



Introduction to Economics

Outline

- What is Economics?
- Subject matter of economics
- Economics: science of decision
- Classifications of Economic Studies
 - Microeconomics vs. Macroeconomics

Some Flashlights

- Tomato Prices in Delhi Soars to Rs 40 per kg.
- Tax incentives in Budget will help boost economy
- Indirect tax collection up 4.6% in April-June
- Economy turning around, GDP growth to exceed 1.9% this fiscal, despite negative growth world-wide
- GDP growth to improve this fiscal: FM
- BSE Sensex surges 174 pts in early trade on corporate earnings

Uniform Diesel Rates in Punjab, Haryana, Delhi

Punjab & Haryana follow Delhi example, raise VAT on diesel to 13.4% and 16.4%, respectively

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Chandigarh: Diesel prices will remain uniform in Punjab, Haryana, Himachal Pradesh and Delhi, under

four state governments.

While SAD-BJP-led Punjab government hiked VAT on diesel to 13.4%, BJP government in Haryana hiked it to 16.4%. After adding local levies like cess and surcharge, the effective rate of tax on diesel in the two states will be 17.29% and 17.22%, respectively.

The VAT on diesel has been hiked from 11.5% (with surcharge 12.07%) to 16.4%. A meeting in this regard was convened by the Delhi chief minister Arvind Kejriwal on Tuesday, wherein the Excise and Taxation officials of Punjab, Haryana, Delhi and Hima-



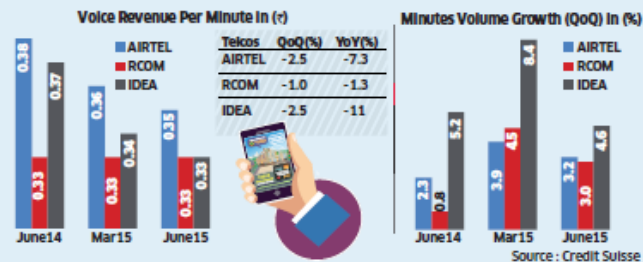
chal Pradesh are in the process of finalising diesel. "Now the difference all four states will not be more than the paisa per litre," as senior Excise and Taxation in Haryana officer told. Himachal government is set to follow suit. Himachal Pradesh is in-

TELCO'S Q1 EARNINGS PREVIEW

Cap on Roaming Rates, Service Tax Hike May Impact Revenue

Voice revenues of Airtel,

Mobile Operating Metrics Forecast



SEVENTH PAY COMMISSION REPORT AUGURS WELL FOR INDUSTRY

Maruti Takes M-Cap Crown from TaMo

Auto major speeds ahead on gains in local market even as sales of Tata Motors' JLR hit a speed breaker with China slipping into a slowdown

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Mumbai: Maruti Suzuki has regained its ranking as the country's most valuable automobile company with investors preferring domestic discretionary play even as the shine is going off China, hurting Tata Motors' Jaguar Land Rover unit. For the first time since March 2010, Maruti Suzuki has topped market capitalisation among Indian automakers.

Maruti Suzuki ended Thursday at ₹4,180, up 0.61%, for a market capitalisation of ₹1,26 lakh crore. Tata Motors closed at ₹395.10, up 0.2%, for a market value of ₹1.13 lakh crore, according to BSE data.

According to data compiled by ETIG, the market capitalisation of Tata Motors was ₹20,619 crore higher than that of Maruti on average since the latter was listed in 2003. Maruti raced ahead of Tata Motors between 2008 and 2010. The Tata Motors' stock outperformed Maruti Suzuki until June 7, when the Chinese decline kicked in. Maruti and Tata Motors have delivered a return of 304% and 240%, respectively over the past five years.

The key reason why Maruti's stock has outperformed Tata Motors lies in its projected earnings growth. Maruti has continuously witnessed earnings upgrades on account of multiple triggers such

as a strong pipeline of new launches, margin expansion on lower discounts, favourable foreign currency impact and the ability to outperform industry growth despite having a 45% market share in passenger vehicles.

