

AN INTRODUCTION TO  
ECONOMICS, BUSINESS,  
FINANCE AND INVESTING

# BASICS OF ECONOMICS

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# ECONOMICS - OVERVIEW OF THE GLOBAL AND U.S. ECONOMIES

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- What is an economy?
  - Production, transfer and consumption of goods and services
- What is economics?
  - How people and institutions make decisions about their limited resources
    - Labor
    - Time
    - Money
    - Materials

“In economics,  
hope and faith  
coexist with  
great scientific  
pretension and also  
a deep desire for  
respectability.”

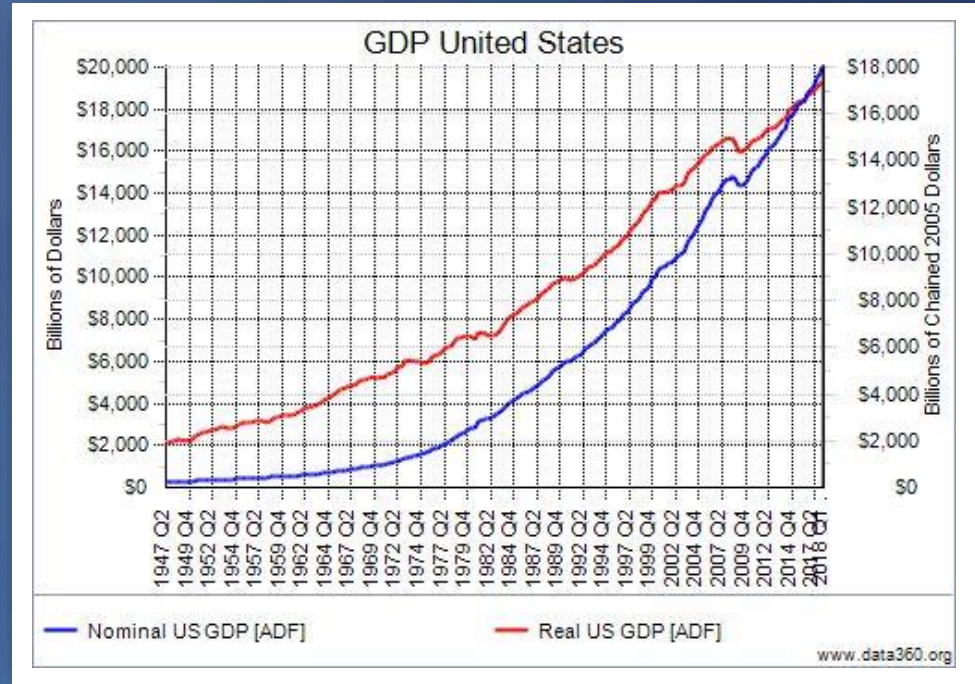
– JOHN KENNETH GALBRAITH

# ECONOMICS – BIG PICTURE









- Microeconomics and macroeconomics
  - Microeconomics: the study of economics at an individual or company level
    - Supply and demand
    - Production of individuals or companies
    - Effects of regulation on a business
  - Macroeconomics: the study of a national economy as a whole
    - Issues that affect economies
    - Unemployment rates, gross domestic product, imports and exports

# ECONOMICS – HOW BIG IS THE U.S. ECONOMY?

- GDP: Market value of goods and services
  - Core measure of an economy
    - Real (inflation adjusted)
    - Nominal



# 10 LARGEST COUNTRIES BY GDP

Rank	Country	Value (USD\$)	Peak year
—	<i><u>World</u></i>	78,519,556	2014
1	 <u>United States</u>	19,417,144	2017
—	 <i><u>European Union</u></i>	19,200,287	2008
2	 <u>China</u>	11,795,297	2017
3	 <u>Japan</u>	6,203,213	2012
4	 <u>Germany</u>	3,885,440	2014
5	 <u>United Kingdom</u>	3,064,351	2007
6	 <u>France</u>	2,937,321	2008
7	 <u>India</u>	2,621,458	2018
8	 <u>Brazil</u>	2,614,027	2011
9	 <u>Italy</u>	2,402,062	2008
10	 <u>Russia</u>	2,230,624	2013

