

Read Ch 1 and Appendix 1

I'm not really going to present this material, as you have seen it before

In Principles, you spent a lot of time using the Supply and Demand model. We'll spend much of the course deriving this model.

We'll talk about demand:

- Present a model for how consumers make choices
- Use this model to derive individual's demand curve and show why demand tends to be downward sloping
- Derive market demand by summing individual demands

We'll talk about supply (a little bit) in the perfect competition model. But you should have already seen this in Principles. We'll spend a fair amount of time talking about imperfect competition, particularly oligopoly.

1 How do we verify theoretical models?

- Testing assumptions

Theoretical models rely on a number of simplifying assumptions. If assumptions don't hold, theory can't hold.

Comment about assumptions (map)

- Testing predictions

Another way to see if theory is correct is to examine empirical data and see whether model makes correct predictions.

This is primarily a theory class. Occasionally we will examine empirical applications of the theory and see whether model predictions are correct.

2 Positive versus Normative

Definition 1 *Positive analysis: Tries to explain the world as it is.*

Testable.

Definition 2 *Normative analysis: Tries to explain how the world should be. (what should be done)*

We will focus on positive analysis - describing likely results of different policies.

In general, economists have fairly high agreement on positive issues; disagreement tends to arise on normative issues.

Table 1: Percentage of Economists Agreeing with Various Propositions in Three Nations

Proposition	United States	Switzerland	Germany
Tariffs reduce economic welfare	95	87	94
Flexible exchange rates are effective for international transactions	94	91	92
Rent controls reduce the quality of housing	96	79	94
Government should redistribute income	68	51	55
Government should hire the jobless	51	52	35