

Definition of Economics:

“Economics” the word came from Greek word “oikonomia” which means household management.

#Marshal Said__ “Economics is the study of mankind in the ordinary business of the life.”

#Robbins Said__ “Economics is a social science which study the human behavior as a relationship between ends and scarce means which have alternative uses.”

So we can say that, Economics is a science which show how the society use scarce resources to produce valuable commodities and distribute among different people.

Definition of Scarcity with example:

It is a situation in which goods are limited to its desire.

Suppose, a millionaire wants to spend his weekend by playing golf but he needs to attend in a office strategy meeting. So, he feels scarcity.

Definition of Opportunity Cost with example:

The best alternative that we give up or forego when we make a choice or decision.

Suppose, there is 1 acre of field to produce 100 kg rice or 80 kg of jute. If we produce 100 kg rice we have to give up the production of 80 kg jute and rice-versa. So, there is a trade-off.

Scope of Economics:

- **Microeconomics:** It is a branch of economics that examines the functioning behavior of individual decision making unit.
- **Macroeconomics:** It is a branch of economics that examines the functioning behavior of aggregate ie- output, income, price level etc.

Method of Economics:

- **Positive Economics:** An approach of economics that explains the operational functions without making any judgement. It describes what exists and how it works.
- **Normative Economics:** An approach of economics that understand the operational function, judge them as good or bad and then prescribe as a course of action.

Definition of Demand, Quantity Demand and The law of Demand.

- **Demand:** The term demand refers to the entire relationship between the price of a good and the quantity demanded of that good.
- **Quantity Demanded:** The quantity demanded of a good or service is the amount that consumers plan to buy during a given time period at a particular price.
- **The law of Demand:** Other things remaining the same, the higher the price of a good, the smaller is the quantity demanded; and the lower the price of a good, the greater is the quantity demanded.

Difference between demand and quantity demanded.

DEMAND	QUANTITY DEMANDED
It refers to the relation between price and quantity of goods and services that consumers desire to purchase at each price.	It refers to the amount of goods and services demanded at a given level of price.
It includes the whole demand curve.	It is a specific point on the demand curve.
When demand increases (decreases), the demand curve shift to right (left).	When quantity demanded increases or decreases, there happens movement along the same demand curve from one to other point.
The change demand occurs due to change in income, number of consumers, preference of consumers, and change in price of substitute or complementary goods.	The change in quantity demanded occurs due to change in the price of goods and services.

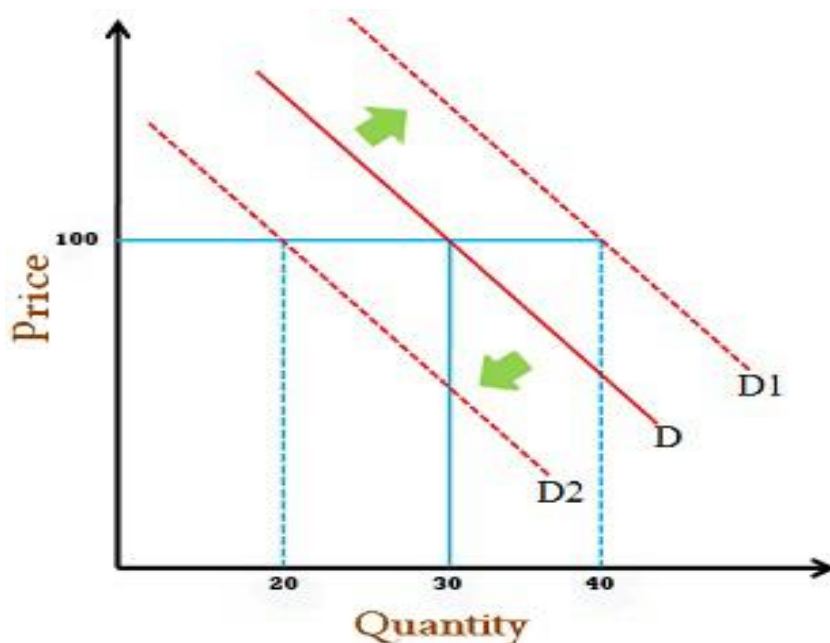
Definition of Supply, Quantity Supplied and the law of Supply.

- **Supply:** The term supply refers to the entire relationship between the price of a good and the quantity supplied of it.
- **Quantity Supplied:** The quantity supplied of a good or service in the amount that producers plan to sell during a given time period at a particular price.
- **The law of Supply:** Other things remaining the same, the higher the price of a good the greater is the quantity supplied; and the lower the price of a good, the smaller is the quantity supplied.

