

Modul

Ekonomi Mikro



Gasal

Wiwini Hartanto, S.Pd., M.Pd

Tahun Akademik
2018/2019



Modul

EKONOMI MIKRO

SEMESTER GASAL

TAHUN AKADEMIK 2018/2019

WIWIN HARTANTO, S.PD., M.PD

PENDIDIKAN EKONOMI

FKIP UNIVERSITAS JEMBER

**Ten Principles of
Economics**

INTRODUCTION

- The word **economy** comes from the Greek word *oikonomos*, which means “one who manages a household.”
- **Scarcity**: the limited nature of society’s resources
- **Economics**: the study of how society manages its scarce resources

TEN PRINCIPLES OF ECONOMICS

- **How People Make Decisions**
 - 1: People Face Trade-offs
 - 2: The Cost of Something Is What You Give Up to Get It
 - 3: Rational People Think at the Margin
 - 4: People Respond to Incentives
- **How People Interact**
 - 5: Trade Can Make Everyone Better Off
 - 6: Markets Are Usually a Good Way to Organize Economic Activity
 - 7: Governments Can Sometimes Improve Market Outcomes
- **How the Economy as a Whole Works**
 - 8: A Country’s Standard of Living Depends on Its Ability to Produce Goods and Services
 - 9: Prices Rise When the Government Prints Too Much Money
 - 10: Society Faces a Short-Run Trade-off between Inflation and Unemployment

Principle 1: People Face Tradeoffs

HOW PEOPLE MAKE DECISIONS

You may have heard the old saying, “**There ain’t no such thing as a free lunch.**” Grammar aside, there is much truth to this adage. To get something that we like, we usually have to give up something else that we also like. Making decisions requires trading off one goal against another.

Examples:



Society faces an important tradeoff:
efficiency vs. equality

Efficiency: when society gets the most from its scarce resources

Equality: when prosperity is distributed uniformly among society's members

Principle 2: The Cost of Something Is What You Give Up to Get It

Making decisions requires comparing the costs and benefits of alternative choices

opportunity cost ?

For example: I have come here to do post-graduation but I had to sacrifice my server administrator job. A cost that given up to get something known as the opportunity cost. My opportunity cost is server administrator job, money, and time, which I had given up for the post-graduation. (Mankiw,2003,pp.5&6)

Principle 3: Rational People Think at the Margin

- systematically and purposefully do the best they can to achieve their objectives.
- make decisions by evaluating costs and benefits of **marginal changes** – incremental adjustments to an existing plan

you might buy one cup of coffee in the morning because it helps you start the day, but you might not buy a second cup because this gives you no extra benefit

Principle 4: People Respond to Incentives

Incentive: something that induces a person to act, *i.e.* the prospect of a reward or punishment

- if your hourly wage increases then you are likely to work more (unless of course your income is already too high).
- If the cost of the orange increases then the consumer will shift towards apples, as cost of orange is high. (Mankiw,2003,p.7)

Principle 5: Trade Can Make Everyone Better Off

Trade allows people to specialise in what they do best. By trading, each person can then buy a variety of goods or services.

For example : Trade between country A and country B will help both the countries to get goods of one another and help them to expertise in what they are good at producing.

Principle 6: Markets Are Usually A Good Way to Organize Economic Activity

- **Market:** a group of buyers and sellers (need not be in a single location)
- **“Organize economic activity”** means determining
 - what goods to produce
 - how to produce them
 - how much of each to produce
 - who gets them

Principle 6 : Markets Are Usually A Good Way to Organize Economic Activity

- ✓ A market economy allocates resources through the decentralized decisions of many households and firms as they interact in markets.
- ✓ Famous insight by Adam Smith in *The Wealth of Nations* (1776): Each of these households and firms acts as if “led by an invisible hand” to promote general economic well-being

Principle 7 : Governments Can Sometimes Improve Market Outcomes

- Important role for govt: enforce property rights (with police, courts)
- People are less inclined to work, produce, invest, or purchase if large risk of their property being stolen.

