TEORI EKONOMI

PERAN & METODE EKONOMI

Aryan Eka Prastya Nugraha

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1.1 What is economics?

1.2 What is scarcity?

1.3 What are goods and services?

ECONOMICS

the study of choices we make among our many wants and desires given our limited resources

RESOURCES

inputs used to produce goods and services

SCARCITY

exists when human wants (material and nonmaterial) exceed available resources

THE ECONOMIC PROBLEM

scarcity forces us to choose, and choices are costly because we must give up other opportunities that we value

Scarcity and Unlimited Human Wants

- Economics is primarily concerned with ***scarcity***–how well we satisfy our unlimited wants in a world of limited resources.
- As long as human wants exceed available resources, scarcity will exist.

Scarcity and Limited Resources

The scarce resources that are used in the production of goods and services can be grouped into four categories:

- ***labor***
- ***land***
- ***capital***
- ***entrepreneurship***

- ***Labor*** is the physical and human effort used in the production of goods and services.

- ***Land*** is the natural resources used in the production of goods and services.

- ***Capital*** is the equipment and structures used to produce goods and services (such as office buildings, tools, machines, and factories).
- Capital also includes ***human capital***, the productive knowledge and skill people receive from education, on-the-job training, health, and other factors that increase productivity.

- ***Entrepreneurship*** is the process of combining the labor, land, and capital to produce goods and services.
- The entrepreneur is the one who makes the tough and risky decisions about what to produce and how to produce.

- Entrepreneurs are always looking for new ways to improve production techniques or to create new products. They are driven by the lure of positive incentives—profits.
- We are all entrepreneurs when we try new products or when we find better ways to manage our households or our study time.

Goods and Services

- ***Goods*** are items we value or desire.
- They can be ***tangible goods*** that can be held, heard, tasted, or smelled or ***intangible goods*** that we cannot touch, such as fairness, friendship, knowledge, security, and health.
- ***Services*** are intangible items of value provided to consumers, such as education.

Goods and Services: Economic Goods

ECONOMIC GOODS

the scarce goods that are created
from scarce resources

- If there are not enough economic goods for all of us, we will have to compete for those scarce goods.

Does Everyone Face Scarcity?

- We all face scarcity, because we cannot have all of the goods and services that we desire.
- However, because we all have different wants and desires, scarcity affects everyone differently.

- Even the richest person must live with scarcity and must, at some point, choose one want or desire over another.
- As we get more affluent, we learn of new luxuries to provide us with satisfaction.

- There is no evidence that people would not find a valuable use for additional income, no matter how rich they become.
- Even the wealthy individual who decides to donate all of her money to charity faces the constraints of scarcity.
- If she had greater resources, she could do still more for others.

Will Scarcity Ever Be Eradicated?

- Scarcity never has and never will be eradicated.
- The same creativity that permits new methods to produce goods and services in greater quantities also reveals new wants.
- It is very possible that our wants grow as fast, if not faster, than our ability to meet those wants, so we still feel scarcity as much or more than we did before.

SECTION CHECK 1

1.1 Economics is the study of the choices we make among our many wants and desires, given our limited resources. It is a problem-solving science that concerns itself with the choices we make in the face of scarcity.

1.2 Scarcity is the fact that our unlimited wants exceed our limited resources, so we must make choices.

1.3 Goods and services are things we value. They can be tangible (e.g., food, shelter) or intangible (e.g., love, compassion, intelligence).

Economic Behavior

SECTION 2 QUESTIONS

2.1 How is self-interest relevant to economics?

2.2 What is rational behavior?

2.3 Can we predict how people will respond to changes in incentives?

Self-Interest

- Economists assume that individuals act *as if* they are motivated by self-interest and respond in predictable ways to changing circumstances.

- To a worker, self-interest means pursuing a higher paying job and/or better working conditions.
- To a consumer, self-interest means gaining a greater level of satisfaction from limited income and time.

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Rational Behavior

- To an economist, **rational behavior** means that people do the best they can, based on their values and information, under current and anticipated future circumstances.
- Actions have consequences—even inactions, which are choices not to do something or not to make changes, have consequences—failing to study for an exam.