Shift / Determination of Demand Curve / Change in Demand.

Five main factors brings changes in demand.

- 1) Income
- 2) Population
- 3) Preference
- 4) Expected future price
- 5) The price of related goods



Income: When income increases consumers buy more of most goods and demand curve shift right from point D to point D1. And when income decreases consumers buy less of most goods and demand curve shift left from point D to point D2.

Population: Demand also depends on population. When population increase, demand also increases and demand curve shift right from point D to point D1. When population decrease, demand also decreases and demand curve shift left from point D to point D2.

Preference: Demand depends on preference too. Preference depends on such things as the weather, information and fashion. For example, in summer the demand of AC increases. People buy more AC. And for this demand curve shift right from point D to point D1. But in winter, the demand of AC decreases and the demand curve shift left from point D to point D2.

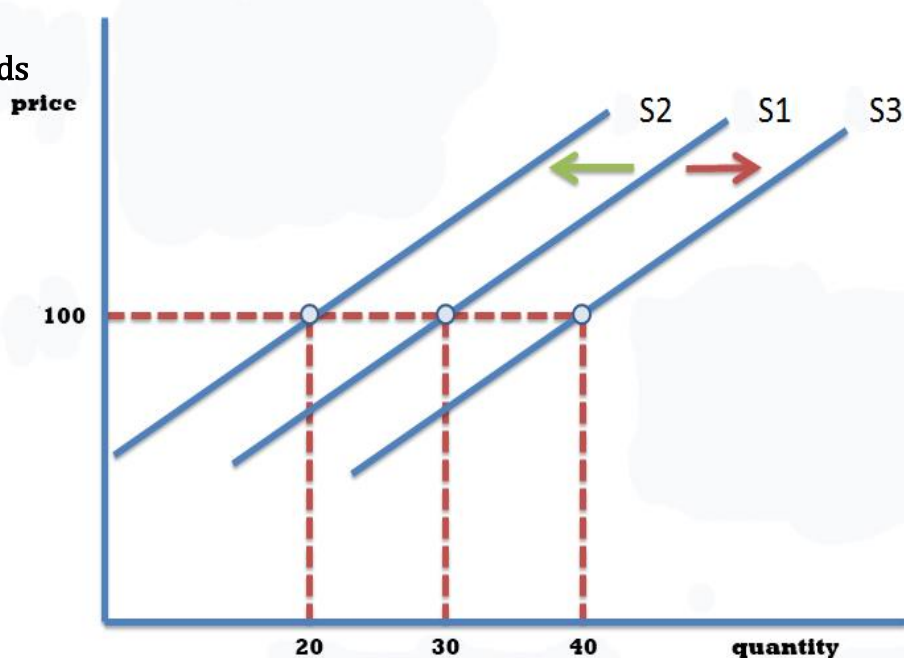
Expected Future Price: If the expected future price of a good rises and if the good can be stored, the opportunity cost of obtaining the good for future use is lower today than it will be in the future when people expect the price to be higher. So, people buy more goods and demand increases. And the demand curve shift right from point D to point D1. But if the price of a good will decrease in future then there is a negative effect of this on demand curve. Then demand curve shift left from point D to point D2.

The Price of Related Goods: Demand of a good depends on the price of its related good. If the price of that related good decreases, then demand of the main good also decreases. And if the price of that related good increases, then the demand of the main good also increases. For example, coffee and tea almost related goods. If the price of coffee increases then consumers will take tea most. And the demand of the tea will increase. On the other hand, if the price of coffee decreases, consumers will take coffee most and the demand of the tea will decrease.

Shift / Determinations of Supply Curve / Change in Supply.

Five main factors bring changes in supply.

- 1) Cost of production
- 2) The number of suppliers
- 3) Technology
- 4) The price of related goods
- 5) Expected future price



Cost of Production: If the cost of production of a good decreases then the supply of that good increases and supply curve shift right from point S1 to point S3. But if the cost of production of a good increases then supply of that good decreases and supply curve shift left from point S1 to point S2.

The Number of Suppliers: If the number of suppliers increases positively, the supply will also increase and supply curve shift right from point S1 to point S3. But if the number of suppliers decreases, the supply will decrease and supply curve shift left from point S1 to point S2.

