Welcome

to

all students

in

Economics (CAEC353) Class

of

BCA sixth semester

at

NCCS, Paknajol.

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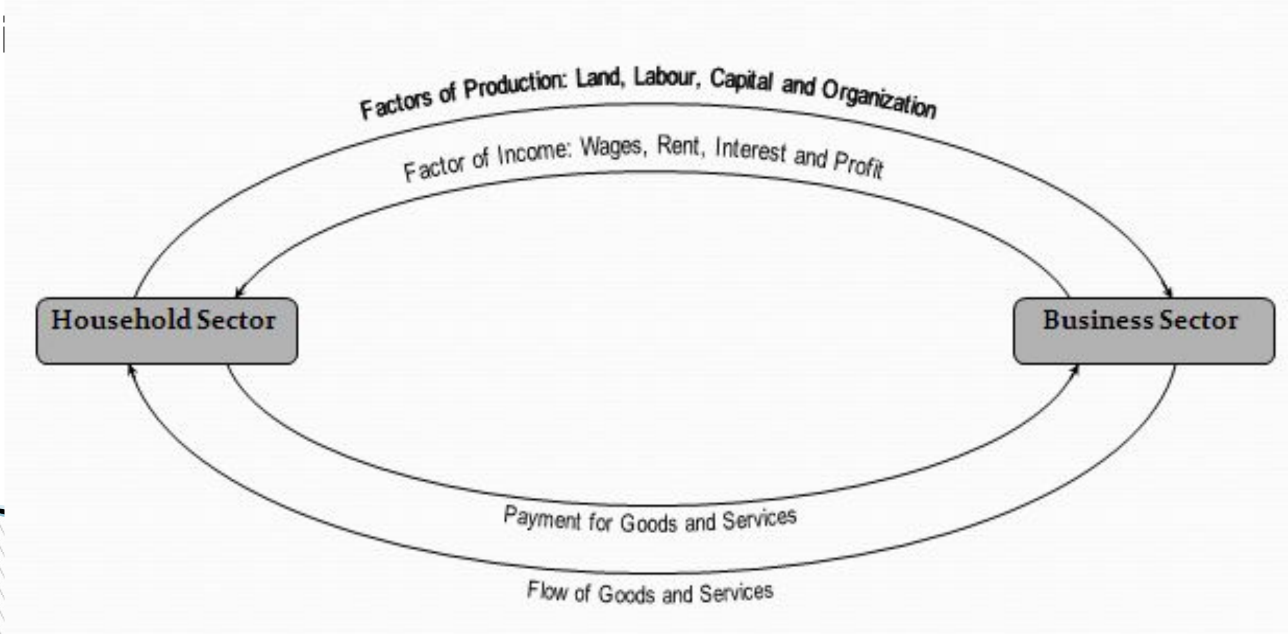
M. phil. In Economics

What is Economy?

- The economy is **the total of all activities related to the production, sale, distribution, exchange, and consumption** through limited resources by a group of living and operating within it.

We can simply understand economy how it work by the circular flow of income and expenditure, which are directly determined by the level of aggregate economic activity in the economy. Circular flow of income and expenditure can be measure in different economic sectors: 2 sectors, 3 sectors and 4 sectors economy.

A two-sector economy consists of only household sector and business sector in a close economy, where household sectors own all the factors of production in different forms, like land, labour, capital and organi



Concept of economy and economics What is economics?

- Effectively birth of Economics
- Even though Aristotle (384) wealth acquision and property private or public
- Not separate discipline, but a part of Philosophy
- “An Inquiry into the Nature and Causes of the Wealth of Nations”. Book published in 1776
- Modern father of political Economy
- “Economics or political economy as a separate

What is economics?

- The term "Economics" in English language has its origin in two greek word : Oikos (Household) and Nemein (management):
- Ancient Greek word oikonomia—meaning the management of a family or a household
- oikonomos: one who manages a household
- "**Wants of each household are unlimited but resources are limited**"
- What is Economics?
- 1. **Adam Smith(1723-90)**:**Economics, as a study of wealth (1776)**
- Economics as a science of wealth which studies the process of production, consumption and accumulation of wealth.
- **"An enquiry into the Nature and causes of wealth of Nation" 1776**
- **2. Alfred Marshal** : **"The study of mankind in the ordinary business of life."** or "economics as welfare" "Principles of

Economics as Scarcity

- **3. Lionel Robbins' Scarcity Definition: "**An Essay on the Nature and Significance of Economic Science" book: 1932 (1935 p. 16) .
- "Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses." (Robbins,1935, p. 16)
- Human **wants are unlimited;** wants multiply—luxuries become necessities
- The means or the **resources** to satisfy wants are **scarce in relation to their demands. (limited supply: D>S)**
- scarcity of resources is the fundamental economic problem to any society.
- **Scarcity of resources** gives rise to many '**choice'** problems

What is economics?

- Economics is **a social science**, **that studies scarcity and choice**. Or, It is the study of how individuals and societies choose to utilize scarce resources to satisfy unlimited human wants.
- Economics is a social science that studies people in society and how they interact with each other.
- **Human wants are unlimited** because we always think of ways to improve our well-being with more or better goods and services.
- Scarcity and choices are the fundamental