# MICROECONOMICS



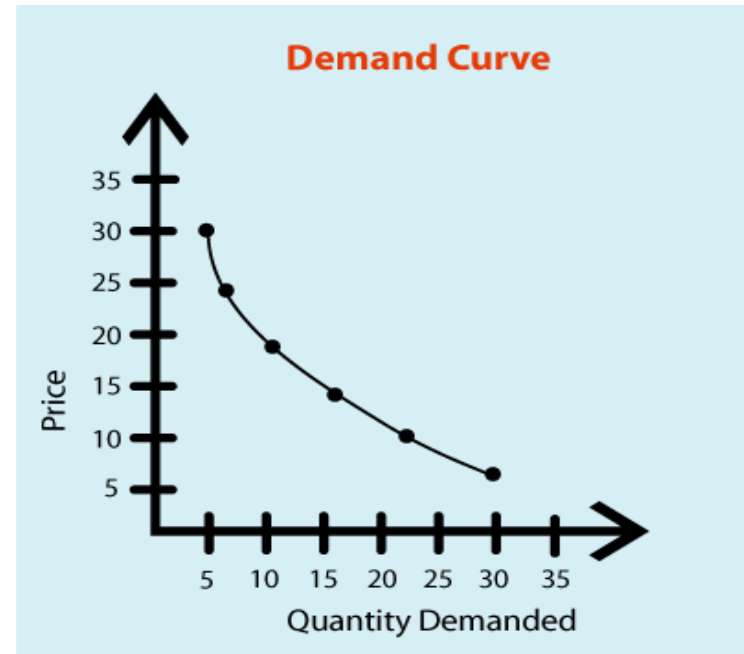
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# INTRODUCTION TO MICROECONOMICS

- Microeconomics
  - Behaviors of individuals and firms
  - Deals with allocation of resources
    - Where to spend money
    - Where to invest
    - Supply and demand
    - Production of individuals or companies
    - Effects of regulation

# DEMAND CURVE

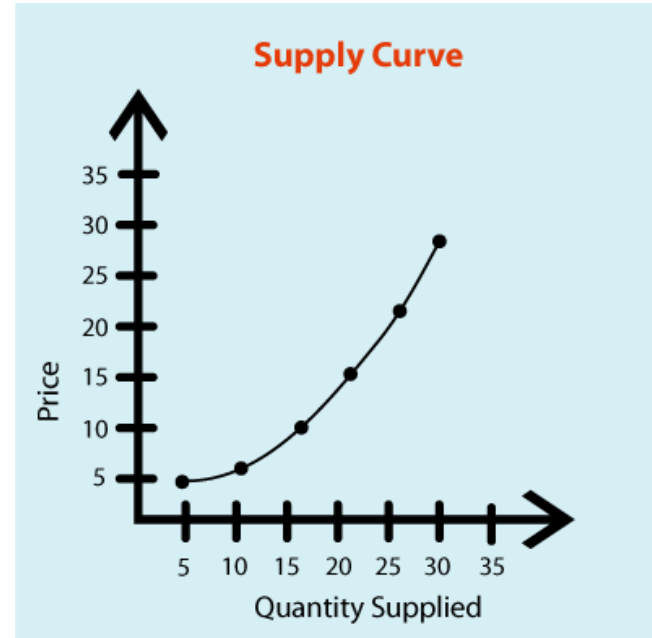
- Demand is the desire of people to buy things
- Prices are *inversely* related to quantity
  - As prices drop, demand increases
- Elastic vs. inelastic demand