Rational Behavior

- In mainstream economics, to say that people are rational is not to assume that they never make mistakes. It is merely to say that they do NOT make systematic mistakes.
- In sum, rational individuals weigh the benefits and costs of their actions, and they only pursue actions if they perceive the benefits to be greater than the costs.

Incentives

- In acting rationally, people are responding to incentives. They react to changes in benefits and costs.
- Much of human behavior can be explained and predicted as a response to incentives.

Incentives

- Human behavior is influenced in predictable ways by changes in economic incentives.
- Economists use this information to predict what will happen when the benefits and costs of any choice are changed.

Incentives

- If salaries increase for engineers and decrease for MBAs, it could be predicted that fewer people would go to graduate school in business and more would go into engineering.
- A permanent change to a much higher price of gasoline could lead to fewer gas guzzlers on the highway.
- People who work on commission tend to work harder.

Incentives: Examples

- Would birth rates fall if the income-tax deduction for dependents was removed?
- Would a death sentence for drug traffickers reduce drug trafficking?
- Would stricter penalties deter cheating on tests?
- Would stricter drunk driving laws reduce drunk driving?

Section 2

SECTION CHECK 2

2.1 Economists assume that people act as if they are motivated by self-interest and respond predictably to changing circumstances.

2.2 Rational behavior means that people do the best they can based on their values and information, under current and future anticipated consequences.

2.3 People respond to incentives in predictable ways.

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S3 Markets

Section 3

SECTION 3 QUESTIONS

3.1 How does a market economy allocate scarce resources?

3.2 What is a market failure?

3.3 What are product and factor markets?

3.4 What is the circular flow model?

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Markets

- A ***market*** is the process of buyers and sellers exchanging goods and services.
- Supermarkets, the New York Stock Exchange, drug stores, roadside stands, garage sales, Internet stores, and restaurants are all markets.
- Every market is different: the conditions under which the exchange between buyers and sellers takes place can vary.

Markets:

Allocating Scarce Resources

- ***Efficiency*** is achieved when the economy gets the most out of its scarce resources.
- Buyers and sellers indicate their wants through their actions and inactions in the marketplace.
- This collective "voice" determines how resources are allocated.

Market Prices

- Market prices serve as the language of the market system and communicate crucial information to both consumers and suppliers.
- These prices communicate information about the relative availability of products to consumers, and they provide suppliers with critical information about the relative value that consumers place on those products.

Market Prices

- The basis of a market economy is voluntary exchange and the price system that guides people’s choices and produces solutions to the questions of what goods to produce and how to produce and distribute those goods.

The Pencil: Example

- Where did the producer find the wood? The graphite? The eraser? Who knows?
- Market forces coordinate this production activity among thousands of people from different countries speaking different languages to make a pencil.
- Why? The market economy has provided the incentive for people to pursue activities that benefit others through the price system.

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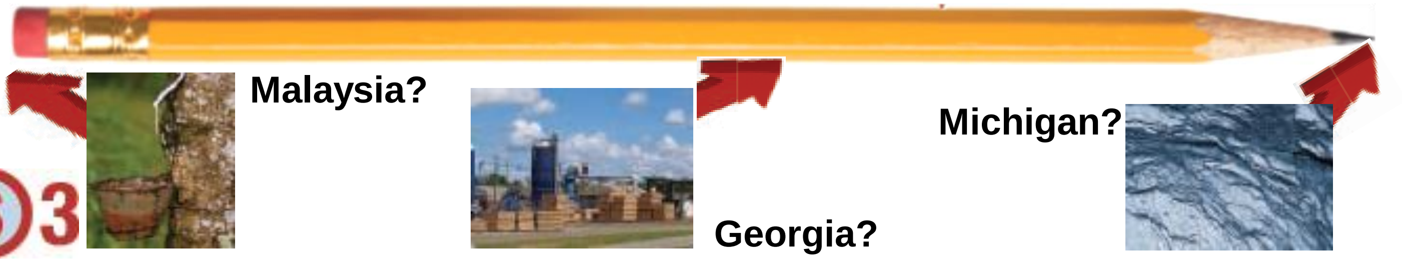


Countries That Do Not Rely on a Market System

- Countries that do not rely on the market system have no clear communication between buyers and sellers.
- The former Soviet Union, where quality was virtually nonexistent, experienced many shortages of quality goods and surpluses of low-quality goods.