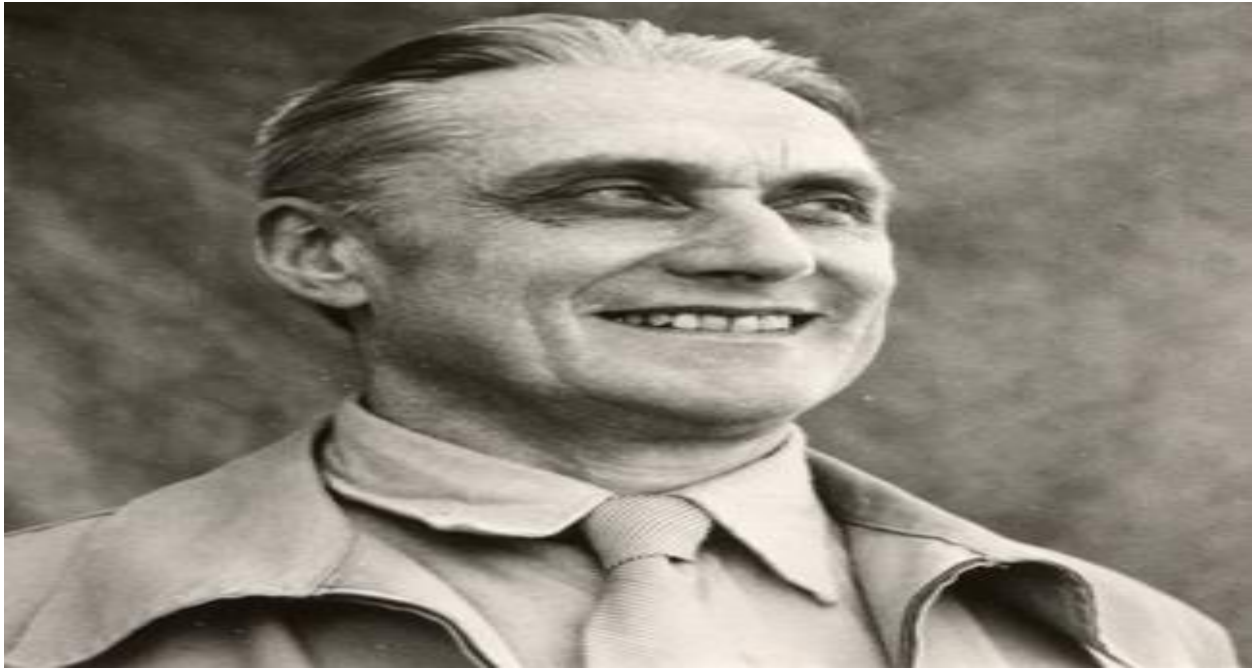
Subject matter of Economics

- Aristotle: includes state and household management in the study
- Chanakaya : state and household management
- Adam Smith: Wealth
- Marshall: Welfare
- Robbins: scarcity and Choice

Economics divided into part: Micro and Macro economics

- To examine these important concepts and issues, modern economists have divided the whole economic theories into **two parts: microeconomics and macroeconomics.**
- These words in economics were first used by **Ragnar Frisch in 1933**. The terms micro has been derived from the Greek word "micros", which means "small". "Greece words **mikros and makros which mean small and large"**
- **Microeconomics,** therefore studies the **economic behaviour of individual decision makers**, such as a consumer, a worker, a firm, or a manager. It also analyzes the behaviour of individual households, industries, markets, labour unions, or trade associations.

Prof. Ragnar Frisch (1895-1973)
Oslo university , Norway
First Nobel Laureate in 1969



Why should we study economics?

Micro economics: study of small unit of the economy….

- "Micro economics is the study of **particular firms, particular households**, **individuals price wage income individual industries particular commodities**"… K.E. bouldng
- "In microeconomics, **we examine trees, not forest**,………………." M.C. Connel
- "Microeconomics consists of **looking economy through a microscope**." A.P. learner
- Study only **Small unit of the economy**.
- Individual consumer, individual firm decision study on

Micro economics

- Micro economics is also called price theory because it microeconomics tries to explain the effects of price change in the market due to change in demand and supply condition as well as it also studies how a firm determines price of its product.
- Micro economics is primarily focused on **determination of equilibrium price of goods and services** in the market.
- *Objectives of the microeconomics* is to study ***pricing policies concerning the optimum allocation*** of resources or economic efficiency.

