

Introduction to Economics



हैदराबाद विश्वविद्यालय
University of Hyderabad



प्रतिष्ठित संस्थान
INSTITUTION OF EMINENCE
राष्ट्रीय अपेक्षाएँ, वैश्विक मानक
National Needs, Global Standards



Dr Krishna Reddy Chittedi
krc@uohyd.ac.in

WHAT ARE THE REASONS TO STUDY ECONOMICS?



Understand World Function



To Become a Better Decision Make



Economics Enhances Knowledge



It Promotes Development



Research Opportunities



Data Analysis



Provides Career Opportunities



Develop Problem-solving skills

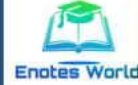


How People/Societies Make Decisions

01 People Face Trade-Offs

- To get one thing we like, we have to give up another thing that we like due to scarcity.
- We face different types of trade-offs (efficiency vs equity)

02 The Cost of Something is What You Give Up to Get It



- As people face trade-offs, making a decision requires comparing the cost and benefits of alternative courses of action.
- To choose one, we have to give up another and it is opportunity cost.

03 Rational People think at the Margin

- People are rational and the best decisions are made by weighting the expected gains and costs of the per-unit increment.
- A rational decision-maker chooses iff marginal benefit exceeds marginal cost.

04 People Respond to Incentives

- The incentive sometimes induces a person to act.
- The incentive is a reward or punishment that affects the decisions of individuals.
- Rational people respond to incentives.

How People Interact

05

Trade Can Make Everyone Better Off

- Nations, as well as families, benefit from the ability to trade with one another.
- Trade allows them to specialize in what they do best and to enjoy a greater variety of goods and services.
- Trade helps to utilize resources at the optimum level

06

Markets Are Good Way to Organize Economic Activity

- The market organizes all the issues like what goods to produce, how to produce, how much to produce, and who gets them.
- In modern times, most of the countries are oriented to develop the system of the market economy.



07

Government Can Sometimes Improve Market outcomes

- It is accepted that the invisible hand can work its magic only if the government enforces the rules and maintains the institutions that are key to a market economy.
- In the presence of externalities and market power, well designed public policy can boost economic efficiency.

How the Economy as a Whole Works

08

A Country's Standard of Living Depends on its Ability to Produce Goods and Services

- Living standard is linked with the productivity of the nations. Productivity is the function of tools, equipment, skills, technology and overall quality of working environment available to the workers. So increased productivity can increase income and livings.

09

Price Rises When the Government Prints Too Much Money

- The faster the government creates money, the greater will be the inflation rate in the economy.
- Based on several evidences, excessive money supply leads to inflation in the economy.



10

Society Faces a Short-Run Trade-Off between Inflation and Unemployment

- Prof. Philips argued that there is a trade-off between inflation and unemployment. It is due to the short-run effects of the monetary injection.
- An increase in the money supply increases the aggregate demand and increased AD pushes price level one side and on the other side reduces unemployment.

COMPARATIVE LOOK

Economist

Adam Smith
(1723-90)

Alfred Marshall
(1842-1924)

Lionel Robbins
(1898-1984)

P.A. Samuelson
(1915-2009)

Publication

*An Inquiry into the
Nature and Causes of
the Wealth of Nations*

*Principles of
Economics*

*An Essay on the Nature
and Significance of
Economic Science*

*Economics, An
Introductory Analysis*

Economics is...

*Economics is the Science of
Wealth*

*Economics is the study of
people in the ordinary
business of life*

*Economics is the science which studies
human behavior as a relationship between
given ends and scarce means that have
alternative uses.*

*Economics is the study of how people and
society choose, with or without the use of
money, to employ scarce productive
resources which could have alternative
uses, to produce various commodities over
time and distribute them for consumption
now and in the future among various
persons and groups in the society.*



WHAT ARE THE BASIC CONCEPTS OF MICROECONOMICS?

Demand

Supply

Elasticity

Monopoly

Equilibrium

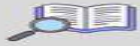
Production



SUPPLY

VS

DEMAND



The quantity of goods or services that **producers** are willing to provide at a specific price in the market.



The desire and ability of **consumers** to buy goods or services at a specific price in the market.



What is available for sale.



What people want to buy.

Supply is about what's available , while **demand** is about what people want —together, they shape the market.

EXAMPLE

The store increased the supply of toys during the holiday season.



EXAMPLE

The demand for electric cars has risen due to environmental concerns.



Financial Rewards for Factors of Production



Factor of Production	Definition	Financial Reward
Land	Natural resources used in production	Rent
Labour	Human physical or mental effort	Wages or Salaries
Capital	Man-made tools, machinery, and equipment	Interest
Enterprise	Risk-taking and organizing the other 3 factors	Profit



WHAT IS RATIONALITY?



- In economics, **rationality** is the fundamental assumption that individuals and firms make logical decisions aimed at maximizing their own well-being or objectives given their constraints



Concept of Rationality

➤ DEFINITION OF RATIONALITY

- The word rational derives from Latin word ration which mean ,**reason**, or **computation**
- From the economics point of view rationality guide the people to make good choices or decision



Core Components of Economic Rationality

Economic models typically define a rational actor through several key axioms and behaviors:

- **Utility Maximization:** Rational consumers aim to achieve the highest possible satisfaction (utility) from their limited budget.
- **Profit Maximization:** Rational firms aim to maximize financial returns by optimizing production and costs.
- **Consistency (Transitivity):** If an agent prefers Option A over B, and B over C, they must logically prefer A over C.



- **Completeness:** An agent can rank all available options and always has an opinion on which they prefer (or if they are indifferent).
- **Self-Interest:** Agents are generally assumed to act in their own interest. However, economists note that self-interest can include **altruism** if helping others provides personal satisfaction.
- **Marginal Thinking:** Rational actors make decisions "at the margin," weighing the additional (marginal) benefits of one more unit of a good against its additional (marginal) cost



- **Bounded Rationality:** Introduced by Herbert Simon, this concept suggests humans are rational within limits. Due to time constraints, limited information, and cognitive bounds, people often "satisfice" (choose a "good enough" option) rather than truly optimize.
- **Behavioral Economics:** This field uses psychological insights to show that humans suffer from **cognitive biases**—such as loss aversion or the sunk cost fallacy—that lead to systematic deviations from "rational" predictions.
- **Emotional Factors:** Unlike traditional models that ignore feelings, modern research acknowledges that emotions like fear or hope significantly drive economic decisions



Thank you

