

Economics Fundamentals

Lecture 1: Introduction, Macro vs Micro, Scarcity and Efficiency

Paulo Fagandini

2026

Welcome to Economics! 🙌

Why study Economics? 🤔



Understand government policies



Navigate global markets



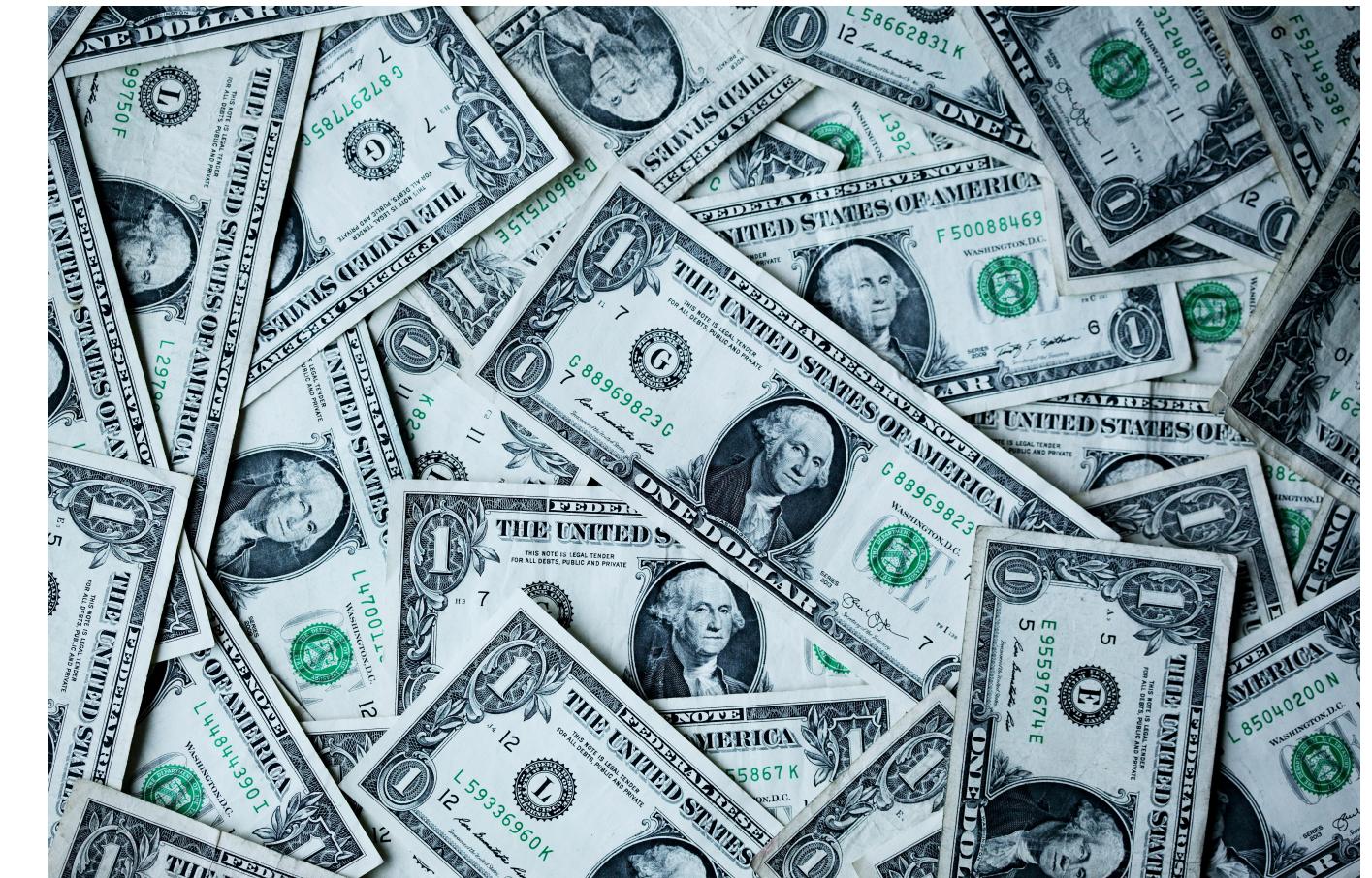
Achieve business success



Master supply & demand



Understand inequality



Introduction



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 **In Canvas:** Syllabus, Calendar, Group Project

 **Schedule:** Thursdays & Fridays

What is Economics?