Investors expect Maruti Suzuki to get a boost from the Seventh Pay Commission's recommendations later this year that will lead to salaries of government employees rising. The Pay Commission is expected to submit its report by October and this is likely to be implemented from July 2016, likely adding to an expected double-digit growth in passenger car sales in FY17. Maruti Suzuki is expected to be the main beneficiary, analysts said. The last

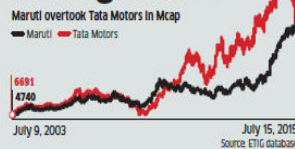
The key reason why Maruti's stock has outperformed Tata Motors lies in its projected earnings growth

Pay Commission report had resulted in car sales rising 18% annually between FY09 and FY11.

"The Sixth Pay Commission, which was implemented in August 2008, resulted in almost 10 times increase in Maruti's sales to government employees from FY08 to FY12," Jatinder Chawla and Akshay Saxena, research analysts at Credit Suisse, wrote in a July 15 report.

The market value of Tata Motors surged past Maruti Suzuki in 2010, after the Indian company

Racing Ahead



JLR said June sales were flat but strong growth in Europe and North America was offset by a dramatic slowdown in China

German luxury carmaker Audi has abandoned a target to sell 600,000 cars this year in China, its biggest market

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turned JLR around following its acquisition from Ford in 2008. JLR more than made up for Tata Motors' poor domestic performance over the past few years. The Chinese decline has forced many carmakers to scale down targets. JLR said June sales were flat because strong growth in Europe and North America was offset by a dramatic slowdown in China.

German luxury carmaker Audi has abandoned a target to sell 600,000 cars this year in China, its biggest market, as the country's stock market rout sapped demand for luxury cars. Bloomberg reported on Thursday: Audi's Chinese sales rose 1.9% to 273,853 cars in the first half.

Credit Suisse reckons that a salary increase could boost demand for cars in India by 10%. It upgraded the expectation for volume growth at Maruti Suzuki for FY17 to 23% from 17% on account of the expected pay commission boost. It also increased the stock's target price to ₹5,100 at the end of 2017 from ₹4,370 previously. Maruti expects there will be a repeat this time around.

"We have sold almost 200,000 vehicles to government employees in FY15," said Ranbir Singh Kalal, executive director, sales, Maruti Suzuki. "We certainly believe we can get more incremental volumes after imple-



About a fourth of them are paid ₹30,000-50,000 per month and nearly 10% may buy cars, Credit Suisse estimates, adding up to an additional volume of about 300,000 units.

Among those who get a pay increase, those who have set aside

Industries driving growth

Gujarat is emerging as a prominent manufacturing investment hub

Gujarat has witnessed an unprecedented growth over the years. Several factors are responsible for this growth like uninterrupted power supply, state-wide gas grid, rich gas reserves, extensive road and rail network, state-of-the-art airports and ports.

only manufacturer of Balsam and ranitidine hydrochloride in the country. The state also manufactures 40 per cent of the machinery required for the pharma sector.

and Asia's biggest power plant based on biomass gasification is in Gujarat.

PORTS AND MORE
Gujarat's long coastal line of 1600 km, the longest in the country, is dotted with 41 ports and has India's two privately owned commercial

RENEWABLE FUTURE
Gujarat contributes 15 per cent to the country's renewable energy basket.

WHY GUJARAT?
Manufacturing industries find it much easier to





Japan's economy shrinks at record rate, slammed by pandemic

Japanese media reported the latest drop was the worst since World War II. But the Cabinet Office said comparable records began in 1980. The previous worst contraction was in 2009, during the global financial crisis of 2008-2009.



Coronavirus pushing people to take radical steps to boost manufacturing, economy: R C Bhargava

"In the last 5-6 years, many changes have been made by the government in policies, which are making conditions much more conducive to competitive manufacturing.



Coronavirus impact: French economy shrank by record 13.8% in Q2, better than feared

The contraction in the euro zone's second-largest economy was steeper than the 10.1% reported by Germany, where authorities kept a surge in COVID-19 related deaths in check and did not have to enforce a lockdown as strict as France's.



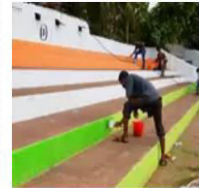
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Transport Minister Nitin Gadkari advocates learning 'art of living' with coronavirus

Union Transport Minister Nitin Gadkari admitted that coronavirus-enforced lockdown has resulted in an economic crisis and added that the Centres revenue has also slipped. Lockdown for a longer duration will give rise to more severe crisis than the COVID-19 pandemic, he said.



