INTRODUCTION TO ECONOMICS

What is Economics?

What is Economics?

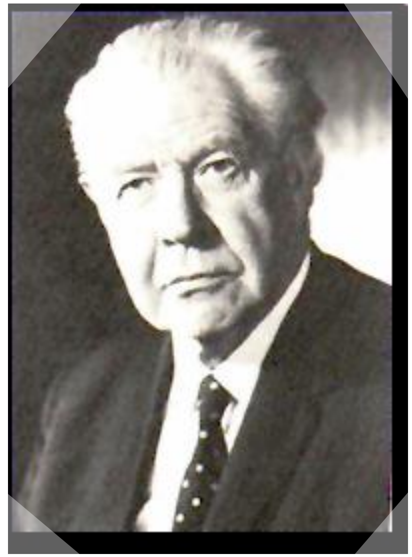
- A social science that studies and influences human behavior
- Economics is the study of what constitutes rational human behavior in the endeavor to fulfill needs and wants.

The "Father"…..

Adam Smith (1723 - 1790)

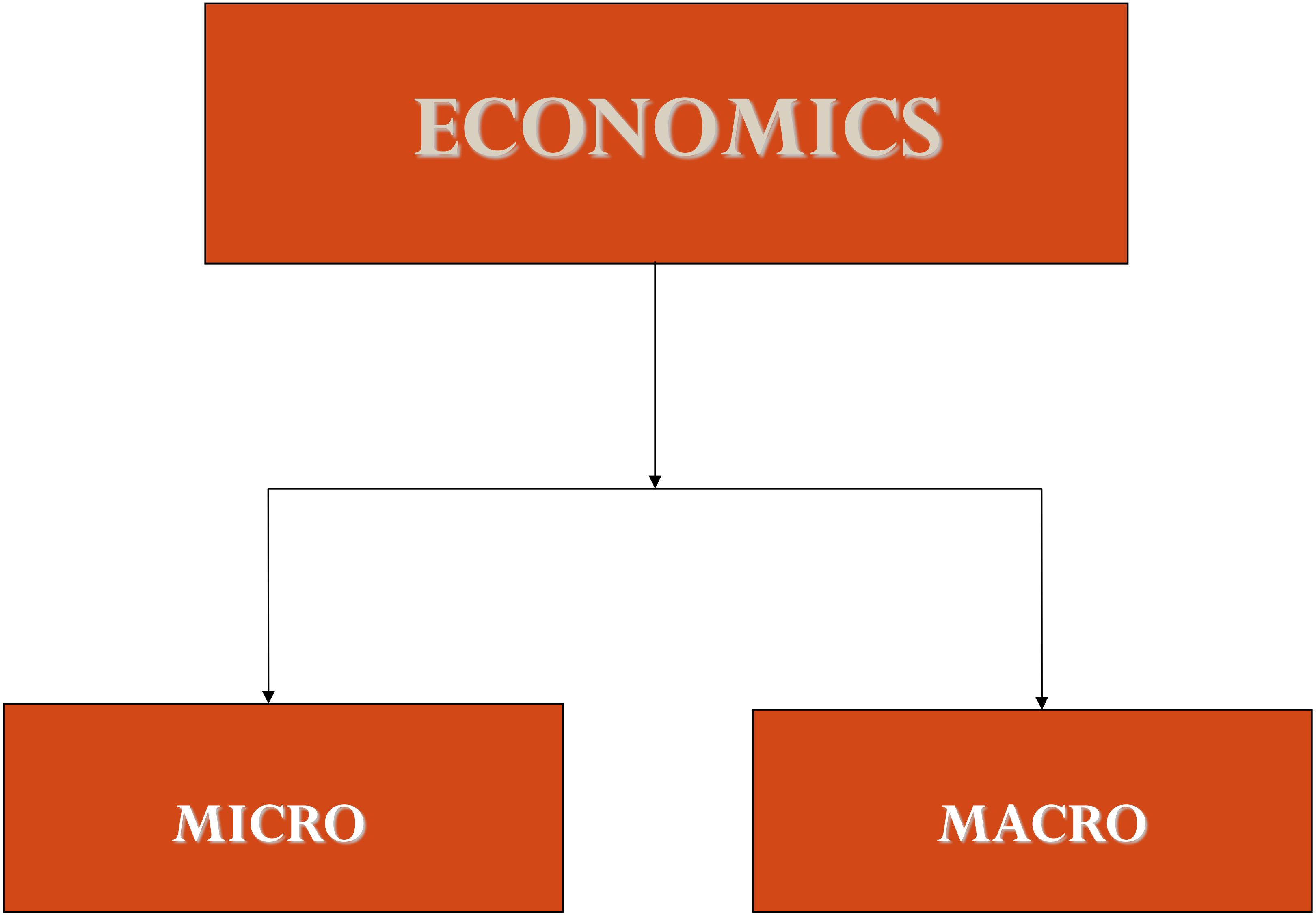
- **Author of the famous book "*An Inquiry into the Nature and Causes of the Wealth of Nations*"**

