



INTRODUCTION TO ECONOMICS



- ▶ **Economics comes from the Greek word oikonomia which means -- Household Management**
- ▶ ☐ **Economics is considered a field of social science**
- ▶ ☐ **Economics is relevant because it is part of everybody's life**



WHAT IS ECONOMICS???

- ▶ **ECONOMICS** – is a social science that deals with how people organize themselves in order to allocate scarce resources in order to produce goods and services that will satisfy the unlimited and multiplying wants and needs of man.

- ▶ What does THAT mean?!?!?!?



- **In a house:**

One or two persons earn (Income of the household)

- Every member spends (Consumption)
- Income is divided according to one's needs (distribution)

-

Let us elaborate this example-

Suppose the total income of a household is \$1000. and this 1000 dollars needs to be divided into so many parts.

• Our basic needs are to be fulfilled first, Food, Basic Clothing and shelter, Education, Utility bills.

- **Mr. X spends**

- 200 - Food items
- 100- Milk
- 200- Electricity, Cable, phone and other bills
- 50- Petrol
- 200- Savings Deposit
- 200- Kids Education expenses
- 50- Family clothes



- And suppose some wedding comes in the family or his kids demand to go for a picnic or his wife wants a new dress, new jewellery or he, himself needs a new scooter, anything, one can demand anything, kids might want a new toy.
- Now his expenses are more than his income, what he can do is
Not to Save.- Buy less food.
- Do overtime and earn more.
- Withdraw from his savings.
- Borrow the money from someone
- He cannot reduce his kids' school's expenses(necessities).



- **So, in the above example,**
His income is limited, but his wants are unlimited.
And How he allocates his limited income into unlimited wants
according to his priorities.
- This is economics.

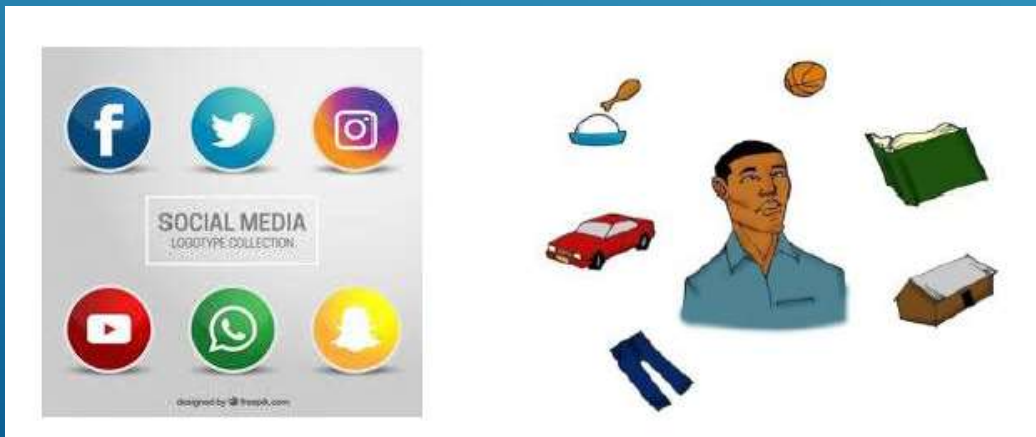


What are resources?

- Definition: The things used to make other goods



- ▶ Common words among definitions...
- ▶ □ **Scarcity** - a situation wherein the amount of something available is insufficient to satisfy the desire for it.
- ▶ □ **Economizing Resources** - The labor, capital, land and natural resources and entrepreneurship that are used to produce goods and services.
- ▶ □ **Unlimited** – without limits, infinite **Wants –desires**






We make choices about how we spend our money, time, and energy so we can fulfill our NEEDS and WANTS.

What are NEEDS and WANTS?

■ NEEDS – “stuff” we must have to survive,
generally: food, shelter, clothing

■ WANTS – “stuff” we would really like to
have (Fancy food, shelter, clothing, big
screen TVs, jewelry, conveniences . . .
Also known as LUXURIES

- ▶ Economics is concerned with PRODUCTION
 - ▶ □ **Production** is the use of inputs to produce outputs
 - ▶ □ **Inputs** are commodities or services that are used to produce goods and services
 - ▶ □ **Outputs** are the different goods and services which come out of production process.
- 
- A series of white diagonal lines of varying lengths and thicknesses are positioned in the bottom right corner of the slide, creating a modern, abstract graphic element.

PRODUCTION

- So how do we get all this “stuff” that we have to decide about?
Decisions, decisions
...



- Production is how much stuff an individual, business, country, even the WORLD makes.

- But what is “STUFF”?

- STUFF – Goods and Services.

- Goods – tangible (you can touch it) products we can buy

- Services – work that is performed for others

Factors of Production

■ So, what do we need to make all of this Stuff?



