

What is Economics?

Economics is the study of how societies use scarce resources to produce valuable goods and distribute them among different people

Brings to the critical notion of Efficiency, which denotes the most effective use of a society's resources in satisfying people's wants and needs

Fundamental Problems in Economics

Every human society first of all has to determine:

What goods and services should be produced?

How to produce those goods and services?

Who gets them?

In most cases these three problems are solved by one variable – Price

Economic Sciences

The ultimate purpose of economic science is to understand the complex undertaking of the economic life with all of its dramatically sophisticated hive of activity

Economists use the scientific approach to understand an economic life

In addition, economists have developed a specialized technique known as Econometrics, which applies tools of statistics to economic problems

**\*\*Economics\*\***

Theoretical Economics

The process of building models to explain the world (models with some testable prediction)

Empirical Economics

The process of testing of the models we have built (to see how well they describe reality)

What Do Economists Do?

Mentioned methodologies facilitate the activities that economists do as their day-to-day businesses, which are:

Dealing with market failures - an economist tries to diagnose the weaknesses of the market and to develop a successful therapy (Just like a doctor treats human diseases)

Determining the places and the extent of the state intervention as well as places where politics should keep out of the economic system

Designing the general framework

Exploring the principles behind market phenomena

What Markets Do We Act on?

Physical Consumer Markets

Physical Business Markets

Financial Markets

Non-Physical Markets

**\*\*Micro- vs Macroeconomics\*\***

Microeconomics

Deals with single markets. Microeconomics investigates individual decisions on the consumer and corporate level (e.g. the banana market)

Macroeconomics

Views all economic actions as one huge market. It takes an aggregate view on the whole market

The Invisible Hand of the Market

"The invisible hand of the market" gives a basic understanding of why markets work efficiently (e.g., stock market)

"Individual ambition serves the common good" Adam Smith (1776)

The most important function of the market is the coordination between the supplier and the consumer – the invisible hand is the principle behind the price mechanism