circumstances in which a model is applicable

• The Ceteris Paribus Assumption (KAY-ter-us PEAR-uh-bus)
  - Nothing changes except the factor or factors being studied
Economics as a Science

• Economics is an empirical science.
  – Real-world data is used to evaluate the usefulness of a model.
  – Models are useful if they predict economic phenomena.

• Economic models predict how people react, not how they think.
Economic Science

Steps

– Observation and Measurement
– Model Building
– Testing