Ch 1: Ten Principles of Economics

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EC 111 Principles of Microeconomics, Bentley University, Fall 2026

Who I am

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Economics of Health and Aging
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RAU 019F · Mon/Wed 11–12, 1–3
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Subject: **EC111**

Where everything lives

Course page

`onuraltindag.info/teaching/ec111`

password `GoFalcons!`

Slides, notes, handouts — posted after class

Announcements

By email from me → your Bentley inbox

MindTap

E-book + all homework

Register this week: Bentley email, your section's link

Free until Sep 13

Problems? `support.cengage.com`

Mankiw 10e, on MindTap

Homework

10 assignments, weekly

Sunday 11 PM · 2 dropped

Score $\geq$ 50%: full credit

Homework + participation	20%
Midterm 1	25%
Midterm 2	25%
Final	30%

Closed book, closed notes

Basic calculator only

No make-ups · final is cumulative

How this class runs

Learning happens here

Face to face, not a broadcast

Still the fastest way to learn

No recordings · no remote

Attendance is participation

Both inside the 20%

Missed a class? Notes, then questions

Something comes up? Email me. That is all.

Devices closed

Phones away · laptops shut

Diagrams: learned by drawing them

A screen costs the people around you

Board photos at the end: fine

Laptop for notes?

Come see me · rare, not automatic

Granted, you explain it to no one

A general-purpose technology

Steam · electricity · the spreadsheet

I use it every day
It makes me faster

Nothing here is graded on writing
So: use it

Substitute or complement?

Substitute: it thinks, you don't

Complement: it explains, you think

Homework is algorithmic practice
Exams: closed book, closed device

The brain is a muscle · no load, no gain

AI should make you think more, not think instead of you

When things go wrong

Exams

No make-ups

Emergency? Tell me before · documentation

Valid excuse → final re-weighted

Illness, family emergency → Office of Student Success, JEN 336 · they notify every instructor

Help

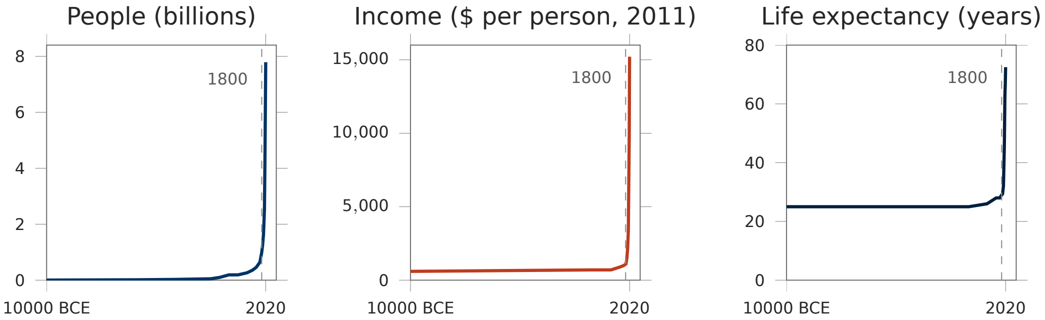
Office hours Mon/Wed · book a slot

LEAF · Morison 220D · drop-in · from Sep 14

Accommodations: send me your plan early · set up a week before an exam

Homework deadline is automatic · the 2 dropped are your bad weeks

The rise of markets



Scarcity · limited resources, unlimited wants

Economics · how markets work, and how they fail

Our World in Data — HYDE, Maddison Project, UN. Pre-1820 figures are estimates.

The market giveth, the market taketh away; blessed be the name of the market.

— Brad DeLong, *Slouching Towards Utopia*

The map

How people decide

1. Trade-offs
2. Opportunity cost
3. The margin
4. Incentives

How people interact

5. Trade
6. Markets
7. Government

The whole economy

8. Productivity
9. Inflation
10. Short-run trade-off

Principles 1–4 are one idea seen from four sides.

1. People face trade-offs

There is no such thing as a free lunch.

You

- Party vs. exam tomorrow
- More shifts vs. more free time

Society

- Guns vs. butter
- Clean air vs. income
- Efficiency vs. equality

Efficiency · the size of the pie
Equality · how evenly it is sliced

Slice more evenly $\rightarrow$ smaller pie? · an empirical question

2. The cost of something is what you give up to get it

Every choice has a cost · the next best thing you gave up

An hour · a dollar · a seat

Not what you *pay* · what you *forgo*

These 80 minutes · what else?

A year at Bentley

Tuition $65,860

Room and board $22,010 · *not a cost*

Forgone earnings · on no bill

Same degree · different cost

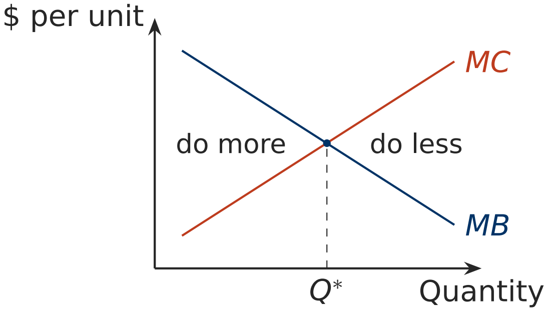
Bentley published rates, 2026–27.