ECONOMICS

studies how societies use **scarce resources** to produce valuable goods and distribute them among individuals.

Economics as a **social science** uses simplified hypotheses and relates variables to understand economic phenomena.

What Does Economics Study?



Institutions & Markets

How technology influences prices and resource allocation

Finance

Behavior of financial markets and capital flows

Society

Income redistribution and social welfare

Cycles

Unemployment, inflation, growth

The Two (main) Branches of Economics

Macroeconomics



The Big Picture — Studies the economy as a whole

 **GDP & Economic Growth**

 **Unemployment rates**

 **Inflation trends**

 **Monetary policy**

 **International trade**

 **Government budgets**

Example: “Why did Portugal’s tourism revenue fall 50% in 2020?”

Microeconomics



Individual Decisions — Studies specific agents and markets

Consumer behavior

Firm decisions

Pricing strategies

Competition analysis

Market interactions

Supply & Demand

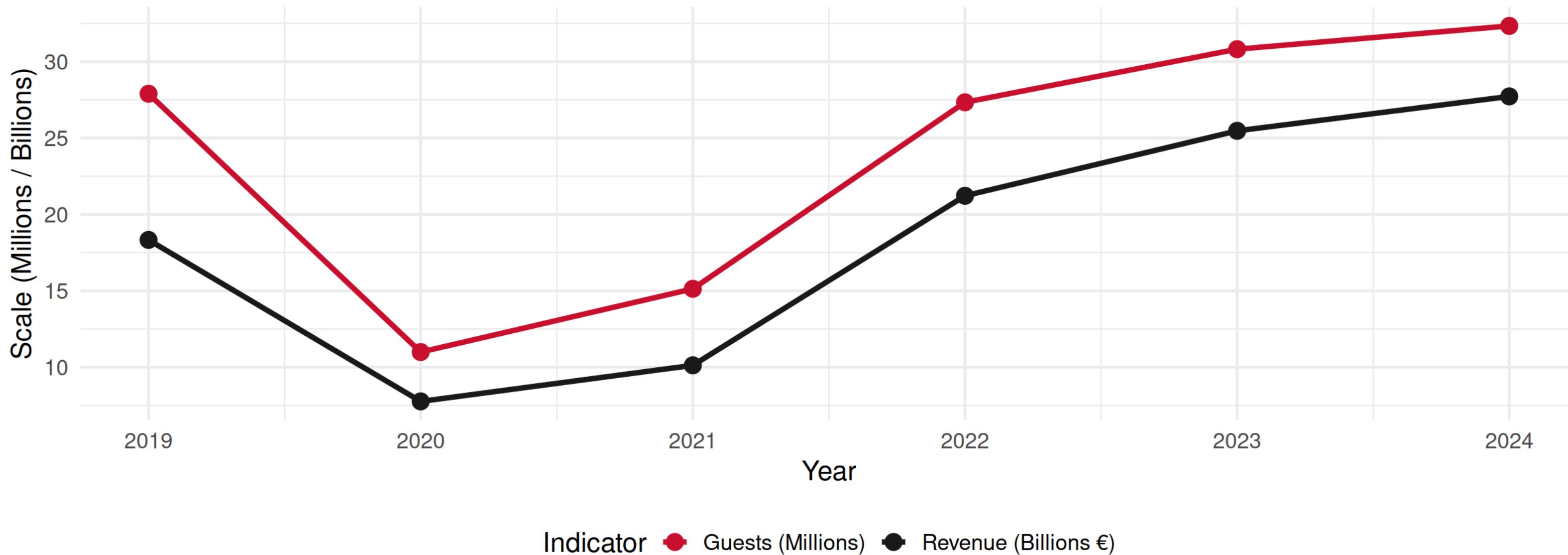
Example: “How should a hotel set its room prices?”