Principle 7: Governments Can Sometimes Improve Market Outcomes

- **Market failure:** when the market fails to allocate society's resources efficiently
- **Causes:**
 - Externalities, when the production or consumption of a good affects bystanders (e.g. pollution)
 - Market power, a single buyer or seller has substantial influence on market price (e.g. monopoly)

Principle 8: A country's standard of living depends on its ability to produce goods & services.

- **Huge variation in living standards across countries and over time:**
 - Average income in rich countries is more than ten times average income in poor countries.
 - The U.S. standard of living today is about eight times larger than 100 years ago.
- **The most important determinant of living standards:** productivity, the amount of goods and services produced per unit of labor.

Productivity depends on the equipment, skills, and technology available to workers. Other factors (e.g., labor unions, competition from abroad) have far less impact on living standards.

Principle 9: Prices rise when the government prints too much money.

- *Inflation*: increases in the general level of prices.
- In the long run, inflation is almost always caused by excessive growth in the quantity of money, which causes the value of money to fall.
- The faster the govt creates money, the greater the inflation rate.

Principle 10: Society faces a short-run tradeoff between inflation and unemployment

- In the short-run (1 – 2 years), many economic policies push inflation and unemployment in opposite directions.
- Other factors can make this tradeoff more or less favorable, but the tradeoff is always present

DISKUSI SESI PERTAMA

Sistematika :

