ECONOMY ECONOMICS

# Economics Defined with Types, Indicators, and Systems

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Part of the Series

#### **Guide to Economics**



#### **DEFINITION:**

Economics is a social science that focuses on the production, distribution, and consumption of goods and services.

### What Is Economics?

Economics is a social science that focuses on the production, distribution, and consumption of goods and services. The study of economics is primarily concerned with analyzing the cho

governments, and nations make to ramifications on a wide range of o business, and law.

#### **KEY TAKEAWAYS**

Economics is the study of hor production, distribution, and

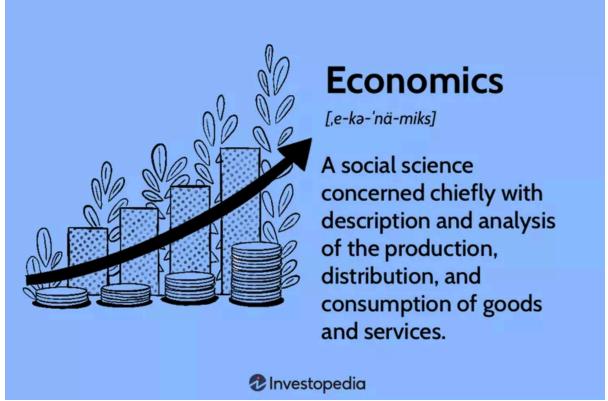
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many others, such as politics, government, law, and business.

- The two branches of economics are microeconomics and macroeconomics.
- Economics focuses on efficiency in production and exchange.
- Gross Domestic Product (GDP) and the Consumer Price Index (CPI) are two of the most widely used economic indicators.



Zoe Hansen / Investopedia

# **Understanding Economics**

Assuming humans have unlimited economists analyze how resource and consumption.

The study of <u>microeconomics</u> focubusinesses, and <u>macroeconomics</u> on an aggregate level.

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allocated efficiently to overcome scarcity. The publication of Adam Smith's 1776 book *An Inquiry Into the Nature and Causes of the Wealth of Nations* sparked the beginning of the current Western contemporary economic theories. [1]

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### **Microeconomics**

Microeconomics studies how individual consumers and firms make decisions to allocate resources. Whether a single person, a household, or a business, economists may analyze how these entities respond to changes in price and why they demand what they do at particular price levels.

Microeconomics analyzes how and why goods are valued differently, how individuals make financial decisions and how they trade coordinate and cooperate.

Within the dynamics of supply and services, and how labor is divided businesses are organized and how their decision-making.

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# **Macroeconomics**

cycles and broad economic growth and development.

It focuses on foreign trade, government fiscal and monetary policy, unemployment rates, the level of inflation, interest rates, the growth of total production output, and <u>business cycles</u> that result in expansions, booms, recessions, and depressions.

Using aggregate indicators, economists use macroeconomic models to help formulate economic policies and strategies.

#### What Is the Role of an Economist?

An <u>economist</u> studies the relationship between a society's resources and its production or output, and their opinions help shape economic policies related to interest rates, tax laws, employment programs, international trade agreements, and corporate strategies.

Economists analyze economic indicators such as gross domestic product and the consumer price index to identify potential trends or make economic forecasts.

According to the <u>Bureau of Labor Statistics</u> (BLS), 38% of all economists in the United States work for a federal or state agency. Economists are also employed as consultants, professors, by corporations, or as part of economic think tanks. [2]

# What Are Economic Indicat

Economic indicators detail a coun periodically by governmental ager indicators often have a consideral international markets. They may prove markets and guide investments

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Gross domestic product (GDP)

finished goods and services produced in a country in a given year. In the U.S., the <u>Bureau of Economic Analysis</u> (BEA) also issues a regular report during the latter part of each month. <sup>[3]</sup> Many investors, analysts, and traders focus on the advance GDP report and the preliminary report, both issued before the final GDP figures because the GDP is considered a <u>lagging indicator</u>, meaning it can confirm a trend but can't predict a trend.

# **GDPNow**

The GDPNow forecasting model, used by the Federal Reserve, provides a "nowcast" of the official estimate before its release by estimating GDP growth using a methodology similar to the one used by the U.S. Bureau of Economic Analysis. [4]

#### Retail sales

Reported by the U.S. <u>Department of Commerce</u> (DOC) during the middle of each month, the <u>retail sales</u> report measures the total receipts, or dollar value, of all merchandise sold in stores. <sup>[5]</sup> Sampling retailers across the country acts as a proxy of consumer spending levels. Consumer spending represents more than two-thirds of GDP, proving useful to gauge the economy's general direction. <sup>[6]</sup>

# Industrial production

The <u>industrial production</u> report, reports changes in the production One measure included in this report estimates the portion of productive standing idle in the economy. Cap considered "tight" and can increase shortages in the near term. Levels "slack" in the economy, which ma

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<u>nonfarm payrolls</u> on the first Friday of each month. <sup>[8]</sup> Sharp increases in employment indicate prosperous economic growth and potential contractions may be imminent if significant decreases occur. These are generalizations, however, and it is important to consider the current position of the economy.

