

EVALUATION

- EXAMS + ASSIGNMENTS
- Final Exam 60%,
- Midterm Exam 30%,
- Assignments & Discussion 10%

Chapter9

- *imperfect competition and monopoly*
- 9.1 Pattern of imperfect competition
- 9.2 Marginal revenue and monopoly

Definition of Economics

It is the study of wealth (Adam smith)
Or

It is the study of welfare (Pegout)
Or it is

A study of exchange and production

MAIN TEXTBOOKS

- 1- Economics, Samuelson Paul A and Nordhaus William D, 1995.
- 2- The Micro Economy Today, Schiller Bradley r. 1995.

Marshall defined economics as

"a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of wellbeing. Thus it is on one side a study of wealth; and on the other, and more important side, a part of the study of man."

D. Of Economics

- Economics is the social science that study the allocation of the scarce resources to satisfy the unlimited wants.
- Economics is a science which studies human behavior as a relationship between ends and scarce means which have alternative uses."

Branches of Economics

Economics is usually divided into two main branches

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The standard definition

"Economics is the social science which examines how people choose to use limited or scarce resources in attempting to satisfy their unlimited wants

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Macroeconomics

which examines an economy as a whole with a view to understanding the interaction between economic aggregates such as national income, employment and inflation. Note that general equilibrium theory combines concepts of a macro-economic view of the economy, but does so from a strictly constructed microeconomic viewpoint

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Microeconomics

which examines the economic behaviour of individual actors such as businesses, households, and individuals, with a view to understand decision making in the face of scarcity and the allocation consequences of these decisions

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Why we study economics

- **Hope to make money.**
- **Worry to be considered illiterate if they cannot understand the laws of demand and supply.**
- **To understand the effect of the information revolution on shaping our society.**
- **To understand the effect of internet.**

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Other subdisciplines includes

international economics, labour economics, welfare economics, neuroeconomics, information economics, resource economics, environmental economics, managerial economics, financial economics, urban economics, development economics, and economic geography

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Scarcity and Choice

- **Scarcity** means that people want more than is available. Scarcity limits us both as individuals and as a society. As individuals, limited income (and time and ability) keep us from doing and having all that we might like.

Continue

- To be fully informed about the international trade.
- To study the tradeoff between inflation and unemployment.
- To help you invest your saving.
- To know how to make economic decision.

Scarcity requires choice

- People must choose which of their desires they will satisfy and which they will leave unsatisfied.
- When we, either as individuals or as a society, choose more of something, scarcity forces us to take less of something else.

Scarcity for society

- As a society, limited resources (such as manpower, machinery, and natural resources) fix a maximum on the amount of goods and services that can be produced

The logic of economics

- How do economic go about the complex understanding of the economic activities.
- The following are the some of the **common fallacies** encountered in economic reasoning:

New definition

- Economics is sometimes called the study of scarcity because economic activity would not exist if scarcity did not force people to make choices.

The failure of holding other things constant

- Remember to hold other things constant when you are analyzing the impact of one variable on the economic system.
- e.g. the effect of tax rate on tax revenue.

The post hoc fallacy

- This involves the inference of causality. The post hoc fallacy occurs when we assume the previous event cause the later one, which is not necessary correct assumption.

Examples

- If one farmer produce cucumber, he will have a higher income, but if all farmers produce cucumber they will have lower income.
- If high tariff is put on a particular industry, the producer in that industry is likely to profit, if high tariffs are out on all products, all producers and consumers will be worse off.

The fallacy of composition

- Some times we assume that what holds true for part of a system also holds true for a whole.
- In economics however, we find that the whole is different than the sum of parts.
- When you assume that what is true for the part is also true for a whole, you are committing the fallacy of composition.

The three problems of economics

- What commodities are produced and what quantities?
- How are goods produced?
- For whom are goods produced?

Basic problems of economic organization

Or basic three questions

How are goods produced?

- The society have to determine who will produce with what resources and what techniques they will use.
- Who farms and who teaches?
- Is electricity generated from oil, from coal or from the sun?
- Will factories be run by people or robots?
- Will we use the labor intensive or capital intensive technique?

What commodities are produced and what quantities?

- The society have to decide and determine how much of each goods will make and when they will be produced.
- Will we produce pizzas or shirts today, few high quality shirts or many cheap shirts.
- Or will we produce fewer consumer goods and more investment goods

The distribution system

- We have different distribution systems depending on and though alternative economic systems.
- We have market, command, mixed and Islamic economy.

For whom are goods produced?

- Who gets to eat the fruits of economic activates?
- Is the distribution of income and wealth is fair and equitable?
- How is the national product divided among different household?
- Are many people poor and few rich?
- Do high wages go to teachers or farmers?
- Will society provide minimal consumption to the poor? Or must people work if they are to eat?

Positive economics

- **Positive economics** studies economic behavior without making judgments. It describes what exists and how it works.

Positive and Normative Economics

- This is to study
- what is for positive economics
- or
- what ought to be for normative

Normative economics

- **Normative economics**, also called policy economics, analyzes outcomes of economic behavior, evaluates them as good or bad, and may prescribe courses of action.

Positive economics includes:

- **Descriptive economics**, which involves the compilation of data that describe phenomena and facts.
- **Economic theory**, which involves building models of behavior.
 - An economic theory is a general statement of cause and effect, action and reaction.

STP

- Each economy has a stock of limited resources (labor, technological knowledge, factories and tools, capital, materials, land, energy)
- Each economy have to decide how to allocate his resources among the different possible commodities.
- Land for producing wheat or housing the population.