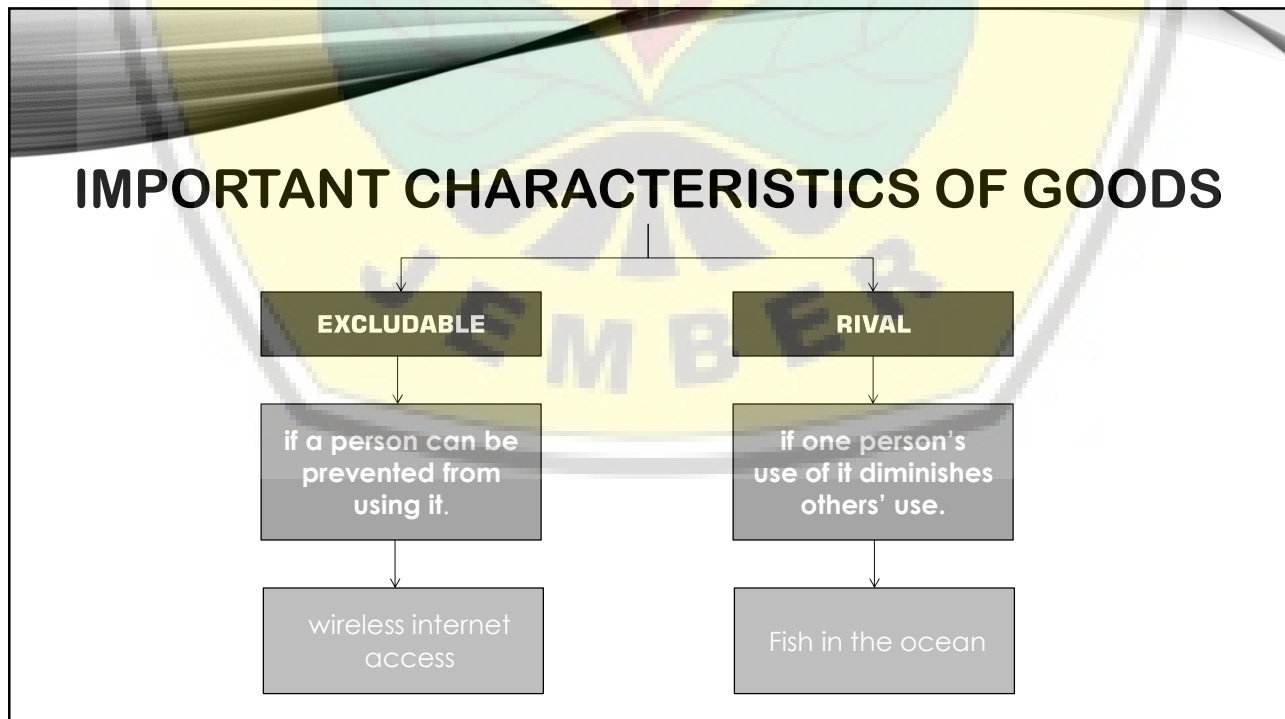
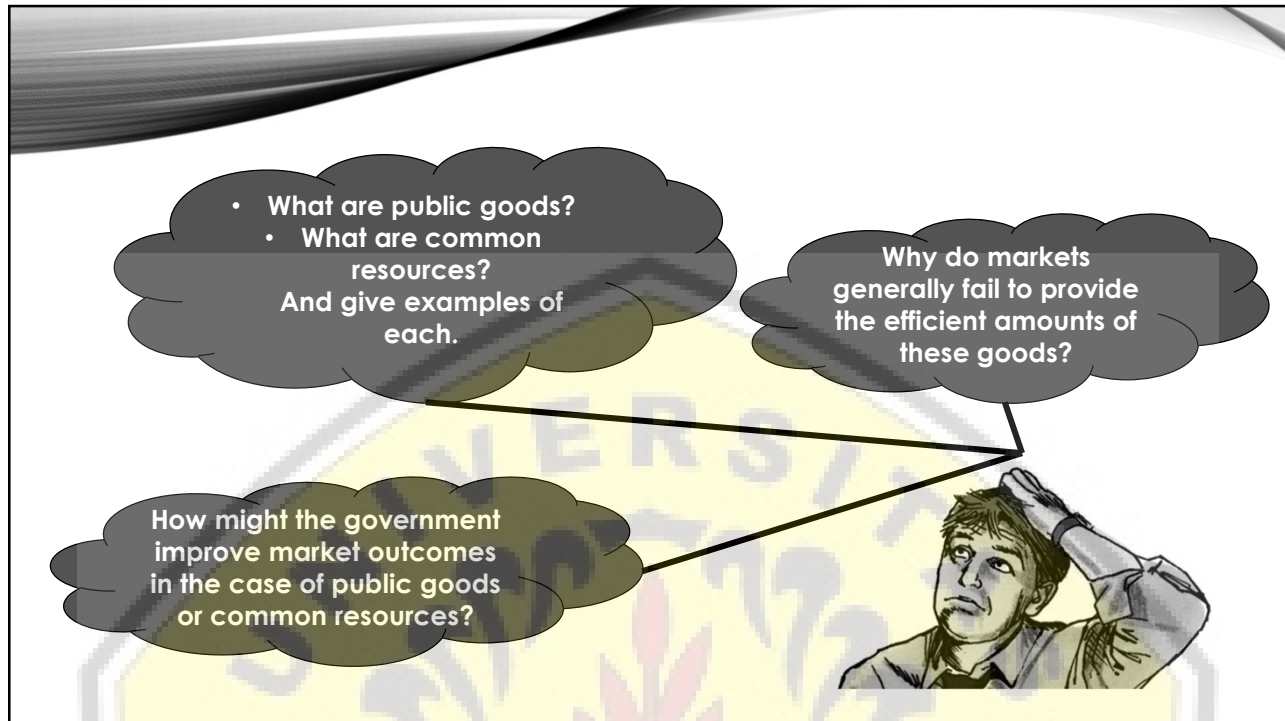
- Audien diharapkan membentuk kelompok max 6 orang
- Penyaji akan memberikan lebar diskusi (didalamnya terdapat pertanyaan-pertanyaan yang berkaitan dengan materi)
- Setiap Kelompok dipersilahkan untuk berdiskusi max 15 mnt
- Audien dipersilakan untuk memaparkan hasil diskusi dihadapan audien lainnya (tidak perlu untuk maju ke depan)