Market Failure

- The market mechanism is a simple but effective and efficient general means of allocating resources among alternative uses.

MARKET FAILURE

when the economy fails to allocate resources efficiently on its own

Market Failure

- Examples of market failure include pollution and scientific research.
- When the economy produces too little or too much of something, the government can improve society’s well-being by intervening.

Market Failure

- Sometimes the market economy does not communicate accurately.
- Some firms may have market power to distort prices, and without adequate information, unscrupulous producers may be able to misrepresent products to the disadvantage of the unwary.
- These situations may also lead to government intervention.

Markets and Income Distribution

- There is sometimes a painful tradeoff between how much an economy can produce efficiently and how that output is distributed—the degree of equality.
- There is no guarantee that the market economy will provide everyone with adequate amounts of food, shelter, and health care.

Markets and Income Distribution

- That is, not only does the market determine what goods are going to be produced, and in what quantities, but it also determines the distribution of output among members of society.
- This equity argument can generate some sharp disagreements, as what seems “fair” to one person may seem highly “unfair” to someone else.

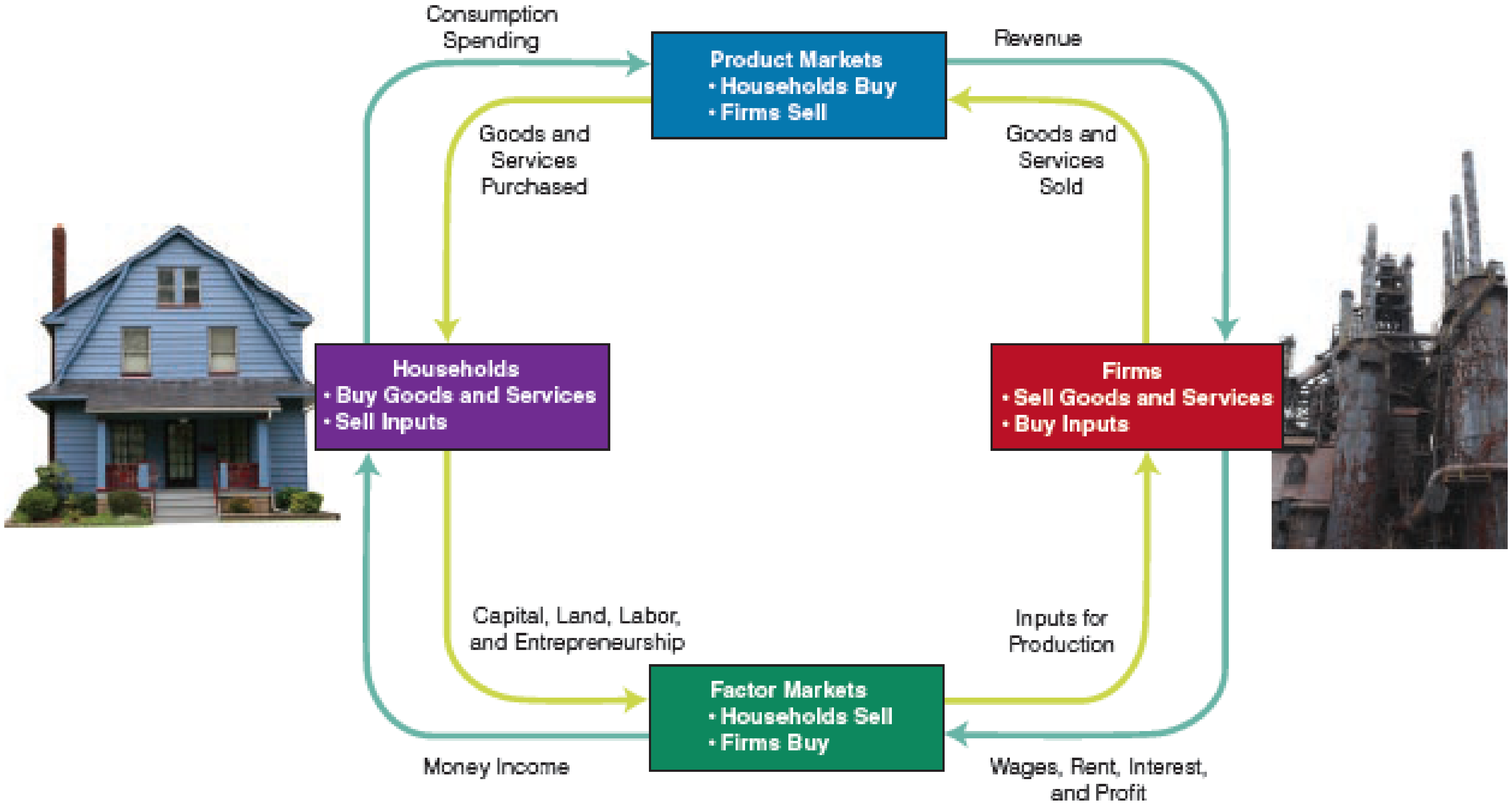
The Circular Flow Model

- ***Product markets*** are the markets in which households are buyers and firms are sellers of goods and services.
- ***Factor*** or ***input markets*** are markets in which households sell the use of their inputs (capital, land, labor and entrepreneurship) to firms.
- In the factor markets, households are the sellers and firms are the buyers.
- Wages, rents, interest, and profit are the payments for labor, land, capital and entrepreneurship.

The Circular Flow Model

- Income flows from firms to households (factor markets), and spending flows from households to firms (product markets).
- This simple circular flow model shows how households and firms interact in product markets and factor markets and how the two markets are interrelated.

Exhibit 1.1: The Circular Flow Diagram



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The Circular Flow Model: Example

