

What is Economics?

Competing Visions and Multiple Perspectives

ECO102: Microeconomics

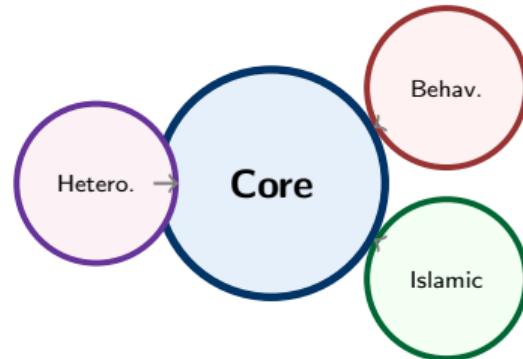
Salim Habib University

Spring 2026 — Week 1

Today's Journey

What we'll explore:

- ① The “economic problem” — scarcity and choice
- ② Mankiw’s Ten Principles of Economics
- ③ Is economics a science?
- ④ Alternative visions: Islamic & Heterodox perspectives
- ⑤ Why multiple perspectives matter



Key Question:

What assumptions do we make when we “think like an economist”?

Part I

The Economic Problem

What is economics really about?

The Fundamental Problem: Scarcity

Definition

Scarcity means that society has limited resources and therefore cannot produce all the goods and services people wish to have.

Limited Resources:

- Land (natural resources)
- Labor (human effort)
- Capital (tools, machines)
- Entrepreneurship
- *Time*

Unlimited Wants:

- Food, shelter, clothing
- Education, healthcare
- Entertainment, travel
- Status, recognition
- And more, and more...

Gap between wants and resources ⇒ We must CHOOSE

So What is Economics?

Mankiw's Definition

Economics is the study of how society manages its scarce resources.

Key questions economists ask:

- ① How do people make decisions?
- ② How do people interact with each other?
- ③ How does the economy as a whole work?

But wait... Is this the *only* way to define economics? Does this definition hide certain assumptions?

The Cost of Choosing: Opportunity Cost

Definition

Opportunity cost is whatever must be given up to obtain something — the value of the next best alternative forgone.

Example: You have 3 hours free. Options:

- Study for economics exam
- Work part-time job (Rs. 500/hour)
- Watch Netflix

If you choose to study:

- Monetary opportunity cost: Rs. 1,500
- But also: the enjoyment of Netflix

"There is no such thing as a free lunch."

Every choice has a cost.

Part II

Mankiw's Ten Principles of Economics

The conventional framework

How People Make Decisions (Principles 1–4)

Principle 1

People face trade-offs

To get something, we give up something else
(efficiency vs. equity)

Principle 2

The cost of something is what you give up

Opportunity cost matters

Principle 3

Rational people think at the margin

Compare marginal benefits vs. marginal costs

Principle 4

People respond to incentives

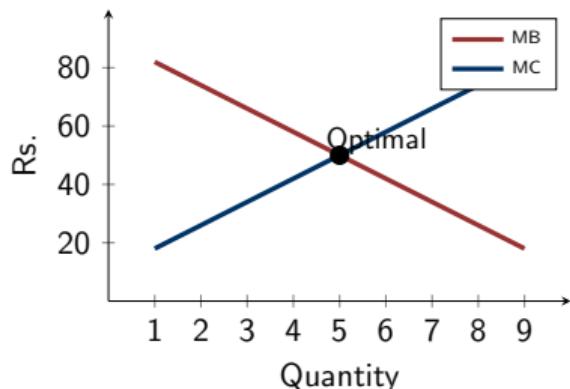
Change costs/benefits ⇒ change behavior

These principles assume people are rational, self-interested, and well-informed...

Principle 3: Marginal Thinking

The Marginal Revolution

Rational decision-makers compare the **marginal benefit** (MB) of an action with its **marginal cost** (MC).



Decision Rule:

- If $MB > MC$: Do more
- If $MB < MC$: Do less
- If $MB = MC$: Optimal!

Example:

How many hours to study?
Compare: grade improvement vs.
fatigue/missed activities

How People Interact (Principles 5–7)

Principle 5

Trade can make everyone better off

Specialization + exchange creates mutual gains

Principle 6

Markets are usually a good way to organize economic activity

The “invisible hand” coordinates decisions

Principle 7

Governments can sometimes improve market outcomes

When markets fail (externalities, public goods, monopoly)

Key tension:

Markets vs. Government

How much intervention is appropriate?

Adam Smith (1776): Individuals pursuing self-interest are “led by an invisible hand” to promote society’s interest.