DISKUSI SESI KEDUA

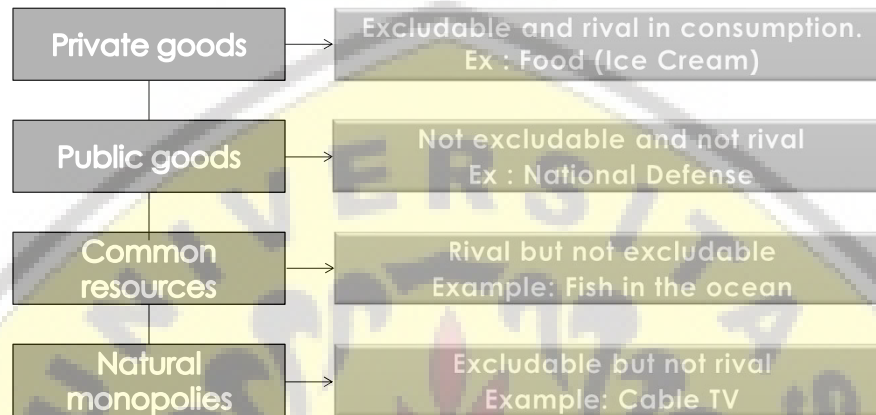
Sistematika :

- Audien bertanya ke penyaji tentang materi yang telah disampaikan
- Audien terlebih dahulu memberikan salam lalu menyebutkan nama beserta nim sebelum pertanyaan disampaikan

