GUIDELINE BY

Tirthak Patel

Introduction To Economics

www.tirthak.in | hello@tirthak.in | (+91) 63543 58335

Definitions, Nature, and Scope of Economics

Definitions of Economics

Classical Definition: Adam Smith defined economics as the study of wealth and its production, distribution, and consumption.
Example: The wealth generated by Infosys through its IT services.

Modern Definition: Lionel Robbins defined economics as the study of human behavior as a relationship between ends and scarce means which have alternative uses.
Example: How Flipkart manages its resources to meet consumer demand in the Indian e-commerce market.

Nature of Economics

Positive vs. Normative Economics:

- Positive Economics: Describes and explains economic phenomena (what is).
  - Example: The GDP growth rate of India.
- Normative Economics: Prescribes economic policies (what ought to be).
  - Example: Debates on increasing subsidies for startups in India.

Economics as a Science or an Art:

- Economics involves both scientific principles (laws and theories) and the art of applying these principles to solve real-world problems.
  - Example: Policy-making in India's startup ecosystem to foster innovation.

Scope of Economics

- **Microeconomics**: The study of individual units like consumers and firms.
  - Example: Analysis of Zomato's pricing strategy in the food delivery market.
- **Macroeconomics**: The study of the economy as a whole.
  - Example: The impact of COVID-19 on India's overall economy and the government's fiscal policies to support startups.

Difference between Microeconomics & Macroeconomics

Aspect	Microeconomics	Macroeconomics
Definition	Microeconomics focuses on the study of individual economic units, such as consumers, households, and firms. It looks at how these units make decisions and how they interact in specific markets.	Macroeconomics studies the economy as a whole, examining large-scale economic factors and the overall functioning of an economy. This includes national income, total employment, and overall price levels.
Focus	- Individual Markets: Understanding how prices are determined in specific markets. - Decision-Making: Analyzing how individuals and firms make choices based on limited resources.	- Aggregate Economic Issues: Addressing broad issues like economic growth, inflation, and unemployment. - Economic Policies: Formulating policies that affect the entire economy, such as fiscal and monetary policies.
Scope	- Consumer Behavior: How consumers decide what to buy based on their preferences and budget. - Firm Behavior: How businesses determine how much to produce and at what price to sell.	- National Income: The total income earned by a country's residents. - Inflation: The rate at which the general level of prices for goods and services rises. - Unemployment: The number of people actively looking for work but unable to find employment.
Examples	- Pricing Strategies: How Indian startups like Swiggy or Zomato set prices for their food delivery services based on demand and competition. - Consumer Choices: How people decide between different telecom services like Jio and Airtel based on price and service quality.	- Economic Growth: How India's overall economy grows, including the contribution of startups and new businesses. - Government Policies: The impact of policies like 'Make in India' or the GST (Goods and Services Tax) on the startup ecosystem and overall economic environment.

Theories	- Law of Demand and Supply: Explains how the price and quantity of goods are determined in a market. For instance, how price changes affect the demand for products on e-commerce platforms like Flipkart. - Market Structures: Different types of markets, such as perfect competition or monopoly. For example, the dominance of Google in the search engine market.	- Keynesian Economics: Focuses on total spending in the economy and its effects on output and inflation. - Classical Economics: Emphasizes the importance of free markets and limited government intervention.
Decision-Makers	- Individual Consumers and Firms: Decisions are made by individuals or businesses. For example, how startups decide on their product offerings based on market research.	- Governments and Central Banks: Major decisions are made by policymakers, such as setting interest rates or implementing economic reforms. For instance, how the Reserve Bank of India (RBI) sets interest rates to control inflation.

Theory of Demand & Supply

Meaning and Determinants of Demand

Demand: The quantity of a good or service that consumers are willing and able to buy at different prices.

Determinants:

- **Price of the Good**: If the price decreases, demand usually increases (e.g., discounts on smartphones increase sales).
- **Income of Consumers**: Higher income can increase demand for luxury goods (e.g., more people buying premium brands like Apple in India).
- **Tastes and Preferences**: Trends and fashion can affect demand (e.g., increasing preference for organic food).
- **Prices of Related Goods**: The demand for a good can be affected by the price of substitutes or complements (e.g., if the price of petrol rises, the demand for electric vehicles may increase).

- **Expectations**: If consumers expect prices to rise in the future, they may buy more now (e.g., property purchases before a planned increase in property tax).

Law of Demand

Definition: When the price of a good rises, the quantity demanded falls, and vice versa, all else being equal. Example: When Jio offered free data, the demand for their services skyrocketed, showing a high response to price changes.

Meaning and Determinants of Supply

Supply: The quantity of a good or service that producers are willing to sell at different prices.

Determinants:

- **Price of the Good**: Higher prices usually incentivize producers to supply more (e.g., higher prices for organic produce encourage more farmers to grow organic crops).
- **Production Costs**: Lower costs can lead to an increase in supply (e.g., cheaper raw materials can lead to more production of goods).
- **Technology**: Advances in technology can make production more efficient, increasing supply (e.g., automation in manufacturing).
- **Prices of Related Goods**: If a company can produce multiple goods, they might produce more of the good that is more profitable (e.g., a company producing both petrol and diesel may shift focus based on market prices).
- **Expectations**: If producers expect higher future prices, they may hold back current supply (e.g., withholding stock of a new smartphone model before a big launch).

Law of Supply

- **Definition**: As the price of a good increases, the quantity supplied increases, and as the price decreases, the quantity supplied decreases, ceteris paribus.
  Example: During the festive season, companies like Amazon increase the supply of goods in anticipation of higher demand and potentially higher prices.

Equilibrium between Demand & Supply

- **Equilibrium Price**: The price at which the quantity demanded by consumers equals the quantity supplied by producers.
  Example: The equilibrium price of smartphones in India, where the market balance is struck between what consumers are willing to pay and what manufacturers are willing to supply.

Elasticity

Elasticity of Demand

- **Price Elasticity of Demand (PED)**:
  - **Definition**: Measures how much the quantity demanded of a good changes in response to a change in its price.
    Example: The demand for budget smartphones like Xiaomi is highly price elastic; a small price cut can significantly boost sales.
- **Income Elasticity of Demand**:
  - **Definition**: Measures how the quantity demanded of a good changes as consumer income changes.
    Example: As middle-class incomes in India rise, there is a noticeable increase in demand for air conditioners.
- **Cross Elasticity of Demand**:
  - **Definition**: Measures how the quantity demanded of one good responds to a change in the price of another good.
    Example: If the price of coffee rises, the demand for tea might increase if consumers see tea as a cheaper alternative.

Price Elasticity of Supply

- **Definition**: Measures how much the quantity supplied of a good changes in response to a change in its price.
  Example: The production of seasonal fruits in India can be quite elastic; if mango prices rise, farmers may try to supply more in the next season.