Economics definitions:

** Economics is defined as the allocation (assignment) of scarce (limited) resource (factors of production) amongst the alternatives (options/choices) to meet unlimited wants. (wants/need)

* Economics is about decision making.

* Branch of knowledge concerned with production, consumption and transfer of wealth.

Needs/wants: Needs are defined as goods/services that are required.

E.g: food, shelter, clothing, health care etc.

Wants are goods/services that are not necessary but that we desire or wish for. E.g: toys, entertainment, gems etc. One needs clothes, but one may not need designer clothes. One needs food, but does not have to have steak

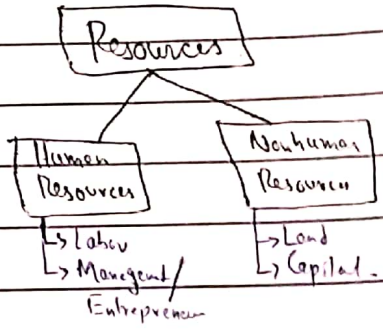
Satisfying wants depend on:

- Time
- Finance
- Market condition → seasons
- Final decision → lock decision. (payment.)

Date:

Resources: Resource is a source or supply from which benefit is produced. → factors of production

types: - Land → natural endowment (gift). Eg: iron ore, gold, oil, minerals etc
- Labour → physical & mental human resource like wage-earning workers (also referred as human capital)
- Capital → human made goods or means of production. Eg: machinery, building, equipments
- Entrepreneur (Enterprise) → risk takers, innovators, creative heads that marshall/organize resources in the production.



Microeconomics: Branch of economics that studies the behaviour of individuals and firms in making decisions regarding the allocation of scarce resources and interaction among these individuals and firms.

(Micro V/s Macro) Economics: Microeconomics is the study economics at individual, group or company level. Macroeconomics is the study of national economy as whole
Eg: MicroEco focuses on supply and demand of specific product, production of business etc.
MacroEco focuses on unemployment rates, GDP of economy, import/export etc.

Basic questions of/in Economics:
- What: concerned with demands. What to produce?
- When: concerned with time and season.
- Whom: concerned with affordability, price, audience. For whom to produce?
- How: entrepreneurs work/produce supply. How to produce?

Trade-offs v/s opportunity cost.
Trade off is the execution of (any) decision which an individual stands with or adheres to.
Opportunity cost is the price of what is left behind.
Trade-offs create opportunity costs. Whenever you make a trade-off, the thing you don't choose is opportunity cost.
E.g: You can buy bike or snowboard. You buy bike (trade off). Opportunity cost is snowboard.
Good tradeoff is opportunity cost low.

Economic models

Economic models are simplified versions of reality to understand the complex situations.

Economic model is a simplified version/picture of economic reality; an abstract generalization.

Example: market place.

scientific model
1) postulates / assumptions
2) Diagram / equations
3) Process
4) Results.

Market models
- Pure
- Moderate
- Impure.

• Pure competition.
- Many buyers / many sellers
- Easy entrance / exit (of firms/businesses).
- Uniform price
- Govt: not present (no regulatory body)
- Homogeneous products (standardized products)
- sellers are "price takers". (they cannot change price. sellers only adjust to i

• Impure (also called Pure monopoly).
- one seller / many buyers
- not easy entry/exit
- Price discrimination
- price makers
- Govt: regulates.

Example of Impure:
Govt: regulated public utilities like natural gas, electricity are all monopolies or virtually so.
Of course there is always some competition but such substitutes are costly or less appealing.

• Moderate
Moderate market allows many people to survive.
- No collusion. (many sellers ensure that collusion
- Relatively easy entry/exit.

Fallacies in Economics

Fallacy is a misleading argument.

Fallacy of composition: The false notion (idea) that what is true for the individual (or part) is necessarily true for the group (or whole).

E.g: 1. "Taking Biology was beneficial for Medical students so it is beneficial for all students of all majors."

2. A single cattle ranch (farm) can increase its revenue by expanding the size of its livestock herd. The extra cattle will not affect the price of cattle when they are brought to market. But if all ranches as a group expand their herds, the total output of cattle will increase so much that the price of cattle will decline when the cattle are sold.

Post Hoc Fallacy:

Cause and effect under Post Hoc fallacy are not clear.

If event A precedes event B, A is the cause of B. This faulty reasoning is known as post Hoc.

E.g: 1. Sun rises a few minutes after the rooster crows. Therefore, the rooster's crows must cause the sun to rise.

2. Many people blamed the Great Depression of 1930s on the stock market crash of 1929. But the crash didn't cause the Great Depression. The same severe weakness in the economy that caused the crash caused the Great Depression.

3 economy's GDP is not upto the mark because of Stock exchange crash

* DONOT confuse correlation with causation

Eg: We may find that when variable X increase, variable Y also increases. But this correlation doesn't necessarily mean that there is causation - that increase in X causes increase in Y. Relationship could be pure coincidental or depend on some other variable Z

PRODUCT OF H·P

Positive and Normative Economics

Positive economics: The analysis of facts or data to establish scientific generalizations about economic behaviour.

