

# What is Economics?

Competing Visions and Multiple Perspectives

ECO102: Microeconomics

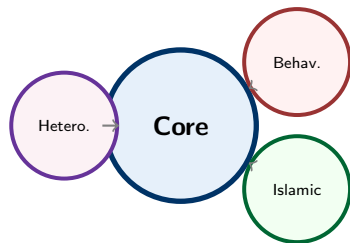
Salim Habib University

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

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*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  $\Rightarrow$  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

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*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  $\Rightarrow$  change behavior

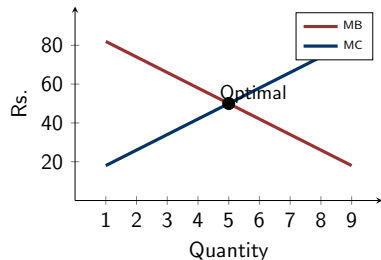
*These principles assume people are rational, self-interested, and well-informed...*



# 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?

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*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

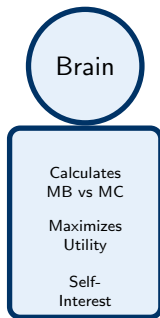
Can these really be separated? Don't the questions we ask, the models we build, and the assumptions we make all reflect values?

# 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

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*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)*

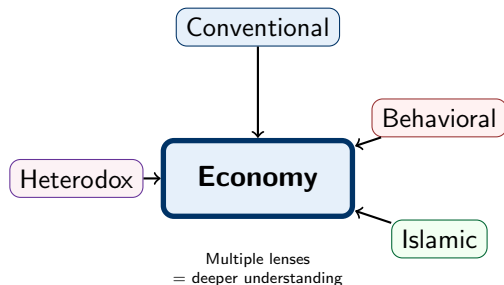
# Why Study Multiple Perspectives?

**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

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*Let's think together*

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

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**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

## ❶ **Is economics a “science” like physics?**

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**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:**

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- Allocates water to highest-value uses
- “Efficient” outcome

### Option B: Control prices

#### Counter-arguments:

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## 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

- ➊ **Economics studies how societies manage scarce resources**—but “scarcity” itself can be questioned
- ➋ **Mankiw’s 10 Principles** provide a useful conventional framework—but they embed assumptions
- ➌ **Homo economicus** (rational, self-interested) is a model, not a description of reality
- ➍ **Islamic economics** offers different foundations: stewardship, character transformation, holistic well-being
- ➎ **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

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

— Steve Keen

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