

# Fundamentals of Economics



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**Economics (BCT303)**  
**Program: Bachelor of Information Technology**  
**Semester: 5**  
**Credit Hour: 3 CR.**

**Course Objectives:**

The aim of this course is to enhance understanding of economic theories and its application to develop student's skills in personal and professional decision making in the areas of management, IT, and business.

**Course Description**

This course of Economics consists of the introduction to economic theories and application. It consists of theory of demand and supply, theory of consumer behavior, theory of production, cost and revenue curves, theory of product pricing and contemporary macroeconomics like national income accounting, money banking and international trades with reference to Nepal.

**Course Outcomes:**

After successful completion of the course the students shall be able to;

- ❖ understand the basic concept of microeconomics and macroeconomics.
- ❖ analyze the behavior of consumer, producer, market and firms and their decision-making process in practical sense.
- ❖ acquire knowledge about cost, revenue, market structure and market equilibrium.
- ❖ acquaint with concept of national income and its various concepts and their determinants.
- ❖ apprehend the role and importance of money, banking and international trade in the national economy.

## Unit 1.

# Introduction to Economics

- ❖ Introduction to economics with various definition and ten basic principles.
- ❖ Concept of microeconomics, macroeconomics.
- ❖ Distinction between microeconomics and macroeconomics and their mutual interdependence.

# Learning Objectives

- With aim to get information about introduction of Economics.
- With aim to know about micro economics and macro economics.
- With aim to know about various concept, principles & theories of economics and their application.

- Man lives in a society and performs certain activities. Based on these activities, certain relations among human beings exist.
- These relations become the subject matter of different social sciences. For example, political activities and relations are studied in political science, social activities and relations are studied in sociology. Similarly, economic activities and relations are studied under Economics.
- Economic activities are those activities, which are concerned with the earnings and living.
- Human ends are unlimited but resources are limited and scarce.
- Only efficient use of scarce resources, which can satisfy unlimited human wants.

- The term **economics** has been derived from Greek word '**Oeconomicus**' which is also made of two different words **Oeco** and **onomicus**, where **oeco** means household and **onomicus** denoted for science. Therefore in earlier times economics was only the study of household affairs.
- In ancient times, economics wasn't a distinct subject and it was integrated part of other social sciences like politics, logics, ethics, state affairs etc. Therefore it was called **Political Economy**.
- According to Great philosopher **Aristotle**, '***Economics is the science of household management and an art of wealth-getting and wealth-spending***'.
- But after the publication of historical book '**An Enquiry into the Nature and Causes of Wealth of Nation**', in 1776 AD. by Scottish Scholar, **Adam Smith** (Also known as **Father of Economics**) and then economics became a **separate social science**.

# Definition of Economics

*Classical Era;* Wealth definition (1776-1890)

Economics is the science of wealth

*Neo-classical Era;* Welfare definition (1890-1932)

Economics is the science of material welfare

*Modern Era;* Scarcity and choice definition (1932 onwards)

Economics is the science of administration of scarce means and unlimited wants.

# Definition of Economics

- Adam Smith; defined economics as a 'science of wealth'. That studies about the nature and causes of wealth of nation.
- Alfred Marshall; defined 'Economics as a subject that concerned with those activities which increase the material welfare of mankind'. It concerns with the human welfare and betterment.
- Lionel Robbins; gave a more exact and precise definition of Economics and said, "Economics is the science that studies human behavior as a relationship between unlimited ends and limited/scarce means which have alternative uses".



# Importance of Economics

- **Economics deals with a shortage/scarce of resources.**
- **It concerns with how to distribute resources in economy.**
- **In some extent government should intervene in economy.**
- **Knowledge about the principle of opportunity cost.**
- **Helpful in knowledge and understanding.**
- **Helps in economic forecasting.**
- **Helpful for decision making.**
- **Allocation and efficient use of resources.**

# Basic Principles of Economics

- According to N.G. Mankiw, there are ten basic principles of economics.

These principles are classified into three groups, on how people make decisions, how people interact and how economy works as a whole.

- How people make decision

**Principle 1:** People face trade off.

**Principle 2:** The cost of something is what you give up to get it.

**Principle 3:** Rational people think at margin.

**Principle 4:** People respond to incentives.

- How people interact

Principle 5: Trade can make everyone better off.

Principle 6: Markets are usually good way to organize economic activity.

Principle 7: Government can sometimes improve market outcomes.

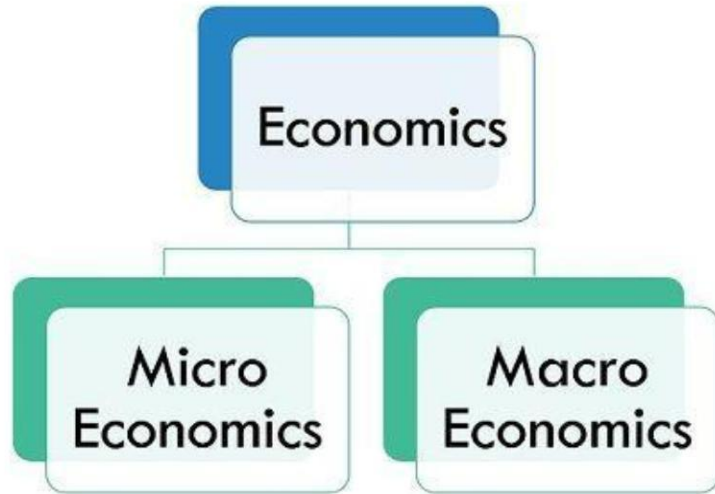
- How economy works as a whole

Principle 8: A country's standard of living depends on its ability to produce goods and services.

