

# Economics

## Introduction

# Ch.1 OUTLINE



1.0: Introduction and Syllabus



1.1: What Is Economics, and Why Is It Important?



1.2: Microeconomics and Macroeconomics



1.3: How Economists Use Theories and Models to Understand Economic Issues



1.4: How Economies Can Be Organized: An Overview of Economic Systems

# General Information

- Instructor: Paulo Fagandini
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- Official source of material: CANVAS
- Official Reference:
  - 📖 Shapiro, D.; MacDonald, D.; Greenlaw, S. A. (2022). Principles of Economics, 3e, OpenStax.
  - This book is free, and you can get it from <https://www.openstax.org>.
  - Exercises and slides will be based on that reference.

# Assessment

- There are two ways to pass the course:
  - Continuous assessment
    - Midterm, worth 50%, chapters 1,2,3,5,6,7,8,9,10,11 from main Book.
    - Midterm, worth 50%, chapters 19,21,22,23,24,25,26,27,28 from the main Book.
    - The grade in each midterm must be at least 8.00. Overall average must be 10 or more.
    - At least 70% of attendance.
  - Final Exam
    - A single Exam worth 100% covering all the semester.
- Both assessments will consist of multiple-choice questions (qualitative and quantitative, plotting), and written questions (quantitative and can include qualitative parts as well).

# 1.1 What Is Economics, and Why Is It Important?

- **Economics** is the study of how humans make decisions in the face of scarcity. These can be individual decisions, family decisions, business decisions or societal decisions.
- **Scarcity** means that human wants for goods, services and resources exceed what is available.
- The **FRED** website (<https://openstax.org/I/FRED/>) includes data on nearly 400,000 domestic and international economic and social variables over time, which will be used often in this course.



# Economics in the Social Media Age

- Economics is greatly impacted by how well information travels through society. Today, social media giants Twitter, Facebook, and Instagram are major forces on the information superhighway.

(Credit: modification of "Social Media Mixed Icons - Banner" by Blogtrepreneur/Flickr, CC BY 2.0))





