

Lecture: 1

INTRODUCTION TO ECONOMICS

20/07/2020

MEANING:

Economics is the study of how societies choose to use productive resources that have alternate uses, to produce goods and services that are needed by human beings.

The subject-matter of economics evolves around the core problem of "rational management of resources so as to maximise the social welfare."

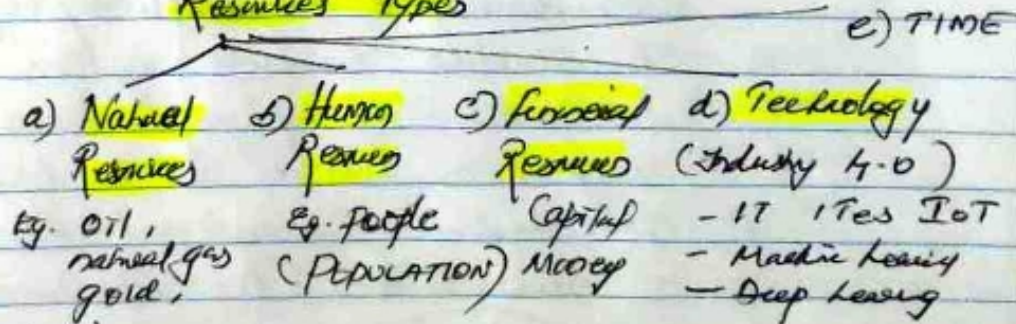
Is economics the science of choice-making?

Basic Premise:

"Human wants are unlimited but Resources are limited"

1. The core of economics is the study of mankind
2. Wants (effective desires) are unlimited
3. Resources are limited (scarce)

Resources Types



Scarcity Examples:

(1) India and China have Substantial

Human Resources but lack financial resources

(2) Middle East Countries (Iran, Iraq, Kuwait, UAE etc) have enough oil, but lack skilled labour

(3) USA & European Union (UK, Germany, Italy, Luxembourg etc) have enough financial resources but suffering from aging population.

4. Resources can be put to alternative uses
They can buy Housing/Car - food or car

Scarcity of Resources

Capacity of

Resources to put
to alternative uses

Problem of Rational
Management of
Resources

5. Therefore, Man has to make a CHOICE

Question: Why the Study of Economics is so
important?

(1) Economics explore the behavior of financial markets

(1) interest rates

(2) exchange rate/rate

(3) stock-prices

(2) It examines why some countries are
developed, why some countries are
underdeveloped or developing

(3) It studies business cycles - the fluctuations
in credit, unemployment and inflation
along with policies to moderate them.

(4) It studies international trade and finance
- Globalisation (borderless world)

(a) free flow of goods & services (b) free flow of capital (c) free flow of labour (d) free flow of knowledge

(5) It helps government to achieve

(a) rapid economic growth (GDP)

(b) price stability

(c) full employment

(d) Efficient use of resources

(e) social inclusion (fair distribution of income)

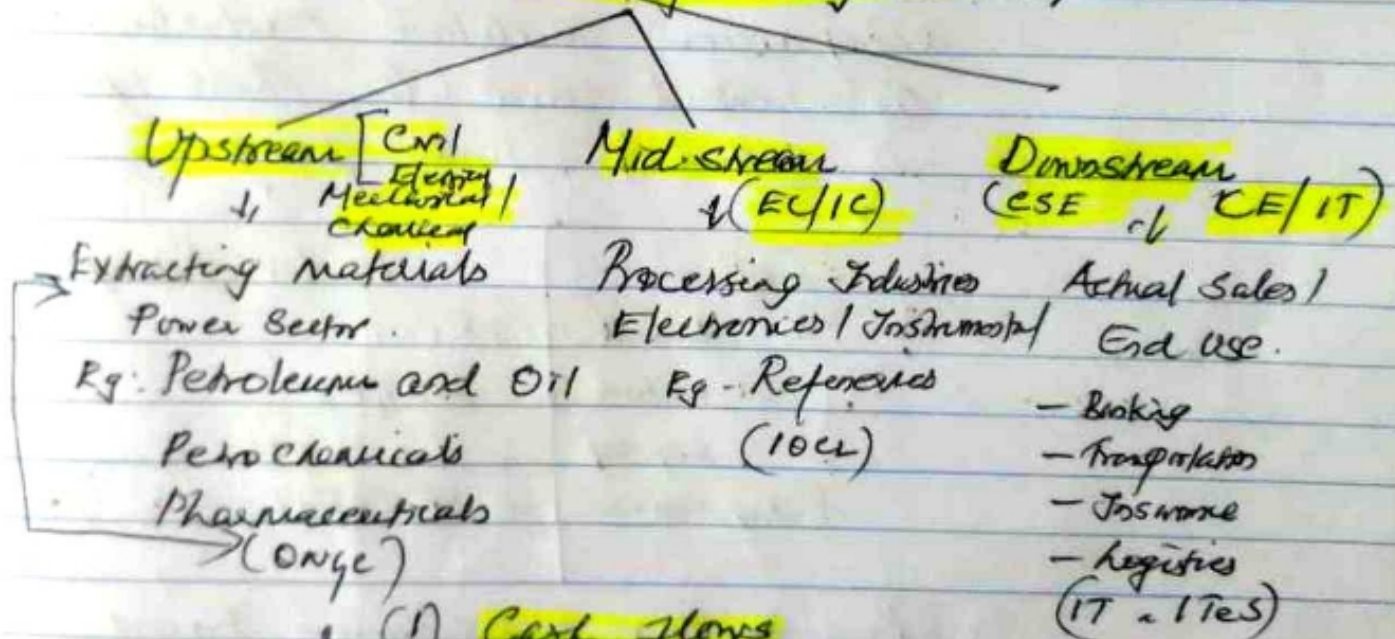
"Has economic
objectives"

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Why engineers need to study Economics ?

Engineering economy involves formulating, estimating and evaluating the expected economic outcomes of alternatives designed to accomplish a defined purpose. Mathematical techniques simplify the economic evaluation of alternatives.

The Engineering Industry



- "Economic Efficiency"
- (1) Cash flows
 - (2) Time of occurrence of cash flows
 - (3) Interest rates for time-value of money
 - (4) Measure of economic efficiency for selecting an alternative.
- Economic Efficiency - definition

Economic efficiency requires that an economy produce the highest combination of quantity and quality of goods and services given its technology and scarce resources.