The Foundation of Economics



- Robbins

- Scarcity
  - Scarcity refers to our limited resources and our unlimited wants and needs.
  - For an individual, resources include time, money and skill.
  - For a country, limited resources include natural resources, capital, labour force and technology.


ECONOMICS
MICRO
MACRO

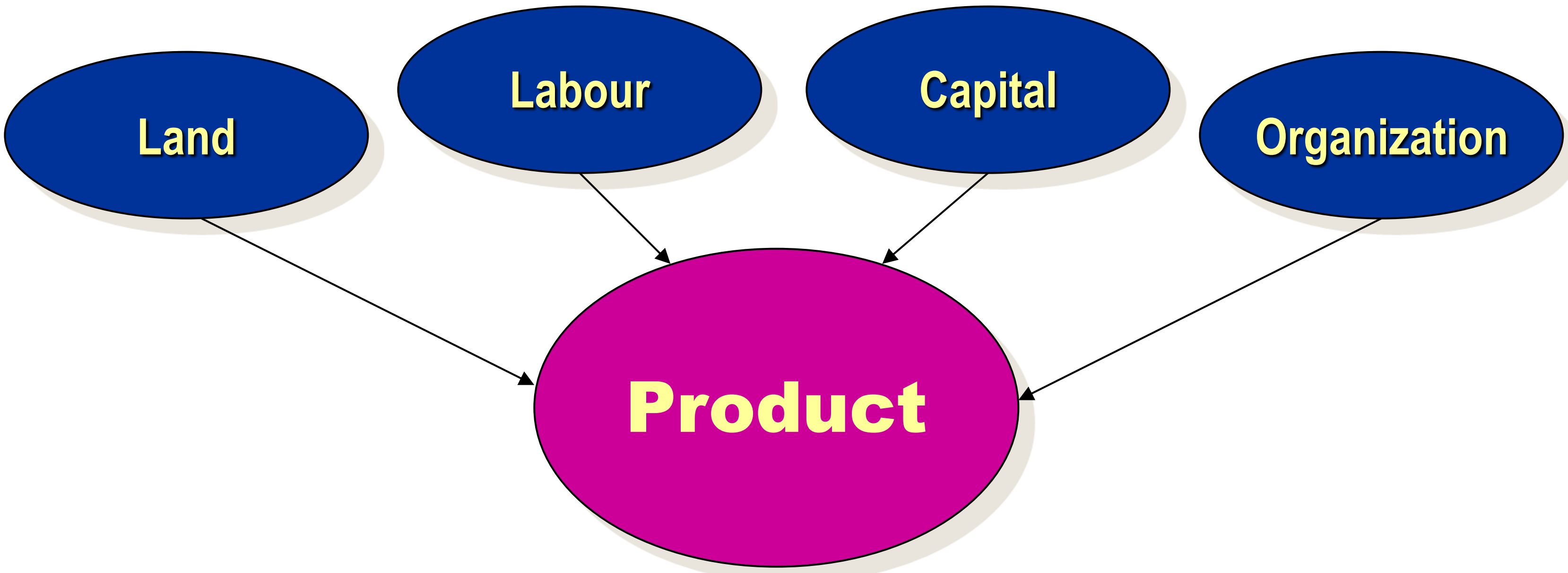
Micro Economics

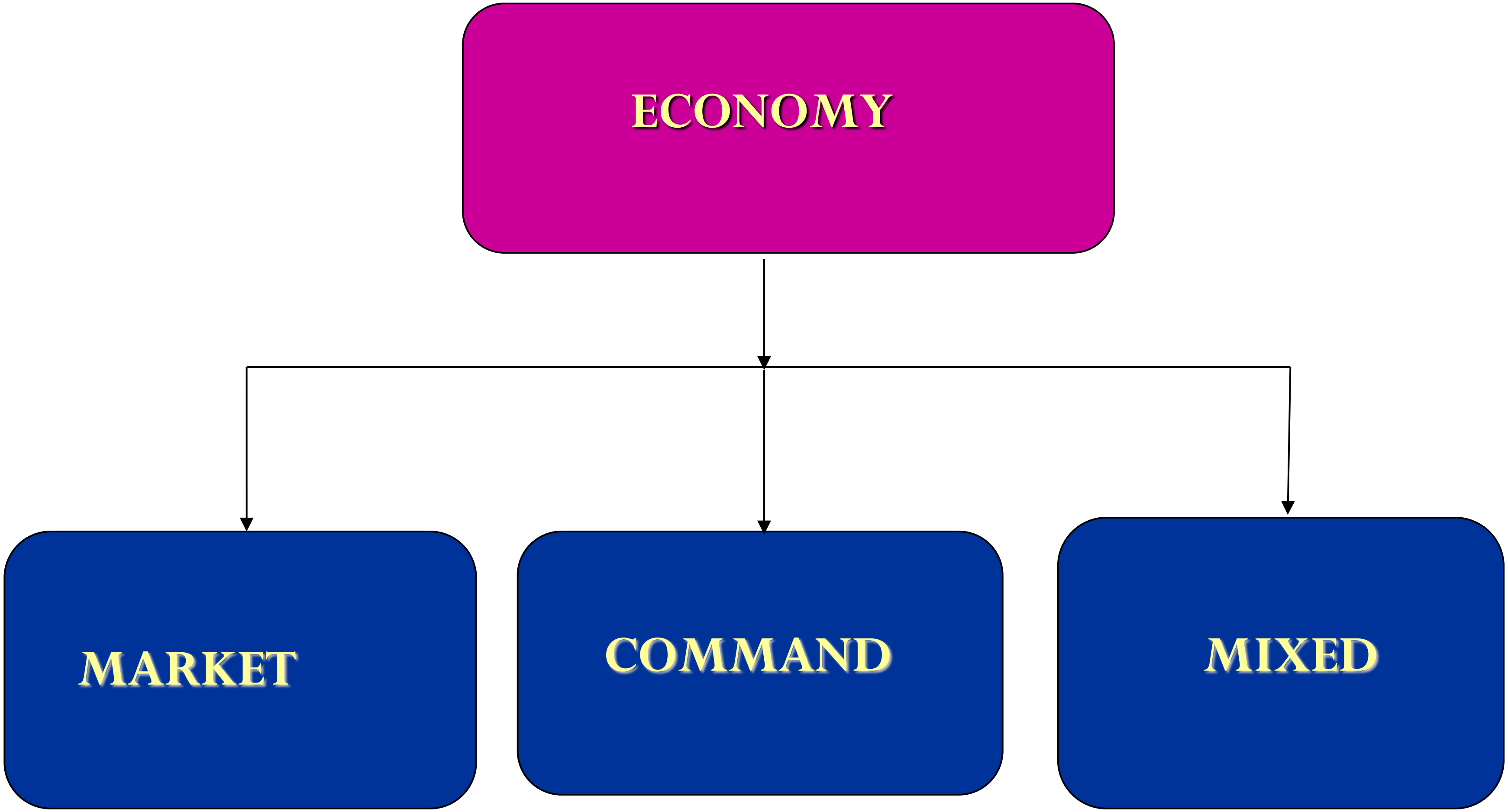
- Micro Economics studies how the individual parts of the economy make decisions to allocate limited resources
- Microeconomics studies:
  - how individuals use limited resources to meet unlimited needs
  - the consequences of their decisions
  - the behaviour of individual components like industries, firms and households.
  - how individual prices are set
  - what determines the price of land, labour and capital
  - inquire into the strengths and weaknesses of the market mechanism.