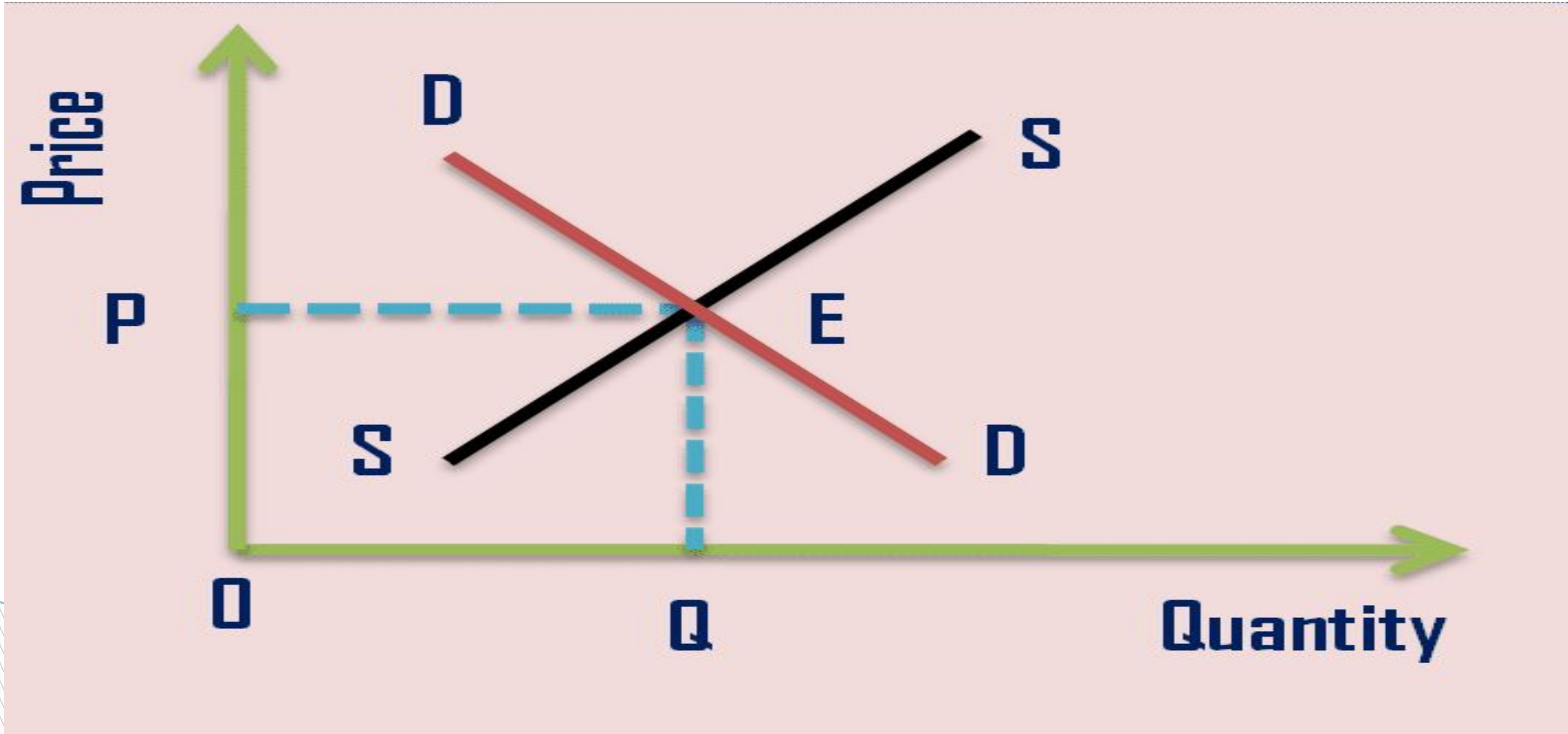
Micro economics

- Micro economics is also known as the **slicing method** *because it splits up the whole economy into small part*s/units for the study.
- Micro economics is also known as the **microscopic analysis** because it is concerned with **microscopic study of various small element of the economy** **OR** it is concerned to study ***small parts of the economy***.
- Microeconomics is the study of problem of **scarcity and allocation of resources**.

Type of Microeconomics

- 1. **Micro Static analysis**: Analysis of **A point of time**
- If the functional relationship is established between two variables whose value are related to the same point of time or to **same period of time** , the analysis is called to be statics.
- Static analysis is concerned solely with the **equilibrium** values of the variables of interest in the specific time period.
- **Value of parameter are constant** in study

Micro Static analysis

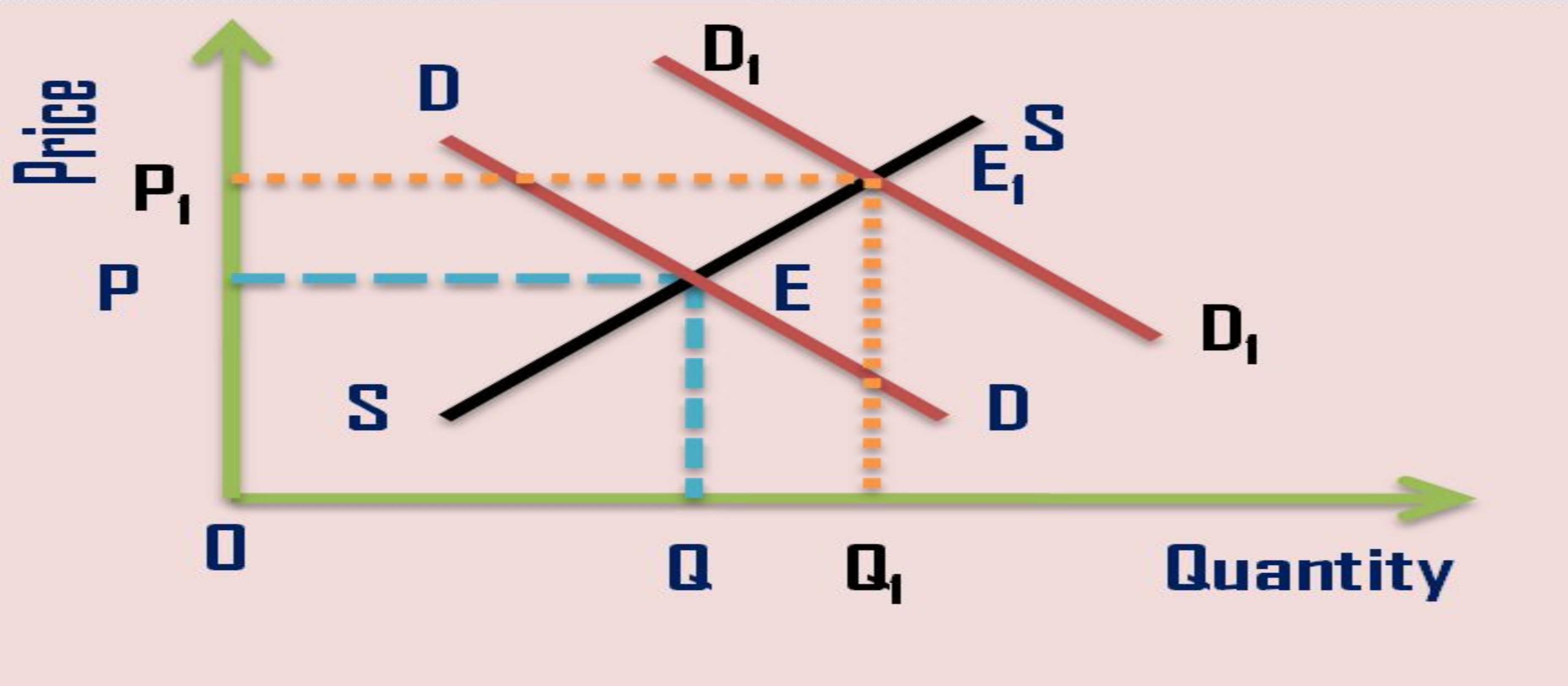


Type of microeconomic analysis

2. Comparative Micro static analysis:

- “The comparative analysis of two equilibrium position may be described as comparative statics analysis, **since it studies the alteration in equilibrium position corresponding to an alteration in a signal datum**.” Prof. E.Shapiro
- Involve to compare the **2 static equilibrium**
- Comparative static analysis **make comparison** between 2 equilibrium and **draw conclusion**.