4 FACTORS OF PRODUCTION

■ LAND – Natural Resources

- Water, natural gas, oil, trees (all the stuff we find on, in, and under the land)



■ LABOR – Physical and Intellectual

- Labor is manpower

■ CAPITAL - Tools, Machinery, Factories

- The things we use to make things



■ ENTREPRENEURSHIP – Investment

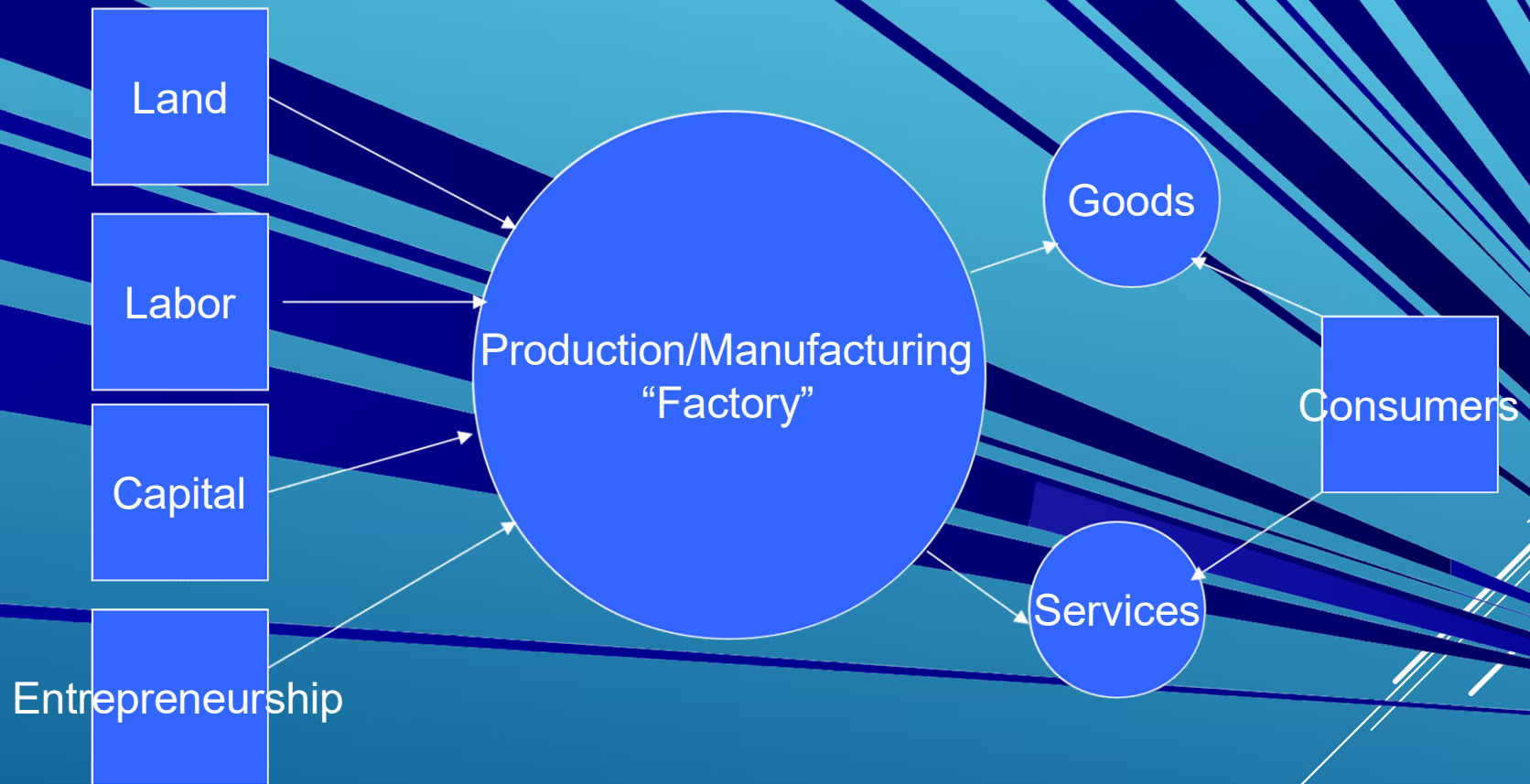
Investing time, natural resources, labor and capital are all risks associated with production

THREE PARTS TO THE PRODUCTION PROCESS

- Factors of Production – what we need to make goods and services
- Producer – company that makes goods and/or delivers services
- Consumer – people who buy goods and services (formerly known as “stuff”)

Which Came First?

PRODUCTION PROCESS



- ▶ Economics is concerned with **DISTRIBUTION**
- ▶ **Distribution** is the allocation of the total product among members of society. It is related to the problem of for whom goods and services are to be produced.
- ▶ □ Economics is concerned with **CONSUMPTION**
- ▶ **Consumption** is the use of a good or service. Consumption is the ultimate end of economic activity. When there is no consumption, there will be no need for production and distribution.
- ▶ □ Economics deals with **PUBLIC FINANCE**
- ▶ **Public Finance** is concerned with government expenditures and revenues. Economics studies how the government raises money through taxation and borrowing.

