

# Introduction to Economics

## The Central Concepts of Economics

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# WHAT IS ECONOMICS?

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

# An Introduction to Economics and The Economy.

## Which activity is related to economics?

Setting up a business, working, to make money, looking for a job, *shopping*, bank operations, **buying and selling anything...**

We need **money** to buy **commodities (goods and services)**. We must **consume** commodities to survive. **Consuming** activity is economical for every person, family (household), people (society) and government.

- Shopping centres are *the driving force* of the economy.
- **Buyers (*consumers*) and sellers (*producers*)** interact in **shopping centers** or in **small markets**.
- Buyers want to buy and sellers want to sell goods.

## Shopping Mall in California





# Nanjing Road, Shanghai, China



Nanjing Road, Shanghai, China



Encarta Encyclopedia, Panos Pictures/Wang Gangfeng



Galleria Vittorio Emanuele II, Milan





# Grand Bazaar in İstanbul, Turkey





???



- **Needs or wants are unlimited.** Physical, biological, mental, educational, healthy, cultural... Unlimited...
- **But resources are limited or scarce.** Because people desire much more than the economy can **produce**.
- **Economic goods are scarce, not free,** and society must choose among the limited goods that can be produced with its available resources.
- **Resources are factors of production.** The firms produce goods and services using factors of production or resources.
- Resources are: **nature or raw material, labor and capital.**
- There is a contradiction between *scarce resources* and *unlimited wants*. These situation is the cause of the economic problem.

***THIS IS THE LOGIC OF ECONOMICS.....***





# An Introduction to Economics and The Economy.

## Problem of Scarcity:

- ### Unlimited Wants

Humans have many different types of wants and needs. Economics looks only at man's **material wants and needs**. These are satisfied by ***consuming*** (using) either:

***goods*** (physical items such as **food**)

*Consumer good, military good, capital good, luxury good.*

***services*** (non-physical items such as **heating**).

*trading, telecom, transport, education, culture, health, social security.*

- ### Limited Resources

***Commodities*** (goods and services) or **outputs** are produced by using ***resources***.

The resources shown in following Table are sometimes called ***factors of production or inputs***.

Table: Different types of resource

<b>Type</b>	<b>Description</b>	<b>Reward</b>
<b>Land and raw material</b>	All natural resources:LAND, COTTON,OIL,IRON,GAS,WATER....	<b>Rent</b>
<b>Labour</b>	The physical and mental work of people:HUMAN BEING, WORK FORCE.	<b>Wage</b>
<b>Capital</b>	All man-made tools and machines:BUILDINGS, COMPUTERS, MACHINES, TOOLS, EQUIPMENTS...	<b>Interest</b>
<b>Entrepreneur</b> (some economists do not accept it resource)	<i>All managers and organisers</i>	<b>Profit</b>



# Land



# Raw material:cotton





# Labor





# Capital



Encarta Encyclopedia, Tony Stone Images/Mitch Kezar



*Money is not capital!... Money is the medium of exchange... We need money to buy capital good...*



- *Capital goods* refers to the things that are used to produce other goods and services.
- The basic resources that are available to a society are *factors of production*:
  - *Land*
  - *Labor*
  - *Capital goods*



- *Capital goods* are goods used to produce other goods and services.
- *Consumer goods* are goods produced for present consumption.

# Computers are capital goods



# Food is consumer good



Encarta Encyclopedia, Corbis/Owen Franken



- ***Production*** is the process that transforms scarce resources into useful goods and services.
- Resources or factors of production are the ***inputs*** into the process of production;
- goods and services are the ***outputs*** of the process of production.

