

# **APPLIED ECON. FOR MANAGERS—SESSION 1**

## **I. WHAT YOU'RE IN FOR**

### **A. WELCOME AND INTRODUCTION**

#### **1. WHAT THIS COURSE IS ABOUT**

- a. THE ECONOMICS WAY OF THINKING ABOUT OR  
LOOKING AT THE WORLD**
- b. PUBLIC POLICY ISSUES**
- c. CORPORATE STRATEGIES**

#### **2. COURSE MECHANICS**

- a. HOMEWORK, EXAMS, AND CLASS PARTICIPATION**
- b. A WORD ABOUT MATHEMATICS**
- c. YOUR FIRST ASSIGNMENT**

## II. ECONOMICS, CHOICE AND SCARCITY

### A. FROST: THE NECESSITY OF CHOICE

1. CHOICE AS AN ESSENTIAL ELEMENT OF THE HUMAN CONDITION DUE TO SCARCITY
2. ECONOMICS IS THE STUDY OF CHOICE. IT SEEKS TO BUILD A THEORETICAL MODEL OR ROADMAP OF **RATIONAL CHOICE**. THE AIM IS TO USE THIS ROADMAP TO EXPLAIN AND TO EVALUATE THE SOCIAL INTERACTIONS
3. USE OF FORMAL LOGIC IS SOURCE OF MATHEMATICS

### B. CHOICES THAT SOCIETY MUST MAKE

1. WHAT GOODS TO PRODUCE
2. HOW TO PRODUCE THEM
3. WHO GETS THEM

### C. CRITERIA FOR EVALUATING THESE DECISIONS

1. EFFICIENCY
2. EQUITY

### D. THE MARKET MECHANISM

1. MARKETS AS A DEVICE TO RESOLVE THE THREE BIG ISSUES
2. MARKETS AS MECHANISM FOR COORDINATING AND RECONCILING INDIVIDUAL CHOICES IN A MANNER THAT PROVIDES ANSWERS TO THE THREE SOCIAL DECISIONS

### III. SOME MORE EXERCISES

A. A SECOND READING

B. A MARKET EXPERIMENT

C. LESSONS FROM THE EXPERIMENT

1. IN A FREE AND VOLUNTARY EXCHANGE, **BOTH** PARTIES MUST GAIN (OR, AT LEAST, ONE GAIN AND THE OTHER BE NO WORSE OFF FOR THE TRADE TO OCCUR)
2. TOM AND HUCK
3. MARKETS TEND TO EXPLOIT ALL MUTUALLY BENEFICIAL TRADES

D. AN AUCTION MARKET FOR PAPER CLIPS

1. THE LAW OF ONE PRICE
2. DIFFERENCES BETWEEN THE EXPERIMENTAL MARKET AND AN AUCTION MARKET
  - a. INFORMATION
  - b. MONOPOLY POWER