Macroeconomics in Tourism



Portugal Tourism Sector (2019-2024)

COVID-19 impact and recovery visible in macroeconomic data



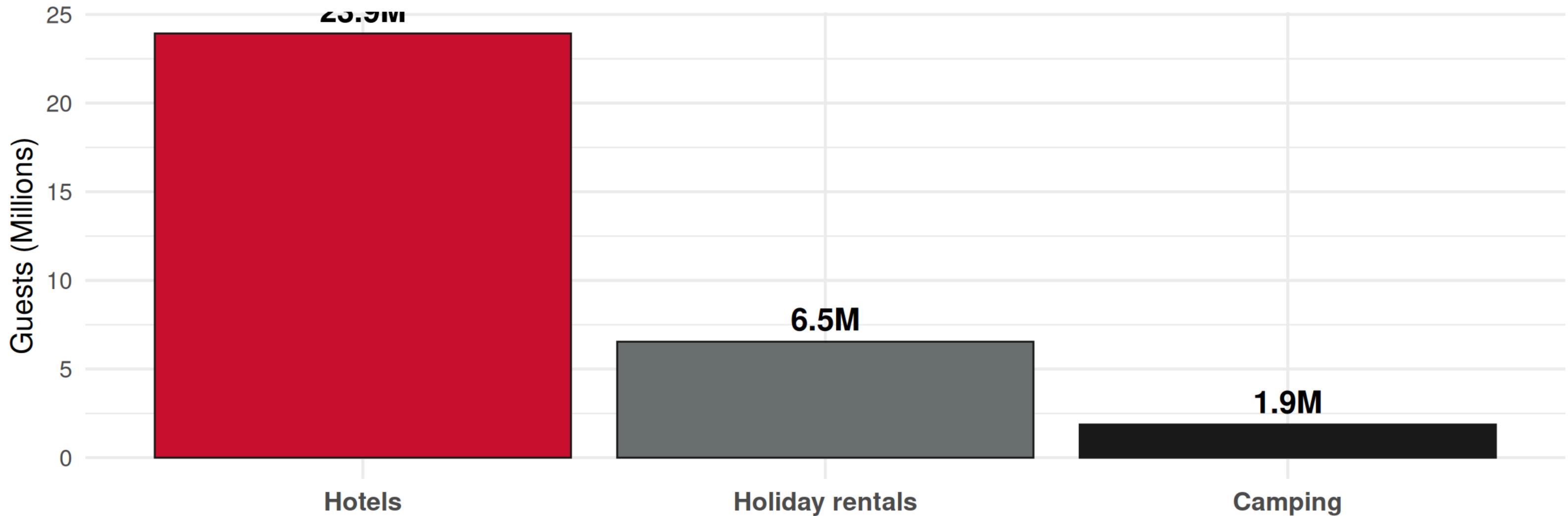
Source: Eurostat (tour_occ_arnraw, bop_its6_det)

Microeconomics in Tourism



Guests by Accommodation Type — Portugal 2024

Microeconomic analysis: which market segments attract more tourists?



Source: Eurostat (tour_occ_arnraw)

The Fundamental Economic Problem



SCARCITY

Human wants are unlimited, but resources are limited

This leads to:

- 👉 **Trade-offs** – Choices involve compromises
- 👉 **Cost-Benefit Analysis** – Act only if benefits exceed costs
- 👉 **Efficiency** – Most effective use of resources