# the process of production; Automobile Assembly Plant



Encarta Encyclopedia, PNI/Itar-Tass/Sovfoto

# OUTPUT: Japanese Automobiles



THE BETTMANN ARCHIVE/UPI



- ***The Economic Problem***

*The economic problem refers to the **scarcity of commodities**.*

*There is only a **limited amount of resources** available to produce **the unlimited amount of goods and services** we desire.*

*Society has to decide **which commodities to produce**.*

*For example, do we make **guns or schools**?*

*We have to decide how to produce those commodities. Do we employ **robot arms or workers**? **Who** is going to use the goods?*

***WHAT, HOW, AND FOR WHOM TO PRODUCE?=  
ECONOMIC PROBLEM***

# Guns for defense industry



Encarta Encyclopedia, Liaison Agency/Stephen Ferry



# Schools for education



Encarta Encyclopedia, Dan Loh/AP/Wide World Photos, Bob Daemrich/Stock, Boston/PNI



# Robot or worker?



Encarta Encyclopedia, Photo Researchers, Inc./Hank Morgan/Science Source

# For poor people?



Encarta Encyclopedia, West Stock/Paul Conklin



# For rich or upper class people?



Encarta Encyclopedia, Liaison Agency/Swersey



# *What, How and For Whom to Produce?*

- **WHAT** or WHICH GOODS AND SERVICES WILL BE PRODUCED? AND IN WHICH QUANTITIES?  
The amount of goods and services produced in a year or the amount total output produced in a year (as kg., meters)
- **HOW** IT WILL BE PRODUCED? Using more labor than capital: labor intensive. Using more capital than labor: capital intensive.
- **FOR WHOM** IT WILL BE PRODUCED? For poor people or rich people or mid-class people.

# What is economics?

## *Economics*

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

Economics is divided by two: microeconomics and macroeconomics.

## *Microeconomics*

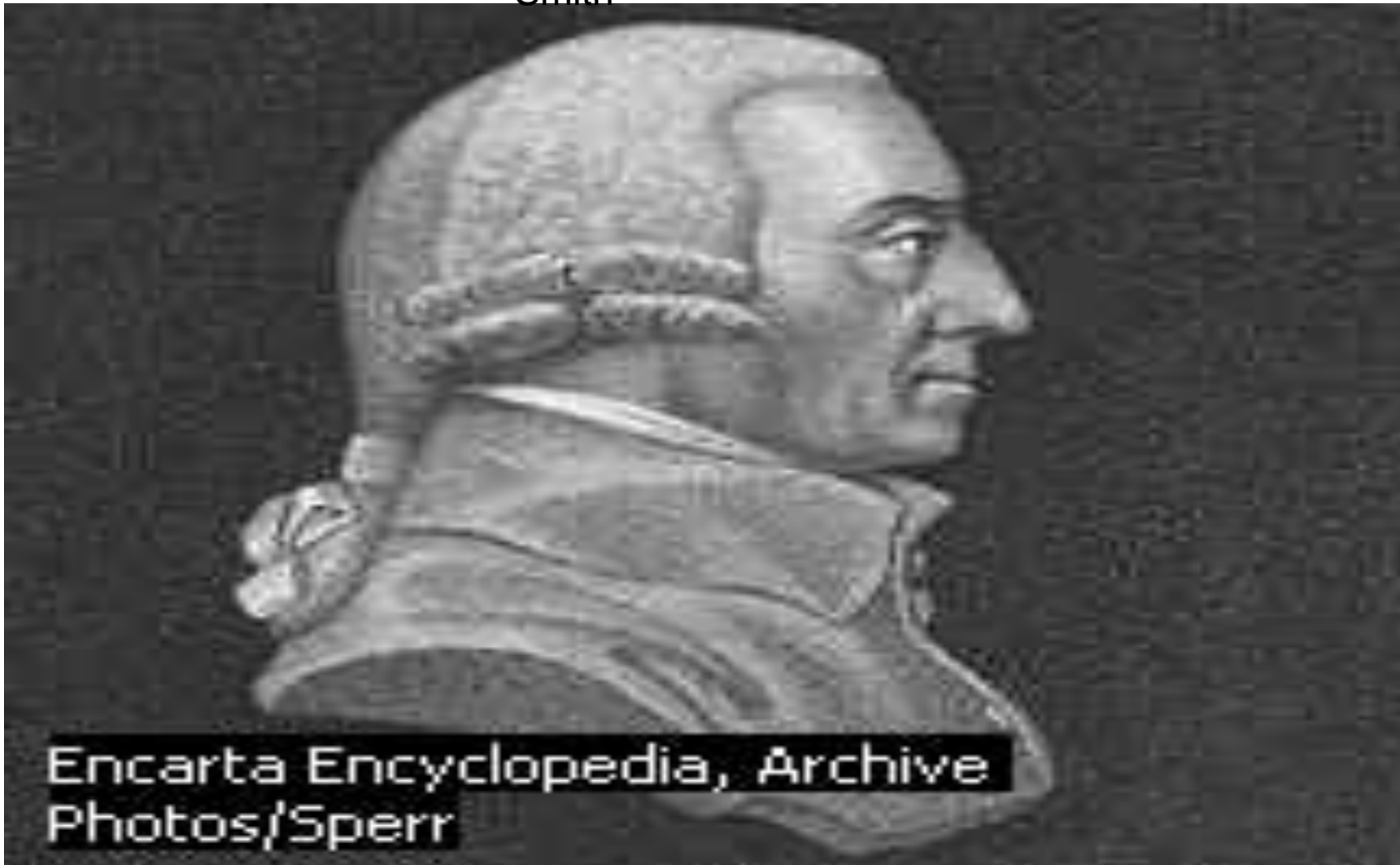
is concerned with the behaviour of individuals, markets, firms and households. Ex: price determination in the market. *Adam Smith* is the founder father of microeconomics.

