

# *THE ESSENCE OF ECONOMICS*

*Essence > Noun . The most important ingredient or crucial element .*

## *Synonym*

*Being*

*Nature*

## *Related*

*Entity*

*Form*

*Substance*

*Root*

## *Antonym*

*Absence*

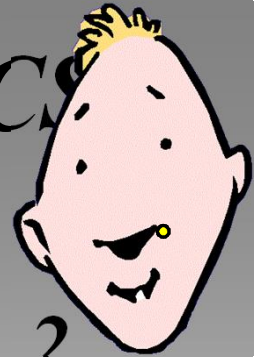
*Void*

*The essence of the problem was his lack of discipline .*

**DECISIONS**

# ***THE ESSENCE OF ECONOMICS***

## ***CHAPTER CONTENTS***



***É FUNDAMENTAL CONCEPTS > PART 2***

***ó METHODS IN PERSONAL , BUSINESS ,  
AND SOCIETAL DECISION MAKING***

***ó FIRST LAW OF ECONOMICS AND LIFE***

***ó OPPORTUNITY COSTS***

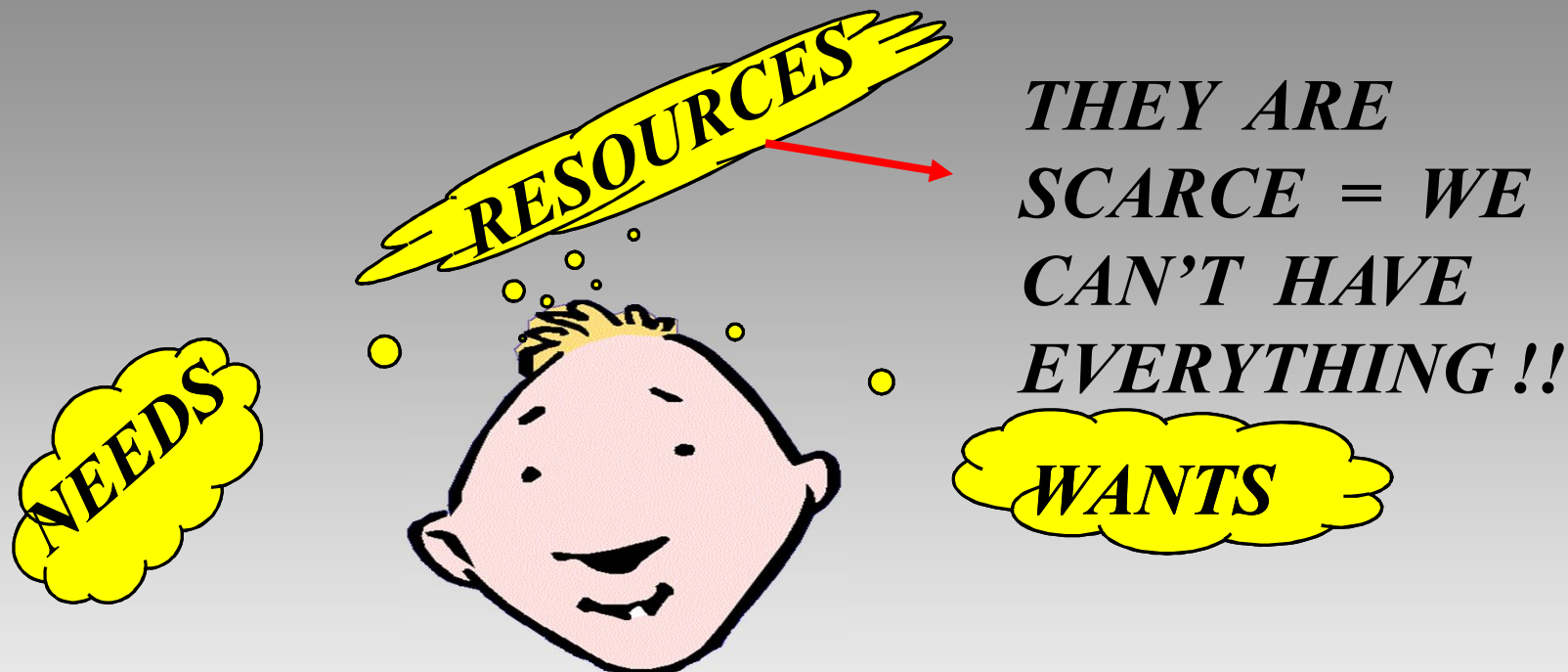
***ó MARGINAL ANALYSIS***

***É MEASUREMENTS IN ECONOMIC AND  
BUSINESS DECISION MAKING***

***É GENERAL DECISION GOALS AND THE  
COST BENEFIT ANALYSIS***

# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*



*THE PRIMARY DIFFERENCE BETWEEN MAN AND ANIMALS IS THAT MAN HAS THE ABILITY TO ACT ACCORDING TO REASON, RATHER THAN JUST INSTINCT*

*- MARK ATTEBERRY, THE SAMSON SYNDROME*

# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*STEP # 1 !! WE NEED TO UNDERSTAND  
THE SECRET AND HIGHLY VALUED FIRST  
LAW OF ECONOMICS AND LIFE*

*IT IS SO SECRET THAT  
WE USE A CODE WORD  
FOR IT !!*

*TANSTAFL*



*THE ESSENCE OF ECONOMICS*  
*THE ART OF DECISION MAKING*

*WHAT DOES “FREE” MEAN ?*

*IT DOESN'T COST ANYONE ANYTHING !!*

*IS ANYTHING FREE ??*

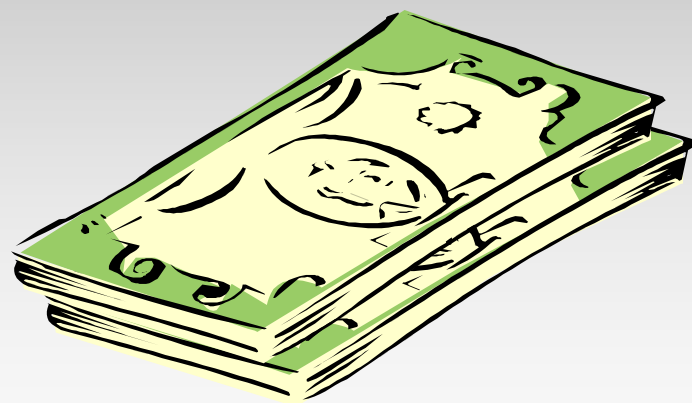


# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*THE FIRST LAW OF ECONOMICS AND  
LIFE > “TANSTAAFL”:*

*“THERE AINT NO SUCH THING AS A  
FREE LUNCH !!”*



*EVERY DECISION IS EITHER A PAY OFF  
OR TRADE OFF !!*

***THE ESSENCE OF ECONOMICS***  
***THE ART OF DECISION MAKING***

***BUT IF NOTHING IS FREE , WHY IS THE  
WORD FREE USED IN FREE ENTERPRISE  
AND FREE MARKET ??***

***THE MOST IMPORTANT CHARACTERIS –  
TIC OF THE FREE MARKET ( OUR  
ECONOMIC SYSTEM ) TELLS YOU WHY.....***

***A HIGH PRIORITY IS PLACED ON THE  
FREEDOM OF CHOICE AND THE  
OPPORTUNITY TO MAKE “ TRADE OFFS ”***

# ***THE ESSENCE OF ECONOMICS***

## ***THE ART OF DECISION MAKING***

*Finances > Noun . Matters relating to money , expenses , savings , and investment .*

### *Synonym*

*Funds*

*Accounts*

*Means*

### *Related*

*Capital*

*Bankroll*

*Dough*

### *Antonym*

*Broke*

*Poor*

*Debt*

*For the company to recover , it must get its finances in order .*

***YOU WILL EITHER .....***





# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*É .... WORK FOR YOURSELF OR BE A  
DECISION MAKING EMPLOYEE IN A  
SMALL BUSINESS > YOU WILL NEED  
TONS OF KNOWLEDGE*

*É YOU WILL SPEND MORE  
TIME AT WORK THAN  
ANYWHERE ELSE >  
PROBABLY 50 + YEARS*

*É TO EFFECTIVELY BE ABLE TO HANDLE  
“TRADE OFF ” CONSIDERATIONS*



*THE ESSENCE OF ECONOMICS*  
*THE ART OF DECISION MAKING*

*HOW DO YOU GO ABOUT  
MAKING THE RATIONAL DECISIONS ??!!*



# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*STEP # 2 !! WE NEED TO UNDERSTAND  
HOW TO EFFECTIVELY HANDLE TRADE  
OFFS !!*

*DECISIONS EXIST ONLY WHEN YOU HAVE  
OPTIONS WITH VALUE > SOMETHING TO  
TRADE OFF !!*



# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

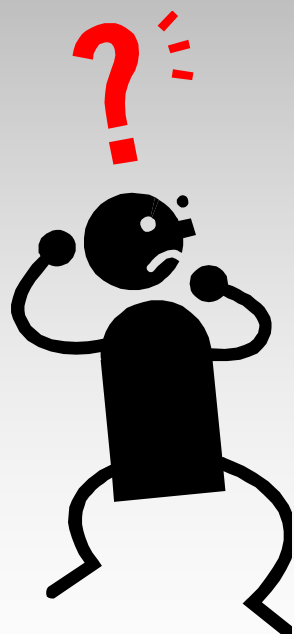
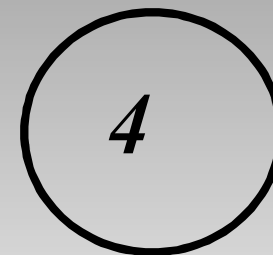
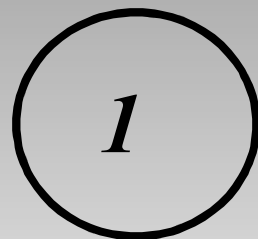
*WHEN YOU CHOOSE ONE OPTION OVER THE OTHER THE OPTION NOT CHOSEN BECOMES A “ **COST** ” TO YOU > IN OTHER WORDS THE “ VALUE OF WHAT YOU GAVE UP ” TO TAKE ADVANTAGE OF THE OTHER OPPORTUNITY / OPTION*



# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*OK, BUT WHAT ABOUT THE SITUATIONS  
WHERE YOU HAVE MORE THAN ONE  
OPTION ??*



*IS THE COST OF THE TRADE  
OFF THE COMBINATION OF THE  
VALUE OF ALL THE OPTIONS  
THAT WERE GIVEN UP ??*

***NO !! JUST THE NEXT BEST ALTERNATIVE !!***

# ***THE ESSENCE OF ECONOMICS***

## ***THE ART OF DECISION MAKING***



# ***THE ESSENCE OF ECONOMICS***

## ***THE ART OF DECISION MAKING***

***WHAT ARE THE OPPORTUNITY COSTS  
OF THIS TWO OPTION DECISION ?***

***EXAMPLE # 1 :***

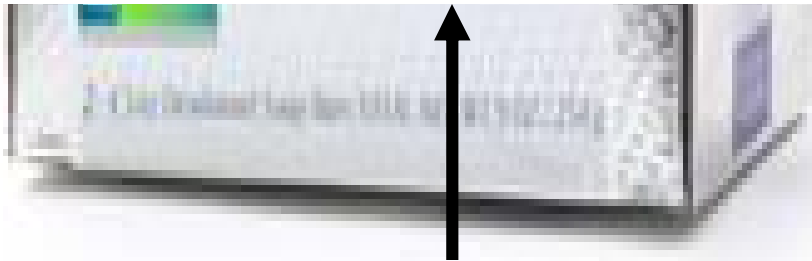
***É GUARANTEED INCREASE  
IN WEALTH***

***É TIME SAVED AND USED  
TO GENERATE EVEN  
GREATER WEALTH ?***





***OPPORTUNITY COSTS ??***  
***EXAMPLES # 2 AND 3 :***



***GIVE UP SOCIAL STATUS***  
***SAVE MONEY*** →





***THE ESSENCE OF ECONOMICS***

***THE ART OF DECISION MAKING***

***WHAT ARE THE OPPORTUNITY COSTS ?***

***EXAMPLE # 4 > BUSINESS :***

***MILK THE PROFITS , OR ENSURE THE  
COMPANY'S SURVIVAL BY INVESTING IN  
THE FUTURE ??***



# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*WHAT ARE THE OPPORTUNITY COSTS ?*