- Suppose a teacher's supply of labor generates personal income in the form of wages (the factor market), which she can use to buy automobiles, vacations, food, and other goods (the product market).
- Suppose she buys an automobile (product market); the automobile dealer now has revenue to pay for his inputs (factor market)—wages to workers, purchase of new cars to replenish his inventory, rent for his building, and so on.

Section 3

SECTION CHECK 3

3.1 Markets provide what buyers are willing and able to pay for and what sellers are willing and able to produce.

3.2 A market failure is said to occur when the economy is unable to allocate resources efficiently on its own.

3.3 In the product market, households are buyers and firms are sellers. In the factor market, households are sellers and firms are buyers.

3.4 The circular flow model illustrates the flow of goods, services, and payments among firms and households.

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S4 Economic Theory

Section 4

SECTION 4 QUESTIONS

4.1 What are economic theories?

4.2 Why do we need to abstract?

4.3 What is a hypothesis?

4.4 What are microeconomics and macroeconomics?

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Economic Theories

THEORIES

statements or propositions used to explain and predict behavior in the real world

Abstraction

- Because of the complexity of human behavior, economists must abstract to focus on the most important components of a particular problem.
- This is similar to maps that highlight the important information (and assume away many of the minor details) to help people get from here to there.

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Developing a Testable Proposition

- A ***hypothesis*** in economic theory is a testable proposition that makes some type of prediction about behavior in response to certain changes in conditions based on our assumptions.
- For example, if the price of CDs increases, we can hypothesize that fewer CDs will be sold.

Empirical Analysis

EMPIRICAL ANALYSIS
the use of data to test a hypothesis

- ***Empirical analysis*** is applied to determine whether a hypothesis fits well with the facts. If an economic hypothesis is supported by the data, we can tentatively accept it as an economic theory.