## *Macroeconomics*

is concerned with the performance of the economy. *John M. Keynes* is the founder of modern macroeconomics. Ex: general price increases in the economy: CPI

- Microeconomics is concerned with *personal or households income*; macroeconomics deals with *national income*.
- Microeconomics looks at the individual unit-the household, the firm, the industry. It sees and examines the “**different trees in the forest**”. Macroeconomics looks at the whole, the aggregate. It sees and analyses the “**forest as a whole**”.

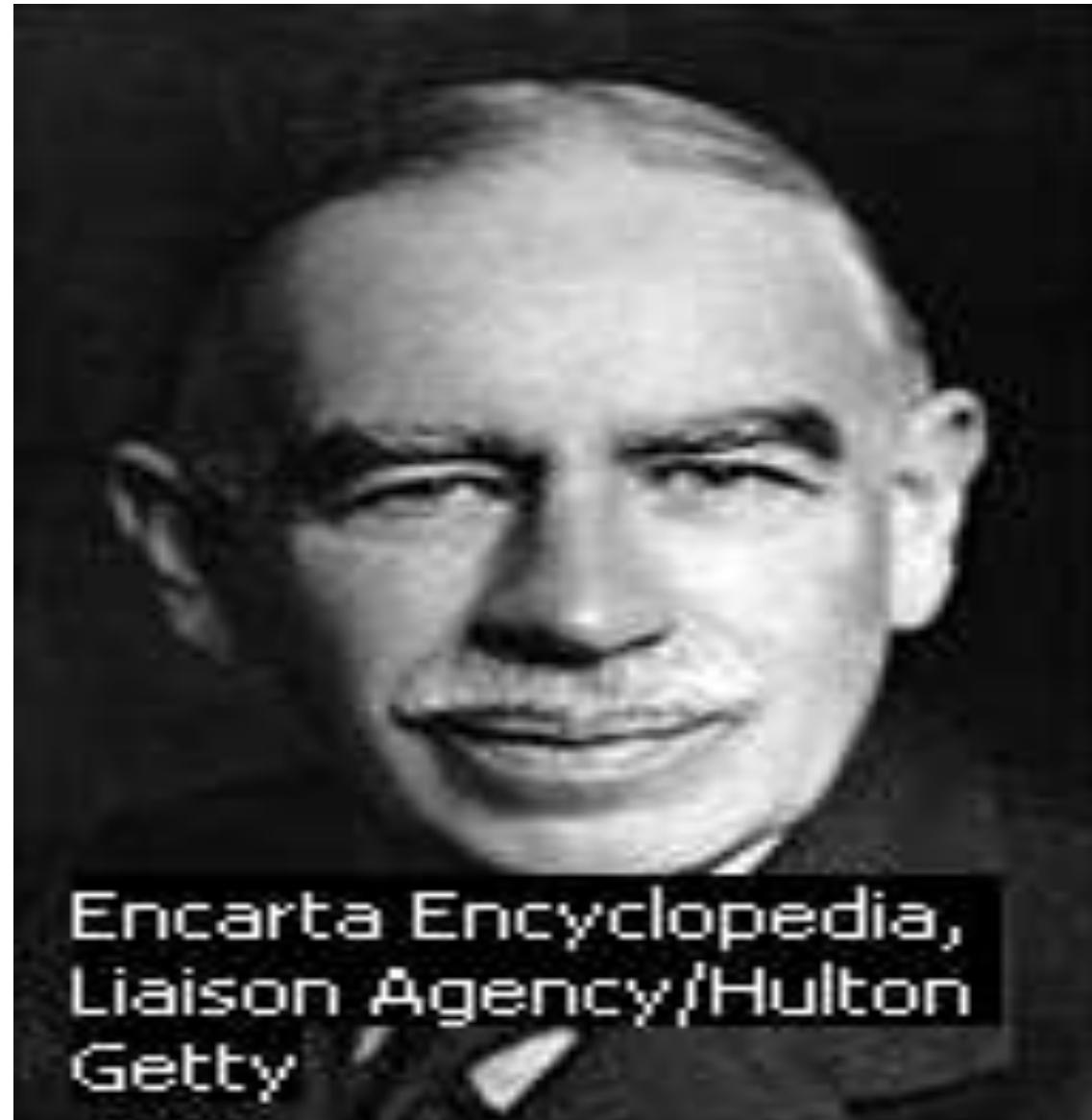
The Wealth of Nations by A.  
Smith



Encarta Encyclopedia, Archive  
Photos/Sperr



The General Theory of Employment,  
Interest, and Money by J.M.Keynes



# Economic Systems

- An *economic system* is the way a society sets about *allocating* (deciding) “**which goods to produce and in which quantities**”.
- Different countries have different methods of solving the economic problem.
- There are three main types of economic systems:  
*Free Market, command, and mixed economies.*

# Economic Systems

- *A market economy*  
is one in which **individuals and private firms make the major decisions about production and consumption.**
- *In the US and most democratic countries,* most economic problems and questions are solved **by the market.**
- *A command economy*  
is one in which **the government makes all important decisions about production and distribution.** The government owns of the means of production: land and capital. *Former Soviet Union, China, Cuba* operated in a **command economy.**  
Today command economies has changed to *transition economies.*
- In a *mixed economy* private firms generally produce goods while the government organises the manufacture of essential goods and services such as education and health care. *The UK* is an example of a mixed economy.