E. A SECOND EXPERIMENT

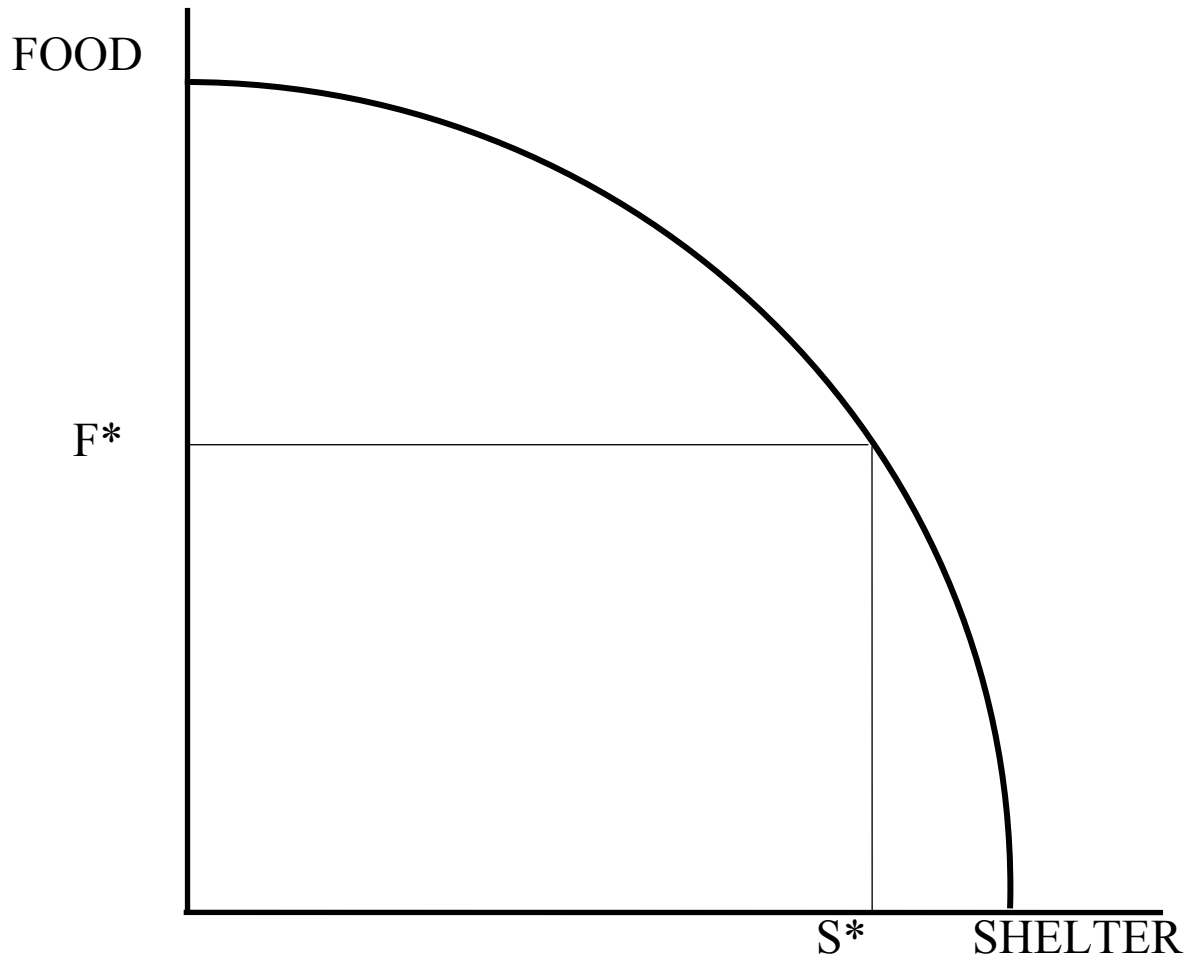
1. PRICES AND MARKET SIGNALS
2. SIGNALS, PRICES, AND VALUES

E. IMPLICATIONS OF EXERCISES 1 AND 2: MARKETS TEND TO DO WELL ON THE CRITERION OF ECONOMIC EFFICIENCY; **IF**

1. COMPETITION
2. GOOD, SYMMETRIC INFORMATION
3. NO EXTERNALITIES

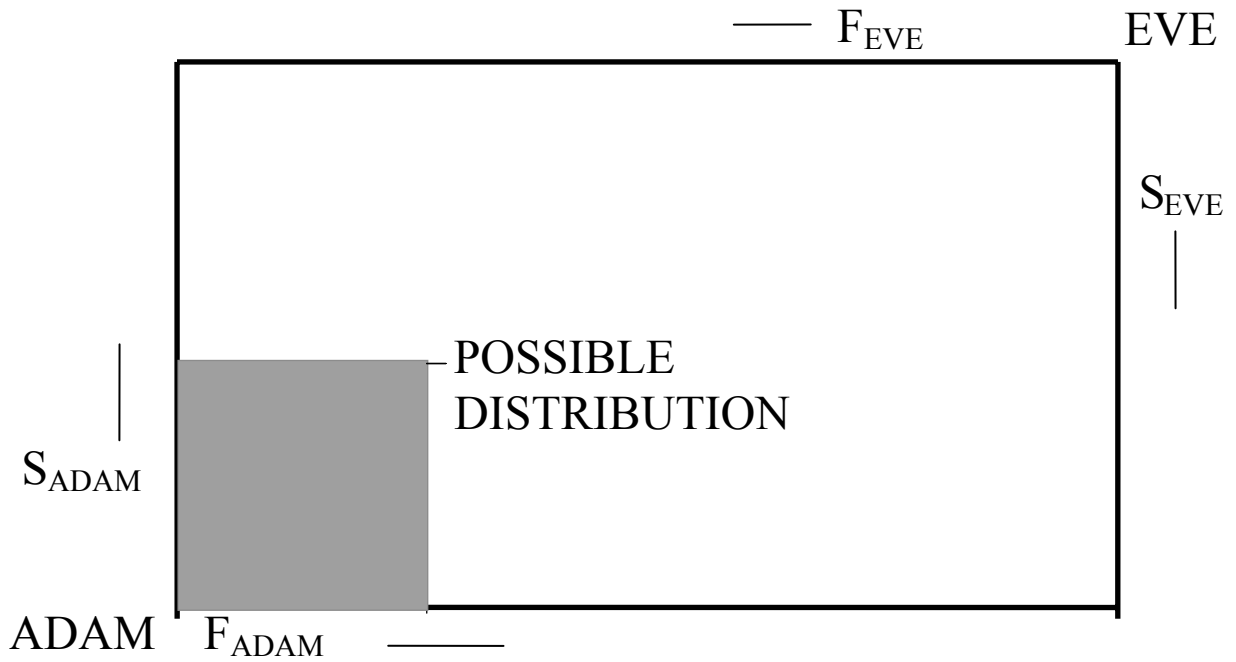
# FIGURE 1

## PRODUCTION POSSIBILITIES FRONTIER



PRODUCTION EFFICIENCY: BEING ON THE FRONTIER

**FIGURE 2**



EXCHANGE EFFICIENCY: NO VOLUNTARY EXCHANGES LEFT