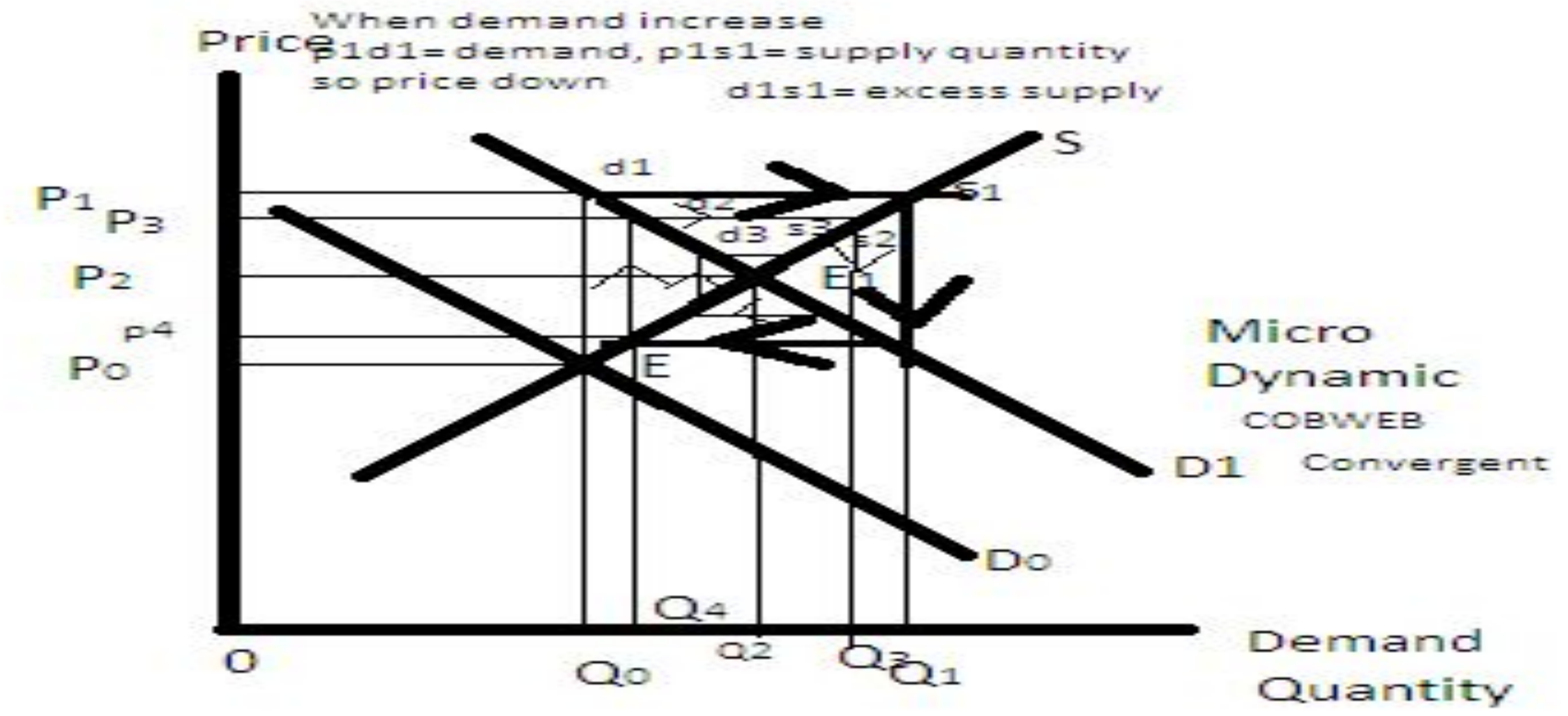
Micro Comparative Static analysis



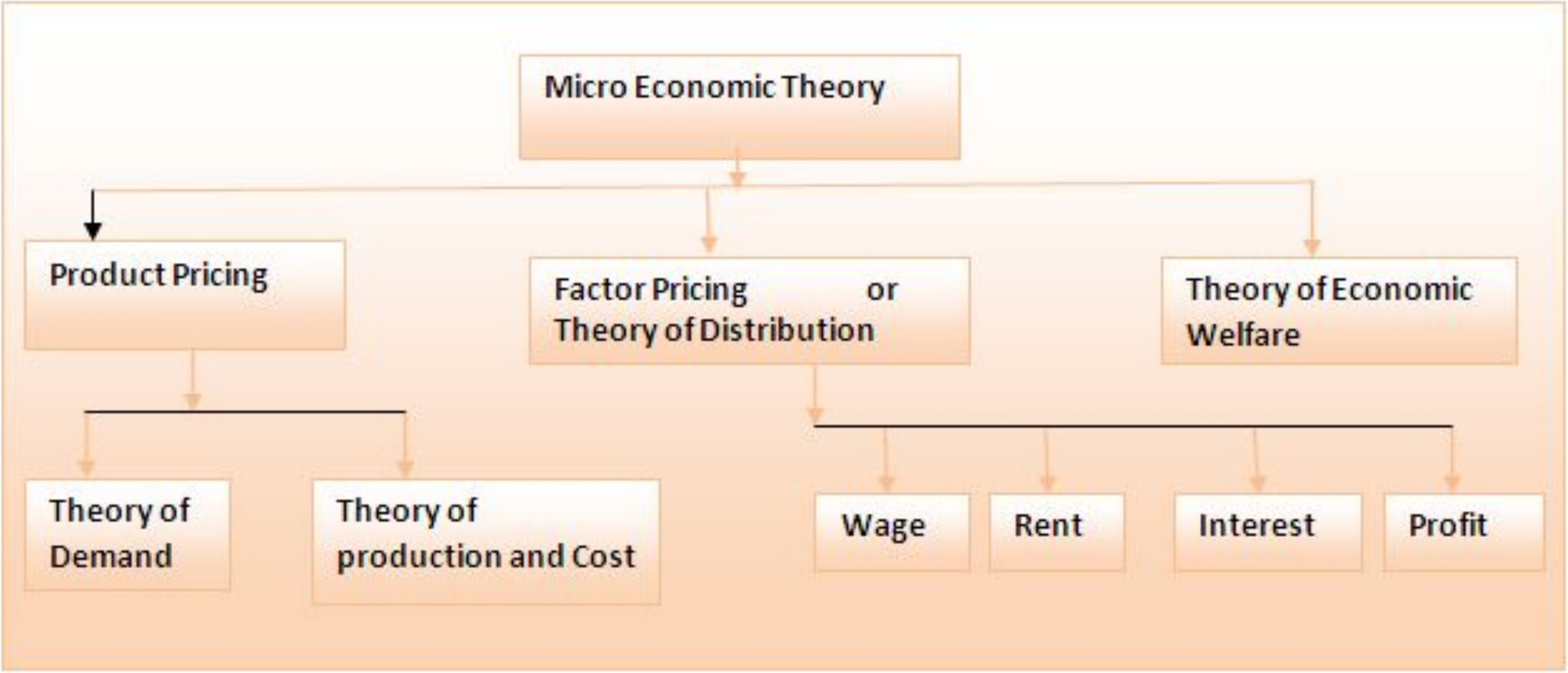
Type of Microeconomics analysis
3.Micro Dynamic Analysis