Normative economics: The part of economics involving value judgements about what the economy should be like; focussed on which economic goals or policies should be implemented; also called policy economics.

Positive Eco → facts and figures reported → concerns 'what is'

Normative Eco → emphasizes on solution.
- concerns 'what ought to be'
- words like 'must', 'ought', 'should' appear in normative.

E.g: Positive statement: "The unemployment rate in France is higher than that in United States."

Normative statement: "France ought to undertake policies to make its labour market more flexible to reduce unemployment rates."

Economic Systems:

A system of production, resource allocation and distribution of goods and services within a society or given geographic area.

Three main types: Capitalism, Socialism and mixed economy.

Capitalism:

A free market in which anyone may go into business in attempt to make profit (free enterprise (business)). Most business are owned by people (private) rather than government. Less government intervention.

Socialism:

Organizing a society in which major industries are owned/controlled by the government rather than by individuals/companies. Decision making is done by government.

Mixed economy:

It allows the presence of most independent enterprises but they are regulated (govt: can interfere in order to achieve social aims) government is the regulatory body.

Date:

Demand :

The desire backed by the ability and willingness of a person to purchase goods and services at different prices.

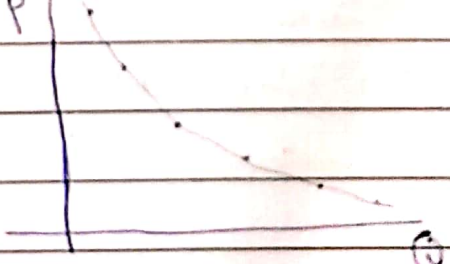
desires: needs/wants.
ability: decision making
willing: agree or disagree
goods: items
services: healthcare, banking, and insurance etc

* Market: Market bring together buyers (demanders) and sellers (suppliers).
E.g: gas station, music store etc

Factors of demand:
- Customers (+ve related to demand).
- Income (+ve related income↑ → expenditure↑ → demand↑)
- Substitutes (= alternatives) (price factor)
- Time (some jobs persons are more of a specialist but with time they become senior)

Law of demand:
price is inversely related to quantity demanded

$P \propto \frac{1}{Q}$



Prices of related goods

substitute good: one that can be used in place of another

complementary good: one that is used together with another

↑ the price of good increases the demand for substitute increases. ↓ price decreases then substitute demand decreases

↑ price of complement (lettuce) goes up, the demand for related good (salad) decreases

↑ tuition price ↓ textbook demand ↑.

Important.
Goods can be classified into 3 categories:

Inferior goods:
Goods whose demand varies inversely with money income are called inferior goods. E.g: used cars, used clothes etc

Normal goods:
Products whose demand varies directly with money income are called normal goods. E.g furniture, steak etc

Superior goods are a subset of normal goods.
Suppose income increases by 10% then demand of normal goods increases by (1% or 5% or 9%) but superior goods demand should increase by >10%.

* Some ME texts route normal & superior good synonymous

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Date:

Supply:

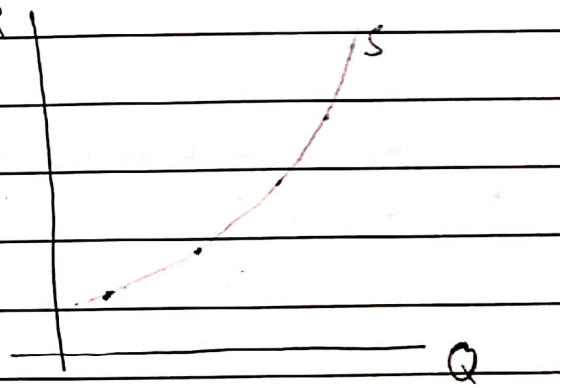
It is desire backed by the willingness and ability of the producer/supplier to make the goods available at variable price

Law of supply:

Price is directly related to quantity.