### Consumer Price Index (CPI)

The <u>Consumer Price Index</u> (CPI), also issued by the BLS, measures the level of retail price changes, and the costs that consumers pay, and is the benchmark for measuring <u>inflation</u>. Using a <u>basket</u> that is representative of the goods and services in the economy, the CPI compares the price changes month after month and year after year. <sup>[9]</sup> This report is an important economic indicator and its release can increase volatility in equity, fixed income, and forex markets. Greater-than-expected price increases are considered a sign of inflation, which will likely cause the underlying currency to depreciate.

# **Economic Systems**

Five economic systems illustrate historical practices used to allocate resources to meet the needs of the individual and society.

#### Primitivism

In primitive agrarian societies, individuals produced necessities from building dwellings, growing crops, and hunting game at the household or tribal level.

#### **Feudalism**

A political and economic system o feudalism was defined by the lord production, who received a promi

# Capitalism

With the advent of the industrial ras a system of production where be tools, workers, and raw materials.

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Where to Exchange Currency Without Paying High Fees tools, workers, and raw materials to produce goods for market consumption

#### Socialism

<u>Socialism</u> is a form of a cooperative production economy. Economic socialism is a system of production in which there is limited or hybrid private ownership of the means of production. Prices, profits, and losses are not the determining factors used to establish who engages in the production, what to produce and how to produce it.

#### Communism

<u>Communism</u> holds that all economic activity is centralized through the coordination of state-sponsored <u>central planners</u> with common ownership of production and distribution.

# **Schools of Economic Theory**

Many economic theories have evolved as societies and markets have grown and changed. However, three disciplines of economics, neoclassical, Keynesian, and Marxian, have influenced modern society.

The principles of neoclassical economics are often used as a framework to illustrate the virtues of capitalism, including the tendency of market prices to reach equilibrium as the volume of supply and demand changes. The optimal valuation of resources emerges from the forces of individual desire and scarcity.

John Maynard Keynes developed Great Depression. Arguing against restrained markets and governme equitable economic system. He ac boost demand and investor confic

Marxian economics is defined in K economics is a rejection of the cla idea that the free market, an econ

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demand with little or no government control, penents society. The espoused

# What Is a Command Economy?

A command economy is an economy in which production, investment, prices, and incomes are determined centrally by a government. A communist society has a command economy.

### What Is Behavioral Economics?

Behavioral economics combines psychology, judgment, decision-making, and economics to understand human behavior. Branches of economic thought continue to grow and change. One such example is the progressive branch of <a href="mailto:bioeconomics">bioeconomics</a> that models economic decisions in terms of managing resources.

# Who Has Influenced the Study of Economics in the 21st Century?

Since 2000, several economists have won the Nobel Prize in economics, including David Card for his contributions to labor economics, Angus Deaton for his study of consumption, poverty, and welfare, and Paul Krugman for his analysis of trade patterns.

# The Bottom Line

Economics is a branch of the social sciences focused on the production, distribution, and consumption of goods and services. Microeconomics is a type of economics that is concerned with the behavior of individual people and

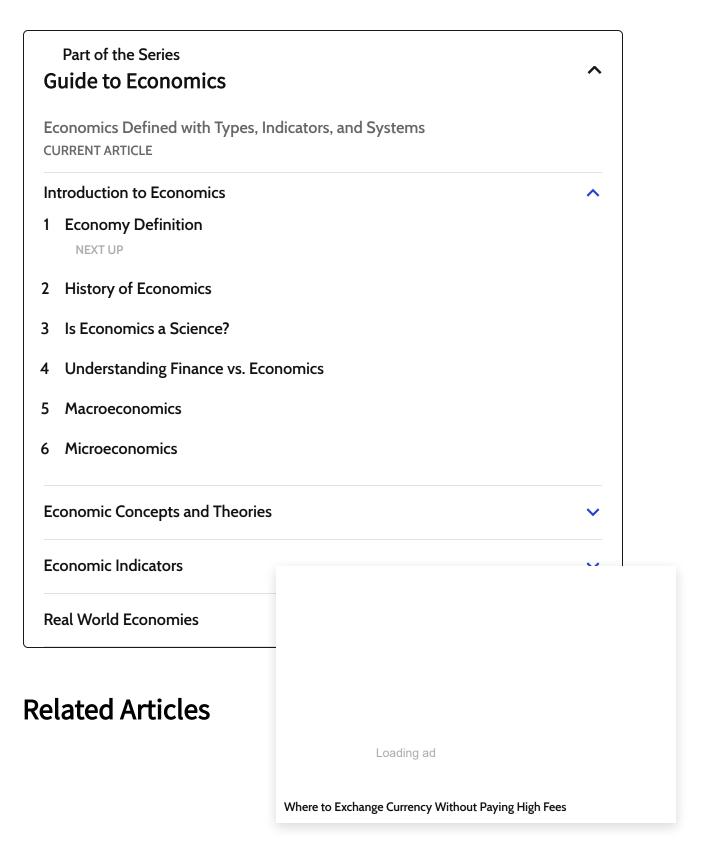
businesses, while macroeconomic and larger economies. In the U.S., including GDP and CPI, are import and make forecasts.

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A person looks at bills with a mother and child in the background. All are

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\$100 bills, digits, and stock graphs blurring into one

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