

Preface

Microeconomics is the study of the behavior of individual households, firms and industries as well as the supply and demand relationships between producers and consumers.

You might think of a household as a consumer, but households are also producers. For example, take a look at your kitchen: you take raw materials (meat, cheese, vegetables, eggs, salt and pepper) as well as capital (stove and frying pan) and your own labor to produce an omelet, which is demanded by you and members of your family. They may not pay you in money, but you're compensated in other ways.

Cooking an omelet for your family is a very simple example of an economic problem. So what's the point? The point is that economics isn't "all about money." It's about life. It's about human behavior. In fact, economic analysis can be applied to almost any problem imaginable.

For example, there is a branch of economics that studies the production of health and the demand for health. Notice that I wrote "health" and not "health care."

To take another example, economic analysis can also be used to analyze the war on drugs without ever mentioning the word "price." Instead what is important is "opportunity cost" – what we have to give up when we make a choice. In some American cities, police officers are so busy preparing prosecutions that they don't have time to respond to 911 calls. Why? Because the politicians chose to put as many people in jail as possible, they actually had to forgo law and order.

Studying economics will help you understand the nature of trade-offs that you face in everyday life. If you spend more time studying economics, you'll be less likely to make decisions that are as stupid as the ones our politicians have made and more likely to make rational decisions.