- Economics – the study of how individuals and societies make decisions about ways to use scarce resources to fulfill wants and needs.



NATURE OF ECONOMICS

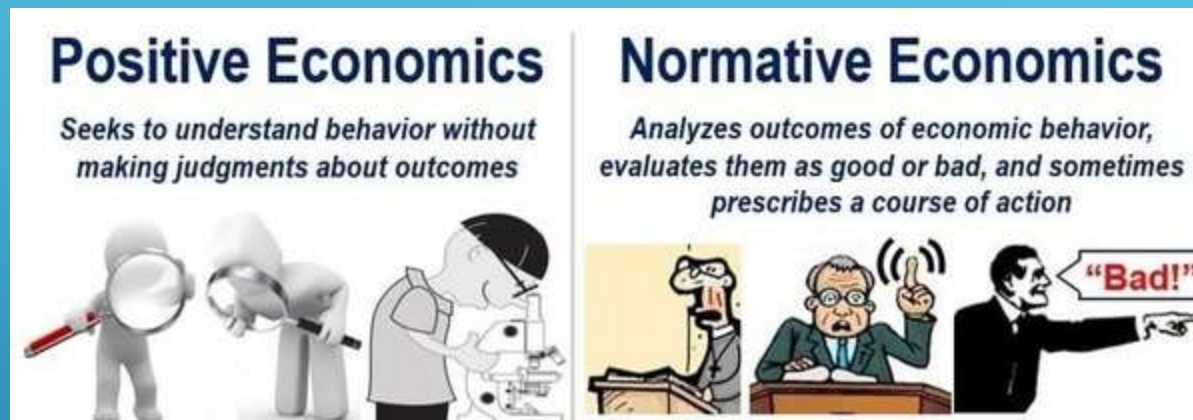
There is a great controversy among the economists regarding the nature of economics, whether the subject 'economics' is considered as science or an art.



There are following characteristics of any science subject, such as;


- (i) It is based on systematic study of knowledge or facts;
- (ii) It develops correlation-ship between cause and effect;
- (iii) All the laws are tested and based on experiments;
- (iv) It can make future predictions;
- (v) It has a scale of measurement.

BUT, the most important question is whether economics is a positive science or a normative science?



Normative - Opinions
Positive - Facts

- ▶ It deals with all the practical things. For example, poverty and unemployment are the biggest problems in India. The life expectancy of birth in India is gradually rising. All these above statements are known as positive statements. These statements are all concerned with real facts and information.
- ▶ Normative science offers suggestions to the problems. The statements dealing with these suggestions are coming under normative statements. These statements give the ideas about both good and bad effects of any particular problem or policy. For example, the backwardness of Indian economy is due to 'population explosion'.

- ▶ The ideas of economics are based on absolute logical clarifications and moreover, it develops relationship between cause and effect. Hence, economics is a positive science.
 - ▶ A rational human being has not only logical view but also has sentimental attachments and emotional views regarding any activity. These emotional attachments are all coming under normative statements. Hence, economics is a normative science.
- 
- A series of four parallel white diagonal lines are located in the bottom right corner of the slide, extending from the bottom edge towards the right edge.

► **Economics as an Art:**

- Economics is also considered as an art. In other way, art is the practical application of knowledge for achieving particular goals. Science gives us principles of any discipline however, art turns all these principles into reality. Therefore, considering the activities in economics, it can be claimed as an art also, because it gives guidance to the solutions of all the economic problems.

“An Art is a system of rules for the attainment of given end.”

■ Macroeconomics

- The big picture: growth, employment, etc.
- Choices made by large groups (like countries)

■ Microeconomics

- How do individuals make economic decisions



Microeconomics

Individual markets

Effect on price of a good

Individual labour market

Individual consumer behaviour

Supply of good

Macroeconomics

Whole economy (GDP)

Inflation (general price level)


Employment/unemployment

Aggregate demand (AD)

Productive capacity of economy

IMPORTANCE OF ECONOMICS



- ▶ Economics is concerned with the optimal distribution of resources in society.
 - ▶ **The subject involves**
 - ▶ Understanding what happens in markets and the macroeconomy.
 - ▶ Examining statistics about the state of the economy and explaining their significance
 - ▶ Understanding different policy options and evaluating their likely outcomes.
- 
- A series of white diagonal lines of varying lengths and thicknesses are positioned in the bottom right corner of the slide, creating a modern, abstract graphic element.





WHEN THE ECONOMY GOES WRONG,
MILLIONS CAN SUFFER. HERE MASS
UNEMPLOYMENT IN THE 1930S.