

Week 1 & 2

Introduction to Economics



Economics

- refers to an area of study under social science. It deals with human behavioural attitudes and perceptions towards material resources



Basic Concepts in Economics

Scarcity - the available resources are insufficient to satisfy people's wants - is universal.

Choice - Because goods and services are scarce, choices must be made.

Opportunity cost - The opportunity cost of an action is the highest valued alternative forgone.

Types of Economic Systems

- **Traditional Economy** – Traditions and rituals answer the basic questions. Answers are often based on cultural or religious practices and ideals that have been passed down for generations.
- **Market Economy** – In a pure market economy there is no government involvement in economic decisions.
- **Command Economy** – A system in which the government controls the factors of production and makes all decisions about their use.
- **Mixed Economies** – All economies in the world today (including the Free Enterprise System in the U.S.) are mixed with varying degrees of government regulation.

Advantages of Socialism

Socialism:

1. It promotes social justice.
2. No serious recession or unemployment problems.
3. Has resulted in commendable technological and scientific advancement comparable to the capitalistic economic system.

Disadvantages of Socialism

- 1) Socialism does not result in a high standard of living for its people.
- 2) Lack of incentives results in economic inefficiency.
- 3) Wastefulness of economic resources.
- 4) Consumer sovereignty does not exist in the socialist system.

Advantages of Capitalism

Capitalism:

1. Gives a lot of incentives to consumers.
2. Gives high degree of economic freedom and competition, thereby encouraging people to be more innovative and more willing to undertake risks in business.
3. It has resulted in high degree of economic efficiency and well-being.

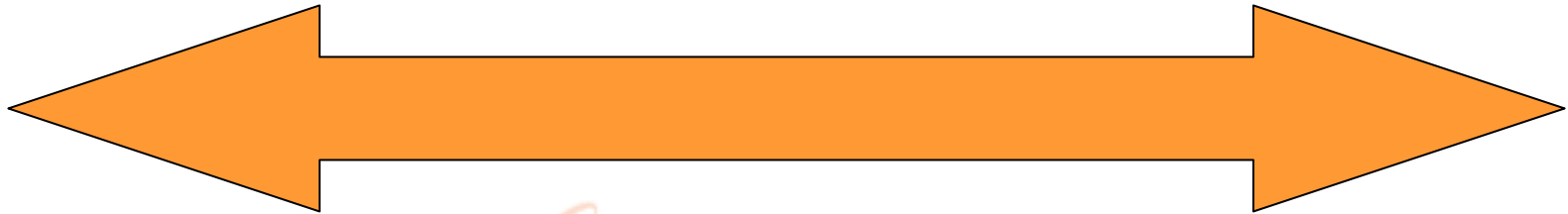
Disadvantages of Capitalism

- 1) It may widen the income gap between the rich and the poor.
- 2) It may result in persistent unemployment and inflation in the economy.
- 3) It will be an insufficient provision of social goods and services.
- 4) It may not always result in economic efficiency in production.
- 5) It may produce undesirable social effects.

Conclusion

Command Economy

Market Economy



Communism

Socialism

Capitalism

Factors of Production

Resources used in the production of goods and services

Four traditional factors of production:

1. Natural Resources
2. Labour
3. Capital
4. Entrepreneurs

Newer perspectives include:

5. Physical Resources
6. Information Resources

Production Possibilities Frontier

- The three basic concepts like scarcity, choices and opportunity cost can be further illustrated by a device called Production Possibility Frontier.
- Assumptions:
 - a) Two Products
 - b) Efficiency
 - c) Fixed Resources
 - d) Fixed Technology



A numerical example can be shown below:

Production Alternative	Rice (tonne)	Butter (tonne)
A	10	0
B	9	4
C	7	7
D	4	9
E	0	10

