Web note 243: MIND MAP Behavioural Economics

How do consumers + firms behave?

17th century economists

rationality

21st century behaviour

Perfect information

Rational Decision making Guided by Utility + Equi Marginal principle

Mu x/Px = Mu y/Py

Alternative
Theory?
=
Behavioural

Web note 243: MIND MAP Behavioural Economics

Which of the circles deal with micro and which focus on macro economics?

Bias: e.g.

- Rule of Thumb
- **Anchoring**
- Framing
- availability

Rational Man?-the classical approach vs behavioural economics

- Bias:e.g.
- Bounded reality
- Bounded self control
- Bounded selfishness

broblems, scarcity can

e.g. assymetric information

consumer

Nudge theroy

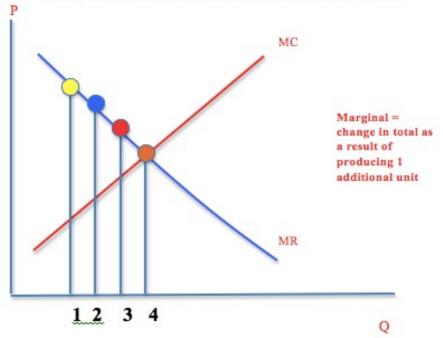
Choice architecture

Web note 243: MIND MAP-behavioural economics

Rational Man-the classical approach vs behavioural economics



Why MR = MC? Zero profit? The Prouction of 200.000 tonne oil tankers



- 4th Oil tanker produced: MR = MC. Why produce the 4th?
 Because it might allow the firm to benefit from economies
 of scale and produce nearer to the lowest point on the
 LRAC
- · 3rd Oil Tanker: MR>MC. Firm benefits
- 2nd Oil Tanker: MR>MC. Firm benefits
- 1st Oil Tanker: MR>MC. Firm benefits

Main Theme in IB Economics

Consistent throughout the course is: economic theory **should** have....

Economics has developed in the 20th century

....more...behavioural economics theory