PUBLIC GOODS AND COMMON RESOURCES

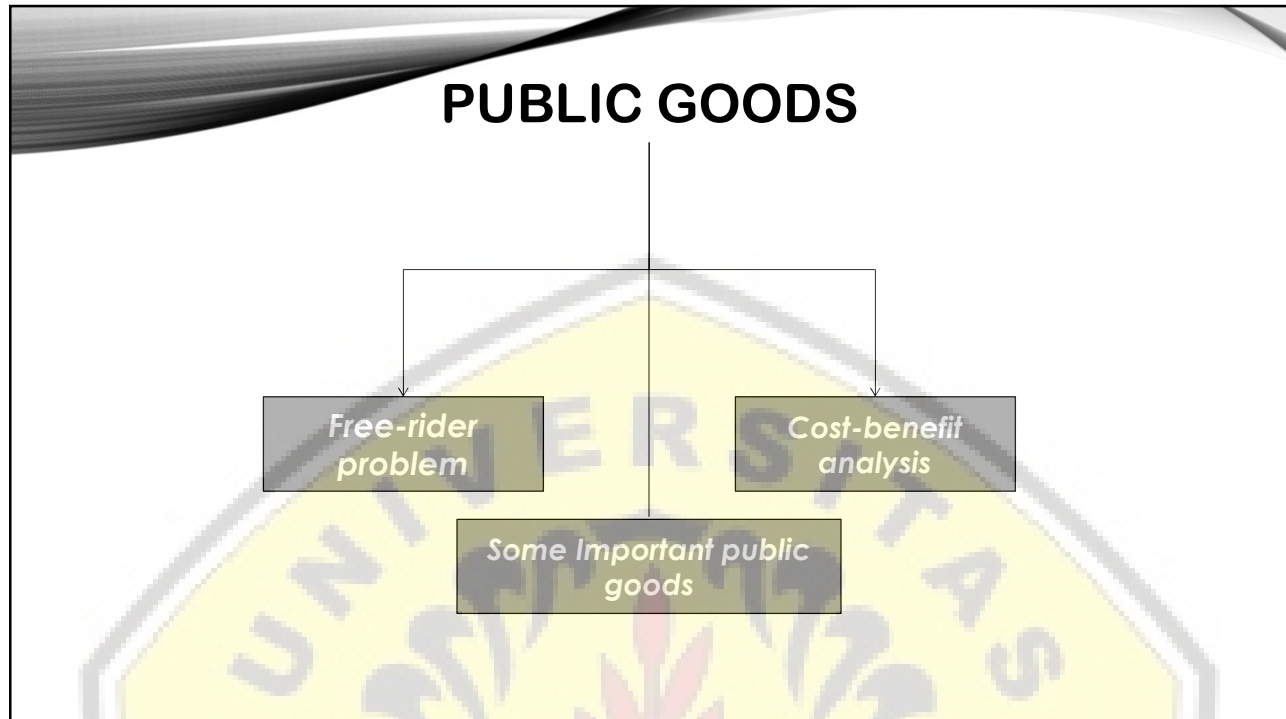


THE DIFFERENT KINDS OF GOODS



THE DIFFERENT KINDS OF GOODS

		Rival	
		Yes	No
Excludable	Yes	Private Goods <ul style="list-style-type: none"> • Ice-cream cones • Clothing • Congested toll roads 	Natural Monopolies <ul style="list-style-type: none"> • Fire protection • Cable TV • Uncongested toll roads
	No	Common Resources <ul style="list-style-type: none"> • Fish in the ocean • The environment • Congested nontoll roads 	Public Goods <ul style="list-style-type: none"> • National defense • Knowledge • Uncongested nontoll roads



PUBLIC GOODS (FREE-RIDER PROBLEM)

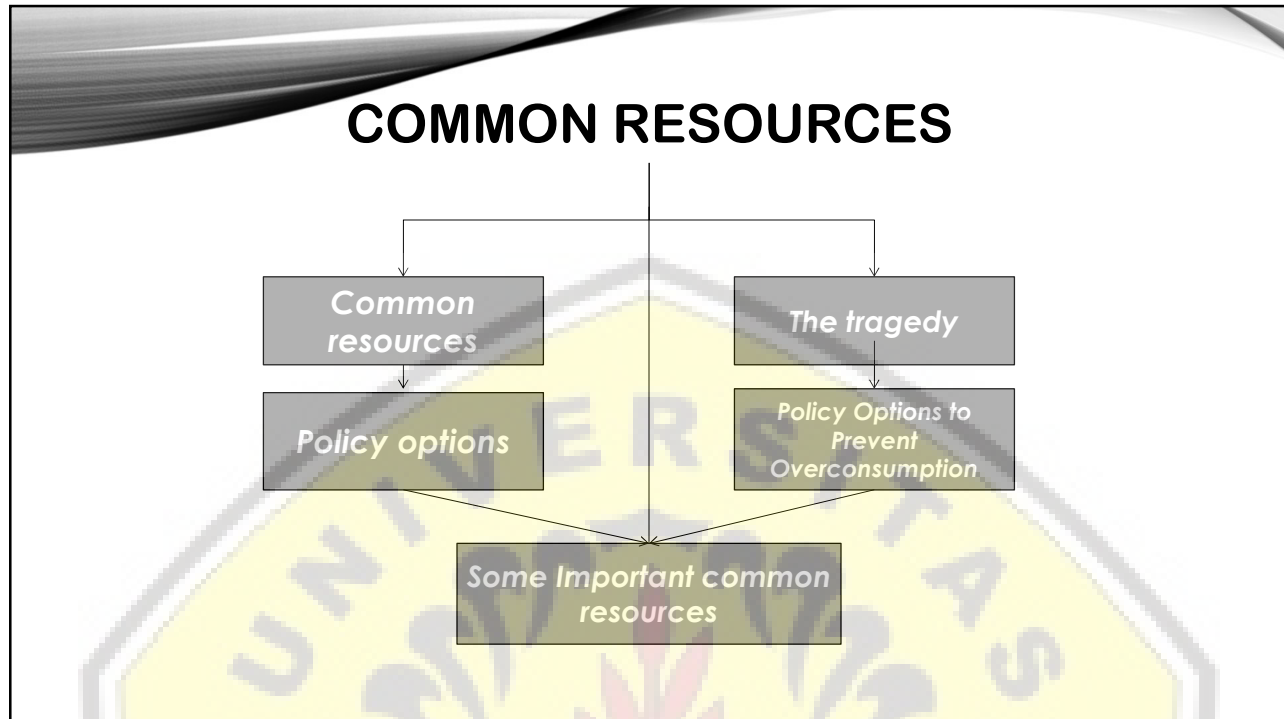
- Public goods are difficult for private markets to provide because of the *free-rider problem*.
- **Free rider** : a person who receives the benefit of a good but avoids paying for it
 - If good is not excludable, people have incentive to be free riders, because firms cannot prevent non-payers from consuming the good.
- Result: The good is not produced, even if buyers collectively value the good higher than the cost of providing it.

