What is economics?

- Economics comes from the Greek word Oikonomia.
- Oikos(means a household) +
- Nomos(means management). So, it means household management.

- **Adam Smith** (1723 -1790), the founder of economics, described it as a body of knowledge which relates to wealth. According to him if a nation has larger amount of wealth, it can help in achieving its betterment. He defined economics as:

“The study of nature and causes of generating of wealth of a nation”.

- **L. Robbins** defined as-“Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.”

- This definition base on three basic characteristics of human life:

1. Unlimited wants (ends)
2. Limited resources (scarce means)
3. Alternative uses of resources (Alternative uses)

- **Finally** we can say that Economics is that branch of science, which deals with production, consumption and distribution of wealth.

Subject Matter of Economics:

- The subject matter of economics is divided into two:

i) Micro economics

ii) Macro economics

- **Micro economics**

- The word micro has been derived from Greek word Micros means small or little. Micro economics deals with the analysis of small individual units of economy such as buyers, sellers, individual farms, industrial units or a group of enterprises.

- According to Boulding
- Micro economics is the study of particular firms, particular household, individual prices, wages, incomes, individual industries, and particular commodities.

- **Macro economics**

- The word macro is derived from the Greek word **Makros** means large or total and therefore macro economics deals with the economic activities in the large.
- According to **Boulding** Macro economics deals not with individual incomes but with national income, not with individual prices but with price level; not with individual output but with the national output. Macro economics is concerned with the economic activity as a whole or in totality.

- For example total national product, income and employment generation, consumption and price level of the whole economy are within the orbit of macro economics.
- According to **Samuelson** Macro economics is the study of the behavior of the economy as a whole. It examines the overall level of a nation’s output, employment and prices.

Method used in Economics

- Economics is the science in the sense that it employs scientific methods of acquiring and disseminating knowledge.
- We know that science is a systematic body of knowledge based on experimentation and observation of facts.
- However, there is a difference between the method of acquiring and disseminating knowledge used in social sciences like Economics and those used in other natural sciences like Physics and Chemistry.
- There are two broad methods of gathering information and drawing the conclusion from the collected information.

Deductive Method

- It is a method of drawing a specific conclusion from a general statement.

- For example, man is mortal is a generalized statement. Rahim is a man. Through deductive method, we can conclude that Rahim will die.

Inductive Method

- It is a method of drawing a general conclusion from some specific cases. Suppose we are to draw a conclusion on English proficiency of Business students of PSTU.
- Usually, we will make a survey and ask to a representative sample of whole BBA students with interview schedule. Then we will draw a conclusion which about the whole population. This method is called inductive method.

Positive and Normative Economics:

Positive Economics only explains what is.

For example: Estimate what is the population size of Bangladesh.
Or what is the total number of students in your university?
In a sense, it may be troublesome, expensive or time-consuming.

But mathematically it will not be so difficult. It will need only the sum and subtraction to get the objected figure.

Normative Economics explains what ought to be.

For example what should be the optimum population size for Bangladesh?

Or what should be the number of students of your university?

Obviously, it is not as easy as the positive analysis. This is a suggestive or policy giving issue. To determine the suitable number of students of your university that should be enrolled will depend on the availability of seats in the classroom, the size of the classroom, availability of beds in the dormitory, availability of teachers and staff, even the availability of hospital beds and doctors in the medical centre etc.

Some basic concepts in Economics

- **Utility**: Capacity of satisfying needs / wants. Pen to the students and marker to the teacher in the classroom are the examples of utility.

- If a teacher does not bring a marker in the classroom and students offer all of their pens to write with on the white board, pens will not be able to satisfy the need of the teacher. So, the pen does not have any utility to a teacher in the classroom.

Types of utility:

- **Five types.**

- 1. **Time utility:** If someone can arrange winter vegetables in the summer season, definitely he will get a higher price than that of winter season because of creating time utility. It may be done by using cold storage facilities.

- **2. Form utility:** Creating chairs or some other furniture by some wooden slabs is the examples of form utility. Wooden slabs do not have any utility. When chairs are made by changing the forms of wood, it gets utility for everybody.