- Micro dynamic analysis is defined as the analysis of the process through which the system moves from one equilibrium to another.
- It shows the lagged relationship between the microeconomics variables.
- It is mainly concerned with state of disequilibrium rather than equilibrium and takes time factor into consideration.
- It studies models involving time and path through which new equilibrium in the market is established.
- Dynamic Analysis is concerned with the **process of change** in the value the variables of interest in any time period.
- J.R. Hicks :"Economic dynamics refers to that part of economic theory in which all quantities must be dated."
- Cobweb Theory was first suggested by Professor Nicholas Kaldor in 1934

Micro dynamic figure



Scope of Microeconomics



Definition of terminology

- Variable: change in value or magnitude according to time or places.
- Constant: Not change in value or magnitude, remained fixed.
- Parameter: the symbol which are constant in specific condition and become variable if change in condition
- Parameter: a numerical or other measurable factor forming one of a set that defines a system or sets the conditions of its operation.
- Functional relationship: The functional relationship shows a change in a variable (is occurred) due to change in another variables. Eg: Output of a product, depend on input Quantity

Definition of terminology

- Equilibrium is the point where two opposite force are equal. Eg.: D=S (Equilibrium in the market)
- Efficiency is the ability to produce an intended result in the way that results in the least waste of time, effort, and resources.
- Efficiency — Getting the most from the limited inputs (or getting a lot for the efforts)
- Effectiveness is the ability to produce a better result, one that delivers more value or achieves a better outcome.

Macroeconomics

Macro derived from the Greek word Makro which means large

- Even though, Malthus, Sismundi and Karl Marx used this.
- Developed form after the publication of "General Theory of Employment Interest and Money" in 1936.. By J.M. Keynes.
- So Macroeconomic is called Keynesian Economics too.
- Theory of Income and employment, or aggregate economics can be called to Macroeconomics.
- Definition by P.A. Samuelson: "Macroeconomics is the study of behaviour of the economy as a whole. It examines

Macro Economics

- K E Boulding: "Macro economics deals not with individual quantities but with **aggregate of these quantities,** not with individual income s but with the **national income**, not with individual price but with **price level**, not with individual output but with **national output.**"
- G. Ackley: "Macro economics is the study of the forces or factors that determine the level of **aggregate production, employment and price in an economy** and their **rates of change** over time"
- JP Aryal : "Macro economics may be defined as the branch of economic analysis which studies the behavour of not

Macroeconomics

- JM Keynes: "Macro-economics deals with the **great averages and aggregates of the system** rather than with the particular unit in it" 1936.
- From the definition conclusion can be drawn: macroeconomics is the study of the behaviour and performance of the economy as a whole.
- Macroeconomics ***splits up the economy into big lumps for the purpose of study***, so it is also called the **method of Lumping.**
- **Macroeconomics is also called "Theory of income and Employment" because** *it deals with the phenomena*