*EXAMPLE # 4 > BUSINESS :*

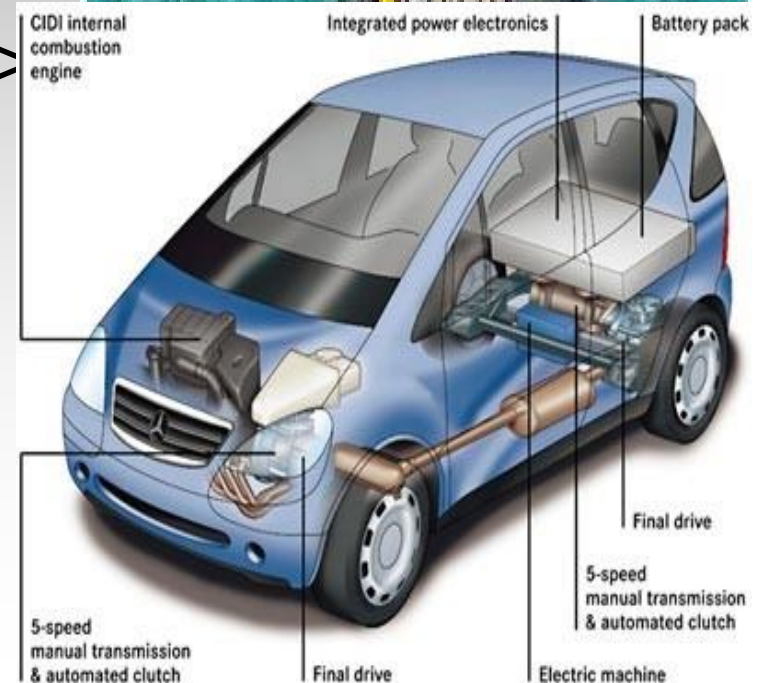
*FAT CATS*

*É NO INVESTMENT IN THE  
PROFITABILITY'S SURVIVAL AS*

*PERSONAL FORTUNES >  
BOTH ON EXECUTIVE AND  
OWNERS SKILL AND*

*P/HR LABOR RATE )*

*AND NOW YOU ARE ALL THE  
PROUD OWNERS OF THE GENERAL  
MOTORS CORPORATION !!*



***THE ESSENCE OF ECONOMICS***

***THE ART OF DECISION MAKING***

***THE GM SITUATION ALSO BRINGS TO  
MIND AN OLD SAYING THAT APPLIES TO  
ALL ASPECTS OF LIFE .....***

***You must make  
yourself worse off  
in the short run,  
to make yourself better off  
in the long run !!***

# ***THE ESSENCE OF ECONOMICS***

## ***THE ART OF DECISION MAKING***

***WHAT ARE THE OPPORTUNITY COSTS ?***

***EXAMPLE # 5 > SOCIETY :***

***DEPEND HEAVILY ON OIL OR INVEST IN  
NEW ENERGY SOURCES ??***



# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*WHAT ARE THE OPPORTUNITY COSTS ?*

*EXAMPLE # 5 - SOCIETY :*

*É NO INVESTMENT =*

*POWER AND PERSONAL  
FORTUNES*

*É INVESTMENT = NATION -  
AL SECURITY AND THE  
STANDARD OF LIVING  
ARE MAINTIANED*

*↑ AM I SERIOUS ↑  
↑ ABOUT THIS ?? ↑*



# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*WHAT ARE THE OPPORTUNITY COSTS ?*

*EXAMPLE # 5 - SOCIETY :*

*HOW CONFIDENT ARE YOU THAT THIS  
GUY IS **RATIONAL** ?? ABOUT THE*

*SAME AS WE WERE ABOUT THESE DUDES  
??*



*THE ESSENCE OF ECONOMICS*

*THE ART OF DECISION MAKING*

*WHAT ARE THE OPPORTUNITY COSTS ?*

*EXAMPLE # 5 - SOCIETY :*

*WHETHER HE USES THIS WEAPON ....*



*THE RESULTS WILL  
BE THE SAME ....*



	<i>WORLD</i>	1,349,000,000,000
1	<i>SAUDI ARABIA *</i>	262,700,000,000
2	<i>CANADA</i>	178,900,000,000
3	<i>IRAN *</i>	133,300,000,000
4	<i>IRAQ ?</i>	112,500,000,000
5	<i>UAE *</i>	97,800,000,000
6	<i>KUWAIT *</i>	96,500,000,000
7	<i>VENEZUELA *</i>	75,590,000,000
8	<i>RUSSIA ?</i>	69,000,000,000
9	<i>LIBYA *</i>	40,000,000,000
10	<i>NIGERIA *</i>	36,000,000,000

***KNOWN  
OIL RESERVE  
RANKINGS***

***BILLIONS OF  
BARRELS***

***SOURCE : CIA  
FACTBOOK***

***PINK = THEOCRACIES***

***\* = TOTALITARIAN  
GOVERNMENTS***



	<i><b>WORLD</b></i>	80,100,000
1	<i><b>UNITED STATES</b></i>	20,030,000
2	<i><b>EUROPEAN UNION</b></i>	14,590,000
3	<i><b>CHINA ?</b></i>	6,391,000
4	<i><b>JAPAN</b></i>	5,578,000
5	<i><b>RUSSIA ?</b></i>	2,800,000
6	<i><b>GERMANY</b></i>	2,677,000
7	<i><b>INDIA</b></i>	2,320,000
8	<i><b>CANADA</b></i>	2,300,000
9	<i><b>SOUTH KOREA</b></i>	2,061,000

***2009  
OIL CONSUMPTION  
RANKINGS***

***MILLIONS OF BARRELS  
PER DAY***

***SOURCE : CIA FACTBOOK***

***\*\* UNITED STATES  
ACCOUNTS FOR 5 % OF THE  
WORLD'S POPULATION, BUT  
25 % OF THE WORLD'S OIL  
CONSUMPTION !!***

<b>1</b>	<b><i>China</i></b>	<b><i>1,313,973,713</i></b>
<b>2</b>	<b><i>India</i></b>	<b><i>1,111,713,910</i></b>
<b>3</b>	<b><i>United States</i></b>	<b><i>306,000,000</i></b>
<b>4</b>	<b><i>Indonesia</i></b>	<b><i>231,820,243</i></b>
<b>5</b>	<b><i>Brazil</i></b>	<b><i>188,078,227</i></b>
<b>6</b>	<b><i>Pakistan</i></b>	<b><i>165,803,560</i></b>
<b>7</b>	<b><i>Bangladesh</i></b>	<b><i>147,365,352</i></b>
<b>8</b>	<b><i>Russia</i></b>	<b><i>142,069,494</i></b>
<b>9</b>	<b><i>Nigeria</i></b>	<b><i>131,859,731</i></b>
<b>10</b>	<b><i>Japan</i></b>	<b><i>127,463,611</i></b>

***2009***  
***POPULATION RANKINGS***  
***BY COUNTRY***

***Note : Data updated 08 – 24 - 2011 > Source : U . S . Census Bureau ,  
International Data Base***

<b>1</b>	<b><i>India</i></b>	<b><i>1,807,878,574</i></b>
<b>2</b>	<b><i>China</i></b>	<b><i>1,424,161,948</i></b>
<b>3</b>	<b><i>United States</i></b>	<b><i>420,080,587</i></b>
<b>4</b>	<b><i>Nigeria</i></b>	<b><i>356,523,597</i></b>
<b>5</b>	<b><i>Indonesia</i></b>	<b><i>313,020,847</i></b>
<b>6</b>	<b><i>Pakistan</i></b>	<b><i>294,995,104</i></b>
<b>7</b>	<b><i>Bangladesh</i></b>	<b><i>279,955,405</i></b>
<b>8</b>	<b><i>Brazil</i></b>	<b><i>228,426,737</i></b>
<b>9</b>	<b><i>Congo (Kinshasa)</i></b>	<b><i>183,177,415</i></b>
<b>10</b>	<b><i>Mexico</i></b>	<b><i>147,907,650</i></b>

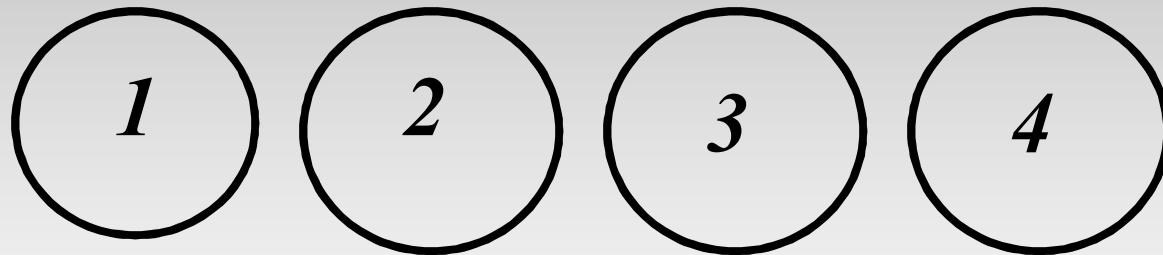
***2050 PROJECTED  
POPULATION RANKINGS  
BY COUNTRY***

***Note : Data updated 08 – 24 - 2011 > Source : U . S . Census Bureau ,  
International Data Base***

# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*OK, BUT WHAT ADVICE CAN YOU OFFER ABOUT THE SITUATIONS WHERE YOU HAVE MORE THAN ONE OPTION AND IT IS DIFFICULT TO CHOOSE THE BEST OPTION ??*



*IN THESE CASES WE USE OUR  
ECONOMIC INTELLIGENCE &  
EDUCATION TO PERFORM  
MARGINAL ANALYSIS !!*

# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*Net > Adjective . What remains after all deductions , or adjustments . The final result .*

