

Intermediate Micro Chapter 1: Definitions and General Concepts

Opportunity Cost (p.G-6) – cost of the next best alternative

Exogenous Variable (p.4) – value is determined outside the model

Endogenous Variable (p.4) – value is determined within the model

Simple Example:

Supply: $P=Q$ Demand: $P=10-Q$

$Q^*=5$

$P^*=5$

P & Q are endogenous

Consumer Income is exogenous

(if consumer income increased, what would happen?)

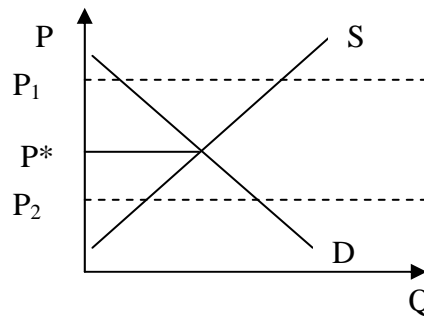
Constrained Optimization (p.5) – maximize or minimize an *objective function* subject to a constraint

Examples:

Maximize utility subject to a budget constraint

Minimize cost subject to a production quota

Equilibrium (p.11) – a point of rest; where quantity supplied = quantity demanded



P^* = Equilibrium Price

P_1 : excess supply – surplus

P_2 : excess demand – shortage

Comparative Statics (p.12) – change an exogenous variable
recompute endogenous variable(s) and compare

Example: if consumer income increases, new demand curve $P=20-Q$

Positive Analysis (p.16) – explains how an economic system works

Normative Analysis (p.16) – suggests how a policy *should* work; typically involves a value judgment