# Unit 8: Introduction to Economics

# Reading 1: Match the words with their dictionary entries below.

Adam Smith capitalism communism

Karl Marx laissez faire free enterprise

planned economy state intervention individual initiative

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ Political and economic system which allows open competition between companies in a free market. Under this system, the means of production and distribution are held by individuals or corporations (private property) rather than by the government on behalf of the people. Prices are determined by market forces.
2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ Scottish economist whose book *An Inquiry into the Nature and Causes of The Wealth of Nations* (1776) argued for minimal interference in the workings of the free market. It asserted that individuals working in their own interest will somehow be guided by an “invisible hand” which will automatically further their community. He also proposed that wealth was mainly created by labour and the more labour was put into a product the highest its value would be.
3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ Freedom of private businesses to operate competitively with the minimum of legal restrictions and government involvement. \_\_\_\_\_\_\_\_\_\_\_\_ is the principle underlying it.
4. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ French phrase meaning, “allow people to do as they choose”.
5. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ Economic and social system in which all the means of production, distribution and exchange are nominally owned by the workers and controlled by the Party and the State in their name.
6. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ German political and economic theorist whose ideas were the basis of Marxism, the theory that underlies communism. He believed history was shaped by economic contradictions that caused economic and social systems to collapse and that capitalism was inherently flawed. He claimed that the industrial world was dominated by a struggle between the suppressed working class and the capitalist bourgeoisie. The struggle would culminate in revolution and a temporary dictatorship of the proletariat, which would bring about an end to exploitation and create a classless, utopian society in which the state would wither away and the people would collectively own and control the means of production.
7. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ System in which prices, wages and production levels are set by the central authority, usu. The government as part of its political programme.
8. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ It is a policy of proactive activity undertaken by a nation-state to manipulate the economy and/or society.
9. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ An individual's action that begins a process, often done without direct managerial influence. For example, an employee might take the initiative to come up with a new product or service that the company could offer.

**Reading 2**

**D. Match the terms with their definitions.**

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| economic equilibrium  game theory  information economics  labor economics  opportunity cost  the law of supply and demand | fiscal Policy  globalization  inflation  informal Economy  monetary Policy  productivity |

1. The spending and taxing activities of a government constitute its \_\_\_\_\_.
2. \_\_\_\_\_ It is a major method used in mathematical economics and business for modeling competing behaviors of interacting agents. The term here implies the study of any strategic interaction between people. Applications include a wide array of economic phenomena, such as auctions, mergers & acquisitions, oligopolies, social network formation, and across such broad areas as experimental economics, behavioral economics, information economics, and political economy.
3. \_\_\_\_\_A generalized historical process through which more economic activity takes place across national borders. It includes international trade (*exports* and *imports*), *foreign direct investment*, international financial flows, and international *migration*.
4. \_\_\_\_\_ It is a branch of economic theory that studies how information and information systems affect and economic decisions. It has special characteristics which complicate many standard economic theories. It is easy to create but hard to trust. It is easy to spread but hard to control. It influences many decisions.
5. \_\_\_\_\_ This sector of the economy represents the production of goods and services for the own-use of the producers, or “underground” trade in particular communities. Other related terms are *grey*, *shadow* or *underground economy*.
6. \_\_\_\_\_\_\_\_\_\_\_ General increase in price levels, or fall in the value of money, over a period of time. When high, it reduces the value of people’s savings and damages the economy by pushing up the price of exports, which can lead to a balance of payments crisis.
7. \_\_\_\_\_ It seeks to understand the functioning and dynamics of the markets for wage labor. Its markets function through the interaction of workers and employers. It looks at the suppliers of labor services (workers), the demands of labor services (employers), and attempts to understand the resulting pattern of wages, employment, and income.
8. \_\_\_\_\_ It constitutes an economic model of price determination in a perfectly competitive market. It postulates that in a perfectly competitive market with no externalities, per unit taxes, or price controls, the price for a particular good is the price at which the quantity demanded by consumers equals the quantity supplied by producers. This price results in a stable \_\_\_\_\_.
9. \_\_\_\_\_ It reflects the use by government agencies (especially the *central bank*) of interest rate adjustments and other levers (such as various banking regulations) to influence the flow of new *credit* into the economy, and hence the rate of economic growth and job-creation.
10. The \_\_\_\_\_ of any activity. It is the value of the next-best alternative thing you may have done instead. It depends only on the value of the next-best alternative.
11. \_\_\_\_\_ It measures the effectiveness or efficiency of productive effort. It is measured as the actual amount of a good or service produced in terms of the value of output, or as the amount of output produced over a certain period of work (e.g. output per hour).