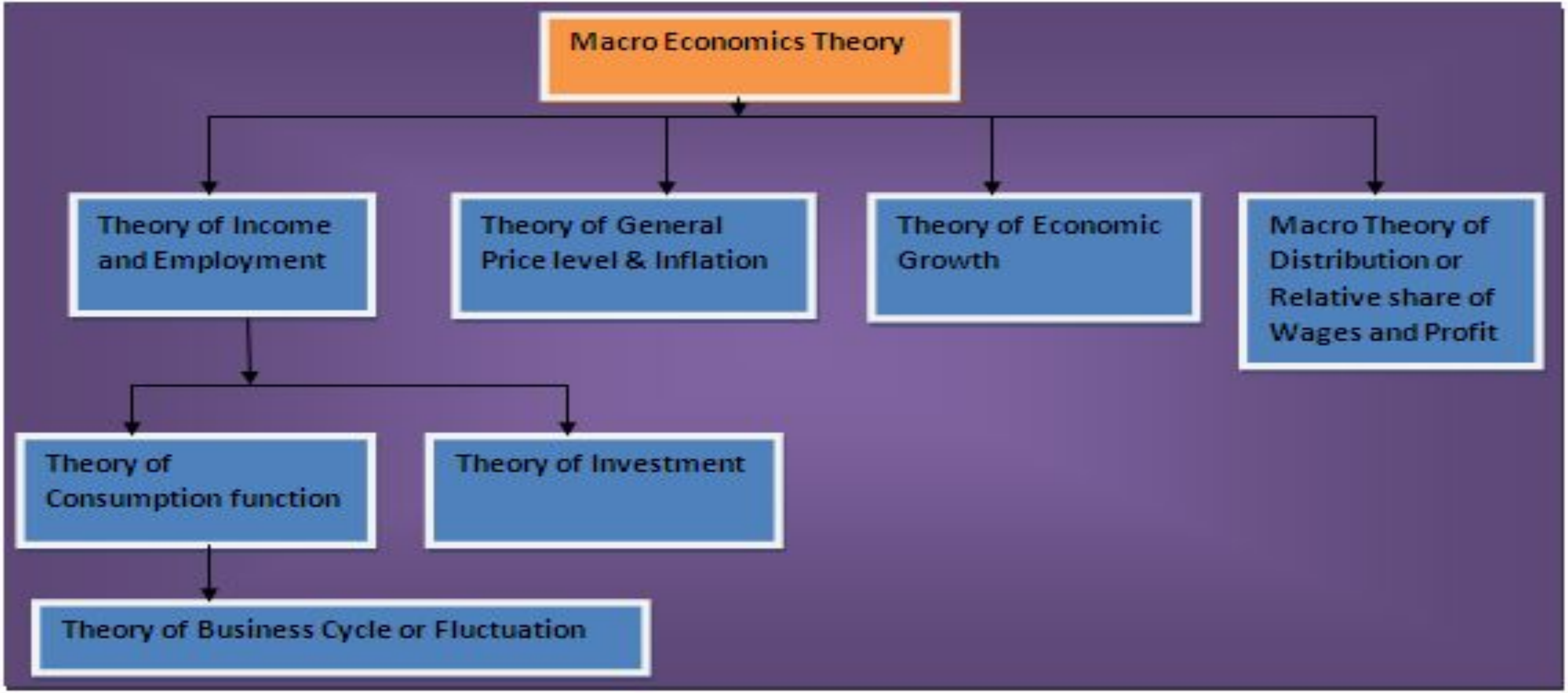
Features of Macroeconomics

- Macroeconomics **analyzes the behaviour of the economy as a whole**. Therefore, it is an **aggregative economics.**
- It presupposes **constant relative prices and given resource allocation.**
- It is **policy science and more normative**.
- Its analytical tools **are *fiscal policy*** (taxes, government expenditure and government borrowing) and ***monetary policy*** (interest rate and money supply).
- It is also called 'Theory of Income and Employment'.
- Its objectives are to determine aggregate output, employment and general price level and their rate of change.
- It is relatively new and developed after the publication of

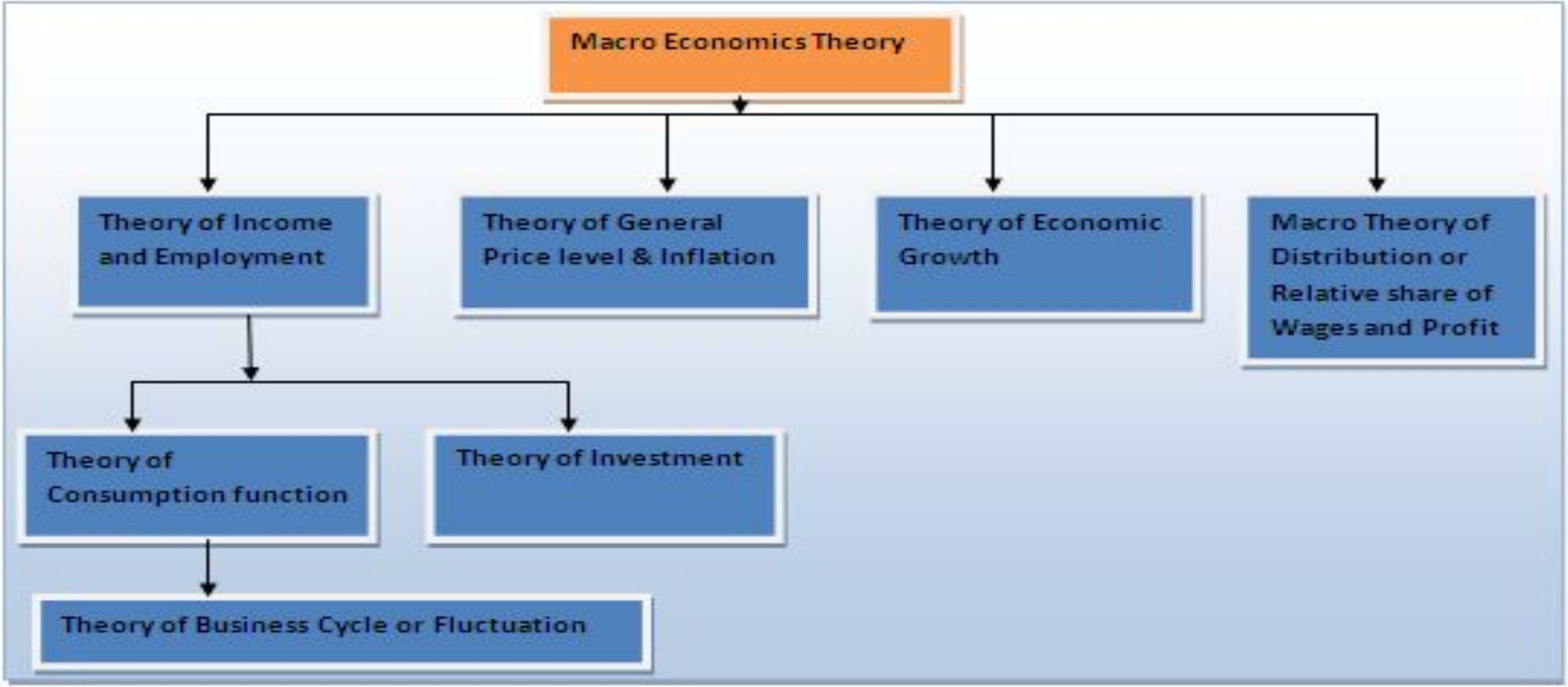
Scope of Macroeconomics

1. Theory of national income
2. Theory of employment
3. Macro theory of distribution
4. Theory of international trade and business fluctuations
5. Theory of money and price level
6. Theory of economic growth and development
7. Macroeconomic policies