Principle 9: Price rise when government prints too much money.

Principle 10: Society faces a short run trade off between inflation and unemployment.

# Scope of Economics



# Microeconomics

The term micro has been derived from the Greek word *Mikros*, that means small or single.

- Microeconomics is a branch of economics that deals with the study of economic behavior of an unit of economy. An unit might be an individual or a firm. i.e, a consumer, a producer, income of a firm or a industry etc.
- It analyses the way in which the decisions are taken by the economic agents, concerning the allocation of the resources that are limited in nature for individual well beings..

# Macro Economics

The term **macro** has been derived from the Greek word *Makros*, that means big or aggregates.

Macroeconomics is a branch of economics that deals with the study of economic behavior as whole of economy. i.e, general equilibrium, money demand & supply, aggregate demand & supply, international trade, inflation etc.

- ❖ It is the branch of economics which studies the entire economy, instead of individual units.
- ❖ Basically, it is the study of **aggregates and average**.
- ❖ It analyses the economic environment as a whole, wherein the firms, consumers, households and government make decisions.
- ❖ National income, general price level, the balance of trade and balance of payment, level of employment, level of saving and investment, inflation, deflation etc. are the key areas of macroeconomics.

# Difference between Microeconomics and Macroeconomics

Points of differences	Microeconomics	Macroeconomics
1. Nature	Microeconomics is a study of individual units of economy.	Macroeconomics is a study of economy as a whole.
2. Area of study	Microeconomics studies individual economic units such as a consumer, a household, a firm, an industry, a commodity	Macroeconomics is a study of national aggregates such as national income, national output, general price level etc.
3. Problems	The central problem of microeconomics is price determination of individual commodities and factors of production.	The central problem of macroeconomics is determination of national income, employment and output of a particular country.
4. Equilibrium	It is based on partial equilibrium analysis i.e. other things remaining the same.	It is based on general equilibrium.
5. Mortality	The subject matter of micro economics is mortal.	The subject matter of macro economics is immortal.
6. Suitability	It is suitable to study the problems of individual economic problems.	It is suitable to solve the large/national problems.
7. Alternative name	It is also called price theory or value theory.	It is also called theory of income and employment or Keynesian theory.

# Interdependence between **Micro** and **Macroeconomics**

Macroeconomics is the **study of the economy as a whole**, whereas microeconomics is the study of **specific economic components**. It will be wrong and incomplete to understand that the two approaches are **distinct, independent, and unrelated to one another**. Although economists may prioritize one analysis over the other based on convenience, neither method is complete without the other. Rather of competing with one another, the two branch of knowledge strengthen one another. As Edward Shapiro puts it, ***Strictly speaking, there is only one economics. Macroeconomic theory has a foundation in microeconomic theory and micro economic theory has a foundation in macroeconomic theory***". The next section illustrates how micro and macroeconomics are interdependent.



## **1. Dependence of microeconomics on macroeconomics:**

Every microeconomic problem involves in macroeconomic analysis. How much should a firm pay for the services of a labor? Since, the questions relate to a particular firm, it comes under microeconomics. But the wages of one firm are related to and depend upon wages of other firms in the locality. Thus, every price, every wage, every income is dependent in some way or the other, directly or indirectly upon the prices, wages and means of all other products, of all workers and of all individuals in the economy.

## **2. Dependence of macroeconomics on microeconomics:**

Macroeconomic analysis necessarily requires knowledge of microeconomic analysis. Society as such doesn't exist, it is the sum of individuals. Individuals collectively make up a community, many firms constitute an industry, and many industries collectively make up an economy. We can't get a proper idea of the working of the entire economic system except through individuals, households, firms and industries. The sum of all individual firms' production constitutes the output of the entire economy. The sum of individual incomes is known as national income. In fact, we can't understand the working of an economy unless we study the principles and the motives which govern the behavior of individuals, households and firms.

- **Prof. Samuelson** has rightly remarked, that  
“There is really no opposition between micro and macroeconomics.  
Both are absolutely vital and you are only half educated if you  
understand the one being ignorant of the other”.

- Microeconomics and macroeconomics are **complementary** to **each other**, as they both aimed at **maximizing the welfare of the economy as a whole**.
- The fundamental difference between **micro** and **macro economics** **lies in the scale of study**. Microeconomics, gives more importance to the **determination of price**, whereas macroeconomics is concerned with the determination of **income of the economy as a whole**.
- The objective of microeconomics can be achieved through the **best possible allocation of scarce resources**. Conversely, the objective of macroeconomics can be achieved through the **effective use of all the available resources of the economy**.

# Read this and do Accordingly



Past is waste paper.



Present is a newspaper.



Future is a question paper.

So, read & write carefully otherwise  
your life will be a tissue paper.

# The End



# Thank you