

An Introduction to Economics



INTRODUCTION – The difference between Microeconomics and Macroeconomics

Watch the video using the link below:

<https://www.youtube.com/watch?v=2Nq8LN3XGQA>

Summarise the difference between Microeconomics and Macroeconomics

MICROECONOMICS

Watch the video using the link below.

<https://www.youtube.com/watch?v=W9IjktFC9Tg&t=17s>

Having watched the videos on the difference between macro and microeconomics as well as the basic economic problem, answer the exercises and questions below:

Exercise 1

Define Economics:

Exercise 2

Define the basic economic problem: _

Exercise 3

Read through

https://www.economicsonline.co.uk/competitive_markets/the_economic_problem.html/

What are the two ways in which resources are limited?

What are Samuelson's 3 questions?

News Article Exercise

Having watched the earlier video on scarcity, choice and opportunity cost you should have a good understanding of these concepts and the basic economic problem. Find a real-life example to illustrate these key economic concepts. For example you could look at health care or defence spending or even education.

Do some research into your example using a reputable news source such as the BBC or Sky <https://www.bbc.co.uk/news/business>
<https://news.sky.com/business>

Once you have completed your research create a double page spread economics article using specific data on the topic of your choice. Your article needs to be ready to hand in during your first lesson. As an example, see the Economics Today article on the next pages on Love:

The Economics of Love

As another Valentine's Day approaches, Lynne Woolliscroft discusses the application of some familiar economic concepts to the intricacies of love and relationships

It's that time of year when surely even the most ardent followers of the dismal science turn their thoughts to more ethereal matters of love and romance. The 14th of February – Valentine's Day – is one of the most successful commercial occasions of the year for a whole range of businesses from card manufacturers to florists, restaurants and hotels; the amount we spend on gifts for our loved ones is rising year on year. But what can the harsh, rational words of economic theory tell us about something as fragile and unpredictable as love? Can we really use a cost benefit approach (as Darwin apparently did) to decide whether we have met 'The One'? Do dating apps help the dating market work more efficiently by reducing search costs and providing better information? Is marriage really the 'ultimate pin factory'¹ where the gains from **specialisation** and **division of labour** can be maximised? Is love a game? What can Love Island tell us about **game theory**? And, of course, what are the economic costs of singleness? These questions, and many others, are the ones we try to address in this overview of the economics of love.

Love and romance – what's economics got to do with it?

You might be asking why economics, the epitome of rationality and predictability, should even care about love. But, as Andrew McKendrick from Lancaster University² has pointed out – economists care about happiness (maximising **utility** is a central construct) and they are also obsessed with markets, the dating market being no exception. If there is a supply of and demand for people who wish to be partners, then there is definitely a market. So, let's start with these concepts.

Utility theory and love

The idea of rational calculations in love and relationships only really started in the 1970s when the Nobel prize-winning economist, Gary Becker, suggested that **rational choice theory** could be applied to decisions on relationships (specifically marriage – it was the 1970s after all!) He concluded that 'people marry if the expected utility from such marriage exceeds the utility from remaining single or from additional search for a more suitable mate.' Similarly, the couple would separate if the utility of being together provides less benefit

than separating. Presumably this decision, based on costs and benefits, would include the loss of **sunk costs** and the cost of divorce. This is all based on the assumption, of course, of deep rooted self-interest and the assumption that 'utility' is a measurable concept. The two main thoughts here are firstly that loving a partner makes us happy and secondly that searching for a partner can incur costs – in terms of money and time. In other words, there is an **opportunity cost** here as for every minute spent searching for a partner you are giving up something else. The (not very romantic) implication here is that at some point people will 'settle', otherwise the costs of searching for a suitable partner may outweigh the benefits. Clearly you can't date everyone who fits your search criteria so eventually we choose The One rather than carry on searching. We will return to Gary Becker later when we consider the concept of division of labour in relationships.