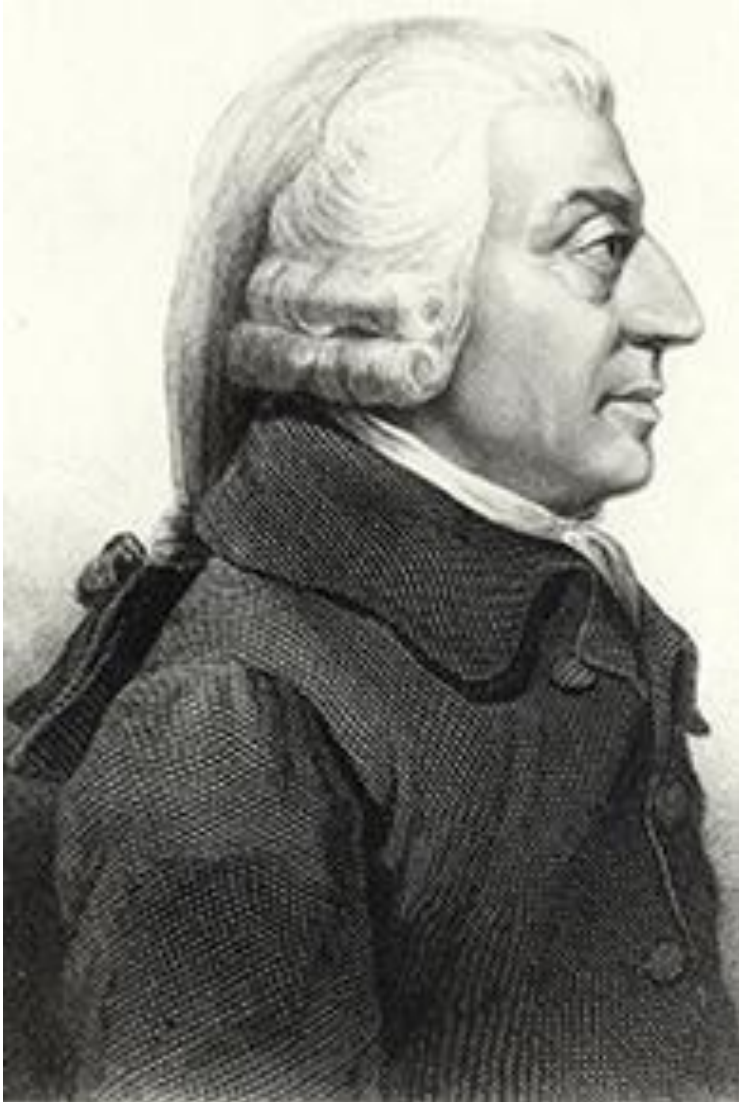
## Scarcity

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- People experiencing homelessness are a stark reminder that scarcity of resources is real.
- **Discussion Question:** What are examples of critical goods and services?

(Credit: "Pittsburgh Homeless" by "daveyinn"/Flickr Creative Commons, CC BY 2.0)

# Comprehensive Study of Economics



- Adam Smith introduced the idea of dividing labor into discrete tasks, in his famous 1776 book, titled *The Wealth of Nations*.

(Credit: "Adam Smith" by Cadell and Davies (1811), John Horsburgh (1828), or R.C. Bell (1872) / Wikimedia Commons, Public Domain)



# The Division of and Specialization of Labor

- **Division of labor** - the way in which different workers divide required tasks to produce a good or service.
  - Workers on an assembly line are an example of the divisions of labor.

(Credit: "Red Wing Shoe Factory Tour" by Nina Hale/Flickr Creative Commons, CC BY 2.0)



# Why the Division of Labor Increases Production

- Dividing and subdividing the tasks involved with producing a good or service, produces a greater quantity of output.
- **Specialization** - when workers or firms focus on particular tasks for which they are well-suited within the overall production process.
  - Specialization allows businesses to take advantage of economies of scale, which means that for many goods, as the level of production increases, the average cost of producing each individual unit declines.



# Why Study Economics?

- Esther Duflo, Abhijit Banerjee (both from Massachusetts Institute of Technology), and Michael Kremer (University of Chicago) were awarded the Nobel Prize for groundbreaking work in which they established experimental methods to understand poverty and outcomes of initiatives to address it.

(Credit: modification of work by U.S. Embassy Sweden/Wikimedia Commons, CC BY 2.0; Financial Times/Wikimedia Commons, CC BY 2.0; U.S. Embassy Sweden/Flickr Creative Commons, CC BY 2.0)

## 1.2 Microeconomics and Macroeconomics

- Economics is concerned with the well-being of *all* people, including those with jobs and those without jobs, as well as those with high incomes and those with low incomes.
- **Microeconomics** focuses on the actions of individual agents within the economy, like households, workers, and businesses.
- **Macroeconomics** is the branch of economics that focuses on broad issues such as growth, unemployment, inflation, and trade balance.



## Other Economic Terms

- **Monetary policy** - policy that involves altering the level of interest rates, the availability of credit in the economy, and the extent of borrowing.
  - Determined by a nation's central bank
- **Fiscal policy** - economic policies that involve government spending and taxes.
  - Determined by a nation's legislative body



## 1.3 How Economists Use Theories and Models to Understand Economic Issues

- One of the most influential economists in modern times was John Maynard Keynes.
- Keynes thought that economics teaches you how to think, not what to think.

(Credit: "John Maynard Keynes" by IMF/Wikimedia Commons, Public Domain)