Society's technological possibilities

- Every gun that is made, every warship launched, every rocket fired signifies, in the final sense a theft from those who hunger and not fed. Pres. Eisenhower.

land

- Or more generally natural resources that represents the gift of nature to our productive process.
- It includes the land it self, the energy resources that fuel our cars & heat our homes, nonenergy resources like copper, iron and sand, the environmental resources, such as clean air and drinkable water.

Inputs and outputs

- Inputs are the resources available for the society.
- Another terms for inputs are factors of productions.
- FoP are land, labor, capital and management.
- Some time we call them as 7M and they are: money, material, management, markets, machinery, men,

capital

- Capital resources from the durable goods of an economy.
- Capital goods include machines, roads, trucks.

labor

- Includes the human time spend in production at all skill levels.
- Includes also human time spend in management.

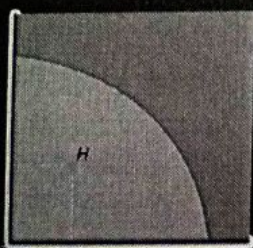
The Production Possibility Frontier (PPF)

- The **production possibility frontier (ppf)** is a graph that shows all of the combinations of goods and services that can be produced if all of society's resources are used efficiently.

management

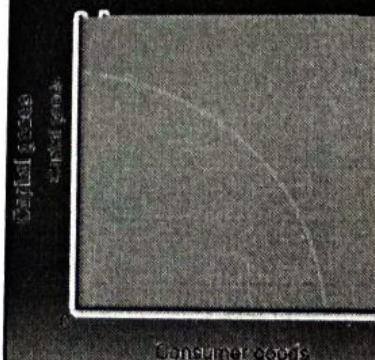
- We might consider it as a part of the labor or as a fourth factor of production.

The Production Possibility Frontier



- Points inside of the curve are inefficient.
- At point *H*, resources are either unemployed, or are used inefficiently.

The Production Possibility Frontier



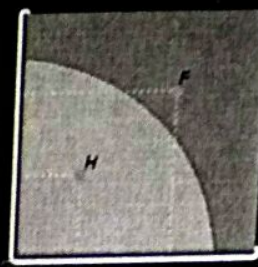
- The production possibility frontier curve has a negative slope, which indicates a trade-off between producing one good or another.

The Production Possibility Frontier



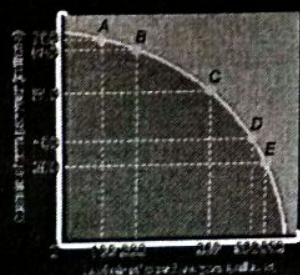
- Point C is one of the possible combinations of goods produced when resources are fully and efficiently employed.

The Production Possibility Frontier



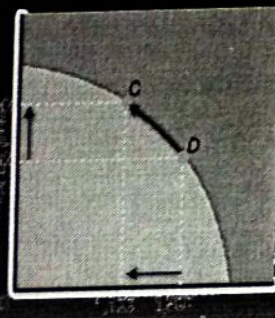
- Point F is desirable because it yields more of both goods, but it is not attainable given the amount of resources available in the economy.

The Law of Increasing Opportunity Cost



- The slope of the ppf curve is also called the *marginal rate of transformation (MRT)*.

The Production Possibility Frontier



- A move along the curve illustrates the concept of opportunity cost.
- From point D, an increase the production of capital goods requires a decrease in the amount of consumer goods.

Scarcity, Choice, and Opportunity Cost

- Human wants are unlimited, but resources are not.
- Three basic questions must be answered in order to understand an economic system:
 - What gets produced?
 - How is it produced?
 - Who gets what is produced?

the law of increasing opportunity cost

- The negative slope of the ppf curve reflects the *law of increasing opportunity cost*. As we increase the production of one good, we sacrifice progressively more of the other.

- Every society has some system or mechanism that transforms that society's scarce resources into useful goods and services.

Scarcity, Choice, and Opport. Cost



Scarcity, Choice, and Opportunity Cost

Production is the process that transforms scarce resources into useful goods and services.

The inputs of production are the **factors of production**; the outputs are the **goods and services** that have value to society.

Scarcity, Choice, and Opportunity Cost

- **Capital** refers to the things that are themselves produced and then used to produce other goods and services.
- The basic resources that are available to a society are **factors of production**:
 - Land
 - Labor
 - Capital

Scarcity and Choice in a One-Person Economy

- **Opportunity cost** is that which we give up or forgo, when we make a decision or a choice.

Scarcity and Choice in a One-Person Economy

- Nearly all the basic decisions that characterize complex economies must also be made in a single-person economy.
- **Constrained choice** and **scarcity** are the basic concepts that apply to every society.

Statistics

- Taking economic statistics of production and applying the
- the data collected, and applying the model being used to produce a representation of economic activity

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Models

- Formulation of models of economic relationships, for example, the relationship between the general level of prices and the general level of employment

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How to read Graphs

- To be explained in the lecture

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Scarcity and Choice in an Economy of Two or More

- A producer has a **comparative advantage** in the production of a good or service over another if it can produce that product at a lower opportunity cost.

Scarcity and Choice in an Economy of Two or More

- A producer has an **absolute advantage** over another in the production of a good or service if it can produce that product using fewer resources.

Productive efficiency

- Productive efficiency occurs when an economy cannot produce more of one good without producing less of another good.
- This implies that the economy is on its production possibility frontier.

Efficiency

- Efficiency means that the economy's resources are being used as efficiently as possible to satisfy people's needs and desires.

Primary and secondary data

- We collect primary economic data through questionnaires, meetings, focus group, and so on.
- And we collect the secondary data through books, magazines, the net, and the Palestinian bureau of statistics.

Collection of economic data

- Economic data includes quantitative and qualitative data.
- Quantitative data includes the numeric or measurable data.
- i.e. prices, quantities, profit, product, cost, and so on.
- Qualitative data, includes descriptive data such as, quality.