PUBLIC GOODS (COST-BENEFIT ANALYSIS)

- If the benefit of a public good exceeds the cost of providing it, govt should provide the good and pay for it with a tax on people who benefit. (Measuring the benefit is usually difficult)
- **Cost-benefit analysis** : a study that compares the costs and benefits of providing a public good . Cost-benefit analyses are imprecise, so the efficient provision of public goods is more difficult than that of private goods.

SOME IMPORTANT PUBLIC GOODS

- National defense
- Knowledge created through basic research
- Fighting poverty



COMMON RESOURCES

- Like public goods, common resources are not excludable. Cannot prevent free riders from using. Little incentive for firms to provide. Role for govt : seeing that they are provided
- Additional problem with common resources : rival in consumption. Each person's use reduces others' ability to use. Role for govt: ensuring they are not overused

THE TRAGEDY OF THE COMMONS

- A parable that illustrates why common resources get used more than is socially desirable.
- Example :
 A medieval town where sheep graze on common land. As the population grows, the #of sheep grows. The amount of land is fixed, the grass begins to disappear from overgrazing. The private incentives (using the land for free) outweigh the social incentives (using it carefully). Result : People can no longer raise sheep. The tragedy is due to an externality : Allowing one's flock to graze on the common land reduces its quality for other families. People neglect this external cost, resulting in overuse of the land.

POLICY OPTIONS FOR COMMON RESOURCES

- What could the townspeople (or their government) have done to prevent the tragedy? Try to think of two or three options.
- Answer :
 - Impose a corrective tax on the use of the land to "internalize the externality."
 - Regulate use of the land (the "command-and-control" approach).
 - Auction off permits allowing use of the land.
 - Divide the land, sell lots to individual families; each family will have incentive not to overgraze its own land.

POLICY OPTIONS TO PREVENT OVERCONSUMPTION OF COMMON RESOURCES

- Regulate use of the resource
- Impose a corrective tax to internalize the externality
 - Example : hunting & fishing licenses, entrance fees for congested national parks
- Auction off permits allowing use of the resource
 - Example : spectrum auctions by the U.S. Federal Communications Commission
- If the resource is land, convert to a private good by dividing and selling parcels to individuals

SOME IMPORTANT COMMON RESOURCES

- Clean air and water
- Congested roads
- Fish, whales, and other wildlife

CONCLUSION

Public goods tend to be under-provided, while common resources tend to be over-consumed. These problems arise because property rights are not well-established: Nobody owns the air, so no one can charge polluters. Result: too much pollution. Nobody can charge people who benefit from national defense. Result: too little defense. The govt can potentially solve these problems with appropriate policies. A good is excludable if someone can be prevented from using it. A good is rival in consumption if one person's use reduces others' ability to use the same unit of the good. Markets work best for private goods, which are excludable and rival in consumption. Markets do not work well for other types of goods. Public goods, such as national defense and fundamental knowledge, are neither excludable nor rival in consumption. Because people do not have to pay to use them, they have an incentive to free ride, and firms have no incentive to provide them. Therefore, the government provides public goods, using cost-benefit analysis to determine how much to provide. Common resources are rival in consumption but not excludable. Examples include common grazing land, clean air, and congested roads. People can use common resources without paying, so they tend to overuse them. Therefore, governments try to limit the use of common resources.

LEMBAR DISKUSI

- **Bagaimana Pentingnya kasus Hak Milik?**
- **Jelaskan perbedaan barang ekskludabel dan barang rival?**
- **Mengapa pemerintah membatasi sumber daya milik bersama?**

TERIMA KASIH