3. Rational people think at the margin

Not "study or not" but "one more hour?"

Marginal benefit: gain from one more unit.
Marginal cost: cost of one more unit.

Do it while $MB \geq MC$.
Stop when $MB < MC$.



The unfinished product

Your company has spent $5 million developing a product.

Competitors just launched. Expected sales are now $3 million.

Finishing and producing it costs $1 million.

Question

Go ahead? What is the most you would pay to finish?

Sunk costs and the empty seat

Sunk cost: already paid, cannot be recovered. Ignore it.

The $5 million is sunk. The jacket is sunk. What matters is the next dollar.

The empty seat

Average cost per passenger: $500.

Marginal cost of one more passenger: a soda and pretzels.

A standby ticket at $150 is profitable.

Water and diamonds

Prices reflect marginal value, not total value.

4. People respond to incentives

Incentive: something that induces a person to act.

Change the costs or benefits, and behavior changes.

Question

Gasoline tax goes up by $1 per gallon. How do drivers respond? Automakers? Trucking firms?

Incentives have unintended consequences

Seat belts

Accidents cost the driver less

$\rightarrow$ careful driving pays less

Peltzman (1975): fewer deaths per accident · more accidents · more pedestrians killed

Mexico City, 1989 · *Hoy No Circula*

One plate digit banned per weekday

$\rightarrow$ buy a second car · old and cheap

Davis (2008): no improvement in air quality · more cars · dirtier ones · gasoline sales up

A policy that ignores incentives is surprised by the outcome

Peltzman, *JPE* 1975 · Davis, *JPE* 2008, "The Effect of Driving Restrictions on Air Quality in Mexico City".

5. Trade can make everyone better off

Grow your own food · sew your own clothes · cut your own hair

$\rightarrow$ poorer, hungrier, worse dressed

Specialize where you are relatively good · trade for the rest

Voluntary exchange · both sides expect to gain

Countries too · trade is not a contest with a winner and a loser

Not everyone inside a country gains · Ch 3

6. Markets are usually a good way to organize economic activity

Every economy answers three questions · what to produce · how · for whom

In a **market economy** nobody answers them · millions of households and firms decide for themselves

Self-interest plus prices · guided as if by an invisible hand

A price is what buyers will pay and what it costs to produce · nobody has to be told

> *“It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.”*
>
> — Adam Smith, *The Wealth of Nations*, 1776

Taxis and Uber

Taxis, 1937–2009

- Fixed number of medallions
- Fares set by law
- Long waits at peak times
- NYC medallion: over $1 million

Uber, 2009–

- Anyone with a car and a phone
- Price moves with demand
- More drivers when needed
- Rides go to those who value them most

Question

Who lost? Who gained? Is surge pricing unfair?

7. Governments can sometimes improve market outcomes

Enforce the rules: property rights, police, courts. No harvest if it can be stolen.

Promote efficiency: fix market failures

- Externality: pollution falls on bystanders
- Market power: the only gas station for 60 miles

Promote equality: taxes and transfers change how the pie is sliced.

Can improve, not *always does*.

Markets fail. Regulation fails too.

The failure

Plastic bags · litter and oceans

Cost falls on bystanders

The fix

California bans them

The response

They had a second life as trash liners

Banned $\rightarrow$ people buy trash bags · small $+120\%$

The result

Taylor (2019): -40M lbs carryout · $+12$M lbs trash bags

Regulation that ignores Principle 4 fails too

> *"The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design."*
>
> — F. A. Hayek, *The Fatal Conceit*, 1988

8, 9, 10: The economy as a whole

8. Living standards depend on productivity.
Output per hour of work. Equipment, skills, technology. Almost nothing else matters as much.

9. Prices rise when the government prints too much money.
Germany, 1921–22: a newspaper went from 0.3 marks to 70 million.

10. Short-run trade-off between inflation and unemployment.
More money, more spending, more hiring. For a while.

Macroeconomics. Not this course.

Summary

Deciding

1. Trade-offs
2. Opportunity cost
3. Think at the margin
4. Incentives

Interacting

5. Trade: both sides gain
6. Prices coordinate
7. Government can help, can fail

The whole economy

8. Productivity
9. Money growth, inflation
10. Inflation vs. unemployment, short run

One idea, four sides: scarcity forces trade-offs; cost is what you give up; compare at the margin; when costs or benefits change, behavior changes.

Next: Ch 2, Thinking like an economist.

MindTap HW 1 is open.