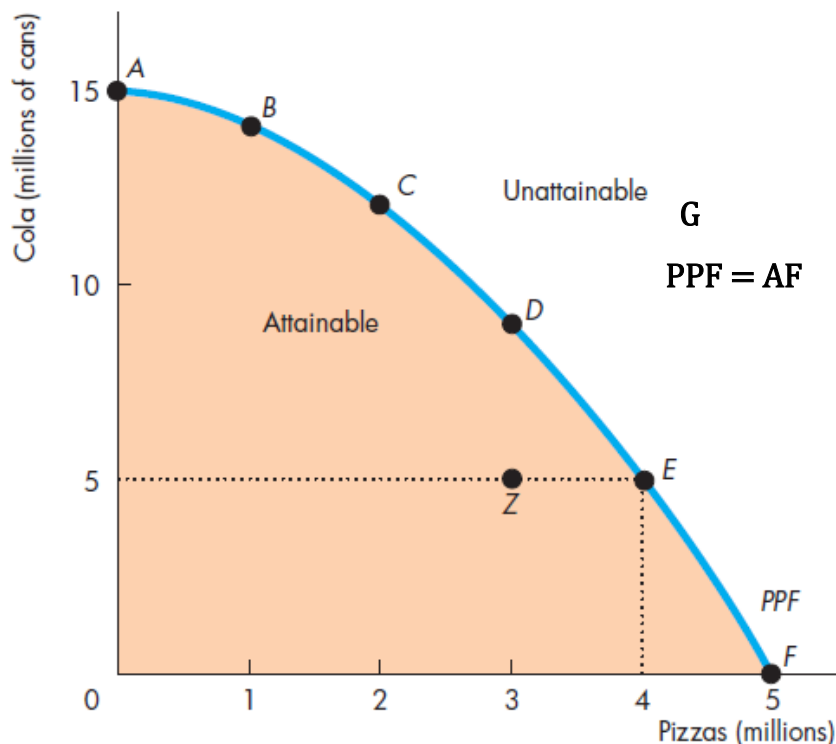
Technology: Increasing of technology increases the production of a good and supply also increases for this reason.

The Price of Related Goods: The price of related goods that firms produce influence supply. For example, if the price of beef rises, the supply of cowhide increases. Beef and cowhide are complements in production—goods that must be produced together.

Expected Future Price: If the expected future price of a good rises, the return from selling the good in the future increases and is higher than it is today. So supply decreases today and increases in the future.

What is Production Possibilities Frontier (PPF)? Show the attainable, un-attainable, efficient and non-efficient point.

A production possibilities frontier is the combination of two goods that can be produced in a certain period of time under the conditions of a given state of technology and fully employed resources.



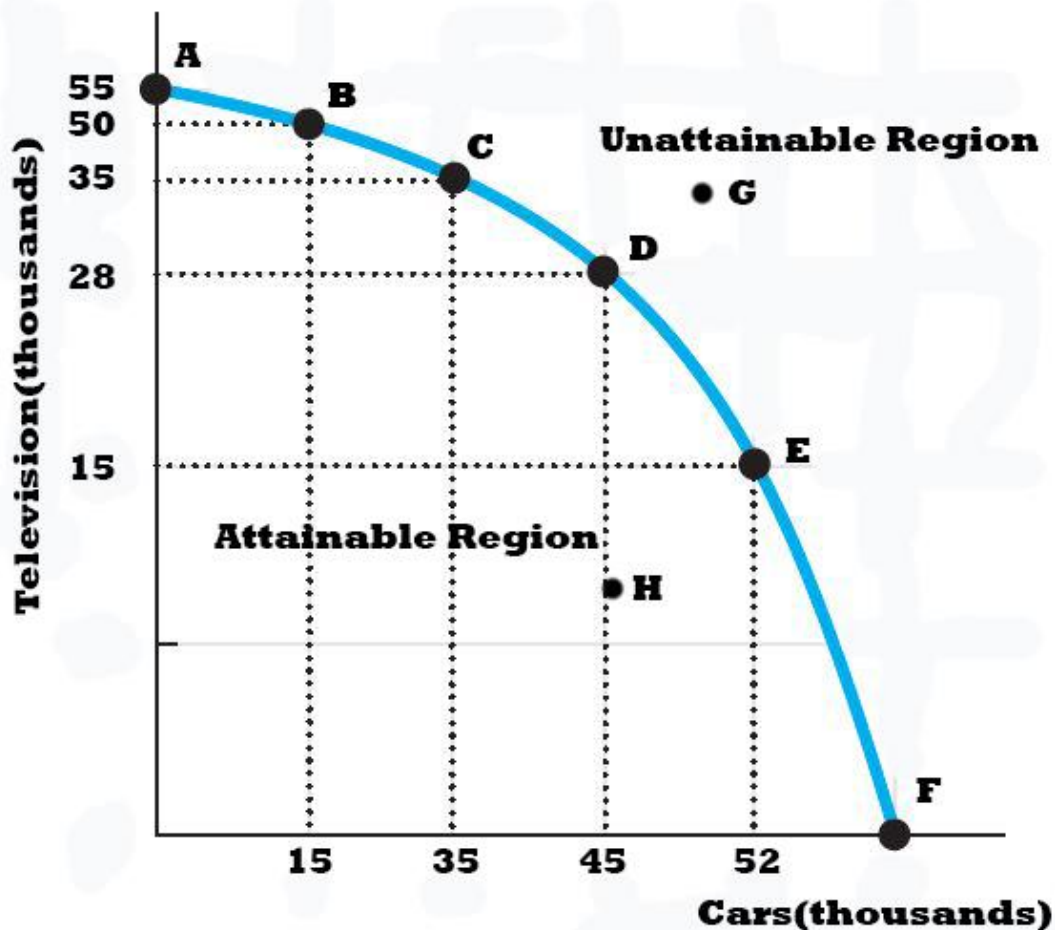
Any point inside the PPF like Z is attainable but non-efficient because all the resources are not fully used.