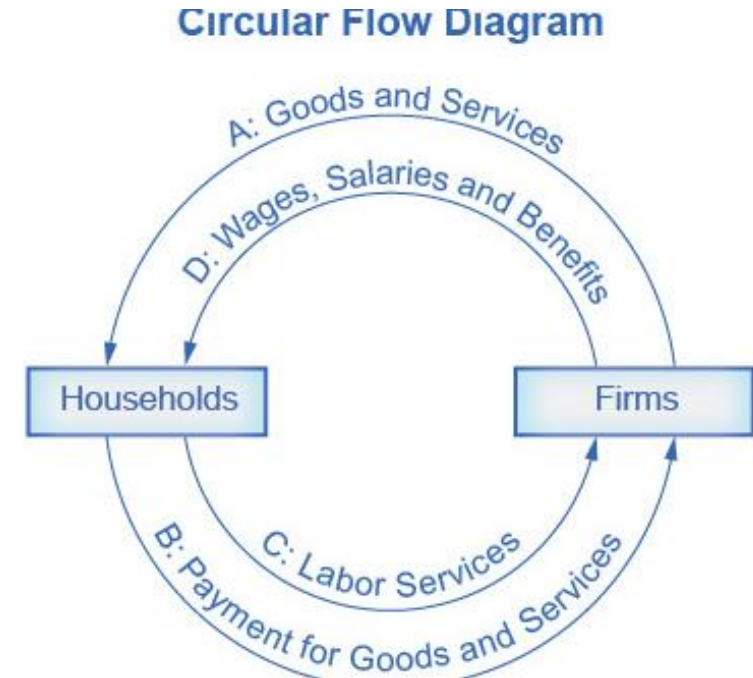


# Economic Theories and Models

- A **theory** is a simplified representation of how two or more variables interact with each other.
  - A good theory is simple enough to understand, while complex enough to capture the key features of the object or situation you are studying.
- Economists use **models** to test theories, but for this course we will use the terms model and theory interchangeably.

# Circular Flow Diagram

- The **circular flow diagram** shows how households and firms interact in the goods and services market, and in the labor market.
  - The direction of the arrows shows that in the **goods and services market**, households receive goods and services and pay firms for them.
  - In the **labor market**, households provide labor and receive payment from firms through wages, salaries, and benefits.



# 1.4 How Economies Can Be Organized: An Overview of Economic Systems

- There are at least three ways that societies organize an economy:
  - 1) **Traditional economy** - typically an agricultural economy where things are done the same as they have always been done.
    - Oldest economic system
    - Used in parts of Asia, Africa, and South America
    - Occupations tend to stay in the family
    - What you produce is what you consume
    - Little economic progress or development

# An Overview of Economic Systems

- 2) **Command economy** - an economy where economic decisions are passed down from government authority and where the government owns the resources.
  - Government decides what goods and services will be produced and what prices it will charge for them.
  - The government decides what methods of production to use and sets wages for workers.
  - The government provides many necessities like healthcare and education for free.



# An Overview of Economic Systems

- Examples of command economy:
  - Ancient Egypt
  - Medieval manor life
  - Communism
  - Currently, Cuba and North Korea

(Credit: "Pyramids at Giza" by Jay Bergesen/Flickr Creative Commons, CC BY 2.0)



# An Overview of Economic Systems



Nothing says “market” more than The New York Stock Exchange.

(Credit: work by Erik Drost/Flickr Creative Commons, CC BY 2.0)

- **3) Market economy** - an economy where economic decisions are decentralized, private individuals own resources, and businesses supply goods and services based on demand.
- **Market** - interaction between potential buyers and sellers; a combination of demand and supply.
- **Private enterprise** - system where private individuals or groups of private individuals own and operate the means of production (resources and businesses).

# Real World Economies

- Most economies in the real world are mixed. They combine elements of command, traditional, and market systems.
- The U.S. economy is positioned toward the market-oriented end of the spectrum.
- Many countries in Europe and Latin America, while primarily market-oriented, have a greater degree of government involvement in economic decisions than the U.S. economy.
- China and Russia, while they have moved more in the direction of having a market-oriented system, remain closer to the command economy end of the spectrum.

# Regulations: The Rules of the Game

- There is no such thing as an absolutely free market.
- Regulations always define the “rules of the game” in the economy.
- Economies that are primarily market-oriented have fewer regulations—ideally just enough to maintain an even playing field for participants.
- Heavily regulated economies often have **underground economies** (or black markets), which are markets where the buyers and sellers make transactions without the government's approval.

# The Rise of Globalization

- **Globalization** - the trend in which buying and selling in markets have increasingly crossed national borders.
- **Exports** - the goods and services that a nation produces domestically and sells abroad.
- **Imports** - the goods and services that are produced abroad and then sold domestically.
- **Gross domestic product (GDP)** - measures the size of total production in an economy.



# The Global Economy

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- Cargo ships are one mode of transportation for shipping goods in the global economy.
- **Discussion question:** What are examples of products and services in the modern economy? How has this contributed to globalization?

(Credit: "Cargo Ship" by Raul Valdez/Flickr Creative Commons, CC BY 2.0)