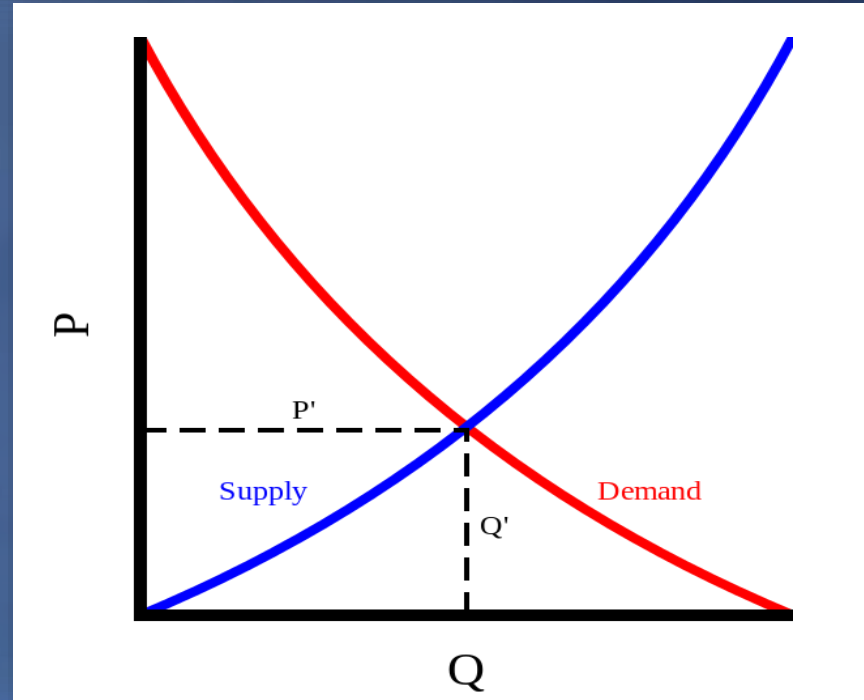
# SUPPLY CURVE

- Prices at which someone is willing to sell goods
  - Price is *directly related* to quantity
- As prices increase, supply increases



# SUPPLY AND DEMAND – EQUILIBRIUM

- Equilibrium-the point at which demand and supply meet
- Market forces tend towards equilibrium
  - High prices lead to excess supply
  - Excess supply pushes down pricing



# BREAKDOWN OF SUPPLY/DEMAND

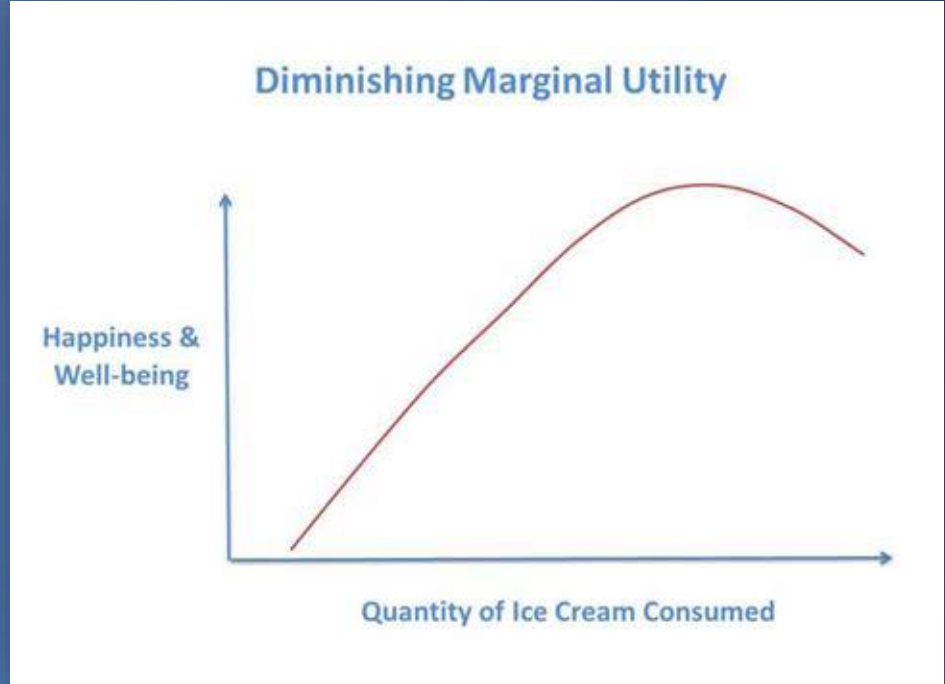
- Monopoly
  - Sole supplier
    - No/low competition or threat of substitutes
    - No/little market pricing
    - Example: patent-protected drug
- Oligopoly
  - Few suppliers
  - Airlines, car rental, cable companies, cell phone providers

