Week 2: Basic Economic Principles

Welcome to our journey into the fundamentals of economics! This week, we'll explore key concepts that shape our understanding of markets and decision-making.

Understanding Supply and Demand

Supply

Refers to the amount of a product available in the market. It's influenced by production costs, technology, and resource availability.

Demand

Represents consumers' desire and ability to purchase a product. It's affected by income, preferences, and price expectations.

How Availability Affects Prices

1

Low Supply

When a product is scarce, its price typically increases.

2

High Demand

Increased consumer interest drives prices up.

3

Price Spike

Limited availability and high desire lead to higher prices.

How Desire Affects Prices

1. **Product Launch**

   A new toy or game is released, generating buzz and excitement.

2. **Increased Demand**

   As more people want the item, retailers may raise prices.

3. **Market Response**

   Manufacturers might increase production to meet demand, potentially stabilizing prices.

Exploring Scarcity

1

Limited Resources

Everything we need or want is in finite supply.

2

Choices

We must decide how to allocate our limited resources.

3

Trade-offs

Every choice involves giving up something else.

Limited Resources Require Choices

Time

We have limited hours in a day for work, play, and rest.

Money

Our income constrains what we can buy or invest in.

Energy

Both personal and natural resources are finite and must be managed.

Understanding Opportunity Cost

Definition

The value of the next best alternative that must be given up when making a choice.

Example

Buying a video game means not having money for a new shirt.

Importance

Helps us make informed decisions by considering what we're giving up.

Differentiating Goods and Services

1

Goods

Tangible items you can physically possess.

2

Services

Intangible activities or benefits provided to consumers.

3

Hybrid Offerings

Some products combine both goods and services.

Understanding Goods

Goods are physical products that can be stored, transported, and consumed over time. They include both durable items like furniture and non-durable items like food.

Exploring Services

Intangible Experiences

Services provide value through actions rather than physical objects.

Immediate Consumption

Services are often produced and consumed simultaneously.

Wide Variety

Services range from education and healthcare to entertainment and transportation.

Impact of Inflation

Decreased Purchasing Power

Inflation reduces the value of money. You need more money to buy the same goods and services.

Rising Interest Rates

Banks increase interest rates to combat inflation, making borrowing more expensive.

Increased Cost of Living

Inflation drives up everyday expenses, making it harder to afford basic necessities.

Made with Gamma

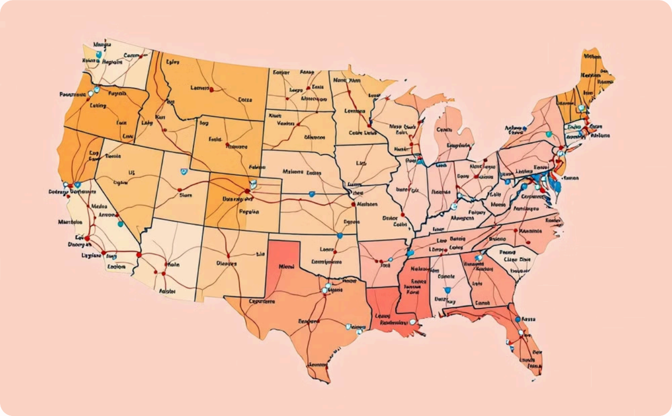
What is the Economy?

Flow of Goods

Goods are produced, sold, and consumed, generating economic activity.

Movement of Money

Money circulates through various transactions, facilitating trade and investment.



National Scope

The economy encompasses all economic activities within a country.

Inflation's Role in the Economy

Stimulating Spending

Inflation can encourage people to spend their money before prices rise further. This increases demand for goods and services.

Boosting Economic Growth

Increased spending translates to higher production and employment, potentially pulling a slowing economy out of a recession.

Inflation's Effect on Purchasing Power

Inflation erodes purchasing power. This means that money buys less as prices rise.

Imagine buying a loaf of bread for $2 in 2010. Now it costs $3. Your money is worth less because it takes more money to buy the same goods.

This can strain household budgets. People may need to cut back on spending or work more hours to maintain their standard of living.

Intrinsic vs Extrinsic Value

A stock's ***intrinsic value*** is based on a company's financial performance and assets. It's a measure of what the stock is worth based on fundamental analysis.

Extrinsic value represents market sentiment and expectations. It's influenced by factors like industry trends, growth potential, and investor confidence.

For example, a tech stock may have a higher extrinsic value due to the industry's perceived growth potential. In contrast, an oil company may have a lower extrinsic value due to concerns about declining demand.