The *Ceteris Paribus* Assumption

CETERIS PARIBUS
holding all other things constant

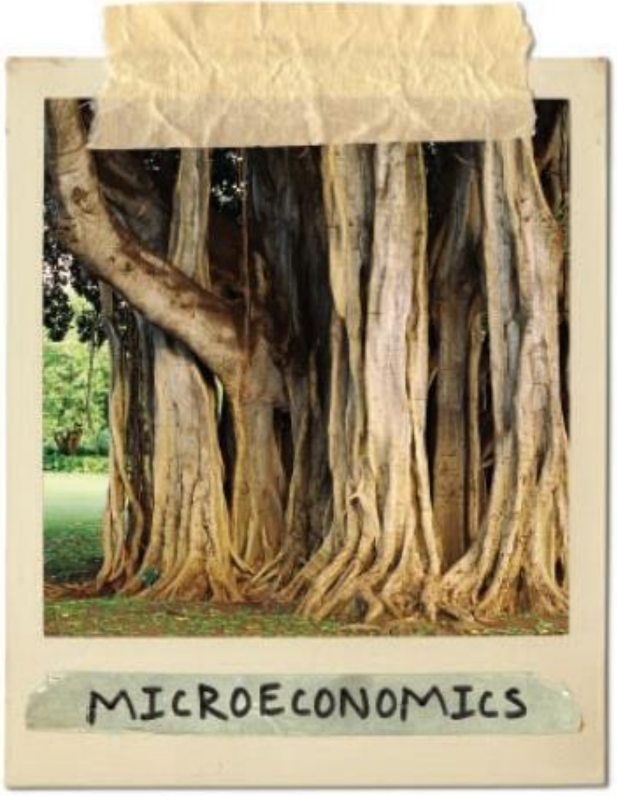
- Virtually all theories in economics are expressed using a ***ceteris paribus*** assumption.
- For example, the theory that if you study harder you will perform better on a test must carefully hold other things constant. What if you studied so hard you overslept or you were too sleepy to think clearly? Or what if you studied the wrong material?

Predicting on a Group Level

- Economics, like the other social sciences, is concerned with reaching generalizations about human behavior.
  - Observation and prediction are harder in economics than in physical sciences.
- Prediction on a group level
  - Looking at the behaviors of a large group allows economists to discern general patterns of actions.

Two Branches of Economics: Microeconomics and Macroeconomics

- Two main branches of economics are microeconomics and macroeconomics.
- ***Microeconomics*** deals with the smaller units within the economy.
- It attempts to understand the decision-making behavior of firms and households and their interaction in markets for particular goods or services.



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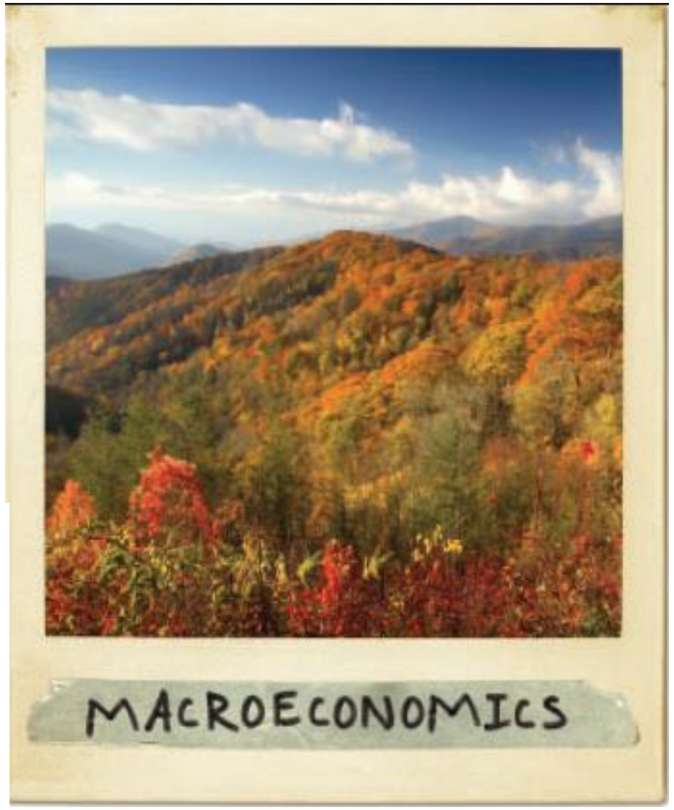
Two Branches of Economics: Microeconomics and Macroeconomics

- ***Macroeconomics*** is the study of the ***aggregate***, or total economy.



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- It looks at economic problems as they influence the whole of society, including the topics of inflation, unemployment, business cycles, and economic growth.
- Microeconomics looks at the trees; macroeconomics looks at the forest.

Section 4

SECTION CHECK 4

4.1 Economic theories are statements used to explain and predict patterns of human behavior.

4.2 The world is too complex to analyze, so we must abstract to focus on the most important components of a particular problem.

4.3 A hypothesis makes a prediction about human behavior and is then tested.

4.4 Microeconomics focuses on smaller units within the economy—firms and households—and how they interact in the marketplace. Macroeconomics deals with the aggregate, or total, economy.

S4

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Thank you!

Any questions?