# INDIVIDUAL'S BEHAVIOR

- Utility-economists measure of human happiness
  - Economists assume humans behave to maximize happiness
    - Constraints include limited budgets
- Maximization
  - How do people make decisions (maximize utility)
    - Evaluate options
    - Tradeoffs
      - Time constraints, technology constraints, resource constraints
      - Opportunity costs
    - Maximize Happiness

# INDIVIDUAL DECISION MAKING

- Diminishing marginal utility



# DECISION MAKING

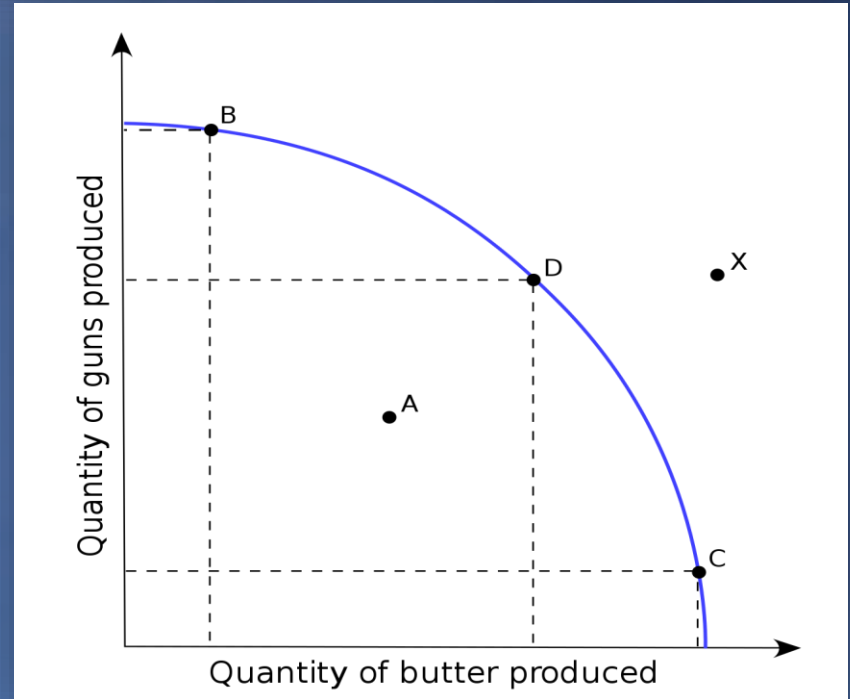
- Real people don't just maximize happiness
  - Why?
    - Evolution has not caught up with modern life. Some instincts work in ways opposed to economics
- Thinking fast and slow
  - Fast brain: instinct
  - Slow brain: thinks through problems
- Making sense of irrationality
  - Sunk costs
  - Big percentage vs. big dollars
  - Familiarity bias

# FIRMS

- Production: Output based on limited resources
  - Land, labor, capital, entrepreneurship
  - Limited technology

# PRODUCTION POSSIBILITIES FRONTIER

- Production capacity is not infinite
- Maximum output possibilities
  - Two goods
  - Fixed resources
- Opportunity cost
  - When getting one asset, you are giving up another
- Outward shifts





# MACROECONOMICS



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# MACROECONOMICS – STUDY OF BEHAVIORS OF ECONOMIES

- Includes study of:
  - Interest rates
  - Inflation
  - Unemployment

# IMPORTANT TERMS

- GDP (Gross Domestic Product)
  - Total goods and services of an economy
- Unemployment
  - Percentage of people not working that are seeking employment
- CPI (Consumer Price Index)
  - Measure of changes in price level
- Inflation/Deflation
  - Increase/decrease in prices
- Monetary policy
  - Actions by central bank to effect interest rates/inflation
- Fiscal policy
  - Use of government revenues to influence economy
- Recession
  - Business cycle contraction