- **3. Place utility:** When we see two shirts of almost the same cloth. One is having a sticker of Aarong and the other is having a sticker of Milan Garments. Someone will be willing to pay more prices for the first one. Similarly, silk of Rajshahi, Chamcham of Purabari, Monda of Muktagacha are the popular examples of place utility.

- **4. Service utility:** Service of a teacher or a doctor to a student or to a patient is of this kind of utility.

- 5. **Information utility**

- To inform the buyers that the products exist, how to use it, the price and other related information of the products availability.

Production

- Creation of utility with exchange value.
- Example: Chair from wood is a production because it creates utility and the chair can be sold in the market. On the other hand, a boat from a piece of paper is not Production though it has great utility for a baby, but it cannot be sold in the market. So, production has two features. 1) utility creation 2) exchange value.

- Factors of Production: Four factors- Land, Labor, Capital, and Organization.

Consumption

- Destroying the utility through use. Example- If one loses the utility of a cup of tea due to lacking of sugar in it or one cannot put on a new fashionable shirt because unfortunately, it does not fit with his body. In both cases utility is destroyed but definitely, it is not regarded as consumption.

- In case of consumption, the utility must be destroyed through use. So, consumption also has two features. 1) Utility destruction. 2) It must be destroyed through proper use.

Distribution

- Accounts for sharing of wealth among the agents or the owners of the agents which have been active in its Production.

- For example; rent for land, wage for labor, interest for capital and profit for organization.

Want

- Desire to have any material and non – material commodities.
- **Characteristics / features of wants :**

- 1. **Wants are unlimited**: If wants of food is fulfilled then wants of cloths will be felt. When it is fulfilled then wants of shelter will start.
- 2. **Particular want is limited**: If someone is fed sufficient amount of food, certainly his want for food will be fulfilled once.
- 3. **Wants are complementary**: Wants of sugar arisen with the wants of tea. Wants of fuel appear with the wants of a car. These are the examples of complementary wants.
- 4. **Wants are competitive.** Wants of rice can be fulfilled by the bread and want of tea can be fulfilled by the coffee. Thus, tea and coffee are competitive.

Classification of wants

- **1. Necessary**
- a) Necessaries for existence. eg. minimum food, minimum clothing etc.
- b) Necessaries for efficiency. eg. nutritious food and education.
- c) Necessaries for convention. eg. tea, cigarette.
- **2. Comforts.** eg. worm clothing, electric fan in the factory
- **3. Luxury.** eg. expensive car, air condition for a student.

Goods

- All material and non-material commodities that have the capacity to satisfy need / wants.
- **Classification:**
- **1. Consumer's goods and producer's goods: Consumer's goods** are those which are directly consumed by the consumer. For example rice, bread, pen, computer etc.
- **Producer's goods:** Producer's goods are those which are not directly consumed by the producer rather those are used in their production process. For example fertilizer, raw materials, pesticide etc.

- **2. Private goods and public goods: Private goods** are those which are owned by the private individual.

- For example chair, table, computer, pen etc.

- **Public goods** are usually owned by the government and none can be deprived from its utility.

- For example road, street lamp etc.

- **3. Free goods and economic goods: Free goods** are those whose supply is greater than demand and that is why people need not to pay for it.

- For example river water, sea water, atmospheric air etc.

- **Economic goods** are those whose supply is less than demand and that is why people have to pay for it.
- For example mineral water, government supplied water, cylinder oxygen in hospital etc.

- **4. Material goods and non-material goods: Material goods** are those which can be touched and seen.
- For example: chair, table, computer, pen etc.

- **Non-material goods** are those which cannot be touched and seen but can be felt. For example sun shine, Moon light etc.

- **5. Transferable goods and non - transferable goods. Transferable goods** are those which / whose ownership can be transferred.
- For example chair, table, pen, computer etc.
- **Non transferable goods** are those which cannot be physically transferred.
- For example good health.

Wealth

- All economic goods are wealth that has the following features:
- **1. Utility**: Capacity of satisfying need.
- **2. Scarcity:** Demand> supply
- **3. Transferability:** Physically the goods or its ownership can be transferred.
- **4. Externality:** It should have external existence.