Any point outside the PPF like G is unattainable because resources are limited.

Any point on the PPF like A, B, C, D, E, F all are attainable and efficient because resources are fully used.

Show the Opportunity Cost through by PPF.

Opportunity Cost: The best alternative that we give up or forego when we make a choice or decision.



Opportunity cost is most easily seen as movement from one point to another, such as movement from point A to point B. More cars are available at point B than at point A, but fewer television sets are available. In short, the opportunity cost of more cars is fewer television sets.

Suppose we are at point A and choose to move point B. At A, we have 55,000 television sets and 5,000 cars; at point B, we have 50,000 television sets and 15,000 cars. What is the opportunity cost of a car? Because 10,000 more cars come at a cost of 5,000 fewer television sets, the opportunity cost of 1 car is $\frac{1}{2}$ television set. Points A, B, C, D and E are all productive-efficient points. Notice that all these points lie on the production possibilities frontier. In other words, we are getting the most from what we have. Point F is a productive inefficient point. We can produce more goods with the available resources, or we can get more of one good without getting less of another.

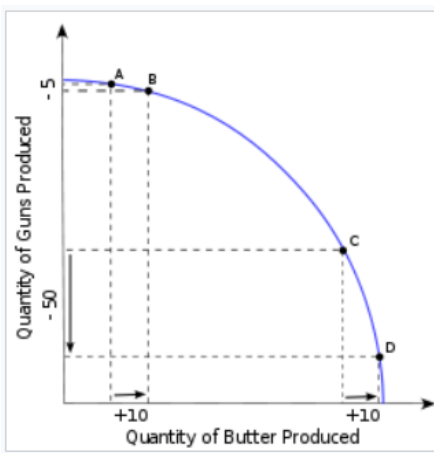
When the economy exhibits productive inefficiency, it is not producing the maximum output with the available resources and technology. One reason may be that the economy is not using all its resources; that is, some of its resources are unemployed, as at point F.

Kinds of opportunities cost:

There are three kinds of opportunities cost.

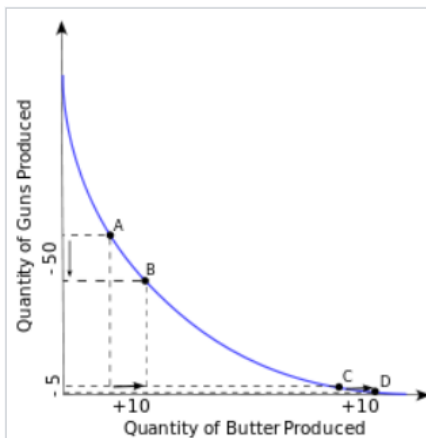
- Increasing Opportunities cost
- Decreasing Opportunities cost
- Constant Opportunities cost

Increasing Opportunities Cost: When Opportunities cost increase as one good is produced more and more then the situation is known as increasing opportunities cost.

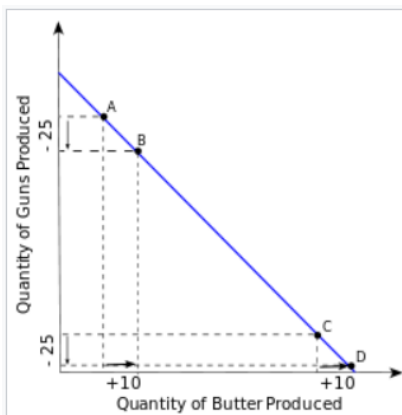


A common PPF: increasing opportunity cost

Decreasing Opportunities Cost:



An inverted PPF: decreasing opportunity cost



A straight line PPF: constant opportunity cost