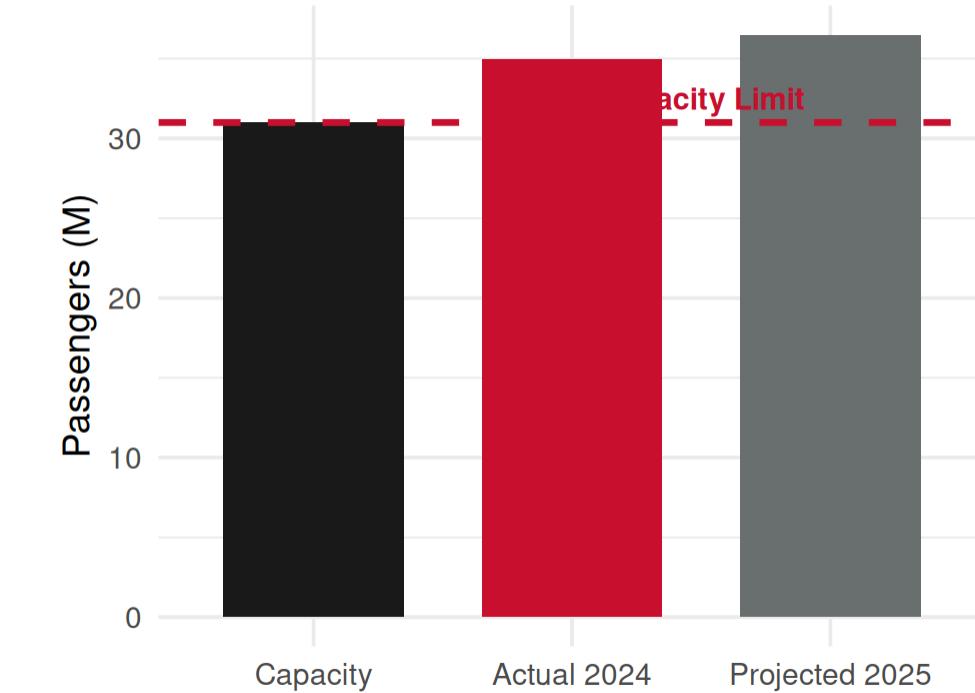
Scarcity in Tourism: Lisbon Airport



Capacity Constraints (2024)

- ⚠️ Design capacity: ~31M passengers/year
- ✈️ Actual 2024: ~35M passengers
- 📈 Growing demand, limited slots

Trade-off: More flights vs. congestion & delays



Hypothetical illustration based on news reports

Efficiency

ECONOMIC EFFICIENCY

Situation where the economy produces and consumes goods at *socially optimal levels*:

-  Getting the most out of available resources
-  Using the least for current consumption level