Scope of Macro Economics



Scope of Macro Economics



Type of analysis in Macroeconomics

- **1. Macro Static Analysis**

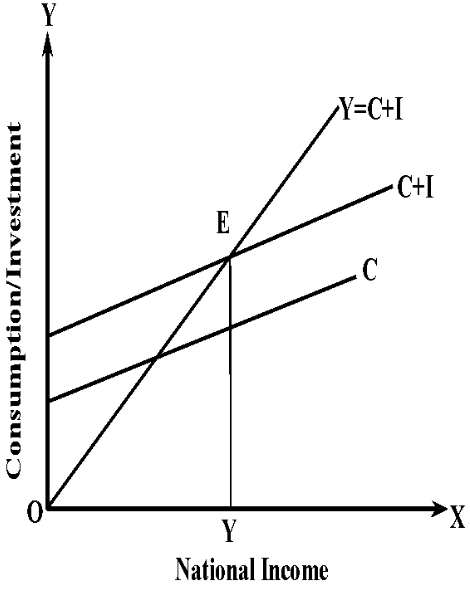
  Macro static is the study of the static relationship between different macroeconomic variables. It deals with the final position of equilibrium of the whole economy at a particular point of time. As such, it is a static analysis. It shows a still picture of the economy as a whole. It investigates the relation between macroeconomic variables in the final position of equilibrium. But it does not tell us the process of adjustment to the final position of equilibrium.

The following equation reflects the final position of equilibrium.

$Y = C + I$

Where, Y = Aggregate income C = Aggregate consumption

Macro static



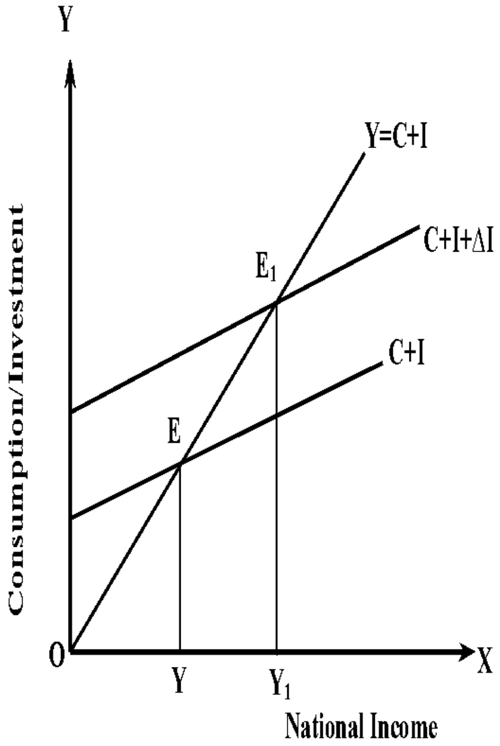
- In the figure, X-axis measures national income and Y-axis measures consumption and investment. Point E is the equilibrium point where the aggregate demand curve (C+I)

Comparative Macro Static

Comparative macro static is concerned with a comparative study of different equilibrium positions attained by the economy as a result of changes in macroeconomic variables. It compares the new and old equilibrium attained by the economy. But it does not deal with the transitional period involved in the movement from one point of equilibrium to the other.

The comparative macro static has been illustrated in the following **figure:**

Comparative Macro Static



3. Dynamic Analysis (Macro dynamics)

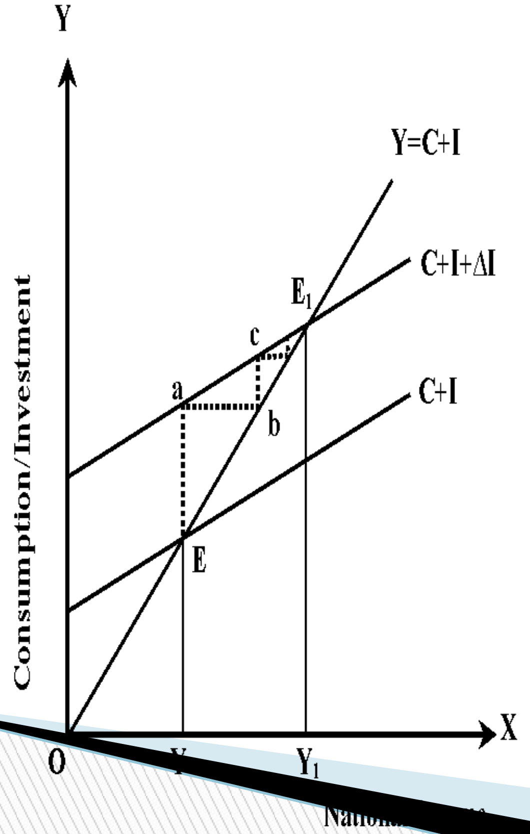
Macro dynamics is the *study of the process* by which the equilibrium position of the economy moves from one point to another as a result of changes in macroeconomic variables. It explains all types of changes that occur in between the two points of the equilibrium position.

It analyses the *process of happenings in the economy during the period of transition from one point of equilibrium to the other due to change in macroeconomics variables*.

It is the study of Disequilibrium.