# BANKS – KEY PLAYER IN ECONOMY

## How do banks make money?

### These earn banks money:



**#1**

Loans (to customers, businesses, other banks)



**#2**

Credit card interest



**#3**

Product fees (credit card and transaction account fees)



**#4**

Other products (insurance, financial planning)

### These cost banks money:



**#1**

The interest they pay on savings accounts



**#2**

The interest they pay on money they borrow

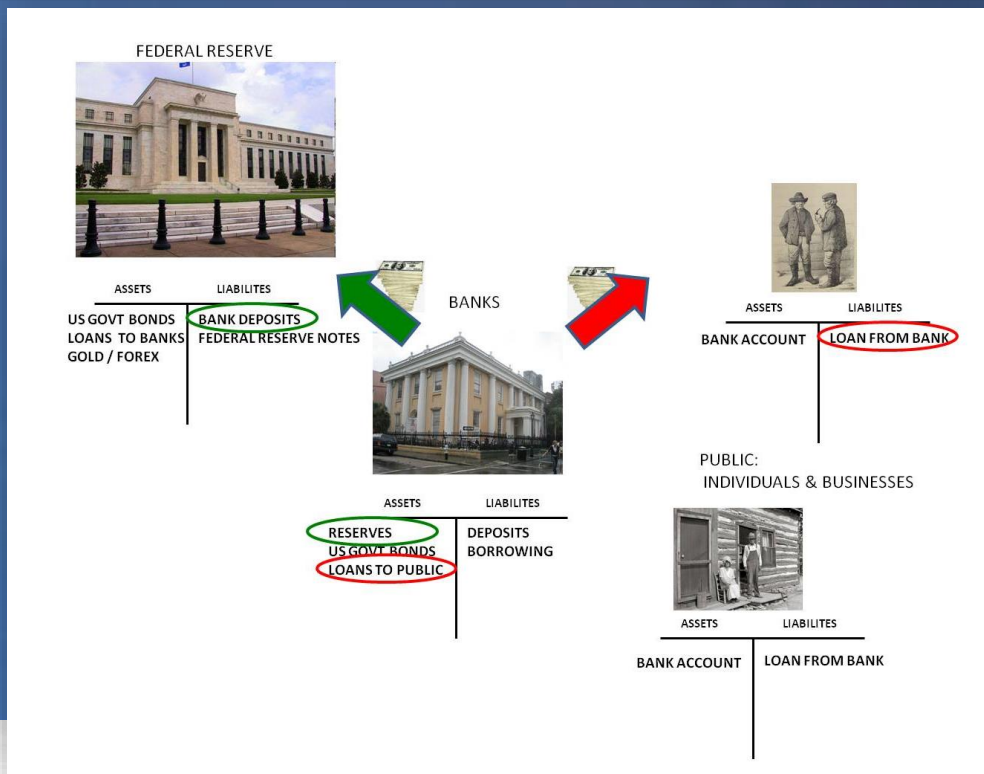
# BANKING SYSTEM

- Financial institutions hold and lend money
  - Commercial bank
  - Investment bank
- Regulation
- Risks
  - Credit risk
  - Liquidity risk
  - Market risk
  - Operational risk
  - Reputational risk

# THE FED

- Federal Reserve System
  - Central banking system in the U.S.
  - Objectives:
    - Maximum employment
    - Stable prices
    - Moderate long-term interest rates

# FEDERAL RESERVE SYSTEM



# 2007-2008 – GLOBAL FINANCIAL CRISIS

- Worst financial crisis since Great Depression
- Excessive risk-taking by banks
  - Started with subprime lending
  - Spread to all financial institutions
    - Many failed
      - Some disappeared (Lehman Brothers, Bear Stearns)
    - Many required government bailouts
      - AIG, Freddie Mac/Fannie Mae
  - Followed by global economic downturn



# RAY DALIO VIDEO



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