Pareto Efficiency



Cannot increase one person's welfare without harming another

✓ Efficient allocation

- Resources fully utilized
- No waste in production
- Optimal distribution

✗ Inefficient allocation

- Resources underutilized
- Production waste exists
- Room for improvement

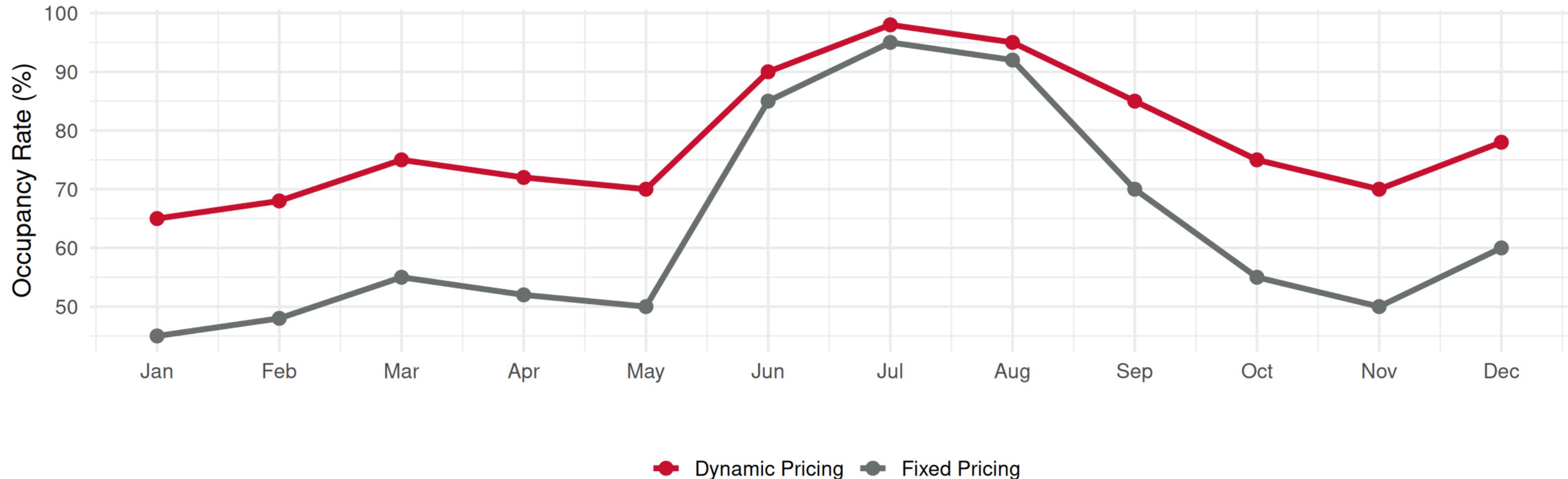
Efficiency in Tourism



Dynamic Pricing Example

Hotel Occupancy: Fixed vs. Dynamic Pricing

Dynamic pricing improves efficiency through better resource allocation (hypothetical)



The Three Economic Questions ?

Every economy must answer:

Question	Description	Tourism Example
WHAT?	What goods to produce?	More hotels or museums?
HOW?	How to produce them?	Automated or human agents?
FOR WHOM?	Who gets the output?	Luxury or mass tourism?

These require decisions based on: resources, technology, preferences, markets

Positive vs. Normative Economics



Positive Economics



Describes facts — Can be tested

- Why do managers earn more than cleaners?
- Does tourism increase local incomes?
- What happens to prices in high season?

👉 Answered with data and analysis

Normative Economics



Value judgments — Opinions

- Should government limit Airbnb?
- Should tourism revenue be redistributed?
- Should airlines reduce emissions?

👉 Requires ethical/political debate

Key Concepts Summary



Concept	Definition
Economics	Study of scarce resource allocation
Macroeconomics	Whole economy (GDP, inflation)
Microeconomics	Individual decisions (firms, consumers)
Scarcity	Unlimited wants, limited resources
Efficiency	Optimal resource use (no waste)
Trade-off	Giving up one thing for another

Exercises



Time for practice!

Let's test your understanding.

Exercise 1: Multiple Choice

Which of the following is a MACROECONOMIC question?

- A. How should a hotel set its room prices?
- B. Why did Portugal's tourism revenue fall in 2020?
- C. Should a restaurant hire more waiters?
- D. How do travelers choose between two airlines?

Answer: B — Portugal's tourism revenue is an aggregate measure affecting the entire economy.

Exercise 2: Multiple Choice

A museum has limited exhibition space. Choosing between a modern art or historical exhibition illustrates:

- A. Efficiency
- B. Scarcity
- C. Positive economics
- D. Macroeconomics

Answer: B — Limited space (scarce resource) forces a choice between alternatives.

Exercise 3: Open Question

Scenario: A low-cost airline charges €50/ticket, sells 150 tickets (capacity: 180).

Questions:

- a. Calculate current revenue per flight
- b. If price increases to €60, demand falls to 120 tickets. Calculate new revenue.
- c. Which pricing is more efficient? Why?
- d. Is this microeconomic or macroeconomic analysis?

Exercise 3: Solution

a) Current revenue:

$$\text{Revenue} = 50 \times 150 = €7,500$$

b) New revenue:

$$\text{Revenue} = 60 \times 120 = €7,200$$

c) Efficiency:

- €50 price: Revenue €7,500, occupancy 83%
- €60 price: Revenue €7,200, occupancy 67%

👉 **First is more efficient:** higher revenue AND better utilization

d) This is **microeconomic** analysis (individual firm's decision)

Next Lecture



Lecture 2 (February 6, 2026):

- Three Fundamental Economic Problems (detailed)
- Market, Centralized, and Mixed Economies
- Economic Systems Comparison



Preparation: Think about how tourism businesses make decisions in different economic systems!

Thank You! 

Questions?

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Next class: Friday, February 6, 2026