

Mankiw Macro Chapter II: Thinking Like an Economist

The Scientific Method (pg 22)

Economics as a science

A “social science”

Physics: Observation, Theory, Tests

Economics: Observation, Theory, More observation

“Natural Experiments”

Statistics, Econometrics

Assumptions (pg 23)

Example of a marble dropped from a tower. Gravity, no friction

Assumptions are used to simplify models

A model is a small scale version of reality

Designed to strip out the unnecessary, to illustrate the important

You can't understand the whole, until you understand the parts

Two good, two country model of trade.

Assumptions can simplify, they can also mislead

Dropping a feather from a tower.

Economic Models

Economic models are usually mathematical or diagrammatic

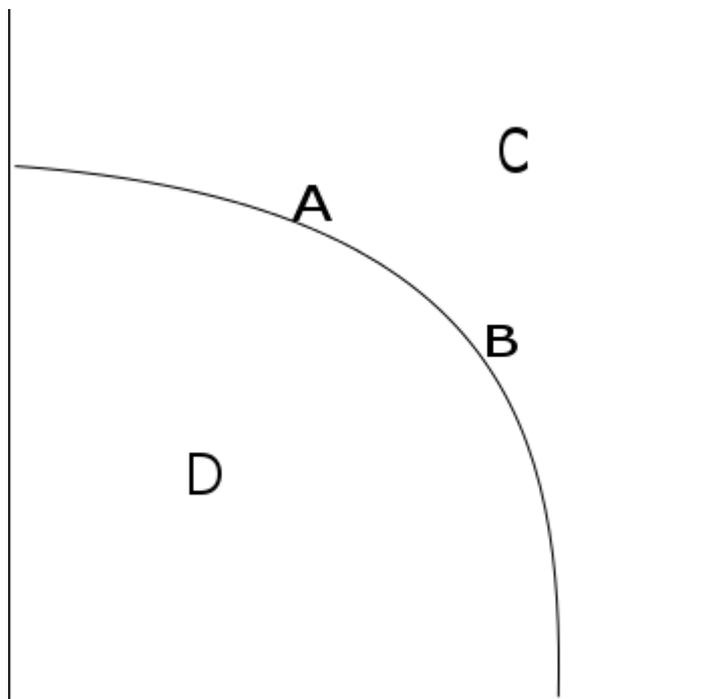
For this class, we will mostly use graphs...

Circular-Flow diagram (pg 24)

Skip for now...

The Production Possibilities Frontier (pg 26)

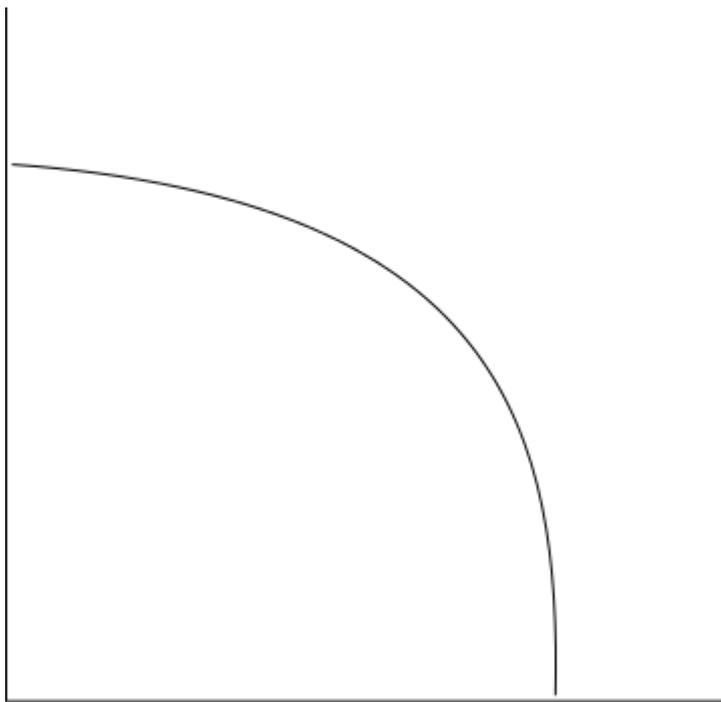
Computers and Cars....



Point A and B
Point C (TANSTAFL)
Point D (TANSTAFL)

The law of diminishing returns.....
Why does our Frontier have the slope it does?
 $X = Y$, $2X > Y$, but $2X < 2Y$

On the PPF, we are talking about trade-offs
How many computers do we give up to get another car
The trade-offs are NOT the same at all points on the frontier
This means the OPPORTUNITY costs are changing



What about a shift in Technology?
Say it becomes cheaper to make a new computer. What now?

Scarcity, efficiency, trade-offs, opportunity cost, economic growth

Microeconomics and Macroeconomics (pg 29)

Microeconomics: the study of how households and firms make decisions and how they interact in markets

Macroeconomics: the study of economy-wide phenomena, including inflation, unemployment, and economic growth.

Again, Micro is much better developed and understood than Macro.
The two fields use distinct methodologies and models, they overlap but are not the same.

The Economist as Policy Advisor (pg 29)

Positive and Normative Economics

Book example: Unemployment and the Minimum Wage

Positive Economics

Normative Economics

Example: Smoking and Lung Cancer

Economists in Washington

The one-handed economist

Who listens to economists

Government, banks, financial firms, large corporations, universities

Actually, that is a list of who employs economists

Government, at least, often doesn't listen....

Why economists disagree

Different Scientific Judgements

Different Values

Perceptions vs. Reality

In practice, economists agree on a great deal...

But disagreeing is more fun ☺

Chapter 2 Appendix: GRAPHS !!!!!