The macro dynamics has been illustrated in the following

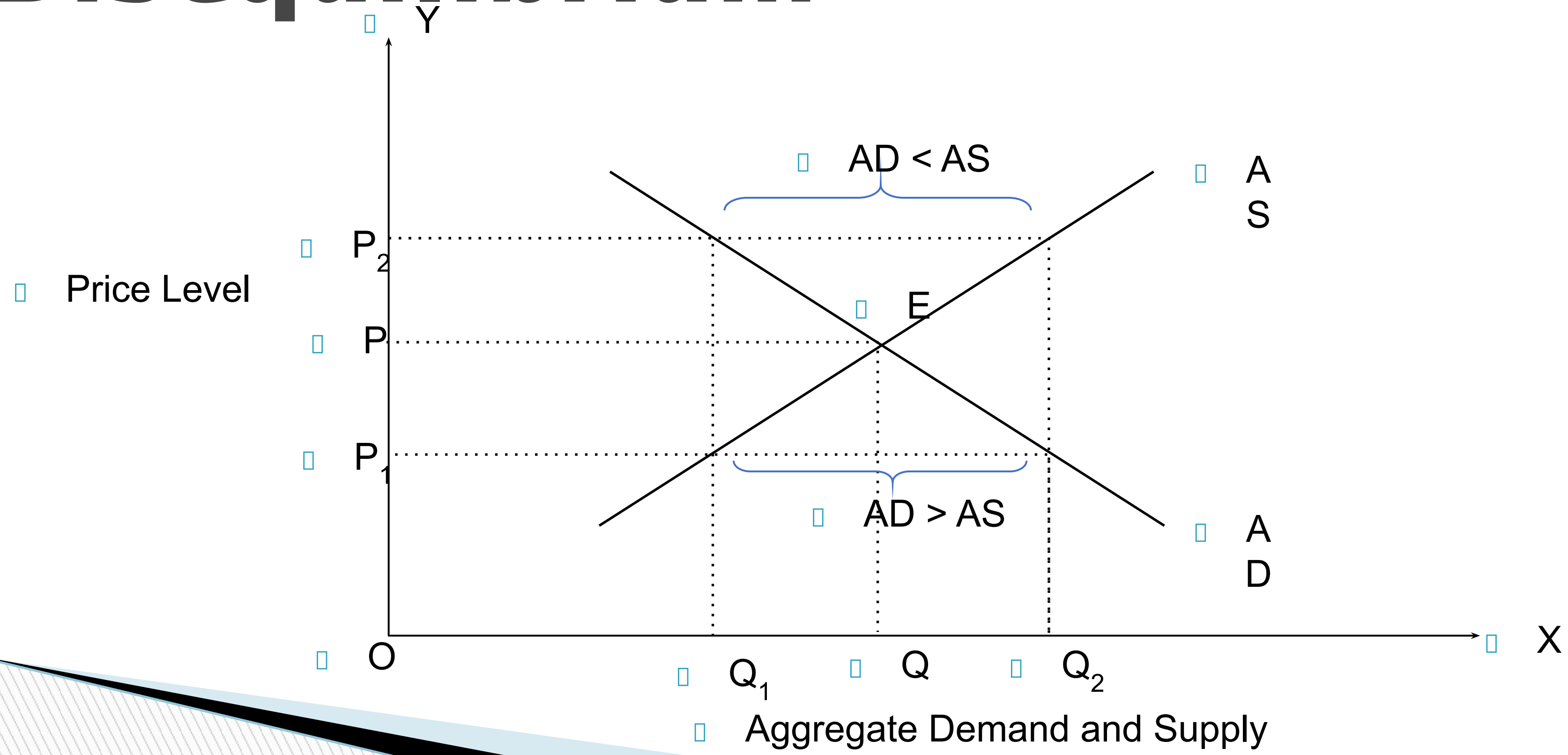
Dynamic Macro Analysis



Definition of terminology

- **Equilibrium:** In general, equilibrium means a state of balance between opposing forces. In economics, equilibrium refers to a condition or situation in which opposing economic forces, such as supply and demand, costs and benefits, etc., are in balance and there is no inherent tendency to deviate from that position.
- **Disequilibrium:** Disequilibrium refers to a state of the economy in which opposing forces, such as aggregate supply and demand, and aggregate saving and investment, are not in balance. The factor causing the disequilibrium

Equilibrium and Disequilibrium



Distinction between Microeconomics and Macroeconomics

Basis of Differences	Microeconomics	Macroeconomics
1.Nature	It is the study of individual units of an economy	It is the study of an economy as a whole.
Area of study	Studies of individual units such as a consumer, a household, a firm, an industy, a comodity etc.	Studies of National aggregates such as National Income, National output, general price level level of employment etc
Problems	It deals price determination of a commodity, a factor of production, satisfaction of a consumer.	It deals the problems of employments, trade cycles, international trade, economic growth

Distinction between Microeconomics and macroeconomics

Basis of Differences	Microeconomics	Macroeconomics
Partial/General Equilibrium	Microeconomics is based on partial equilibrium (Ceterious peribus)	Macroeconomics is based on general equilibrium
Mortal/Immortal	Subject matter of Microeconomics is Mortal	Subject matter of Macroeconomics is Immortal.
Suitability	Microeconomics is suitable to study the problems of individual economics units.	Macroeconomics is suitable to study the problems of economy as a whole.
Also called	It is also called Price theory or value theory.	It is also called theory of income and employment or Keynesian theory.

Goals of Macroeconomics

1. Economic Growth
2. Control Inflation
3. Reduced unemployment or achieve full employment
4. Balanced balance of payment
5. Reduced economic inequality
6. Stable foreign exchange rate
7. Reduced Poverty:

Stable economy and exchange rate:

Instrument of Macroeconomics

1. Monetary Policy:
   - Expansionary monetary Policy(ease or cheaper)
   - Contractionary Monetary policy(tight or dearer)
2. Fiscal Policy:
   - Expansionary Fiscal Policy
   - Contractionary Fiscal policy
3. Exchange rate:
   - Fixed Exchange rate
   - Flexible exchange rate