Externality in economics has another meaning.

- Externality refers to the activities of one person which benefits or losses another and for which no party is to pay or receive any financial compensation. There are different types of externalities.

- Such as consumer -consumer negative externalities: Suppose one passenger in a bus is smoking and another passenger sitting beside him is getting harm and for that the first person is not paying any compensation.

- Thus there may consumer- consumer positive externalities, producer -consumer positive / negative externalities,

- Producer- producer positive / negative externalities

Classification of wealth

- **1. Individual wealth:** This is owned by an individual. For example: Pen, computer etc.
- **2. Collective wealth:** This is owned by more than one individual. For example: a private road, a school of combined ownership etc.
- **3. National wealth:** It is the summation of Individual wealth and Collective wealth.
- **4. International wealth:** Sea, oceans, mountains are the examples of international wealth.

Assumptions, Hypotheses, Theory, and Law

- **Assumptions:** Assumptions are those which are considered as true and never needed to be considered whether it is true or false.
- For example: The one kg weight in the shop.

- **Hypotheses:** Hypotheses are those, which are considered as true and needed to be considered whether it is true or false.

- **Theory:** When a hypothesis becomes true for a long time then it is called theory.
- For example: Malthusian theory of population

- **Law:** When a hypothesis becomes true forever then it is called law.
- For example: Law of demand

- **Firm:** Accumulation of all the producing units, producing the same commodity under single ownership is called firm.
- For example: Kabir poultry firm

- **Industry:** Accumulation of all the producing units, producing the same commodity under different ownership is called industry.
- For example: Bangladesh poultry industry

Value and Price

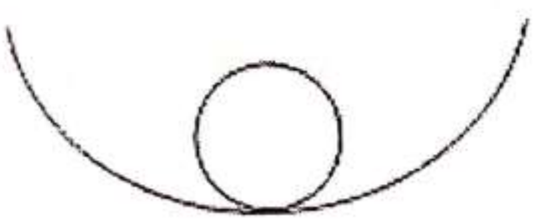
- **Value:** Exchange of one commodity with another.
- For example, the value of a Red leaf pen is three Econo ball point pens.

- **Price:** When value is expressed in terms of money. The price of a red leaf pen is 10 Tk.

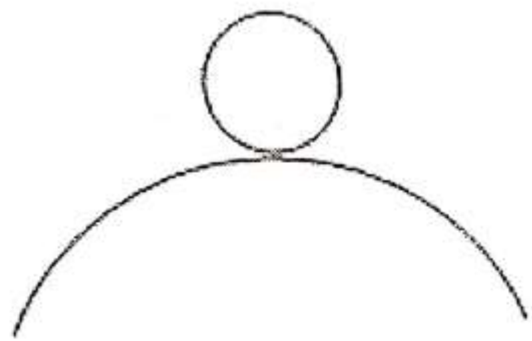
Equilibrium and its types:

- Equilibrium is the state of balance from which no deviation is desired.
- It may be of three types:
- **1. Stable equilibrium:** If the stability is distorted by applying any external force against it, but it will regain its equilibrium position just after withdrawing the external force then it is called stable equilibrium.
- **2. Unstable equilibrium:** This equilibrium is very critical and temporary. If the stability is once distorted, it will never be able to regain its equilibrium position by itself.

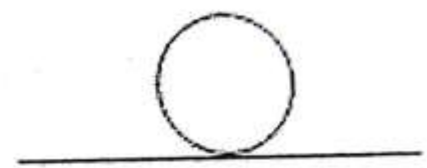
3. Neutral equilibrium: If the stability is once distorted it will automatically gain a new equilibrium position. These are shown in figures:



Stable equilibrium



Un-stable equilibrium



Neutral equilibrium

Income, Savings, and Investment

- **Income**: Flow of all wages, interest and other receipts accruing to an individual.
- **Savings**: Difference between disposable income and expenditure.
- **Investment**: Investment is the net addition to the stock of capital at the end of the year over that which exists at the beginning of the year.