The market for love

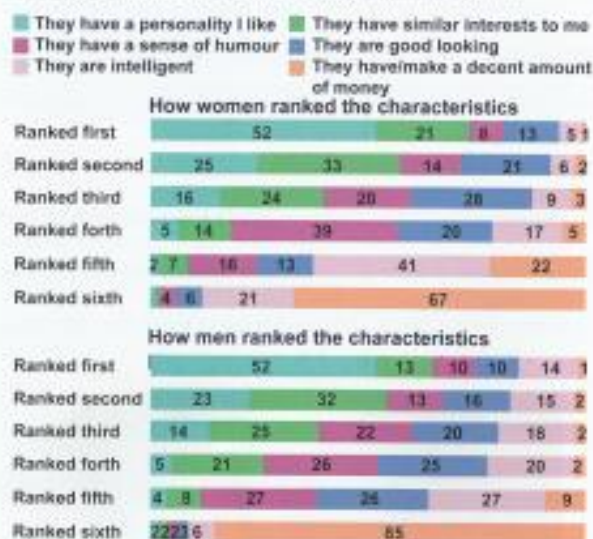
For the moment, cast aside your traditional view of markets (buyers and sellers exchanging goods and services at a price and so forth) and think about the market for love as people of all ages, genders, sexuality etc who may be open to the idea of meeting someone. Each person will have an idea of what qualities that person will have which will restrict the supply of available partners. Equally, there has to be a mechanism through which the two parties will meet. So, let's focus on those two questions – what do people look for in a partner and where are they likely to meet?

A yougov survey in 2017 suggests that personality and a sense of humour are more important than looks or money in a romantic partner (for both heterosexual and same sex relationships).



Figure 1: What attributes do people prioritise in a partner?

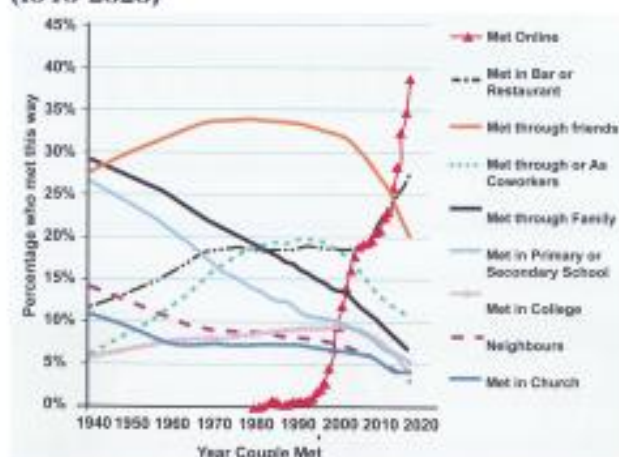
Personality is the single most important characteristic in a romantic partner, say half of Brits. Thinking about your personal preferences in a romantic partner, how would you prioritise each of the following characteristics? %



Source: <https://yougov.co.uk/politics/articles/19664-personality-more-important-looks-across-globe>

So already the supply of available partners for each person is limited by characteristics such as personality, similar humour and shared interests. But perhaps more importantly, there are other criteria not listed here which have also proved to be significant. For example, having a similar level of education or a similar job type. So, returning to our dating market, how do people meet their ideal partner? How efficient is the dating market in bringing together people with those all-important shared interests, similar educational attainment and so on? In **behavioural economics** language, there is an issue here of **bounded rationality** since information may be incomplete and there is limited time available to make decisions. Figure 2 shows the trends in how opposite sex couples have met their partners.

Figure 2: Trends in how opposite sex partners meet (1940-2020)



Source: https://web.stanford.edu/~mrosenfe/Rosenfeld_et_al_Disintermediating_Friends.pdf

These are figures from the US – there are no recent comparable statistics for the UK but there is no reason to suppose the trends are very different. Figures for same sex couples suggest over two-thirds met online. The percentage of people meeting at work

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has fallen considerably and this trend is likely to continue as working from home continues to be the norm for many workers, following the pandemic.

Do dating apps make the market work more efficiently?

As with most markets, the dating market is not perfect and **market failure** is always a risk.