View: Indian economy and new beginnings

73 years after Independence, today, India finds itself standing up against a tricky aggressor. The weapons are our policy decisions and the warriors are our health workers. As we rise to the challenge, it is critical to not lose sight of the ideals we stand for, and restart our growth journey keeping our people at the



On the prospect of a global recession and what India can do to contain the economic impact of COVID-19

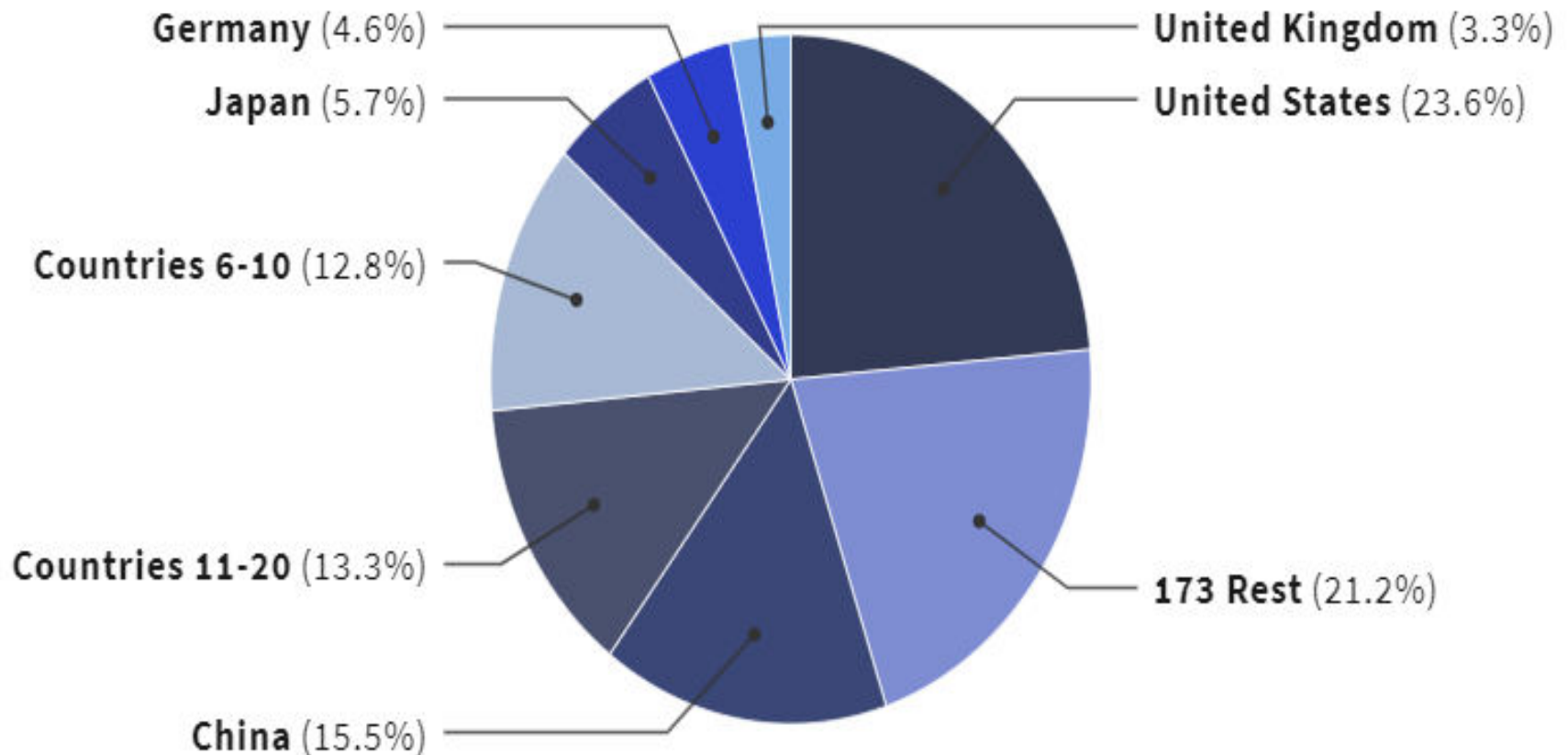
With United Nations Secretary-General Antonio Guterres terming the coronavirus pandemic as the **most challenging crisis since World War II** and International Monetary Fund (IMF) chief Kristalina Georgieva declaring that the **COVID-19 pandemic** has driven the global economy into a **downturn** that will require massive funding to help developing nations, here is a range of explainers and editorials from *The Hindu* that address the economic fallout of the pandemic and how India can tackle a global slowdown.