Macro Economics

- Macroeconomics studies about the functioning of the economy as a whole
- It examines the economy through wide-lens.
- Macroeconomics studies about
  - the total output of a nation
  - the way the nation allocates its limited resources of land, labor and capital
  - the ways to maximize production levels
  - the techniques to promote trade
- After observing the society as a whole, Adam Smith noted that there was an "invisible hand" turning the wheels of the economy: a market force that keeps the economy functioning.

The Factors of Production




ECONOMY
MARKET
COMMAND
MIXED

Market Economies

In a pure market economy there is no government involvement in economic decisions.

Contd….

The Government lets the market answer the following three basic economic questions:

1. What ?

Consumers decide what should be produced in a market economy through the purchases they make.

2. How ?

Production is left entirely up to businesses. Businesses must be competitive in such an economy and produce quality products at lower prices than their competitors.

3. For whom ?

In a market economy, the people who have more money are able to buy more goods and services.

Command Economies

In a command economy the Government answers the three basic economic questions.

1. **What?**

   A central planning committee decides what products are needed.

2. **How?**

   Since the Government owns all means of production in a command economy, it decides how goods and services will be produced.

3. **For Whom ?**

   The Government decides who will get what is produced in a command economy.

Mixed Economies

In the Mixed economies the Government and the Market work together in decision making

The Economic Problem

- Unlimited Wants
- Scarce Resources – Land, Labour, Capital
- Many Uses of Resources
- Choices

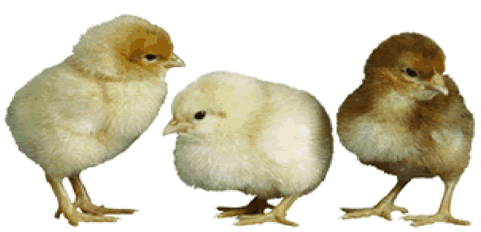
What is Utility?

- Satisfaction
- Can not be measured
  - Marshall – Utility can be measured in Utils

- Form Utility
- Place Utility
- Time Utility

Form Utility

- In what form is a product available
  - Whole chicken
  - Chicken parts
  - Cooked chicken
- Each step adds value




Place Utility

- The place where is a product available
- Convenience

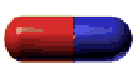
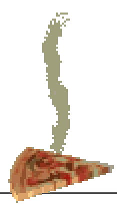
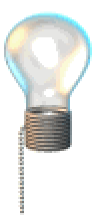
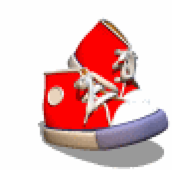
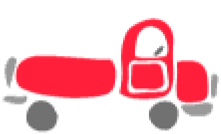
Time Utility

- When is a product available

Rational Behavior

- People know what they want
- Their behaviors are consistent with what they want
- Assume that the market information is given.




Opportunity Cost

- **Definition – the cost expressed in terms of the next best alternative sacrificed**
- **The cost of anything in terms of other things given up or sacrificed.**

Production Possibility Frontiers

- **PPF Shows the different combinations of goods and services that can be produced with a given amount of resources**

Principles of Economics

HOW DO PEOPLE MAKE DECISIONS?

1. People face trade-off

- Every decision involves choices, and more of one good means less of another good. Trade-off applies to individuals, families, corporations and societies.

2. Cost of something is what you give up to get it

- When we make a decision we compare the costs and benefits of our choices.
- Opportunity cost is whatever must be given up to obtain something.
- People compare costs and benefits

