Economics

First lecture

29/08/23

{Vineet sir}

- Human behaviour की study को Economics कहते हैं |
- why people buy, why people sell at this price and not at that price
- Formalization of the ~~theorie~~ observations in the market
- Scarcity of Resources: There are some resources which are having high demand but low supply. Such resources are termed as scarce

Economics

→ Micro-economics
[Individual Basis]
Eg
| household
| factory
| shop
| company

→ Macro-economics
- GDP
- NI
- Inflation
- Price hike
- [study of Aggregates]
- Unemployment

Monopoly: Single seller for a particular commodity

Study of individual Economic agents / units

Economic agents → People who take economic decision

National Income Accounting

NI = Income of the nation

= $\sum$ salary of all individuals

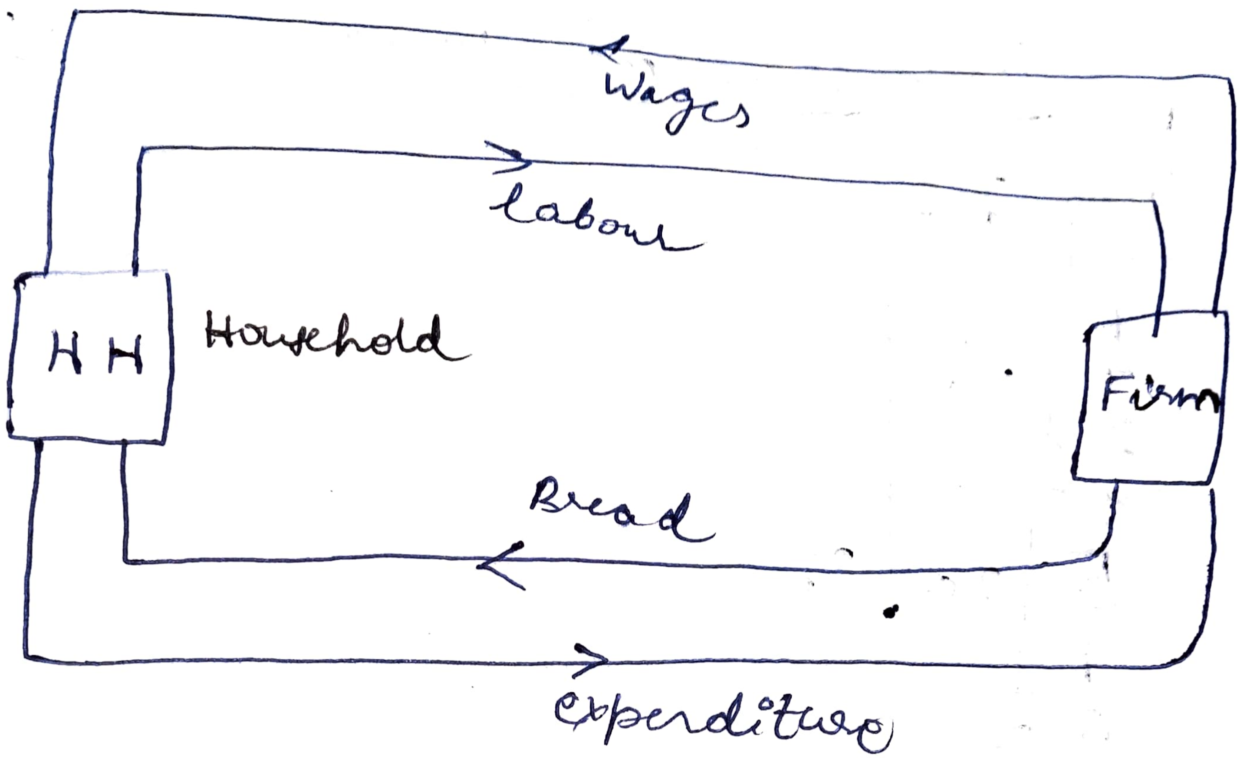
Circular flow of income

- 1 good to be produced and consumed → Bread
- Only 2 entities present in this economy ~~[illegible]~~ (oversimplified)
- No leakage in the form of savings

GDP : GDP is the market value of all final goods and services being produced in an economy (Geographical area) within a specified period of time.