$$P \propto Q$$

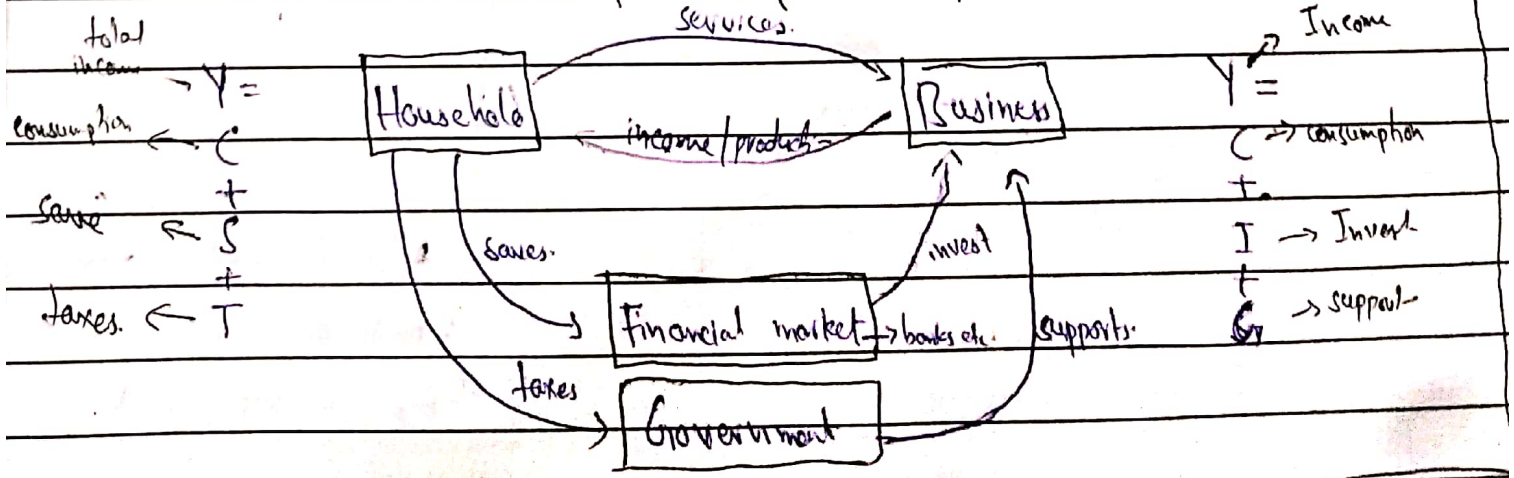
Price is an obstacle from consumers standpoint but it represents revenue to producers. E.g: A farmer is planting corn. As corn price rises the farmer finds it more profitable to plant more corn Hence more supply.



Factors affecting supply

- Price (+ve related)
- cost of input (raw material) (-ve related)
- Taxes (-ve related)
- Technology (+ve related)
- Time → Managerial Specialization (finding right person for the right job).
  → Product Specialization (Adopting the product according to market).
- economies of scale: Reduction in average total cost of producing a product as the firm expands the size of the plant (its output) in the long run. Also called economies of mass production.

Basic Composition of Economy.



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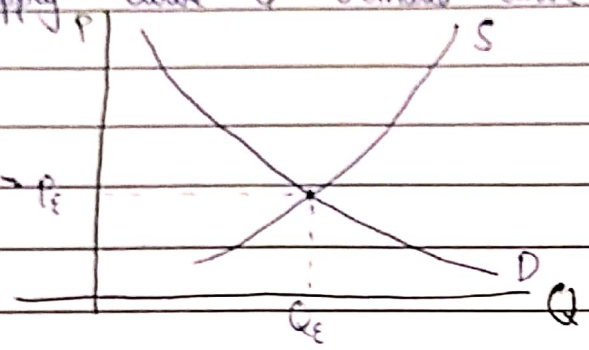
Supply & Demand Equilibrium:

Equilibrium price is the price where the intentions of buyers & sellers match. It is the price where quantity demanded is equals to quantity supplied.

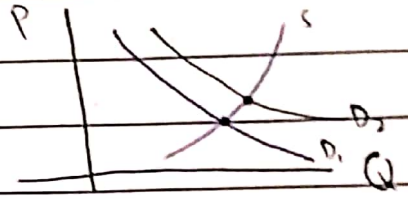
Graphically, the equilibrium price is indicated by the intersection of supply curve & demand curve.



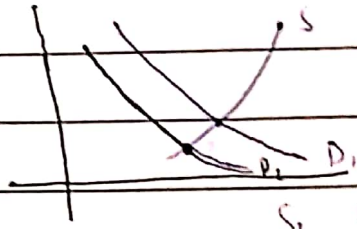
quantity demanded (Q_D)
quantity supplied (Q_S)

Change in supply, demand and equilibrium:

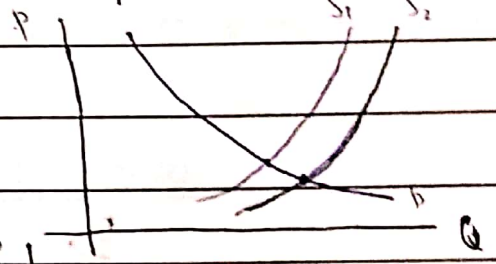
↑ demand increases and supply remains constant then equilibrium price & quantity both increase.



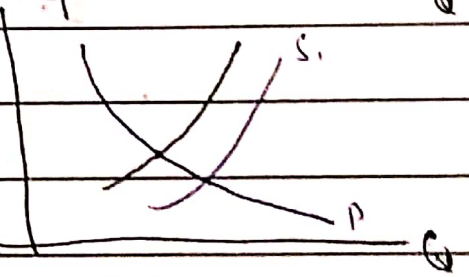
↓ demand decreases and supply remains constant then equilibrium price & quantity both decrease.



↑ supply increases and demand remains constant then equilibrium quantity increases & price decreases



↓ supply decreases & demand remains constant then equilibrium quantity decreases & price increase.



mplex Cases	Change in Supply	Change in Demand	Effect on eq. Price	Effect on eq. quantity
	Increase	Decrease	Decrease	Indeterminate
	Decrease	Increase	Increase	Indeterminate
	Increase	Increase	Indeterminate	Increase
	Decrease	Decrease	Indetermined	Decrease

*Indeterminates means depends of relative size of change in supply & demand.