

PRINCIPLES OF ECONOMICS



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WHAT IS ECONOMY?

- The word **economy** originally comes from a Greek word for “one who manages a household.”
- Broader definition: household, society, and country.
- An **economy** is a system of organizations and institutions that either facilitate or play a role in the production and distribution of goods and services in a society.
- Economies determine ;
- **how resources are distributed** among members of a society;
- **the value of goods or services;**
- **what sorts of things can be traded or exchanged** for those services and goods.

FUNDAMENTAL PROBLEM FACED BY ECONOMY

- ◆ Fundamental economic problem: scarce resources.
 - *Scarcity*. . . means that society has limited resources and therefore cannot produce all the goods and services people wish to have.

Resources : Physical resource, financial resource, human resource

FUNDAMENTAL PROBLEM FACED BY ECONOMY

- The problem for society is a scarcity of resources
 - Scarcity of Labor
 - Time human beings spend producing goods and services
 - Scarcity of Capital
 - Something produced that is long-lasting, and used to make other things that we value
 - Human capital
 - Capital stock
 - Scarcity of land
 - Physical space on which production occurs, and the natural resources that come with it
 - Scarcity of entrepreneurship
 - Ability and willingness to combine the other resources into a productive enterprise
- As a society our resources—land, labor, and capital—are insufficient to produce all the goods and services we might desire
 - In other words, society faces a scarcity of resources



WHAT IS ECONOMICS?

- Economics is a social science concerned with the production, distribution and consumption of goods and services.
- *Economics* is the study of how society manages its scarce resources.
- It studies how individuals, businesses, governments and nations make choices on allocating resources to satisfy their wants and needs.
- It tries to determine how these groups should organize and coordinate efforts to achieve maximum output.

WHAT IS ECONOMICS

- Economists see the world through a different lens than anthropologists, biologists, classicists, or practitioners of any other discipline.
- They analyze issues and problems with economic theories that are based on particular assumptions about human behavior.
- **A theory** is a simplified representation of how two or more variables interact with each other.
- The purpose of a theory is to take a complex, real world issue and simplify it down to its essentials.
- A good theory is simple enough to be understood, while complex enough to capture the key features of the object or situation being studied.
- Sometimes economists use the **term model** instead of theory. Strictly speaking, a theory is a more abstract representation,
- while a model is more applied or empirical representation.
- Models are used to test theories

INCENTIVE TO LEARN ECONOMICS

- Perhaps you are asking what incentive to learn economics
- **When we understand how to use economics in your life and, we will see the world differently**
- **By studying** economics; we'll cover fundamental microeconomics concepts like supply and demand and equilibrium
- By studying economics: we will also be able to answer questions such as:
 - ❑ How are prices determined?
 - ❑ What did Adam Smith mean when he said the market process works like an “invisible hand”?
 - ❑ We will cover all the key topics including competition, monopoly, price discrimination, externalities, public goods and more.

WHY STUDY ECONOMICS

- To achieve social change
 - You'll gain tools to understand origins of social problems and design more effective solutions
- To help prepare for other careers
 - You'll discover that a wide range of careers deal with economic issues on many levels
- To become an economist
 - You'll begin to develop a body of knowledge that could lead you to become an economist in the future



ANSWERING THE THREE ECONOMIC QUESTIONS

- Because every country in the world is faced with scarce resources, every country must answer three questions:
- **1- What goods and services should be produced?**
 - Gun or Butter: : the more military goods you produce, the fewer consumer goods you produce... and vice-versa.
- **2- How should these goods and services be produced?**
 - What combination of factor resources should we use
- **3- Who consume these goods and services?**
 - How will income be distributed?



ECONOMICS CAN GENERALLY BE BROKEN DOWN INTO



MICROECONOMICS

- Micro
 - Micro comes from Greek word *mikros*, meaning “small”
- Microeconomics: the study of how households, firms, and governments make decisions in a world of scarcity and how they interact in markets
 - Choices they make
 - Interaction in specific markets
- Focuses on individual parts of an economy, rather than the whole
- Examples: mobile phone consumption choice decision, mobile phone production decision, and mobile phone market

MACROECONOMICS

- Macro comes from Greek word, makros, meaning “large” (Focuses on big picture and ignores fine details)
- It concentrates on the behavior of the aggregate economy
- Macroeconomics: the study of economy-wide phenomena including inflation, unemployment, and economic growth

HOW IS ECONOMICS DIFFERENT FROM OTHER SOCIAL SCIENCES?

- Economics borrows from multiple sciences e.g. sociology or law, to explain why and how people act to improve their well-being and wealth.
- For example; behavioral economics borrows from psychology and history to analyze how past experiences may shape expectations about the future.