GNP = GDP + (Income earned by Indians abroad) − (Income earned by foriegners living in India)

= GDP + Net factor income from Abroad



Imagine an economy producing only 2 goods

2020

Phones		Laptops
3	= Quantity of phones produced in year 2020	8
× £10	= Price of 1 phone in 2020	× £40
£30		£320

£350 = GDP of this economy

p_i = Price of i_{th} commodity

q_i = Number of units produced in that specified period

$$GDP = \sum_{i=1}^{N} p_i q_i$$

2011 - 12 is the base year for Indian economy

5th September 2023

$\boxed{\text{National Income = National Expenditure = National production}}$

National income Identity

If there is no injection / savings / leakage of money from economy

GDP definition

taught earlier

GDP deflater

$$\text{Real GDP} = \sum_{i=1}^{N} \bar{p}_i q_i$$

$\bar{p}_i$ = price of i^{th} final good in terms of base year

q_i = Quantity of that good produced in that area in that specific period

N = No. of final goods produced by the economy

$$\text{Nominal GDP} = \sum_{i=1}^{N} p_i q_i$$

p_i = Price of i^{th} final good at the ~~specified year~~ current year

$$\boxed{\text{GDP deflater} = \frac{\text{Nominal GDP}}{\text{Real GDP}}}$$

$$\frac{\text{Nominal GDP}}{\text{GDP deflater}} = \text{Real gdp.}$$

the 'deflater' term helps us to conveniently get the Real GDP from nominal gdp.

National expenditure

NE = Consumption expenditure + Investment expenditure + Government expenditure + Net exports

Consumption : Money spent to buy final goods and services

durable goods
- Cars
- Furniture
- Refrigerators
- Statues

Non-durable goods
- Food items
- Clothes

Services
- Education
- Consultancy
- laundry
- Baby sitter

Investment

Increase in capital is called investment

Capital = Produced means of Production

= Any money spent for the purpose of increasing the production

Government expenditure

Money spent on maintaining and running government services

excluding the ~~free services~~ "disability checks, unemployment checks etc"

Any payment done by govt without expecting any service in return

N. G. Mankino → Data of Macro economics

Money

Bulk variable → money, x , **Flow variable** → Income, $\frac{dx}{dt}$

Money is an asset which can be used to make economic transactions.

Barter economy

Problems caused by Barter

1. Valuation is very difficult
2. Double coincidence of wants
3. Goods are bulkier than money
   Cannot be carried easily
4. Creates problems when purchasing perishable goods

Money

1. Provides medium of transaction
   hence bypasses the problem of double coincidence of wants
2. Provides a unit for account
   → Provides a precise comparison between various goods and
3. Non perishable
4. Easy to store and carry

→ An almost perfect store of value

19/09/2023

Demand for Money

Money is an asset used for making economic transactions

Currency → Money in liquid form

liquid → which can be easily liquidated

liquidation → Making transactions using something

liquidity → Ease of making transactions

Money

↓ Currency

↓ Interest bearing asset

Demand for money

① Transactional demand for money (Y - income)

→ Demand for money to meet your daily needs [food, shelter etc.]

Income increases ⇒ Transactional demand for money increases

② Precautionary demand for money (Y - income)

→ Demand for money generated to meet future financial exigencies.

③ Speculative demand of money

Y - Rate of interest

$$\underbrace{M_d}_{\text{Money demand}} = f(\underset{\text{income}}{Y}, \underset{\text{rate of interest}}{r})$$

$$\frac{\partial M_d}{\partial Y} > 0$$

$$\frac{\partial M_d}{\partial r} < 0$$

$M_d = f(Y, r)$ is called Money demand function or Liquidity Preference function

Speculative demand of money is also called ~~Capital~~ Asset demand for money

When gain of capital is speculated demand for money increases

when loss of capital is speculated demand for money decreases

Difference between Central bank and Commercial Bank.

* Commerical Banks directly deal with the public
* Central Banks do not directly deal with public

Central Bank	Commercial Bank
* It is a regulatory authority	* It is answerable to the central bank.
* One country can have ~~several~~ only ONE central bank	* One country can have several commercial banks