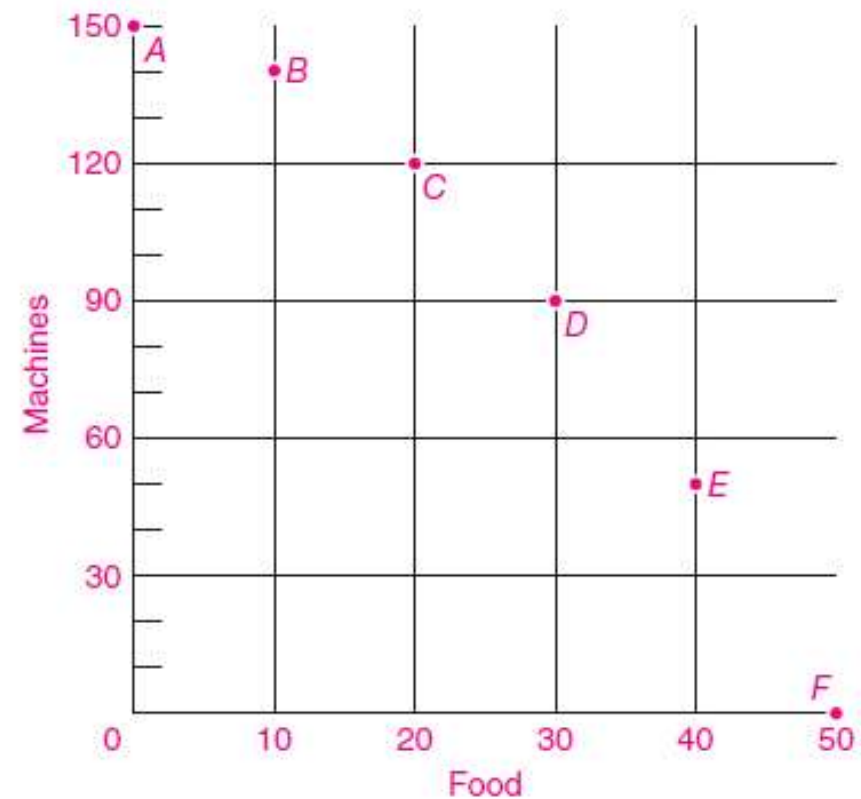


# THE PRODUCTION-POSSIBILITY FRONTIER

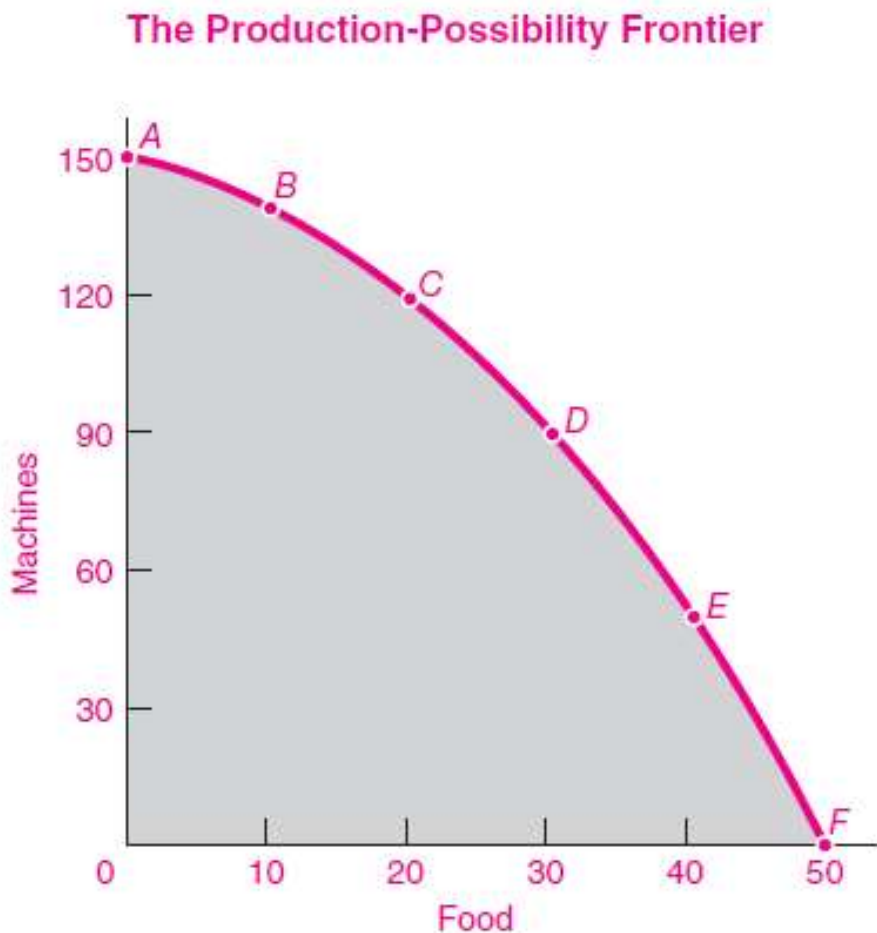
- *The production-possibility frontier, or PPF , represents the maximum amounts of a pair of goods or services that can both be produced with an economy's given resources, assuming all resources are fully employed.*

Alternative Production Possibilities		
Possibilities	Food	Machines
A	0	150
B	10	140
C	20	120
D	30	90
E	40	50
F	50	0

**TABLE 1A-1.** The Pairs of Possible Outputs of Food and Machines



**FIGURE 1A-1.** Six Possible Pairs of Food-Machine Production Levels



**FIGURE 1A-2.** A Production-Possibility Frontier

PPF is a graph that shows all the combinations of goods and services that can be produced if all society's resources are used efficiently.

