

Introduction to Economics

Introduction to Economics – Study Notes

1. What Is Economics?

Aspect	Definition
Broad meaning	The social science that examines how societies allocate scarce resources to satisfy unlimited wants.
Core question	<i>What to produce??—?How to produce??—?For whom to produce?</i>
Key concepts	Scarcity, choice, opportunity cost, trade-offs, incentives.

2. Branches of Economics

Branch	Focus	Typical Topics
Microeconomics	Behavior of individual agents (households, firms, markets).	Supply & demand, consumer theory, production theory, market structures, welfare analysis.
Macroeconomics	Aggregate economy-wide phenomena.	GDP, inflation, unemployment, fiscal & monetary policy, economic growth, international trade.
Other sub-fields	<i>Behavioral, development, environmental, health, industrial organization, public finance, etc.</i>	

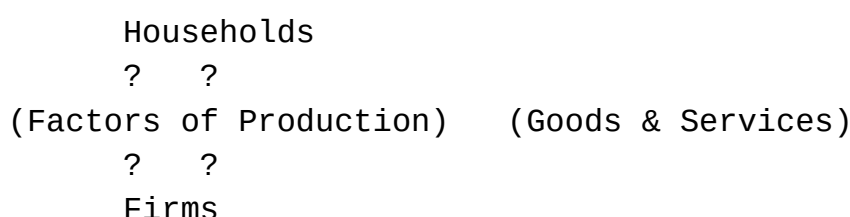
3. Fundamental Economic Principles

Principle	Explanation	Example
Scarcity	Resources (land, labor, capital, entrepreneurship) are limited relative to wants.	A country cannot produce infinite cars because it has limited factories and workers.

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Principle	Explanation	Example
Opportunity Cost	The value of the best alternative foregone when a decision is made.	Choosing to study economics instead of engineering costs the future engineering salary you could have earned.
Marginal Analysis	Decisions are made by comparing additional (marginal) benefits and costs.	A bakery bakes a 101st loaf only if the extra profit exceeds the extra cost of ingredients and labor.
Incentives	People respond to changes in costs and benefits.	A tax on cigarettes raises the price, reducing consumption.
Trade-offs	Achieving one goal often requires sacrificing another.	Higher economic growth may increase pollution unless mitigated.
Efficiency vs. Equity	Efficiency: maximizing total output. Equity: fair distribution of resources.	Free-market outcomes can be efficient but may require redistribution for equity.

4. The Economic Model: The Circular Flow



- **Households** supply labor, land, and capital to firms and receive wages, rent, interest, and profit.
 - **Firms** use these factors to produce goods/services, which they sell to households.
 - The model can be expanded to include **government** (taxes, spending), **foreign sector** (exports/imports), and **financial markets** (savings & investment).
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5. The Economic Way of Thinking

1. **Start with a question** – e.g., “Why do prices rise?”
2. **Build a simple model** – identify agents, constraints, and objectives.
3. **Derive predictions** – use logic or mathematics to see what the model implies.
4. **Test against data** – compare predictions with real-world observations.

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5. **Refine the model** – add realism (e.g., imperfect information) if needed.

6. Key Economic Variables

Variable	Symbol	What It Measures
Gross Domestic Product (GDP)	(Y) or (GDP)	Total market value of final goods & services produced in a period.
Price Level	(P)	Average price of a basket of goods (e