C3A(19)

Premier University

Department of EEE and CSE

Course Title: Basic Economics

Course Code: ECO 201

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Lecture-1

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ECONOMICS:

L. Robbins is famous for his definition of economics (1931):

> "Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses."

Founder of Economics:

Adam Smith is the founder of Economics

P. A. Samuelson is the founder of Modern Economics.

Two Parts of Economics:

Professor Ragner Frisch divided Economics into two parts in 1933. These are -

1. Microeconomics and
2. Macroeconomics

Distinction between Microeconomics and Macroeconomics:

The main difference between the Microeconomics and Macroeconomics are as follows:

Microeconomics	Macroeconomics
1. It is the study of individual economic units of an economy	It is the study of economy as a whole and its aggregates.
2. It deals with individual income, individual prices and individual output, etc.	It deals with aggregates like national income, general price level and national output, etc.
3. Its Central problem is price determination and allocation of resources.	Its central problem is determination of level of income and employment.

Microeconomics	Macroeconomics
4. Its main tools are demand and supply of a particular commodity/factor.	Its main tools are aggregate demand and aggregate supply of economy as a whole.
5. It helps to solve the central problem of what, how and for whom to produce in the economy	It helps to solve the central problem of full employment of resources in the economy.
6. It discusses how equilibrium of a consumer, a producer or an industry is attained.	It is concerned with the determination of equilibrium level of income and employment of the economy.
7. Price is the main determinant of microeconomic problems.	Income is the major determinant of macroeconomic problems.
8. Examples are: individual income, individual savings, price determination of a commodity, individual firm's output, consumer's equilibrium.	Examples are: National income, national savings, general price level, aggregate demand, aggregate supply, poverty, unemployment etc.

Want and Scarcity: Scarcity refers to the limited availability of a commodity, which may be in demand in the market.

Scarcity refers to a gap between limited resources and theoretically limitless wants. The notion of scarcity is that there is never enough (of something) to satisfy all conceivable human wants, even at advanced states of human technology. Scarcity involves making a sacrifice—giving something up, or making a tradeoff—in order to obtain more of the scarce resource that is wanted.

Economic Problems:

There are 2 types of economic problems. They are

1. Scarcity – Limited Resources and
2. Choice- Unlimited Wants

Want: Wants are always unlimited. Wants are the unlimited desires or wishes that people have for goods and services. Every people want to get more and more of goods and services. A person who has a bicycle likes to get a motorcycle. When he gets a motorcycle, she wants to have a private car and soon. In these circumstances, a question arises: can people meet all of their wants? The answer is no. Why? Because, resources are limited.

There are 3 types of want. They are-

1. Necessary /Compulsory
2. Comfort and
3. Luxurious

Need: Need for a commodity refers to the necessity of the commodity to sustain life. Example-Water, Medicine etc.

Goods:

There are 2 types of goods. They are-

1. Economic Goods-Price is taken for the goods
2. Free Goods- Zero Price such as air, oxygen, sunlight etc

Variables Name and Symbol:

1. **Demand-D**
2. **Supply-S**
3. **Quantity-Q**
4. **Aggregate Demand-AD**
5. **Aggregate Supply-AS**
6. **Price-P**
7. **General Price level/ Price level-P**
8. **National Income/Income level-Y**
9. **Employment-N**
10. **Unemployment-U**
11. **Consumption-C**
12. **Saving-S**
13. **Investment-I**
14. **Interest Rate-i or r**
15. **Government Expenditure/Purchase-G**
16. **Export-X**
17. **Import-M**
18. **Tax-T**
19. **Gross Domestic Product-GDP**
20. **Gross National Product-GNP**
21. **Labor-L**
22. **Capital-K**
23. **Wage-W**
24. **Profit-π**
25. **Rent-R**
26. **Utility-U**
27. **Cost-c**
28. **Production Possibility Frontier-PPF**
29. **Elasticity-E**