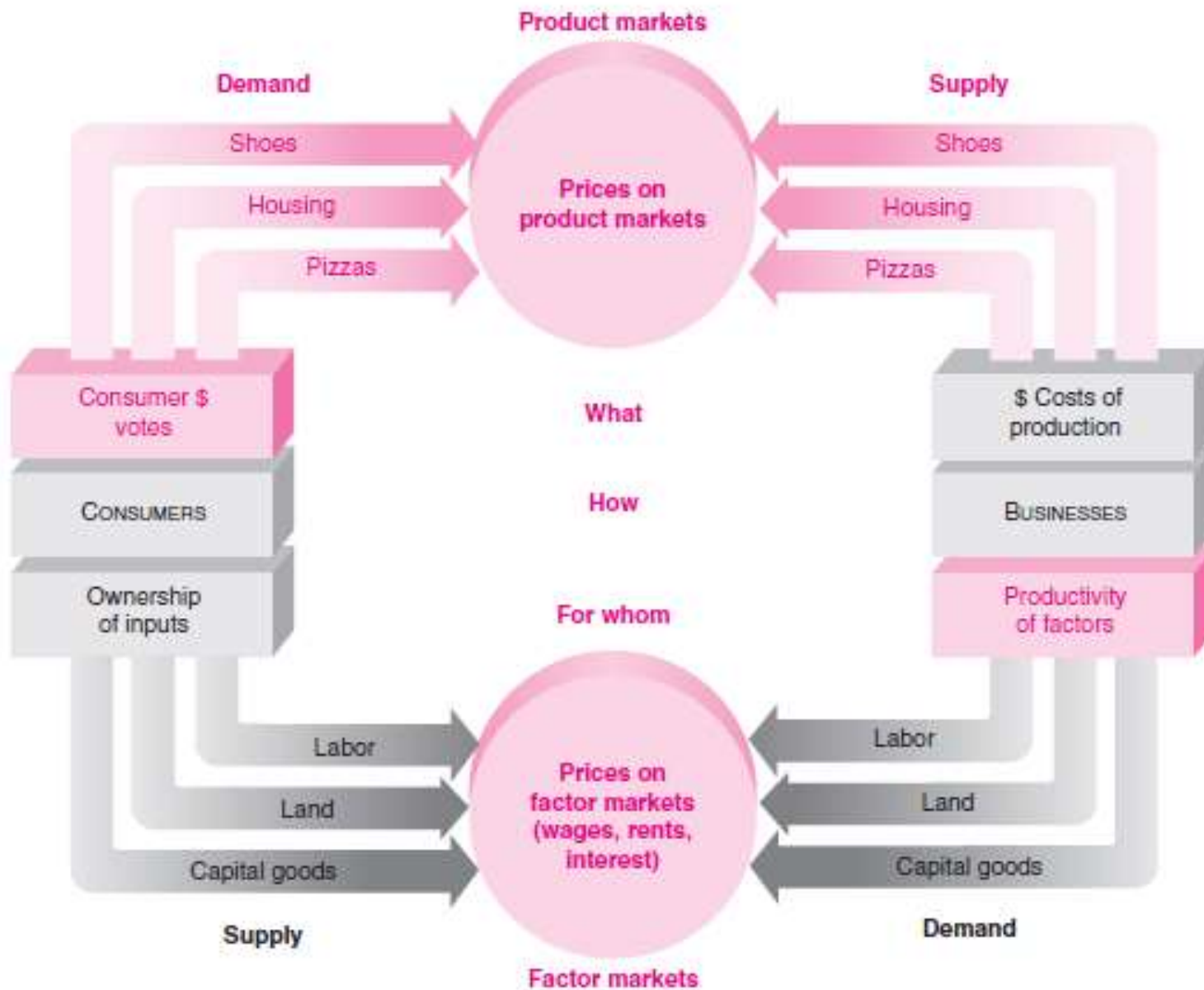
PPF curve has a negative slope which indicates the trade-off between producing one good or another.

A move along the curve illustrates the concept of opportunity cost.

Points inside the PPF curve are points of inefficiency, resources are not fully employed or used inefficiently.

Points outside the PPF curve are infeasible or unattainable, the economy should raise the amount of the resources or improve productivity.





# The Circular Flow