

Economic Literacy and Basic Principles of Economics

Getting to know you

There's gonna be a lot of economics in the room.

.....

Expectations:

What would you expect if you were told you have to attend a workshop about „economic literacy“?

Objective and possible outcomes

Objectives:

- * to realise the economic environment we make our decisions in
- * to realise some of the basic principles that shape our decision-making processes
- * better understand the decision-making processes of others

Outcomes:

Better understanding of our (and others') decision-making processes

Overview

Foundations of economic behaviour (Part 1)

Basic economic principles

1. Resources are limited
2. Cost-benefit analysis
3. Opportunity cost
4. Principle of transitivity
5. Marginal variables

Foundations of an economic behaviour (Part 2)

Where can we use it

- Decision making
 - career change
 - investment
 - product change
 - change of customer target group
- Perception of our environment/surroundings
 - social and political environment
 - economic setting

What is an economic principle?

Pair work

1. Characteristics of a principle
2. The actual economic principles – come up with three

Foundations of economic behaviour

Rationality

- can we define it?
- is it good × is it bad?

Effectiveness

- definition

Utility

- uti... what?

1. Resources, limitations and needs

Original limitations: soil / arable land, harvest, hunting, iron ore, etc.

Later: production – also has its limits

Needs: unlimited according to economists

Modern goods? **Information**. Where are the limitations?

Information is not limited, the reliability is.

Decision-making take: How limited are the resources you use? How unlimited the customers needs?

2. Cost-benefit analysis

CBA - the balance sheet model

- CBA at **work**
- CBA at **home** – oh really?

„We make our minds with intuition, right?“

„We decide with our hearts!“

„We don't count benefits or cost in our personal lives!!!“

Sorry, there is someone/something doing the calculations. The body, the genes, the subconscious.

... the society, the nature?

3. Opportunity cost

What would you do if you weren't here today?

What would I do?

3. Opportunity cost 2

There are always some opportunity cost of all the decisions

Decision-making take: Try to figure out all possible OC, including

- your time
- time of the others
- emotional cost (regret of a lost opportunity, lost chance to decide)
-

4. Principle of transitivity

One of the strongest assumptions: people are able to set their preferences.

* without it, there wouldn't be any (classical) economics

Preferences are:

stable | consistent | fully expressed | rational

Do you like fruits?

5. Marginal variables

What is a marginal variable?

Example: consumption

Every additional unit of consumption brings more utility, but as you consume more, further additional units bring you smaller and smaller increases in the total utility.

Any economic category: cost, profits, production

Non economic categories?

D-M take: measure the marginal utility of two exclusive options, not the total utility.

Foundations of economic behaviour

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Personal experience: are you efficient? when, where, why, under what conditions?

How would you define this kind of efficiency?

D-M take: does any further client add to your sales? And to your profits? To your utility?

Foundations of economic behaviour 2

Risk awareness

Do you bet?

- on sport, horse race, lottery, betting with friends

What utility do the gamblers get from betting?

And do you bet in your career?

Let's gamble

Let's gamble

Game example 1 - flipping a coin:

you have € 10 – the price of betting. Or also your safe keep.

* you bet on heads, probability: 50 % (or 0.5)

* if heads – you get € 20, if tails .. I'm sorry.

Would you bet?

Expected utility \times expected revenue

What is a fair bet?

Let's gamble

Further options:

you have € 10 – the price of betting, or you safe keep

* you bet on heads, probability: 50 %

NOW

* if heads – you get € 30 instead of 20. Would you bet?

* if heads – you get € 50 – would you bet?

* or € 100

* or € 9

Let's gamble

Game example 2 – flipping a coin:

you have € 1000 – the price of betting, or also your safe keep

* you bet on heads, probability: 50 % (or 0.5)

* if heads – you get € 2000, if tails .. I'm sorry.

Would you bet?

And with a possible win of € 3000, or 5000 or 10000?

Let's gamble

Example 2 – casting a dice

- each number – probability 0,1666666666666666
- you bet on 5 or 6 – probability 0,333333333333

Safe keep: € 10, possible win € 30. Do you bet?

Risk awareness – risk avoidance, risk inclination.

The end (to be continued)

What we've learned?

Well, if anything?

Principles | foundations of economic behaviour | possible threats