Gross Domestic Product (GDP) ranking by country

Ran-king	Economy	GDP-2019 (In Trillion US \$)	GDP-2018 (In Trillion US \$)	GDP-2017 (In Trillion US \$)
1.	U S	21.44	20.5	19.49
2.	China	14.14	13.6	12.08
3.	Japan	5.15	5.0	4.86
4.	Germany	3.86	4.0	3.7
5.	India	2.94	2.7	2.65
6.	UK	2.74	2.8	2.64
7.	France	2.71	2.8	2.59
8.	Italy	1.99	2.1	1.95

% Share of the Global Economy

The 173 countries outside the top 20 make up less than a fourth of the total global economy.



% Share of the Global Economy

Country	%/total
United States	23.62
China	15.45
Japan	5.73
Germany	4.61
United Kingdom	3.26
Countries 6-10	12.84
Countries 11-20	13.25
173 Rest	21.24

Economics?

- ▶ The term Economics originates from the Greek words: **oikos (house)** and **nomos (custom or law)**
 - Means “Laws of Households”
 - Economics is thus defined as a body of knowledge or study that discusses how society tries to solve the human problems of unlimited wants and scarce resources.
- As per Adam Smith “Economics is the science of wealth of nations”--- **Wealth definition**

- As per Alfred Marshall “Economics is the study of mankind in the ordinary business of life”---

Welfare definition

- As per Robbins “Economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses”--- Scarcity definition

Economics is the study of how to derive maximum gains or benefit from the use of limited amount of resources.

Subject matter of Economics

- The basic subject matter of economics is the study of how people- individuals, households, firms and nations- maximize the gains from their limited resources.
- *What people do to economise?*
 - Human wants, desire and aspirations are endless,
 - Resources are limited and scarce,
 - Alternative uses,
 - Individuals are of optimizing nature.

Decision makers

- Consumers: how consumers maximize their total utility or satisfaction?
- Producers: how producers achieve the goal of maximum profits?
- Investors: how to maximize their returns by investing in the appropriate funds?

Choice making behaviour: people have to make choices with the purpose of maximizing their ‘well being’- maximising income, maximising profits, raising standards of living, accumulation of wealth, etc.

Economics-Science of decision

- Economics helps in various decision making:
- **As a Producer:**
 - Production decisions
 - ‘What to produce?’, ‘How much to produce?’, ‘How to produce?’, so as to maximize total output.
- **As a Consumer:**
 - Consumption decisions
 - ‘What to consume?’, ‘How much to consume?’, ‘How to allocate limited income to various goods?’, so as to maximize utility or satisfaction.
- **As an Owner:**
 - Exchange decisions
 - ‘What price to charge?’, ‘To whom to sell the product?’, so as to minimize the cost and maximize profit.

Basic Classifications of Economic Studies

Macroeconomics

The big picture. Study of the operation of the economy as a whole. It looks at aggregate data.

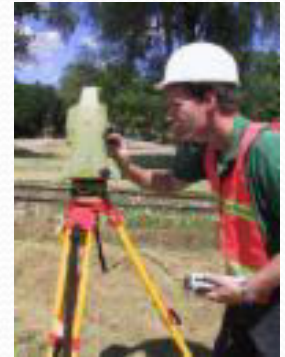


Focuses more at the policy and regulatory levels.

Microeconomics

“A small-scale study”. Focuses on individual entities of the economy, such as households and firms.

Focuses at the firm level



- Both areas offer valuable outlook on the economy.

Micro and Macroeconomics

- *Microeconomics* is the study of the economic behavior of individual decision making units, such as individual consumers, resource owners, business firms, etc.
- *Macroeconomics* is the study of the total or aggregate level of output, income, employment, consumption, investment, and prices for the economy as a whole.