### *Synonym*

*Final*

*End*

*Last*

### *Related*

*Bottom line*

*Left over*

*Remains*

### *Antonym*

*Gross*

*Start*

*The net of the situation was that the company had no choice but to shut down .*

## *COURSE OF ACTION*

# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

### *SOME IMPORTANT “MARGINAL” TERMS :*

*Utility > Noun . Usefulness or satisfaction .*

#### *Synonym*

*Fitness*

*Relevance*

*Valued*

#### *Related*

*Appropriate*

*Serviceable*

#### *Antonym*

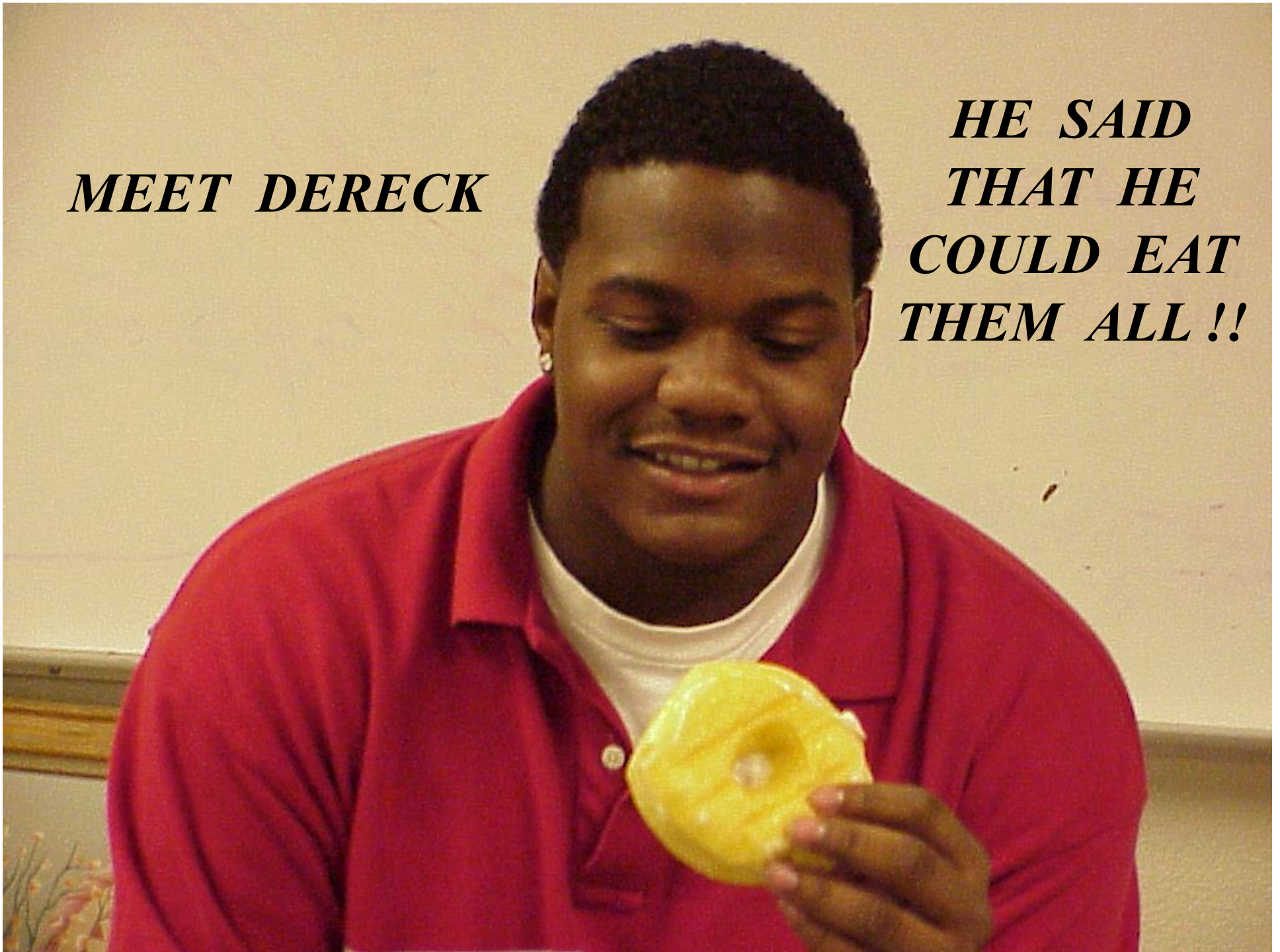
*Worthless*

*The utility of a Swiss army knife can not be underestimated .*



***MEET DERECK***

***HE SAID  
THAT HE  
COULD EAT  
THEM ALL !!***





A man with short dark hair, wearing a red polo shirt over a white t-shirt, is holding a yellow-glazed donut with his right hand. He has his eyes closed and a slight smile, appearing to savor the moment. A thought bubble is positioned above his head on the left side of the image. The background is a plain, light-colored wall.

*Ahh, I am so  
hungry, this is  
going to taste  
**GREAT!***

*WHAT IS THE  
**MARGINAL**  
**UTILITY OF**  
**THE FIRST**  
**DOUGHNUT -**  
**HIGH OR**  
**LOW ??***




A photograph of a man with dark skin and short black hair, wearing a red polo shirt over a white t-shirt. He is holding a yellow-glazed doughnut in his mouth with his right hand. The background is a plain, light-colored wall.

*Mmm. Mmm  
GOOD!*

*THIS WAS THE  
FOURTH  
DOUGHNUT ....  
WHAT WAS ITS  
MARGINAL  
UTILITY ??*



A photograph of a man with dark skin and short hair, wearing a red polo shirt over a white t-shirt. He is holding a yellow, ring-shaped doughnut with a bite taken out of it. A thought bubble is positioned above his head, containing text. The background is a plain, light-colored wall.

*Hmm. Maybe  
I can't eat  
a dozen doughnuts  
in one sitting.*

*THE UTILITY  
OF THE 8 TH  
DOUGHNUT ??*



***WHAT DO YOU THINK  
IS THE MARGINAL  
UTILITY OF THE LAST  
4 DOUGHNUTS ??***



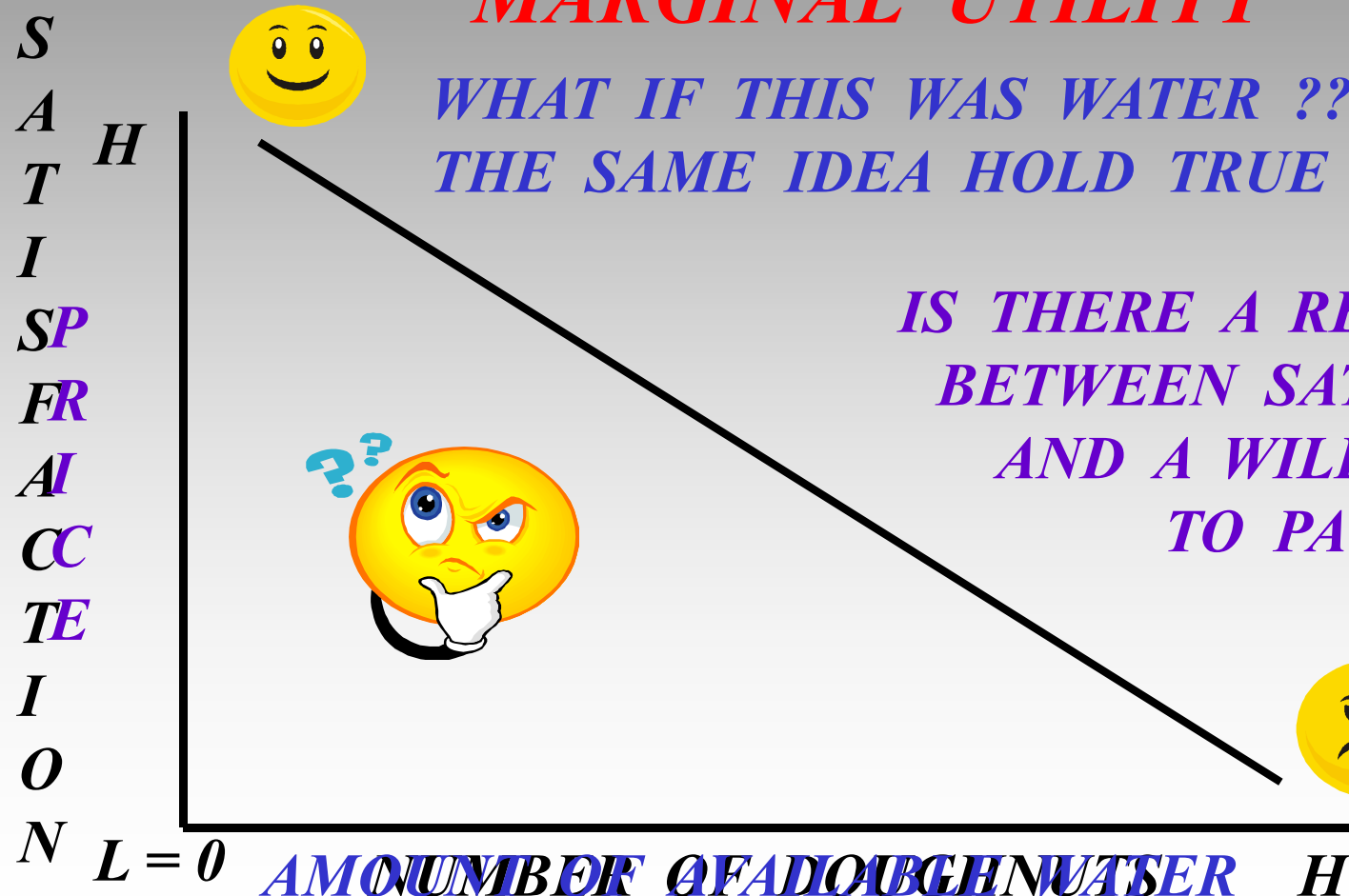




# THE ESSENCE OF ECONOMICS

## THE ART OF DECISION MAKING

### GRAPHICALLY ILLUSTRATING MARGINAL UTILITY



# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*Tangible > Adjective . Capable of being touched and treated as fact = real .*

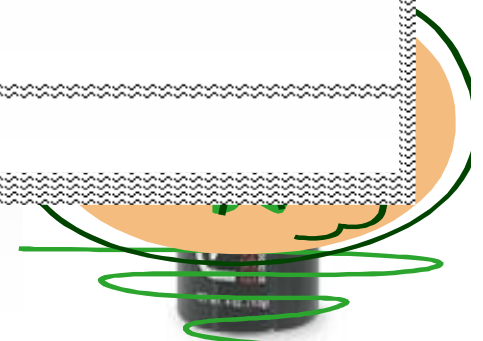
*Synonym*  
*Concrete*

*Related*  
*Physical*  
*Palpable*

*Antonym*  
*Intangible*

*He wanted to see tangible evidence before making up his mind .*

*AND GIVEN MORE WEIGHT*





# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*HOW TO CONDUCT MARGINAL ANALYSIS*

*FIRST, A COUPLE OF CLARIFICATIONS*

*ABOUT THE CONCEPT OF “ COSTS ” :*

*É **SUNK COSTS** - COSTS THAT*

*HAVE ALREADY BEEN*

*INCURRED IN THE PAST*

*AND ARE IRRELEVANT IN*

*PRESENT AND FUTURE*

*ECONOMIC DECISIONS >*

***THE SUMMER SCHOOL***

***EXAMPLE !!!!***



# Thinking at the Margin

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Institute for Humane Studies



# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*EXAMPLE # 6 : USING THIS GUY*