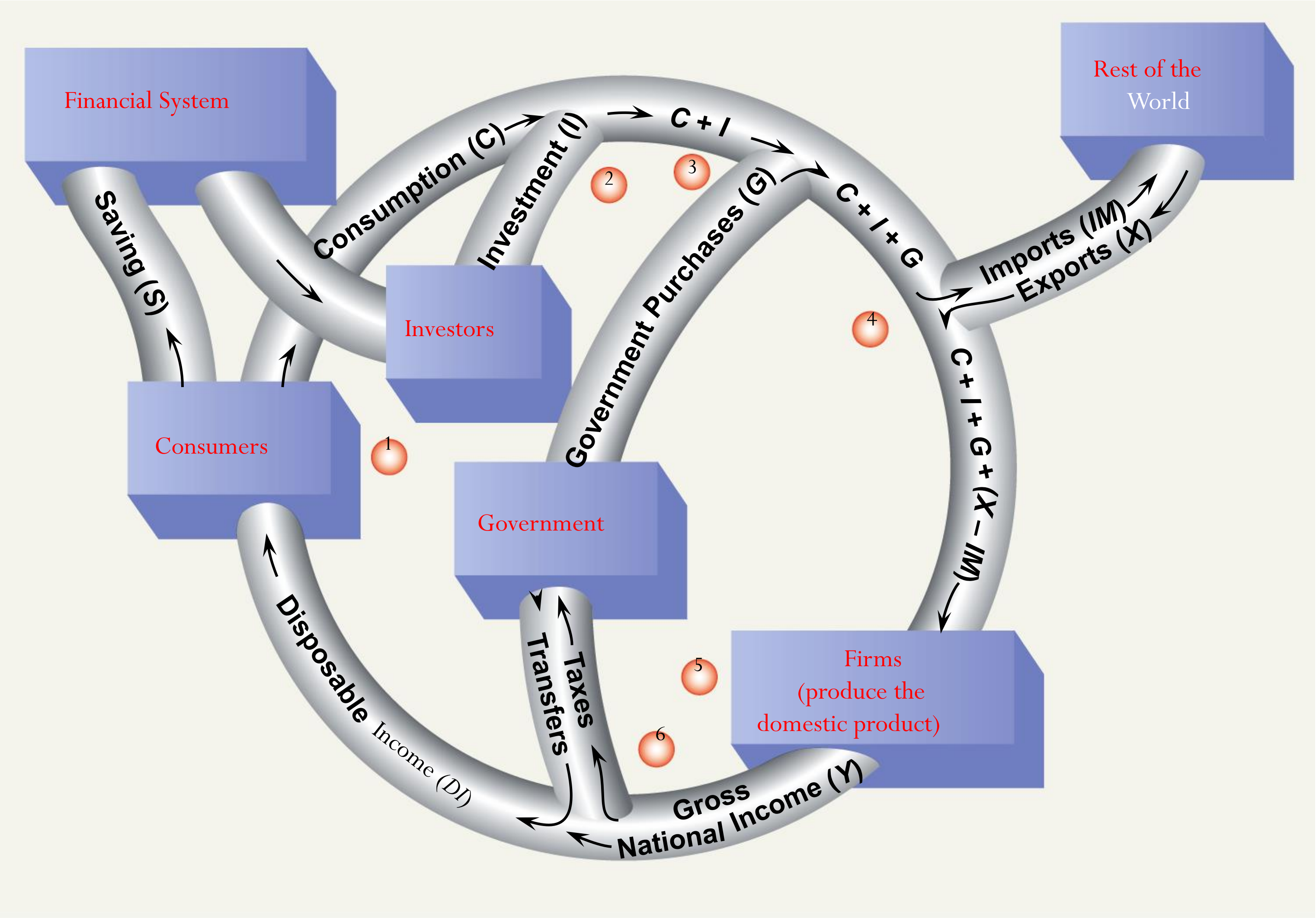
3. Rational people think at the margin

- Basic economics assumes that people act rationally
- They try to act so as to gain the most benefit compared to the costs
- Rational people often make decisions by comparing marginal benefits and marginal costs

4. People respond to incentives

- If rational people compare costs and benefits, then changes in either one may change decisions.
- An incentive is something that induces a person to act .

The Circular Flow



EXTERNALITIES

- An externality is a benefit or cost to third parties who are not directly involved in a transaction.

- Externalities are sometimes called neighborhood effects.

PUBLIC GOODS

- A pure public good is a good or service that is consumed in its entirety by everyone.
- Public goods have two special properties compared to private consumption goods.
- **Non rivalry:** When one person consumes a unit of a public good the amount available to be consumed by everyone else is not diminished.
- **Non excludability:** Once a public good is produced it is difficult or impossible to exclude people from consuming it.


THANK YOU
bharathi.hrd@gmail.com