Examples of micro and macroeconomic concerns

	Production	Prices	Income	Employment
Micro economics	Production/Output in Individual Industries and <u>Businesses</u> □How much steel □How many offices □How many cars	Price of Individual <u>Goods and Services</u> □Price of medical care □Price of gasoline □Food prices □Apartment rents	Distribution of <u>Income and Wealth</u> □Wages in the Industry A □Minimum wages □Executive salaries	Employment by Individual <u>Businesses & Industries</u> □Jobs in the steel industry □Number of employees in a firm
Macro economics	National <u>Production/Output</u> □Total Industrial Output □GDP	<u>Aggregate Price Level</u> □Consumer prices □Producer Prices □Rate of Inflation	<u>National Income</u> Total wages and salaries □Total corporate profits	Employment and Unemployment in the <u>Economy</u> □Total number of jobs □Unemployment rate

MICROECONOMICS COMPRISES -1

- **Theory of consumer choice and market**
 - Demand, Supply and Elasticity: Individual and Market demand function
 - Consumer's choice theory
 - Assumptions of consumers' behaviour analysis and their role in the consumer choice theory.
 - Utility analysis
 - Budget constraint
 - Indifference curve analysis: Income, Price and Substitution Effects using Hicks and Slutsky equation
 - Measuring consumer benefit
 - Revealed preference approach in the consumer choice theory

MICROECONOMICS COMPRISES-2

- **Production and costs, behaviour of a firm and market supply**
 - Production function and its properties
 - Cost functions and their derivation
 - Profit-maximization by a firm
 - Market supply of a competitive firm and industry
- **Market structures**
 - Market structures classification: Perfect competition as a type of market structure
 - Monopoly as a market structure
 - Monopolistic competition as a market structure
 - Oligopoly as a market structure

MICROECONOMICS COMPRISES-3

- **Factor markets**

- Factor supply: Supply of labour
- Factor demand: Demand of labour
- Equilibrium and pricing in factor markets: Determination of wages in the factor market

- **General equilibrium and efficiency**

- Walrasian equilibrium
- General equilibrium and efficiency modeling in Edgeworth box

- **Externalities and public goods**

- Externalities
- Public goods

Macroeconomics

● **Macroeconomics** is the branch of Economics that studies the overall aspects and workings of a national economy, such as:

- National output,
- National income,
- unemployment,
- inflation or price levels, and the interrelationship among diverse economic sectors,
- developing, testing and applying models and theories about how the economy as a whole works,

which are further used to predict consequences of certain events and direct the use of economic policies.

MACROECONOMICS COMPRISES-1

- **Measuring Income and Output**
- Aggregate Supply and Demand
- Consumption, Saving, and Investment
- The Keynesian Multiplier Model
- Fiscal Policy
- **The Open Economy: Exports and Imports**
- Aggregate Demand vs. Aggregate Supply
- Money: Origins of and Demand for Money
- Banking and the Supply of Money
- Central Banking and Federal Reserve Policy
- Monetary Policy: Impact on Prices and Output
- Business Cycles

MACROECONOMICS COMPRISES-2

- Unemployment: Measurement and Cost
- Inflation: Measurement and Cost
- Sources and Kinds of Inflation
- The Phillips Curve and Inflation
- Fiscal Policy, Deficits, and the Public Debt
- Deficit Spending in an Open Economy
- Economic Growth and Aggregate Supply
- Monetarism and Rational Expectations
- The Stock Market and Economic Activity
- International Finance and Exchange Rates
- Economic Crises and the Int'l Monetary Fund
- Policies for Growth and Stability

Macro vs. Micro

- In **Microeconomics**, we focus on individual decision making.
- In **Macroeconomics**, we focus on the behavior of the economy as a whole.
- In **Macroeconomics**, we don't care about what is produced and who gets to consume what. We do care about how much in all is produced.
- Its all about the big picture and not the small detail.

The Fields of Economics

- *Economic development* focuses on the problems and development issues of low-income countries.
- *Econometrics* applies statistical techniques and data to economic problems in an effort to test hypotheses
- *International economics* studies trade flows among countries and international financial institutions.
- *Labor economics* deals with the factors that determine wage rates, employment, and unemployment.
- *Public economics* examines the role of government in the economy.

Text Books

- **Principles of Economics**, N. Gregory Mankiw, South Western (2012), 6th Ed.
- **Macroeconomics (Theory and Policy)**, D N Dwivedi Tata Mcgraw Hill (2010) 3 Ed.
- **Macroeconomics**, R Dornbusch and R Startz, Tata-Mcgraw Hill (2012), 10th Ed.
- **Principles of Economics**, Case, Fair and Oster, Pearson 11 edition (2014)