*TO WORK  
OR STUDY FOR  
EXAMS ??*

*USE MARGINAL ANALYSIS  
TO FIGURE OUT THE  
OPPORTUNITY COSTS !!*



# *THE ESSENCE OF ECONOMICS*

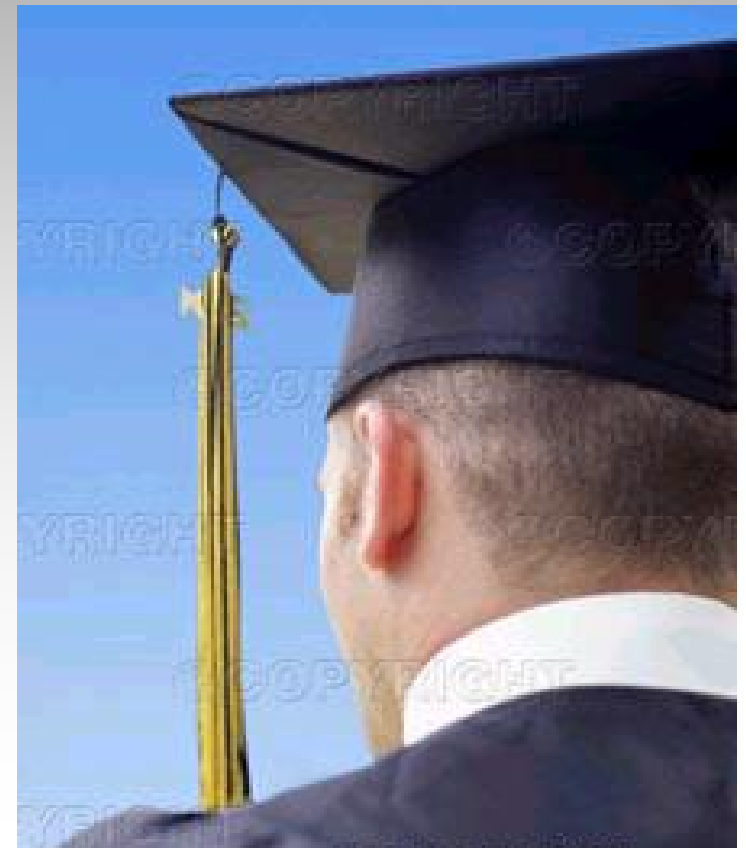
## *THE ART OF DECISION MAKING*

*EXAMPLE # 6 > WHAT ARE THE EXTREMES OF THE OPPORTUNITY COSTS ?*

*É SOCIAL ACCEPTANCE  
AND FUN*

*É GRADUATING COLLEGE  
AND MAXIMIZING  
EARNINGS*

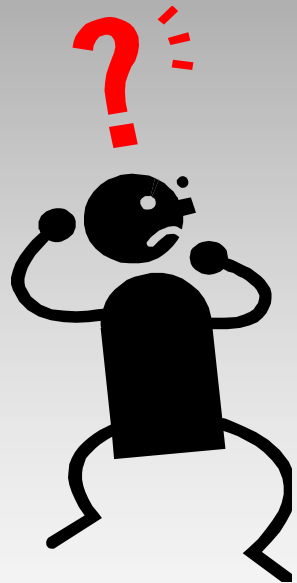
*IS THERE ANYTHING IN  
BETWEEN ??*



# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*PARTY PETE'S REAL OPTIONS AND  
MARGINAL ANALYSIS :*



*STUDY  
2 DAYS*

*STUDY  
1 DAY*



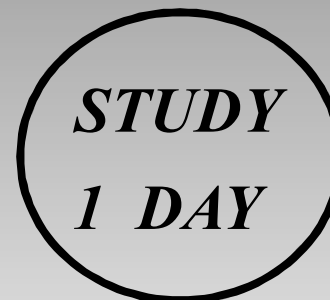
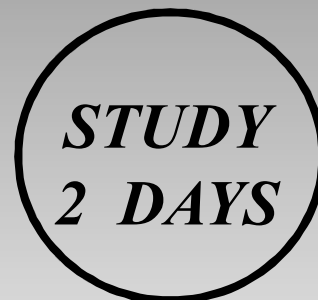
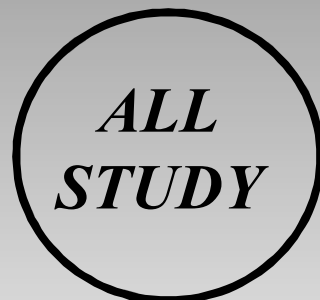
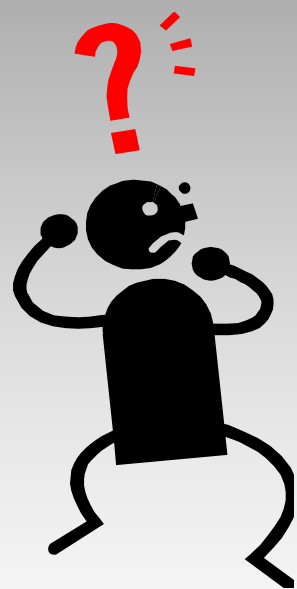
*FIRST QUESTION > DO ANY  
**IMPLICIT COSTS** LESSEN THE  
VALUE OF AN OPTION ? **YES !!***

*SECOND QUESTION > DO ANY **EXPLICIT  
COSTS** STRENGTHEN OR WEAKEN AN  
OPTION ? **YES, STRENGTHENS !!***

# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*PARTY PETE'S REAL OPTIONS AND  
MARGINAL ANALYSIS :*

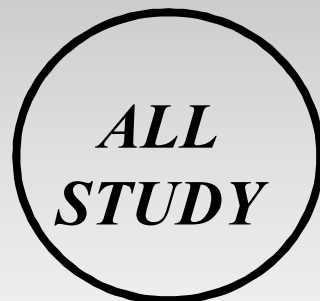
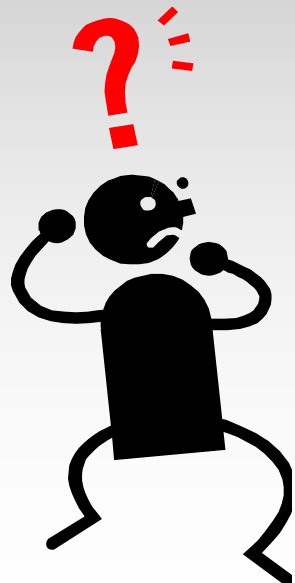


*THIRD QUESTION > HOW MUCH MARGINAL UTILITY ( SATISFACTION ) DO WE GET FROM EACH OPTION ?*

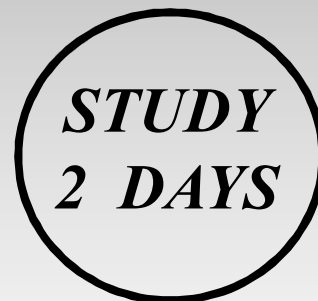
# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

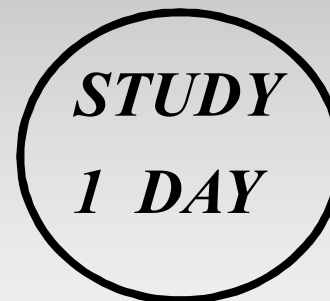
*A BETTER THIRD QUESTION > WHAT IS  
THE **MARGINAL COST** - THE ADDITIONAL  
COST OF PRODUCING OR NOT PRODUCING  
EACH OPTION ?*



17,000  
P / YR



19,000  
P / YR



11,000  
P / YR



***THE ESSENCE OF ECONOMICS***  
***THE ART OF DECISION MAKING***  
***MARGINAL ANALYSIS > BRINGS***  
***OPPORTUNITY COST AND MARGINAL***  
***UTILITY / BENEFITS TOGETHER***

***ALL***



***= LITTLE SUCCESS***

***THE  
RIGHT  
MIX***



***= SUCCESS & HAPPINESS***

***ALL***



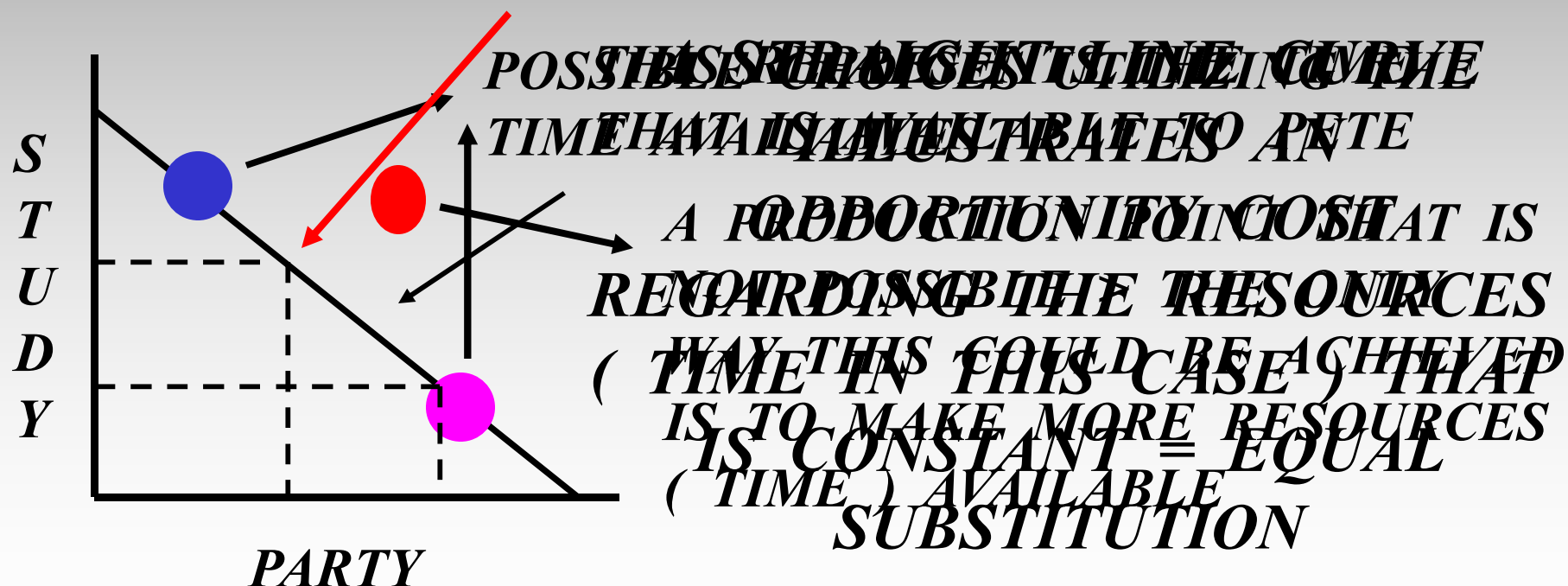
***= LITTLE FUN / LIFE***



# THE ESSENCE OF ECONOMICS

## THE ART OF DECISION MAKING

TO ILLUSTRATE PARTY PETE'S TRADE OFF OPTIONS RELATED TO RESOURCES ( TIME AVAILABLE ) WE CAN USE THE **PRODUCTION POSSIBILITIES CURVE** :

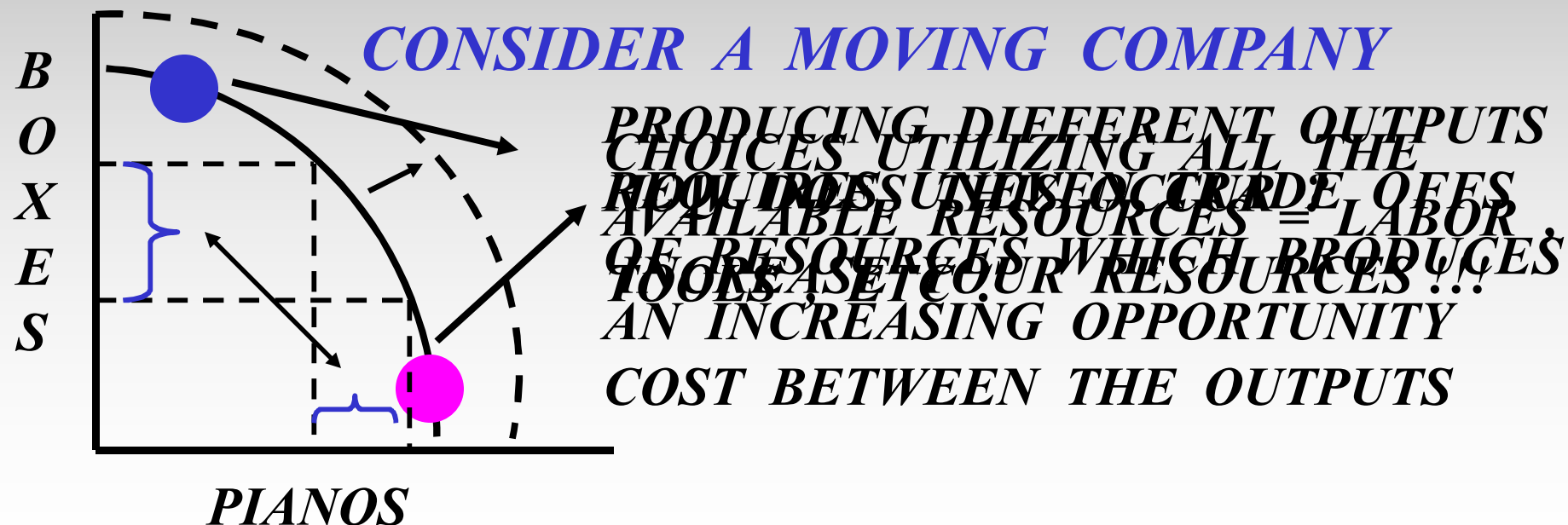




# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*WITH BUSINESSES AND SOCIETIES IT IS DIFFERENT BECAUSE THERE ARE MORE RESOURCES THAT CAN HAVE AN IMPACT ON PRODUCING SOMETHING > THIS CREATES A DIFFERENT CURVE :*