**E. Sort the terms above into micro or macroeconomics**

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| --- | --- |
| **Microeconomic terms** | **Macroeconomic terms** |
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**F. Choose from the terms above to complete the sentences.**

1. In the maritime industry, during the execution of a given project, the company has an \_\_\_\_\_\_\_\_ for committing its resources (vessels) with the project since it gives up more profitable opportunities that come up.
2. According to a 2002 study commissioned by the ILO, the connection between employment in the \_\_\_\_\_\_\_\_ and being poor is stronger for women than men. While men tend to be over-represented in the top segment of this sector, women overpopulate the bottom segment.
3. Where economic models fail, it is common for \_\_\_\_\_\_\_\_ to be used to explain the gaps. The list of illustrative examples includes: behavioural economics, expectations, speculation, asymmetric information and incentives.
4. \_\_\_\_\_\_\_\_ should aim at equitable distribution of wealth and income. It should be so designed as to bring about reasonable equality of incomes among different groups by transferring wealth from the rich to the poor.
5. Climate change policy has therefore been predominantly fiscal policy and very little attention has been paid, thus far, to the implications of climate change for the conduct of \_\_\_\_\_\_\_\_ and the role of Central Banks.
6. Nash Equilibrium, named after its inventor, John Nash, an American mathematician, is considered one of the most important concepts of \_\_\_\_\_\_\_\_, which attempts to determine mathematically and logically the actions that participants of a game should take to secure the best outcomes for themselves.

## Reading 3: Factors of production

1. The economic resources of a country are commonly referred to as factors of production. They could be classified in any number of ways, but traditionally they have been assigned to three basic categories: land, labour and capital.
2. Land means all the natural resources used in production. This category includes what the real estate agent means by land (mainly location) and what the farmer means by land (mainly topography, climate and natural fertility) and all other natural endowments as well. It includes all natural mineral resources, virgin forests, and such invaluable geographic features as the Great Lakes, San Francisco Bay and the Straits of Gibraltar. In one sense there is only so much land in the world. Land is increased through discovery or through development or through increased transportation.
3. Labour refers to all human effort expended on production. It includes the efforts of self-employed farmers and merchants as well as those with paying jobs. It includes white-collar labour as well as blue: managers as well as those managed; union members, free riders, and those who are blessed by unions one way or another. As long as we are human and we are willing to work, we contribute to the nation’s supply of labour.
4. Capital as a factor of production includes all man-made resources. It is a particularly tricky concept, because in other contexts capital sometimes has a quite different meaning, even to economists. Some elements of capital are straightforward enough. Buildings and equipment fall into this category in everyone’s book. It may be worth mentioning, though, that a house occupied by its owner is just as much a part of the nation’s capital stock as a house that is rented.
5. Inventories are also capital. They include stocks of seed in the ground, materials in process and final products ready for sale. If the inventories didn’t exist, our farms, factories and stores couldn’t produce much of anything. Much of the spectacular economic growth in Europe and Japan after World War II was due to the replacement of inventories. Right after the war, inventories were down almost to zero. To produce a car a manufacturer had to scrounge all over Europe for steel, the steel producers had to struggle to find coal and so forth. But just a few years later, the same steel mills and auto plants were producing at first blast and often with little more labour, plant and equipment than before. The reason was merely that they now had full stockpiles of materials.
6. In many contexts, capital means financial instruments, such as stocks, bonds, mortgages and even bank accounts. However, these items are distinctly not included in capital as factor of production. To see the reason, compare what happens when we build a new plant or machine with what happens when we issue a new stock or bond mortgage. We do not gain any more productive capacity just because we have more stocks or bonds. Stocks and bonds are often issued in order to finance new equipment. But it is the equipment itself that increases our productive resources, not the bonds. It would be double counting to include both the financial instruments and the machines as capital. The bank owns a mortgage against my house. That mortgage is a claim against my property. We can’t count both the house and the mortgage as parts of the country’s stock of capital.