How the Economy as a Whole Works (Principles 8–10)

Principle 8

A country's standard of living depends on its productivity

More output per hour = higher living standards

Principle 9

Prices rise when government prints too much money

Inflation is “always and everywhere a monetary phenomenon”

Principle 10

Society faces a short-run trade-off between inflation and unemployment

The Phillips Curve relationship

(Principles 8–10 are more relevant to macroeconomics, but they complete the picture)

The Ten Principles: A Summary

How People Make Decisions	
1	People face trade-offs
2	The cost of something is what you give up to get it
3	Rational people think at the margin
4	People respond to incentives
How People Interact	
5	Trade can make everyone better off
6	Markets are usually a good way to organize activity
7	Governments can sometimes improve outcomes
How the Economy Works	
8	Standard of living depends on productivity
9	Prices rise when government prints too much money
10	Short-run trade-off: inflation vs. unemployment

Part III

Is Economics a Science?

Questioning the foundations

The Scientific Pretension

Economics claims to be scientific:

- Uses mathematical models
- Tests hypotheses with data
- Makes predictions
- Seeks universal “laws”

The Scientific Method:

- ① Observe
- ② Theorize
- ③ Test
- ④ Revise

But critics ask...

- Can we run controlled experiments on economies?
- Are economic “laws” like physics laws?
- Do economists’ values affect their conclusions?
- Why do economists disagree so much?

Positive vs. Normative Economics

Positive Economics

Descriptive: How the world *is*

"If minimum wage increases, employment will decrease."

Can be tested, confirmed, or refuted with data.

Normative Economics

Prescriptive: How the world *should be*

"The government should raise the minimum wage."

Involves value judgments; cannot be "proven."

The Anti-Textbook Challenge

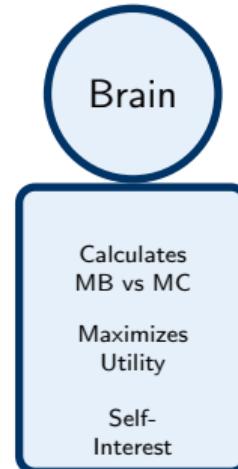
Can these really be separated? Don't the questions we ask, the models we build, and the assumptions we make all reflect values?

The Model Human: *Homo Economicus*

Standard economics assumes people are:

- ① **Rational** — consistent preferences, logical decisions
- ② **Self-interested** — maximize own utility
- ③ **Well-informed** — know their options
- ④ **Utility-maximizing** — always choose the best option

This “economic man” makes modeling easier...



Homo Economicus

Question: Is this a good description of real human beings?

Part IV

Alternative Perspectives

Islamic, Heterodox & Behavioral Economics

The Heterodox Critique: What's Missing?

Hill & Myatt's "Anti-Textbook" Questions

- ① **Scarcity for whom?** Resources are scarce, but is the problem scarcity or *distribution*?
- ② **Unlimited wants?** Are wants really unlimited, or are they *created* by advertising and social pressure?
- ③ **Individual vs. Society:** Does focusing on individual choice ignore social structures, power, and institutions?
- ④ **Corporations:** Standard theory treats firms as profit-maximizers. But corporations have enormous power—are they just like individuals?

Hidden Assumptions in “The Economic Problem”

Textbook says:

- Scarcity is natural/universal
- Wants are given (exogenous)
- Individuals are the unit of analysis
- Markets allocate efficiently
- More is better

Critics respond:

- Scarcity is often socially created
- Wants are shaped by culture & advertising
- Power structures matter
- Markets can fail systematically
- Well-being \neq consumption

“The purpose of studying economics is not to acquire ready-made answers, but to learn how to avoid being deceived by economists.”

— Joan Robinson

Islamic Economics: A Different Starting Point

Fundamental Differences

Islamic economics doesn't just add rules to conventional economics—it starts from different **foundational assumptions** about human nature, society, and the purpose of economic activity.

Conventional Economics:

- Humans are self-interested
- Preferences are given
- Utility maximization is the goal
- Value-neutral “science”

Islamic Economics:

- Humans are trustees (*khalifa*)
- Character can be transformed
- Spiritual & material well-being
- Explicitly value-based

The Islamic View of Human Beings

Three Key Concepts

Khalifa (Stewardship)

Humans are **trustees**, not owners, of wealth and resources.

We are accountable for how we use what we've been given.

Tazkiya (Purification)

Human character can be **transformed** through spiritual effort.

Self-interest is not fixed; generosity can be cultivated.

Falah (Success)

True success includes **both worlds**—material and spiritual.

Utility maximization is too narrow a goal.

"The contrast between the Quranic view and the neoclassical view of humanity is very sharp and leads to dramatically different approaches to economics." — Asad Zaman

Contrasting Principles

Issue	Neoclassical	Islamic
Human nature	Fixed, self-interested	Malleable, purifiable
Wealth	Private, unlimited	Trust from God
Goal	Utility maximization	<i>Falah</i> (well-being)
Interest	Normal phenomenon	Prohibited (<i>riba</i>)
Consumption	More is better	Moderation
The poor	Market outcome	<i>Zakat</i> obligation

Preview: Behavioral Economics

What Behavioral Economics Shows

Real humans are **not** the rational calculators of standard theory:

- We use mental shortcuts (heuristics) that lead to systematic biases
- We are **loss averse**—losses hurt more than equivalent gains please
- We have **present bias**—we overweight immediate rewards
- Our choices depend on how options are **framed**
- We care about **fairness**, not just self-interest