## CONSIDER A SOCIETY

**WHAT ARE CAPITAL GOODS? THEY ARE UTILIZING ALL OUR RESOURCES TO MAKE PHYSICAL CAPITAL USED TO MAKE FACTORS OF PRODUCTION > LAND, LABOR AND CAPITAL. CONSUMER GOODS SUCH AS MACHINES, BUILDINGS, SOFTWARE, TOOLS, NETWORKS, ETC. BASED ON MORE RESOURCES BECOMING AVAILABLE > SUCH**

WHAT ARE CONSUMER GOODS ?? - THEY ARE SHORT TERM AND PERISHABLE GOODS SUCH AS FOOD, CLOTHING, CHEMICALS, LIGHT BULBS, ETC. **UNDERUTILIZATION** REDUCED OUTPUT DUE TO A LOSS OF RESOURCES > HOW COULD THIS HAPPEN ?

## CONSUMER GOODS

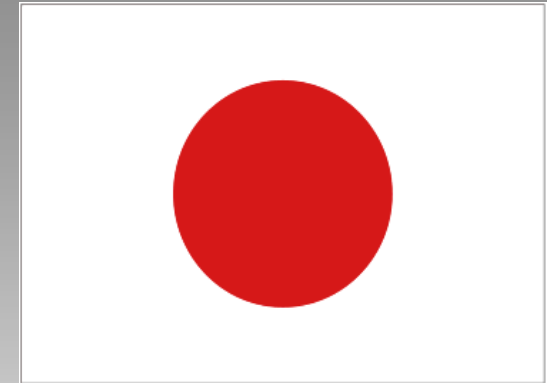
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# *THE ESSENCE OF ECONOMICS*

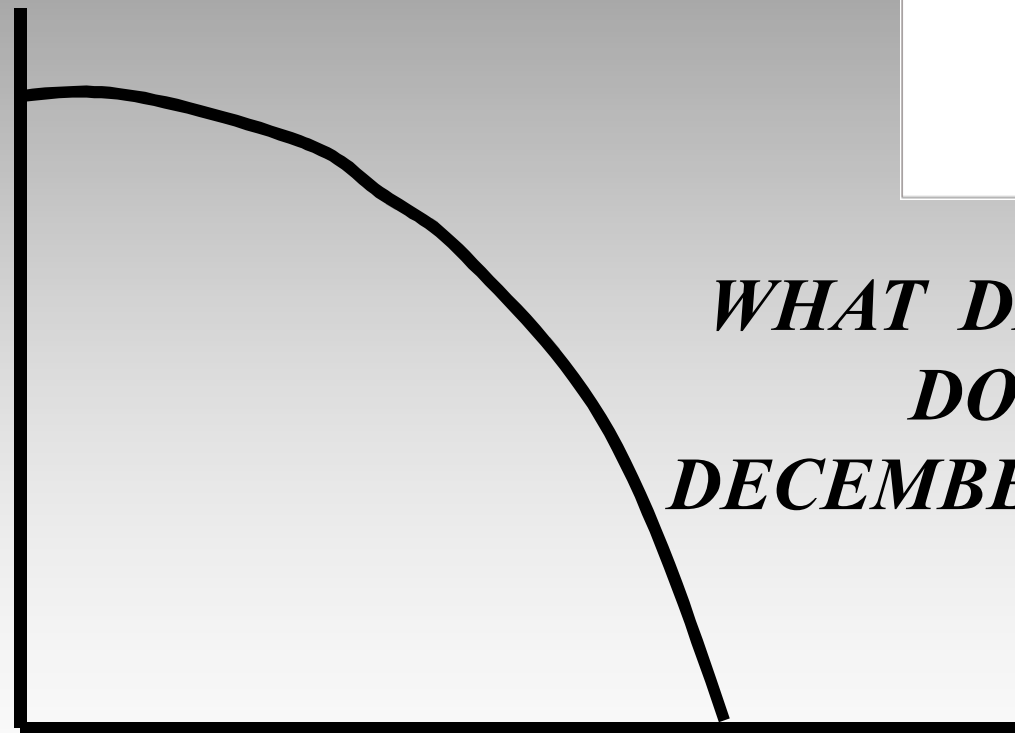
## *THE ART OF DECISION MAKING*

*MILITARY  
GOODS*

*JAPAN 1941*



*WHAT  
CAPITAL  
GOODS WAS  
JAPAN  
PRODUCING  
IN 1940 ?*



*WHAT DID JAPAN  
DO ON  
DECEMBER 7, 1941 ?*

*RICE*

*WHAT CONSUMPTION GOODS  
DID IT PRODUCE ?*

*THE ESSENCE OF ECONOMICS*  
*THE ART OF DECISION MAKING*

*WHAT DID THE UNITED STATES DO IN  
RETALIATION IN 1945 ?*



# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*WHAT DO YOU THINK HAPPENED TO  
JAPAN'S PRODUCTIVE LABOR FORCE ?*

*WHAT DO YOU THINK  
HAPPENED TO THE  
QUALITY AND QUANTITY  
OF JAPAN'S :*

*É NATURAL RESOURCES*

*É CAPITAL STOCK*

*É HEALTH & EDUCATION*

*É TECHNOLOGY*

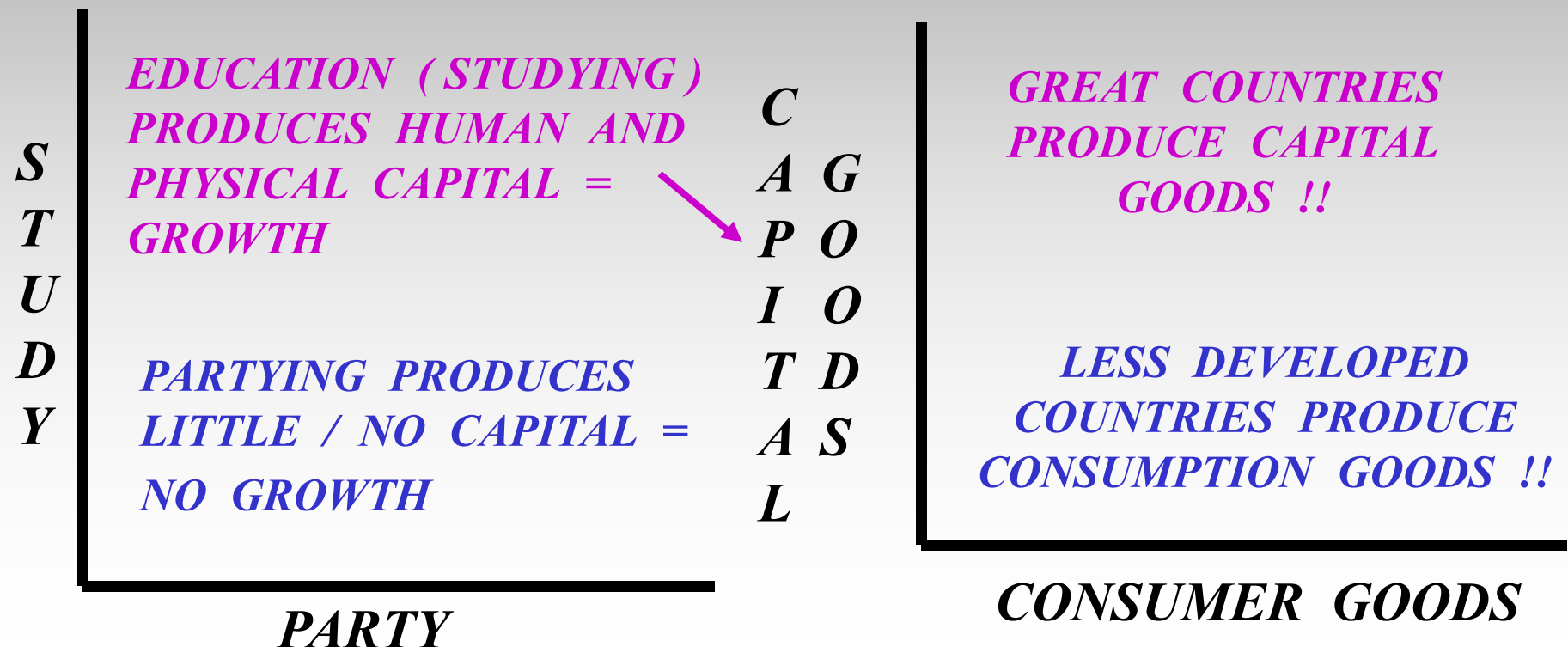


***THE ESSENCE OF ECONOMICS***  
***THE ART OF DECISION MAKING***



# THE ART OF DECISION MAKING

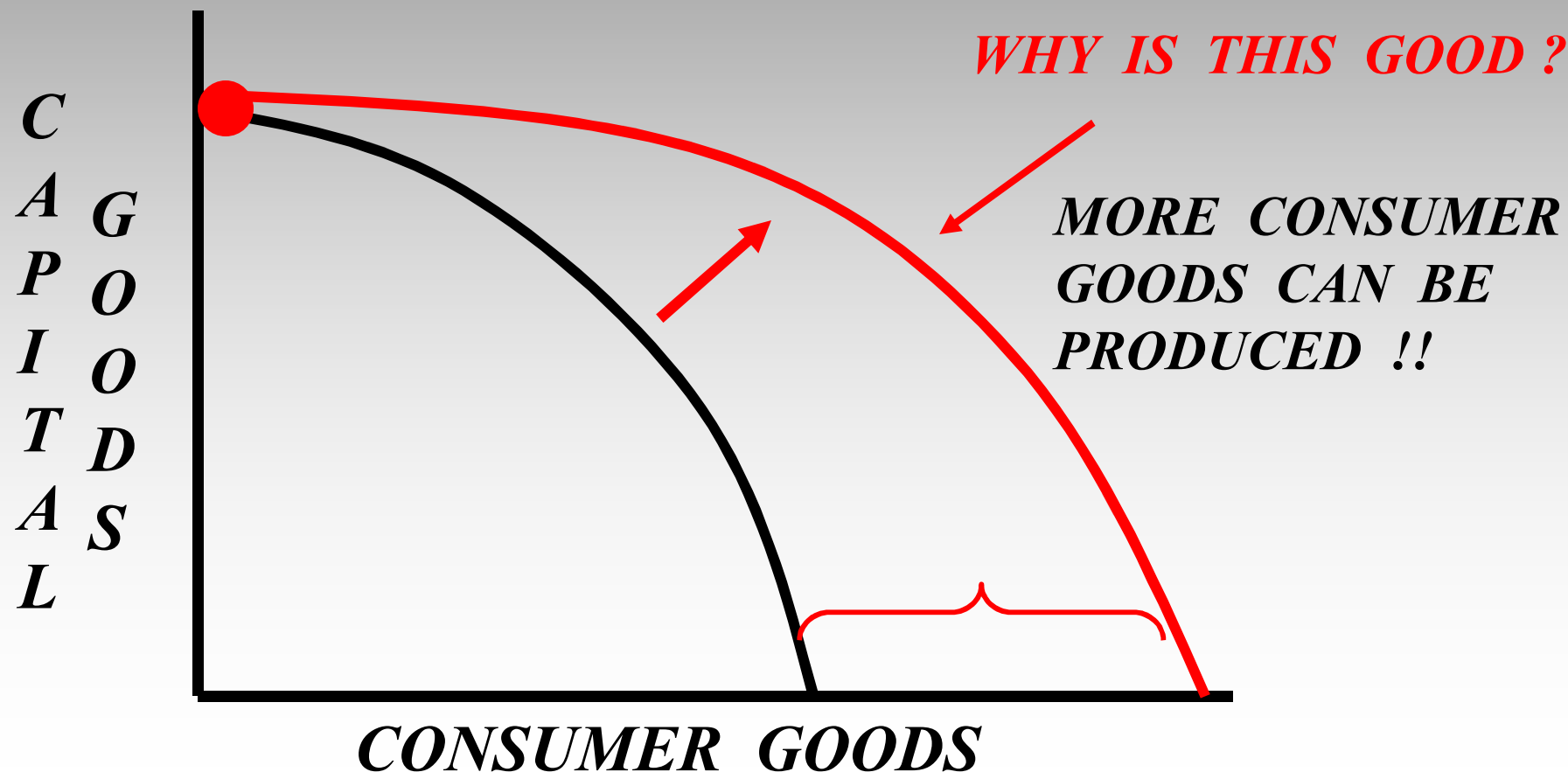
***THE IMPORTANCE OF THE FACTORS OF PRODUCTION AND THE IMPACT THEY HAVE ON A SOCIETY'S PPC :***



# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*BY PRODUCING MORE CAPITAL GOODS, AN ECONOMY'S CAPITAL STOCK IS INCREASED AND THE PRODUCTION POSSIBILITIES CURVE SHIFTS OUT FASTER :*



# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*THE 2 VARIABLES THAT WILL SHIFT THE  
PRODUCTION POSSIBILITIES CURVE  
OUTWARD :*

*É INCREASE THE PRODUCTIVE LABOR  
FORCE = PRODUCTIVITY*

*É INCREASE THE QUANTITY AND QUALITY  
OF :*

*É NATURAL RESOURCES*

*É CAPITAL HEALTH AND EDUCATION*

*É TECHNOLOGY*

***THE ESSENCE OF ECONOMICS***

***THE ART OF DECISION MAKING***

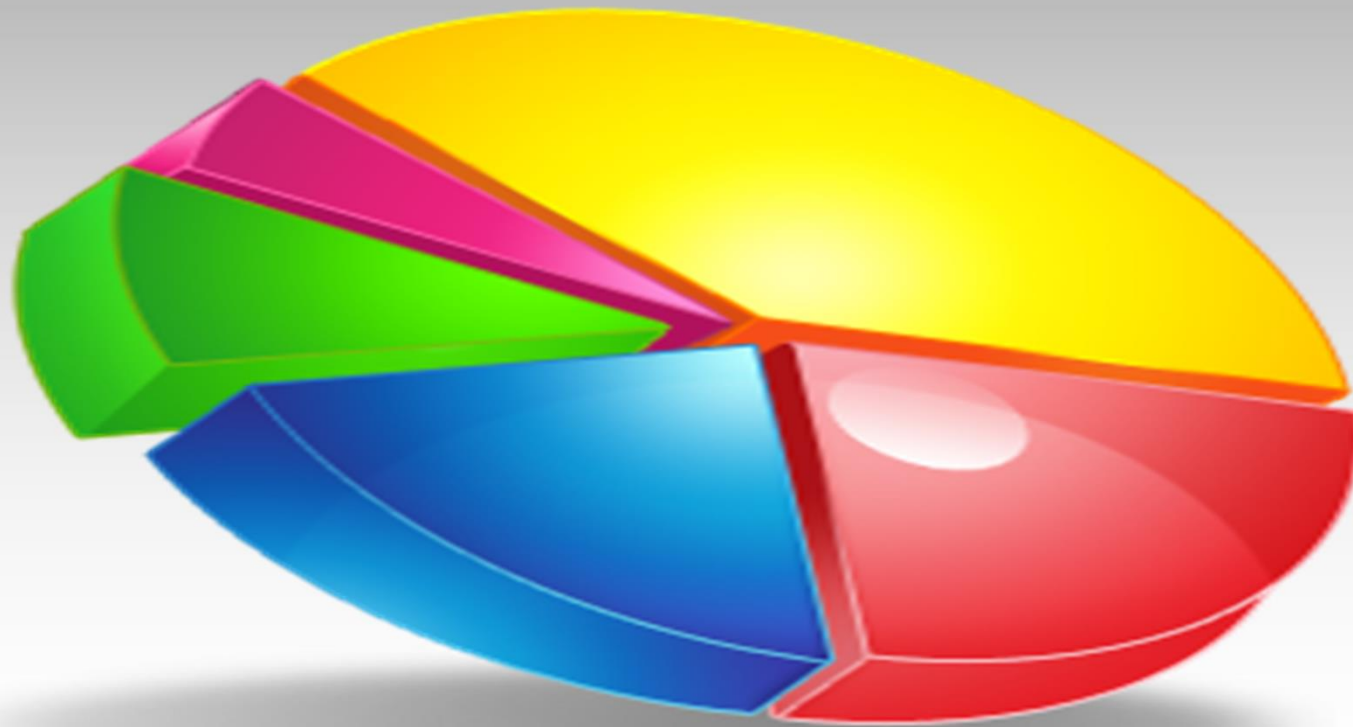
***FOOD FOR THOUGHT !!!***

***AT TIMES THE UNITED STATES STORES  
ENOUGH FOOD TO PROVIDE EVERY  
MAN, WOMAN, AND CHILD IN THE  
WORLD WITH 7 LOAVES OF BREAD !!!!***

***THEN WHY DOES THIS EXIST ??***



***THE ESSENCE OF ECONOMICS***  
***THE ART OF DECISION MAKING***  
***A DEEPER LOOK AT ECONOMIC AND***  
***BUSINESS MEASUREMENTS USING***  
***MARGINAL CONCEPTS***



# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*Incur > Verb . To bring upon oneself , or to take on .*

*Synonym*

*Contract*

*Acquire*

*Related*

*Induce*

*Antonym*

*Avoid*

*Escape*

*She incurred a heavy penalty for her actions .*

**6 ADMINISTRATIVE COSTS = SALES  
LABOR , ADVERTISING , LEGAL , ETC.**



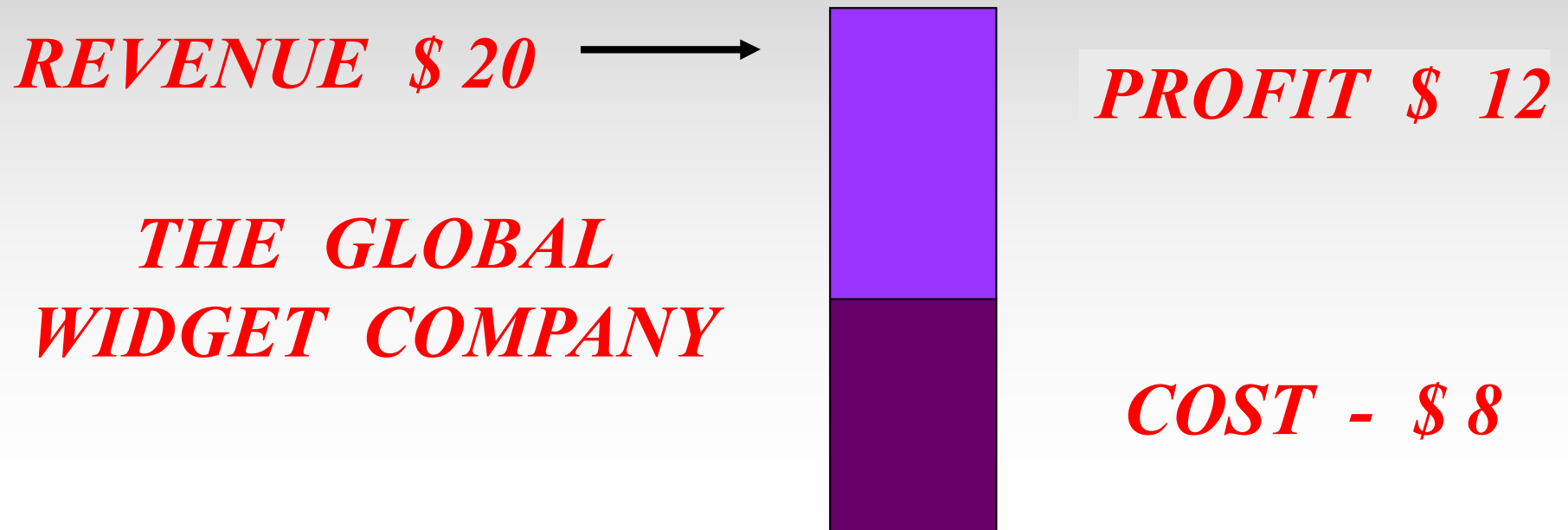
# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*HOW IS A BUSINESS MEASURED ??*

*É REVENUE = MONEY COLLECTED WHEN  
A CUSTOMER BUYS YOUR GOOD OR  
SERVICE*

*É PROFIT = REVENUE MINUS YOUR COST*



# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*HOW IS A BUSINESS MEASURED ??*

*É EVERY FIRM WANTS TO MAXIMIZE PROFITS > 2 TYPES OF PROFIT :*

ó *ACCOUNTING PROFIT - ACTUAL ,  
REAL , HARD DOLLAR PROFITS >  
TOTAL REVENUE MINUS EXPLICIT  
COSTS*

ó *ECONOMIC PROFITS - ACCOUNTING  
PROFITS PLUS EXCEEDING THE  
OPPORTUNITY COSTS OF PURSUING  
AN ALTERNATIVE INVESTMENT >  
THIS IS THE MOST IMPORTANT  
PROFIT AND IS DETERMINED BY .....*

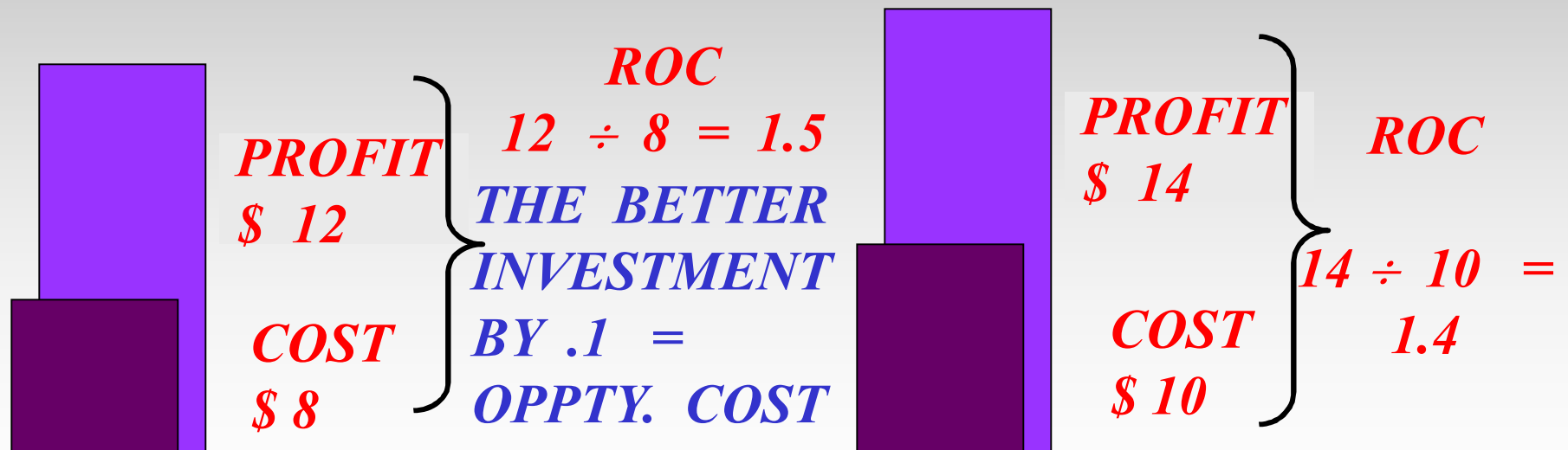
# THE ESSENCE OF ECONOMICS

## THE ART OF DECISION MAKING

HOW IS A BUSINESS MEASURED ??

