

MICROECONOMICS

***(BCS 2002 & BSE
2002)/BA]***

SPRING-2024

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(1) ECONOMIC SYSTEMS AND AGENTS

[BRIEF DISCUSSION]

- **Economic Systems:**
 - **Capitalist System**
 - **Communism/ Socialist System**
 - **Islamic System**
 - **Mixed System**
- **Economic Agents:**
 - **Households/Individuals**
 - **Firms**
 - **Government**

(3) NEEDS AND WANTS

- **Needs** – Things that are required in order to live e.g. food, water, medical treatment, clean air, clothing, and shelter....
- **Wants** – Things that add comfort and pleasure to life. e.g. food, name brand of products, cell phones, cars
- **Satisfying Need & Wants**: People satisfy their wants and needs by purchasing and consuming goods and services.

(3) DEFINITIONS OF ECONOMICS

(1) The economists Adam Smith who is called the founder of economics, in his book "***Nature and Causes of Wealth of Nation***" in 1776 defined economics as, "***Economics is a science of wealth***"

(2) Dr. Alfred Marshall (1842-1924), in his book "***Principle of economics***" defines economics "***as, the study of mankind in the ordinary business of life, It examines that part of individual and social action which is most closely connected with the attainment and use of material requisites of wellbeing.***" It means the sublet of economics is the study of:

- (i) Mankind in the ordinary business of life;**
- (ii) Part of individual and social action**
- (ii) Material requisites of wellbeing**

....(3) DEFINITIONS OF ECONOMICS

In the words of Robins. (1920)"
Economics is the science which studies human behavior as a relationship between ends (multiple wants) and limited means which have alternative uses"..

There are three main points of this definition which are given as under.

Major points of Robins definition:
(1)Multiple wants: Multiple wants mean no limit to wants. This means

....(3) DEFINITIONS OF ECONOMICS

(2) Limited resources: The means to satisfy the unlimited wants the resources are in the sense that one cannot have as many goods and services as he wishes for the satisfaction of wants.

(3) Alternative uses: The third point of Robin's definition is *alternative uses of limited resources*. For example, a person has money resource of Rs.50000 per month and with this limited resource of money income he is able to do anything: e.g. buy cloths, food items and so But, being a rational consumer, he will choose the most optimum use (the best possible use) of his limited resource of income.

....(3) DEFINITIONS OF ECONOMICS

Now it is generally accepted that

“Economics is the study of how individuals and society choose to allocate scarce resources in order to satisfy unlimited wants. Faced with unlimited wants and scarce resources, choices MUST BE MADE among alternatives.

(4) Scarce Economic Resources

- **Government & Firms produce goods and services using economic resources which are “Scarce”:**
- **3 Types of Scarce Economic Resources**
 1. **Natural Resources [called Land in Economics]**
 2. **Human Resources [called Labour in Economics]**
 3. **Capital Resources [Human & Physical Capital]**
 4. **Entrepreneurs [Organize the above three factors and take the *decisions* –**next slide**]**

FUNDAMENTAL ECONOMIC PROBLEMS:

Scarcity is because of **Limited Resources** and **Unlimited Wants**.
Therefore a decision has to be made:

- ☐ What to produce?
- ☐ How to produce?
- ☐ For whom to Produce?

Unlimited Wants
Limited Resources