Production Possibilities Frontier

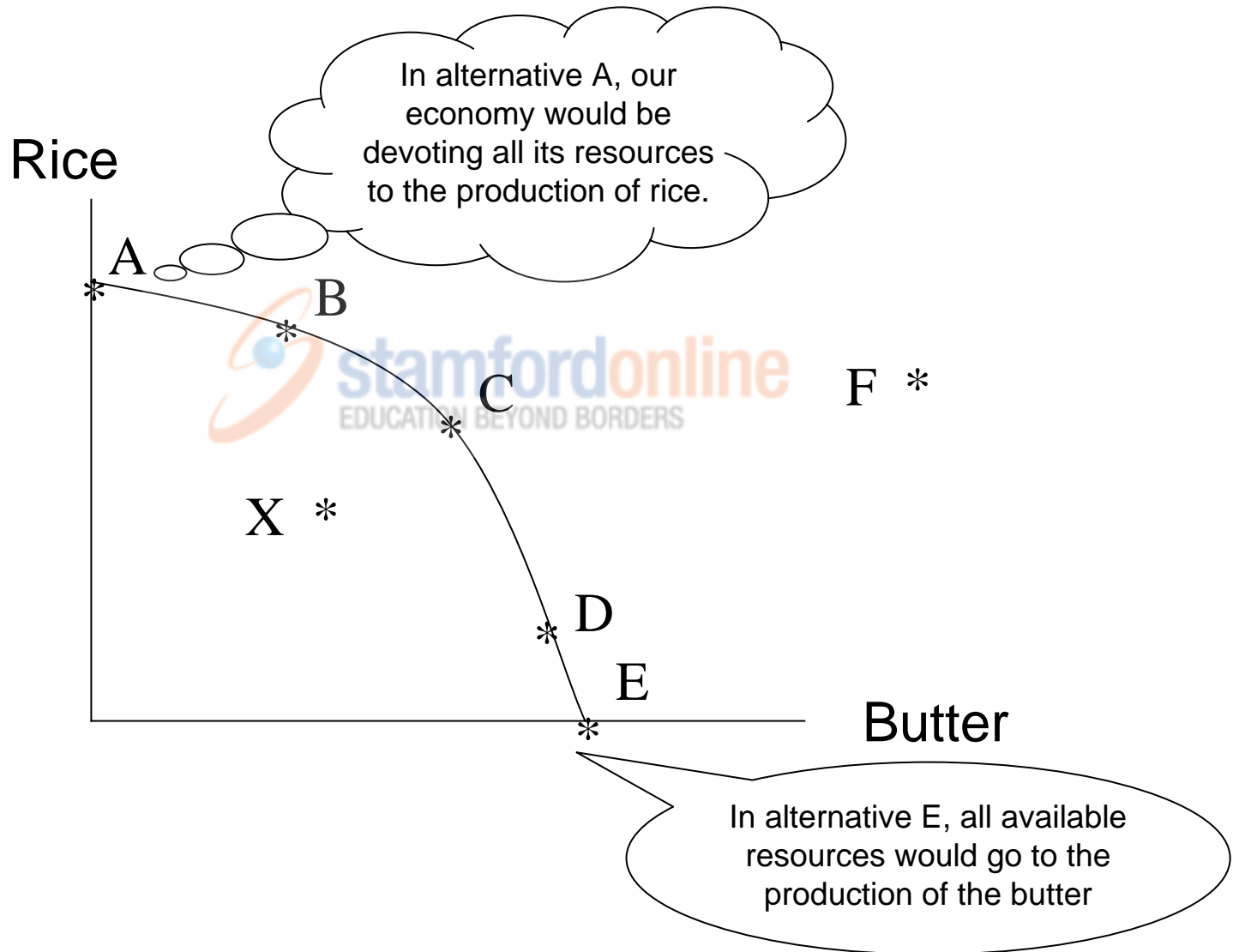


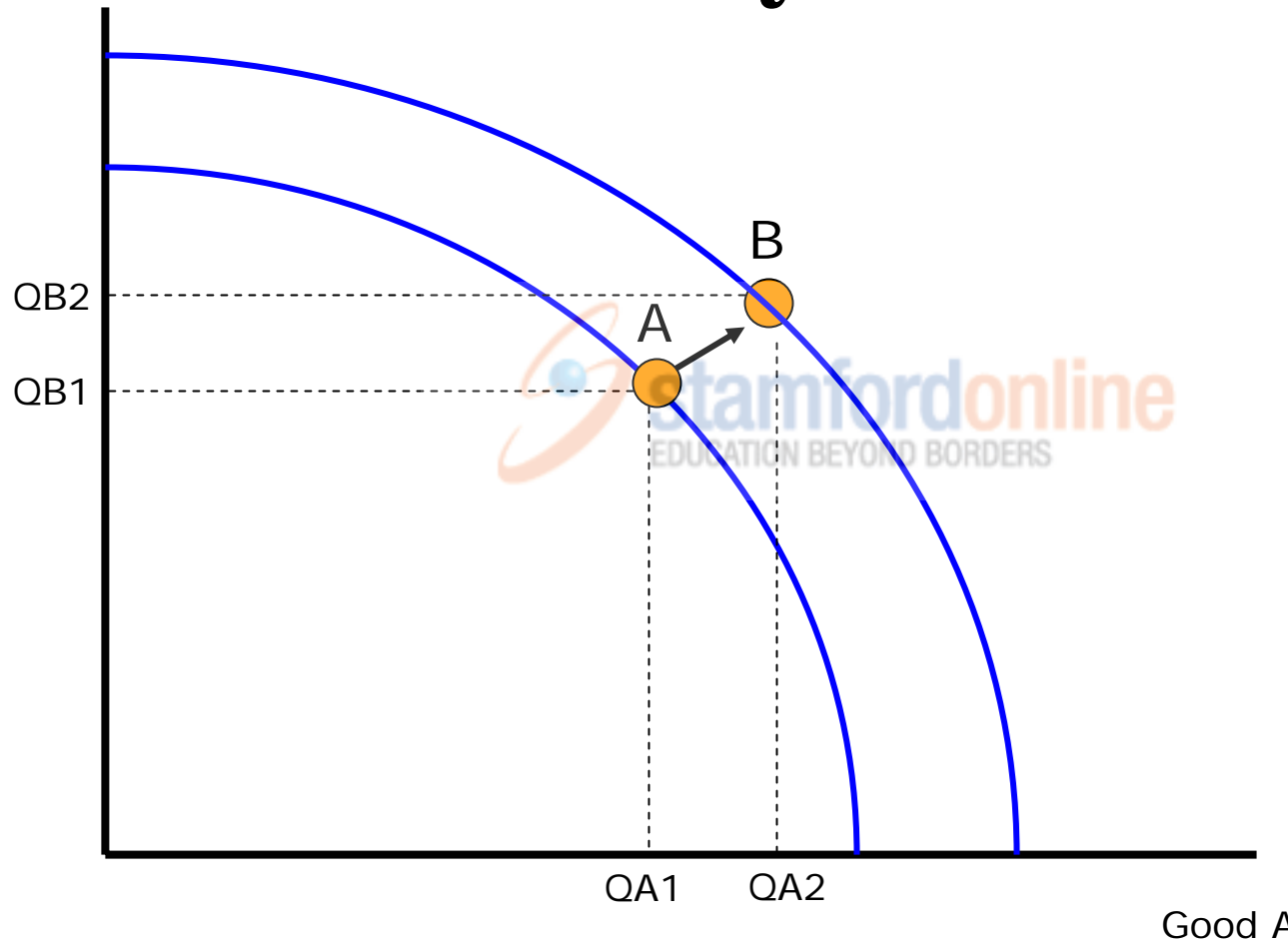
Figure 1

Shift of Production Possibility



Growth and Production Possibility Frontiers

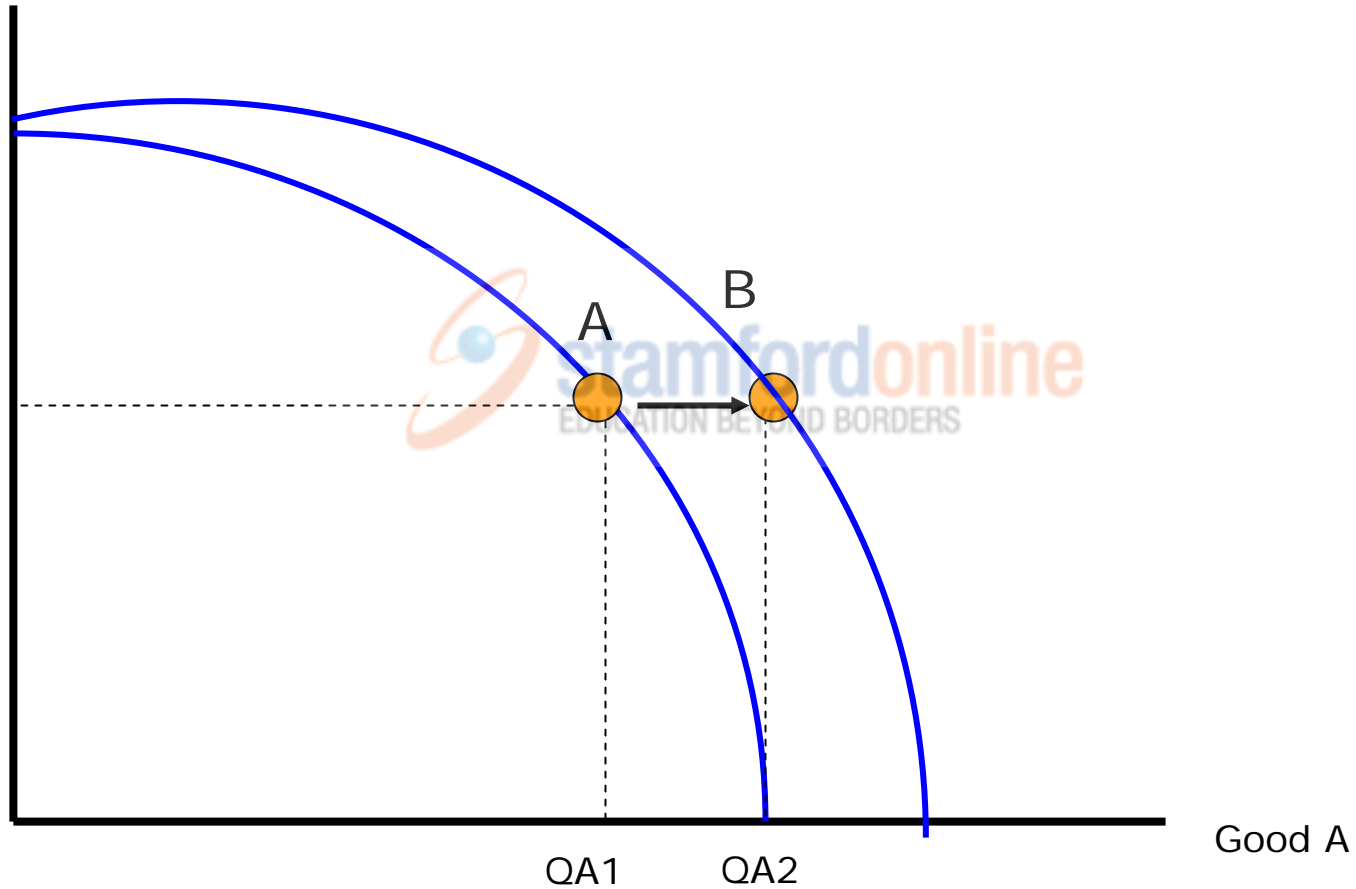
GOOD B



Good A

Technological Improvement in Production of Good A

Good B



Production Efficiency

- **Production efficiency** means that more of one good cannot be produced without decreasing the production of another good. Production efficiency occurs only when production takes place on the frontier line. Because another good must be given up, there is a **tradeoff**.
- If we are at a **point inside the PPF**, such as point X in Fig. 1, production is inefficient because there are unused or misallocated resources.
- Combination F, **point is outside the PPF** – Not sufficient of resources to produce at point F.



Fundamental Economic Problems

- What to produce ?
- How much to produce ?
- How to produce ?
- For whom to produce ?