É MAXIMIZING PROFITS > 2 TYPES :

ó..FIGURING OUT **RETURN ON CAPITAL**  
- HOW MUCH PROFIT IS EARNED ON  
EVERY DOLLAR INVESTED



IN **GLOBAL WARDEN**, ECONOMIC PRICES **DO NOT** BE DETERMINED TOWARD "0" BY COMPANY

# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*BUSINESSES, AND INDIVIDUALS, ARE  
SUCCESSFUL IN MANAGING COSTS*

*WHEN THEY MAXIMIZE :*

*É PRODUCTIVITY - THE VALUE OF THE  
AMOUNT OF GOODS AND SERVICES  
PRODUCED FROM EACH HOUR OF A  
WORKER'S TIME*

*É EFFICIENCY - USING SCARCE RESOUR -  
CES IN SUCH A WAY AS TO MAXIMIZE  
THEIR BENEFITS*

*WHAT ARE SOME BASIC WAYS TO MEASURE  
PRODUCTIVITY AND EFFICIENCY ?*

# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*SOME IMPORTANT “MARGINAL ANALYSIS” TERMS FOR ANALYZING BUSINESS PRODUCTIVITY AND EFFICIENCY :*

*COST OF PRODUCTION MEASUREMENTS :*

*É **MARGINAL PRODUCT** - THE CHANGE IN TOTAL PRODUCT PRODUCED WHEN THE USE OF A PARTICULAR RESOURCE INCREASES BY ONE UNIT WITH ALL OTHER RESOURCES REMAINING CONSTANT*



# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*IMPORTANT “MARGINAL ANALYSIS”  
TERMS FOR ANALYZING BUSINESS  
PRODUCTIVITY AND EFFICIENCY:*

*COST OF PRODUCTION MEASUREMENTS :*

*É MARGINAL PRODUCT OF LABOR - THE  
CHANGE IN OUTPUT FROM HIRING  
ONE MORE WORKER > HERE IS AN  
EXAMPLE .....*

# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

### *THE STARVING STUDENTS MOVING COMPANY*



<u># OF WORKERS</u>	<u>TONS MOVED PER DAY</u>	<u>MARGINAL PRODUCT</u>
0	0	0
1	2	2
2	5	3
3	9	4
4	12	3
5	14	2
6	15	1
7	15	0
8	14	-1

# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*COST OF PRODUCTION  
MEASUREMENTS :*



*É INCREASING MARGINAL RETURNS -  
INCREASES OUTPUT PER WORKER , SO  
THE SECOND WORKER ACTUALLY  
ADDS MORE TO THE OUTPUT THAN  
THE FIRST WORKER > HOW IS THIS  
POSSIBLE ?? BY TAKING 2 ACTIONS ...*

# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*COST OF PRODUCTION MEASUREMENTS :*

*É DIVISION OF LABOR - ORGAN -  
IZING PRODUCTION OF A GOOD  
INTO ITS SEPARATE TASKS*

*É SPECIALIZATION -  
FOCUSING A WORKER'S  
EFFORTS ON A PARTIC -  
ULAR PRODUCT , OR  
SINGLE TASK , WITH  
SUPPORTING TECHNOLOGY*



# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*COST OF PRODUCTION  
MEASUREMENTS :*



*É DIMINISHING MARGINAL RETURNS -  
WHEN ADDING MORE WORKERS  
INCREASES TOTAL OUTPUT, BUT AT A  
DECREASING RATE > WHAT MIGHT  
CAUSE THIS ? 3 POSSIBLE REASONS :*

*ó SKILLS DIFFERENCES*

*ó NOT HAVING TECHNOLOGY / TOOLS*

*ó WRONG METHODS / PROCEDURES*



# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*COST OF PRODUCTION  
MEASUREMENTS :*



*É NEGATIVE MARGINAL RETURNS -  
WHEN ADDITIONAL WORKERS  
ACTUALLY DECREASES OUTPUT !!!!*

*HOWEVER, THERE IS ONE MORE THING  
REGARDING TRADE OFFS THAT WE  
NEED TO BE AWARE OF .....*

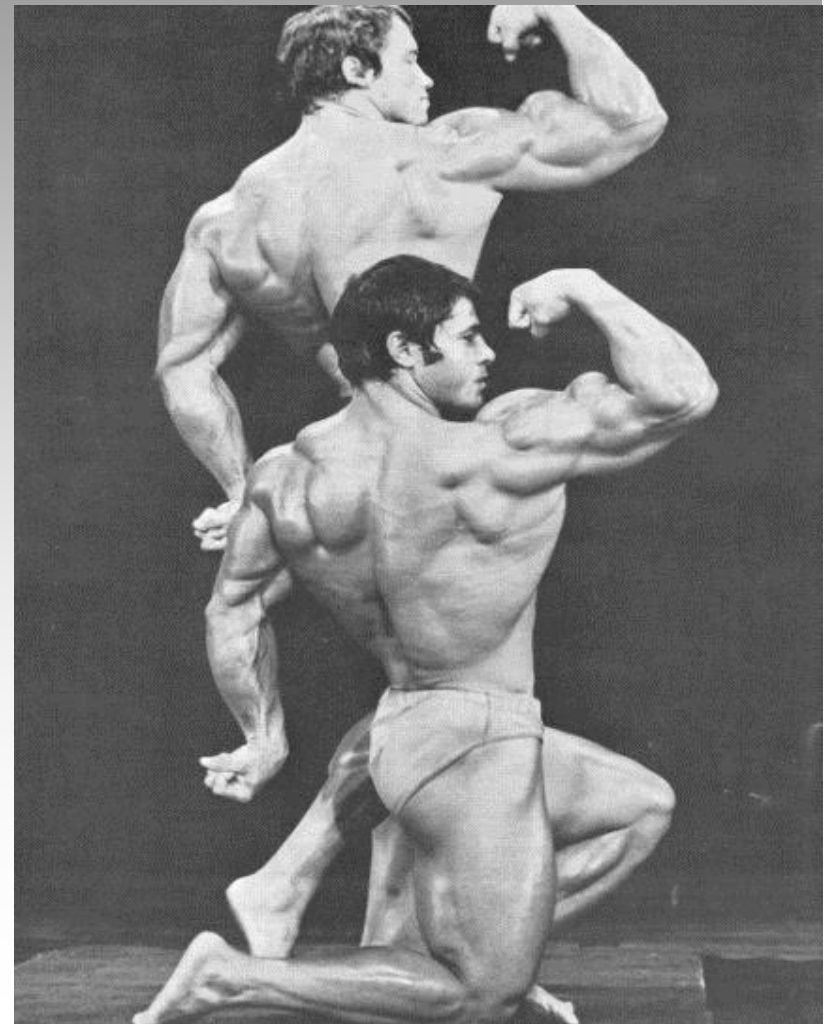
# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*BEWARE OF THE **LAW OF INCREASING COSTS !!!***

*THE MORE WE TRADE  
OFF, OR SPECIALIZE,  
WE WILL EVENTUALLY  
REALIZE FEWER  
BENEFITS*

*SOCIETIES CAN MAKE  
THIS MISTAKE TOO >  
SOVIET UNION EXAMPLE*



***THE ESSENCE OF ECONOMICS***

***THE ART OF DECISION MAKING***

***WHAT ABOUT SOCIETIES / NATIONS ??  
ARE THEY ANY DIFFERENT FROM  
INDIVIDUALS AND BUSINESSES ?***

***NO !! A SOCIETY IS A REFLECTION OF  
ITS PEOPLE , AND GOES THROUGH THE  
SAME DECISION MAKING PROCESS  
REGARDING COSTS !! WHO THEN MAKES  
THE DECISIONS FOR THE SOCIETY ??***

***GOVERNMENT OFFICIALS***

# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

### *4 WAYS THE GOVERNMENT PUT ITS ECONOMIC DECISIONS INTO ACTION :*

*É TAX INCREASES AND  
CUTS*

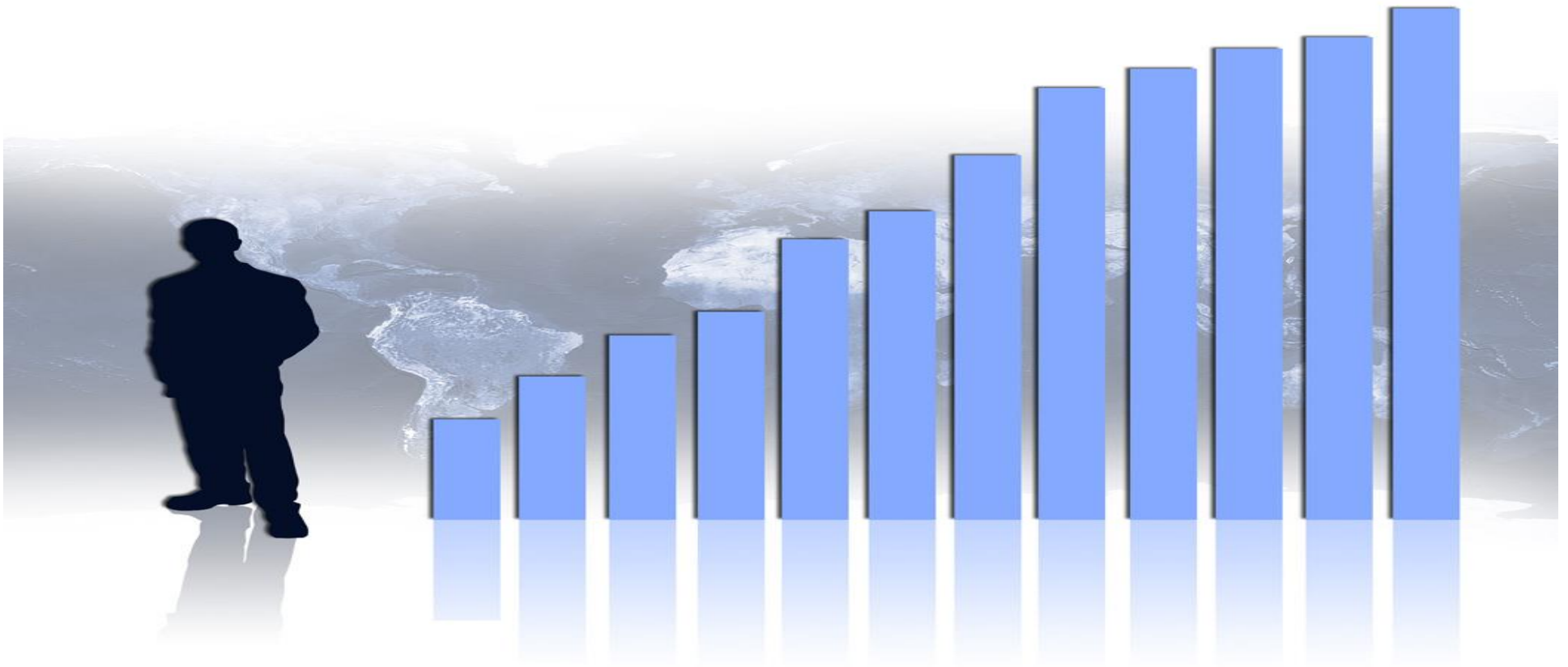
*É SPENDING OR NOT  
SPENDING ON PROGRAMS  
INCLUDING BAILOUTS*

*É REGULATION AND  
DEREGULATION*

*É SUBSIDIES*

*MORE ON  
THESE  
THROUGOUT  
THE  
SEMESTER*

***THE ESSENCE OF ECONOMICS***  
***THE ART OF DECISION MAKING***  
***DECISION MAKING GOALS***  
***AND THE COST BENEFIT ANALYSIS***





# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

### *DECISION GOALS AND THE 3 FOCAL POINTS OF A COST BENEFIT ANALYSIS :*

*É EFFICIENCY > ARE YOU USING RESOURCES IN SUCH A WAY AS TO **MAXIMIZE THE BENEFITS** FROM THE OUTPUT OF YOUR GOODS AND SERVICES , OR YOURSELF ?*

*É **GROWTH** - ARE MORE LAND , LABOR , OR CAPITAL RESOURCES BECOMING AVAILABLE ?*



# *THE ESSENCE OF ECONOMICS*

## *THE ART OF DECISION MAKING*

*COST BENEFIT ANALYSIS > 3 POINTS :*

*É COST - IS THE VALUE OF THE  
ALTERNATIVE WE GIVE UP, WHEN WE  
CHOOSE ONE OPTION OVER THE  
OTHER, WORTH IT ?*

*OUR CLASSIC CASE*



*VS*

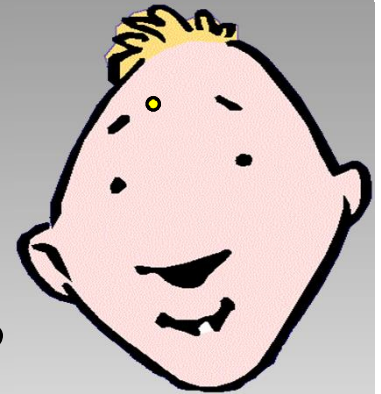


# *THE ESSENCE OF ECONOMICS*

## *SUMMARY*

**TRADE  
OFFS!**

É *WHAT DOES IT MEAN WHEN  
AN ECONOMIST SAYS  
“ CHOOSING IS REFUSING ” ??*



É *WHAT WERE SOME OF THE  
OPPORTUNITY COSTS OF STARTING A  
WAR WITH IRAQ*

É *GIVE TWO EXAMPLES THAT  
ILLUSTRATE HOW ALL DECISIONS  
INVOLVE TRADE - OFFS*

# *THE ESSENCE OF ECONOMICS*

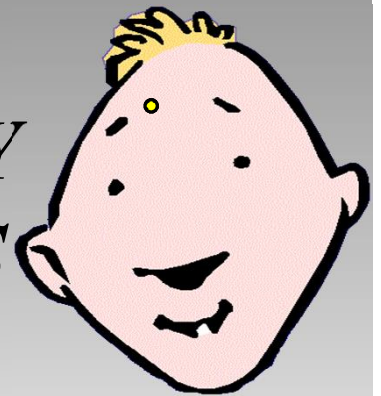
## *SUMMARY*

**TRADE  
OFFS!**

*É WHY MUST THE OPPORTUNITY  
COST OF A DECISION ALWAYS  
BE SOMETHING DESIRABLE ?*

*É WHAT DOES IT MEAN TO  
“ THINK AT THE MARGIN ?*

*É DECIDE WHETHER TO WORK 2 , 4 ,  
OR 6 , HOURS AT AN AFTER SCHOOL  
JOB BY COMPARING THE .....*



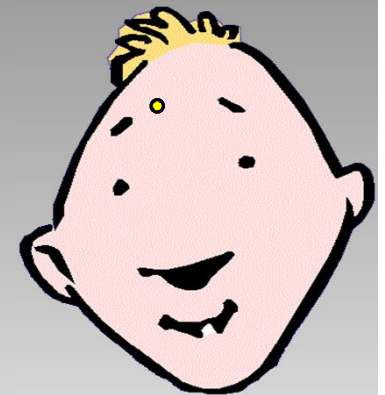
# ***THE ESSENCE OF ECONOMICS***

## ***SUMMARY***

***TRADE  
OFFS!***

***É ..... OPPORTUNITY COST  
AND BENEFIT OF EACH  
ALTERNATIVE***

***É WHAT FACTORS WOULD AN EMPLOYER  
CONSIDER IF HE OR SHE WERE  
TRYING TO DECIDE WHETHER TO  
HIRE AN ADDITIONAL WORKER ?***





# ***THE ESSENCE OF ECONOMICS***

## ***RETURN ON CAPITAL***

COMPANY A GENERATES REVENUES OF \$120 WITH A COST OF \$80. WHAT IS THE ROC FOR COMPANY A?

COMPANY B GENERATES REVENUES OF \$1200, 300 OF WHICH IS ACCOUNTING PROFIT. WHAT IS THE RETURN ON CAPITAL FOR COMPANY B?

WHICH COMPANY IS THE BETTER INVESTMENT OPPORTUNITY AND WHY?

# ***THE ESSENCE OF ECONOMICS***

## ***RETURN ON CAPITAL***

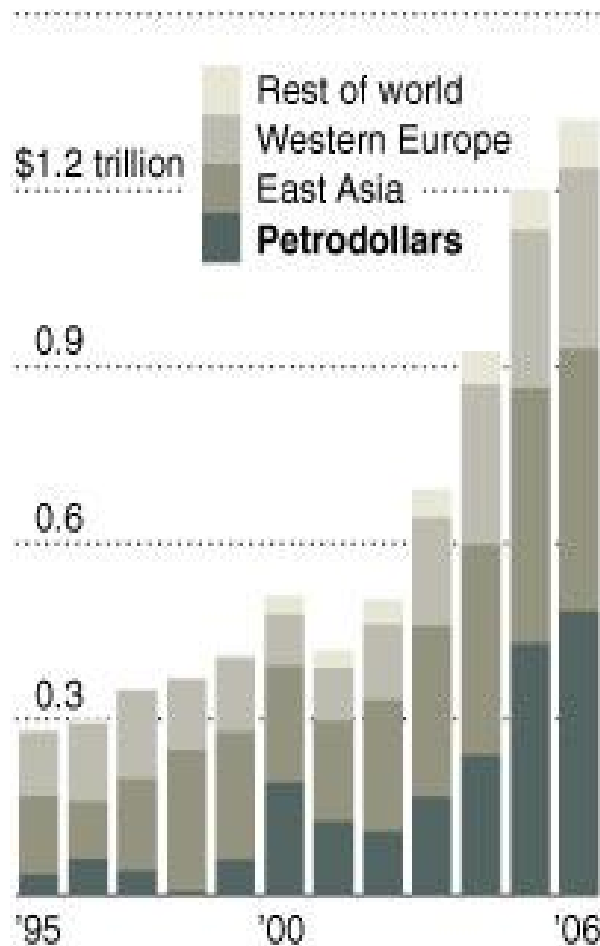
COMPANY A GENERATES REVENUES OF \$300 WITH A COST OF \$200. WHAT IS THE ROC FOR COMPANY A?

COMPANY B GENERATES REVENUES OF \$600, 150 OF WHICH IS ACCOUNTING PROFIT. WHAT IS THE RETURN ON CAPITAL FOR COMPANY B?

WHICH COMPANY IS THE BETTER INVESTMENT OPPORTUNITY AND WHY?

## Petrodollars are growing rapidly . . .

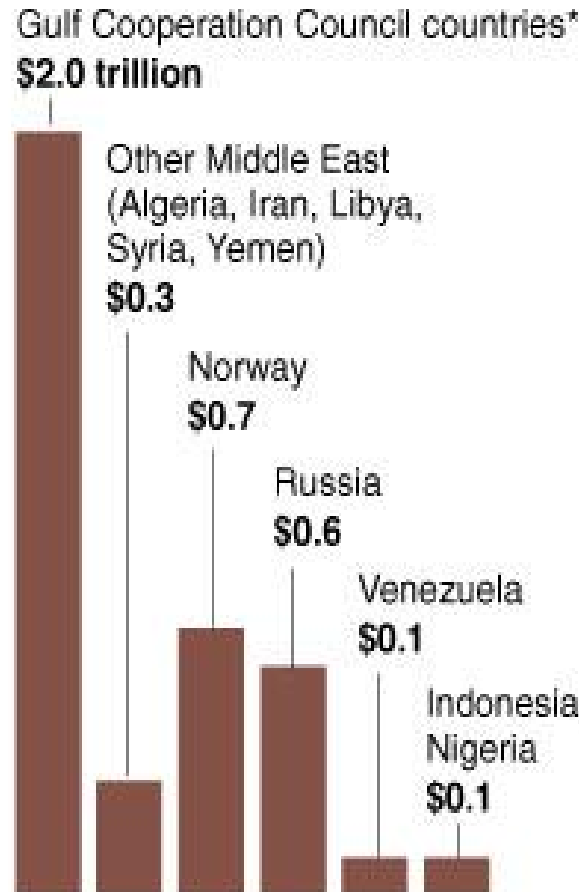
Net capital outflows from countries with current-account surpluses.



\*Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates

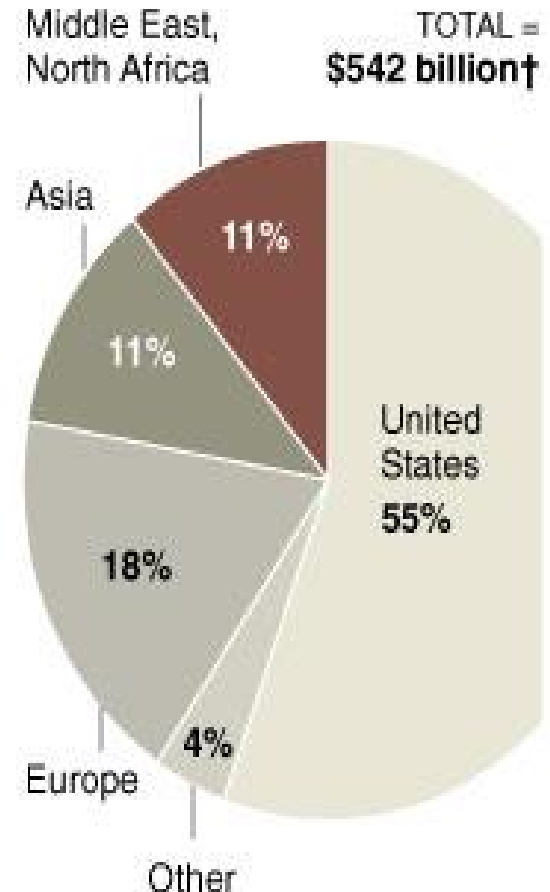
## Particularly in the Middle East . . .

Estimated petrodollar foreign investment assets, end of 2006.



## Fueling global investments.

Destination of capital outflows from Arab countries in the Persian Gulf,\* 2002-6.



†Based on published reports.



42 gallons