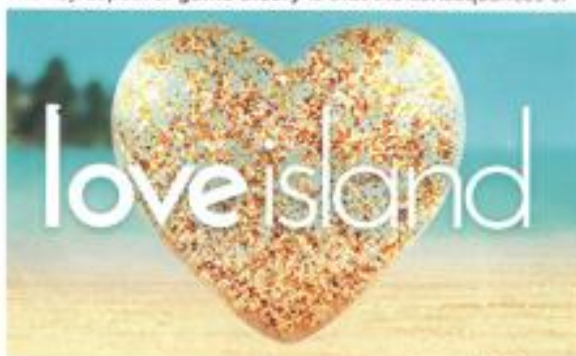
Information failure is an obvious problem – people may have a preferred profile of the person they would like to date but they do not have access to perfect information about who and where these people are. Online dating opens up the pool of possible partners, and users can filter their search results to focus on the characteristics they prefer. Also, the search costs may be lower, both in terms of time and money, meaning that people can search for longer for the ideal partner rather than 'settling' too early. All sounds a bit clinical? Perhaps – but take another look at the table above – there is no disputing the rising popularity of dating apps.

Compared to family, friends and other personal networks, online matchmaking offers more choice, more discretion and anonymity, and less social pressure in gathering information and making first contact. And, to go back to economic theory, the exit costs are zero! In 'thinner' markets the need for better information is even more apparent. For example, LGBTQ people may be searching in a smaller pool of people. So are middle-aged heterosexuals. These are the groups most likely to meet their partners online³.

So, in the interests of this article, this author did some research on dating apps and uncovered even more economics! Whilst most dating apps such as Tinder, Bumble, Grindr, Hinge, Coffee meets bagel offer free versions, better search facilities are only available to premium subscribers. Better information comes at a price. Furthermore, most sites practise **price discrimination**, with younger users being charged less (presumably demand for dating apps amongst younger people is more elastic). It seems that investing in premium services may reduce time spent searching for a likely match. However, even with better information, there is still the problem of **adverse selection** – where **asymmetric information** is exploited. Is that picture a true likeness? Is the profile information an exaggeration of the facts? As in **the market for lemons**, the owner of the profile is in charge of the information they impart! In the worst scenario, dating app users could be victims of **Catfishing** – where a person takes information and images, typically from other people, and uses them to create a new identity for themselves.

Is love a game?

Can economists apply game theory to love? Game theory is the science of strategy, calculating the optimal decisions for independent and competing players in a strategic situation. The key aspect of **game theory** is that the consequences of



Macroeconomics

Watch the video using the link below:

<https://www.youtube.com/watch?v=OPV1BOs1ISI>

1.) What are the main macroeconomic objectives?(Use the video to help answer this)

How is the UK Economy Performing?

Research the main macroeconomic objective and the current performance of the UK Economy

The following websites will be useful:

<http://www.bbc.co.uk/news/business/economy>

<https://tradingeconomics.com/united-kingdom/indicators>

Use your research to complete the summary on the next page:

Economic Growth - What is Economic Growth ?(Define) How is it measured? Does the government want growth to be high or low and why? How well is the government doing? (Investigate and analyse how well the UK economy is performing in terms of growth) • What is the latest UK GDP growth rate? • What was the lowest growth rate in the last 10 years? • What was the highest growth rate in the last 10 years?	Inflation -What is Inflation ?(Define) How is it measured? Does the government want Inflation to be high or low and why? How well is the government doing? (Investigate and analyse how well the UK economy is performing in terms of Inflation) • What is the current UK rate of inflation? How does this compare to the inflation target? • What was the highest rate in the last 10 years? • What is happening to inflation currently?
Unemployment - What is Unemployment?(Define) How is it measured? Does the government want unemployment to be high or low and why? How well is the government doing? (Investigate and analyse how well the UK economy is performing in terms of unemployment) • What is the latest UK unemployment rate? • What was the highest unemployment rate in the last 10 years? • What is happening to unemployment at present?	Overall How well do you think the UK Economy is doing and why?