We'll explore these ideas in depth later in the course (Weeks 10–11)

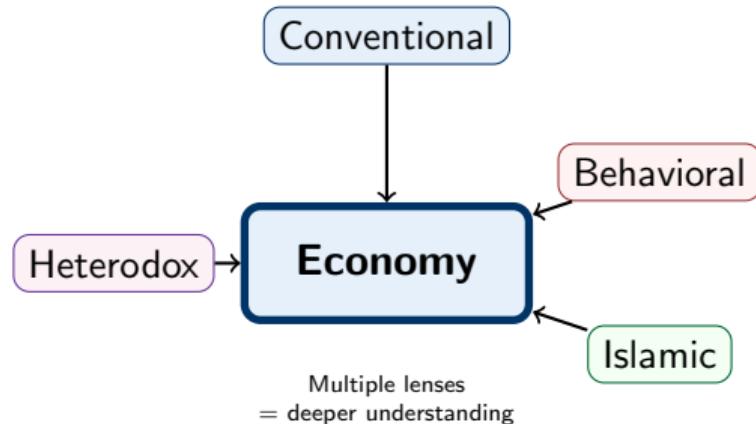
Why Study Multiple Perspectives?

Not because mainstream economics is “wrong” ...

- It offers powerful analytical tools
- Many insights are genuinely useful
- It's the dominant framework you'll encounter

But because:

- All models simplify reality
- Assumptions shape conclusions
- Different questions need different tools
- Critical thinking requires alternatives
- Our context (Pakistan, Muslim society) matters



Part V

Discussion Questions

Let's think together

Discussion Questions

① Is economics a “science” like physics?

Can economic theories be tested and proven? Should economics aspire to be value-free?

Discussion Questions

① Is economics a “science” like physics?

Can economic theories be tested and proven? Should economics aspire to be value-free?

② How do starting assumptions shape conclusions?

If we assume people are self-interested, what policies follow? What if we assume people can be generous?

Discussion Questions

① Is economics a “science” like physics?

Can economic theories be tested and proven? Should economics aspire to be value-free?

② How do starting assumptions shape conclusions?

If we assume people are self-interested, what policies follow? What if we assume people can be generous?

③ What does the Islamic tradition add to our understanding of “the economic problem”?

Is the problem scarcity, or is it how we relate to wealth and each other?

Discussion Questions

① Is economics a “science” like physics?

Can economic theories be tested and proven? Should economics aspire to be value-free?

② How do starting assumptions shape conclusions?

If we assume people are self-interested, what policies follow? What if we assume people can be generous?

③ What does the Islamic tradition add to our understanding of “the economic problem”?

Is the problem scarcity, or is it how we relate to wealth and each other?

Remember: There are no “correct” answers—but there are well-reasoned and poorly-reasoned ones!

Mini Case: Water Pricing During a Drought

Scenario: A severe drought hits. Water becomes scarce. Should the government:

Option A: Let prices rise

Conventional argument:

Mini Case: Water Pricing During a Drought

Scenario: A severe drought hits. Water becomes scarce. Should the government:

Option A: Let prices rise

Conventional argument:

- Higher prices signal scarcity
- Encourages conservation
- Allocates water to highest-value uses
- “Efficient” outcome

Option B: Control prices

Counter-arguments:

Mini Case: Water Pricing During a Drought

Scenario: A severe drought hits. Water becomes scarce. Should the government:

Option A: Let prices rise

Conventional argument:

- Higher prices signal scarcity
- Encourages conservation
- Allocates water to highest-value uses
- “Efficient” outcome

Option B: Control prices

Counter-arguments:

- Water is a basic need
- Poor can't afford high prices
- “Highest value” may mean rich people's swimming pools
- Fairness matters

Islamic perspective?

What would principles of *maslaha* (public interest) and prohibition of *ihtikar* (hoarding) suggest?

Key Takeaways

- ① **Economics studies how societies manage scarce resources**—but “scarcity” itself can be questioned
- ② **Mankiw’s 10 Principles** provide a useful conventional framework—but they embed assumptions
- ③ **Homo economicus** (rational, self-interested) is a model, not a description of reality
- ④ **Islamic economics** offers different foundations: stewardship, character transformation, holistic well-being
- ⑤ **Critical thinking** requires understanding multiple perspectives

Looking Ahead: Week 2

Topic: Thinking Like an Economist—And Questioning It

- The economist's toolbox: models, assumptions, graphs
- Positive vs. normative economics (revisited)
- Introduction to behavioral economics

Readings for next week:

- Mankiw, Chapter 2: Thinking Like an Economist
- * Anti-Textbook, Chapter 2: Introducing Economic Models
- ⊗ Cartwright, Chapter 1: Introduction to Behavioral Economics

Reminder: Sign up for recap presentations!

Thank You

Questions & Discussion

“Economics is too important to be left to economists.”

— Steve Keen

waleed.wasti@shu.edu.pk