

Introduction to Economics

Introduction to Economics – Study Notes

1. What Is Economics?

- **Definition:** The social science that examines how individuals, firms, and societies allocate scarce resources to satisfy unlimited wants.
 - **Core Problem:** *Scarcity* – limited resources vs. infinite needs.
 - **Goal:** Understand decision-making and the outcomes (production, distribution, and consumption) that result.
-

2. Two Main Branches

Branch	Focus	Typical Questions
Microeconomics	Behavior of individual agents (households, firms, markets)	How do consumers decide what to buy? How do firms set prices?
Macroeconomics	Aggregate economy-wide phenomena	What determines national output? How is unemployment measured? How do fiscal and monetary policies affect growth?

3. Fundamental Concepts

Concept	Explanation	Example
Opportunity Cost	The value of the next best alternative forgone when a choice is made.	Choosing to study economics instead of a part-time job costs the wage you could have earned.
Marginal Analysis	Decisions are made by comparing additional (marginal) benefits to marginal costs.	A bakery decides whether to bake one more loaf by weighing extra revenue vs. extra flour and labor.
Supply & Demand	Interaction of sellers' willingness to provide a good (supply) and buyers' willingness to purchase it (demand) determines market price and quantity.	A rise in smartphone demand pushes prices up, encouraging firms to produce more.

Introduction to Economics

Concept	Explanation	Example
Equilibrium	The point where quantity supplied equals quantity demanded; market clears.	At \$300 per TV, the number of TVs consumers want equals the number producers are willing to sell.
Elasticity	Measures responsiveness of quantity demanded or supplied to changes in price, income, or other factors.	If a 10% price drop leads to a 20% increase in sales, demand is price elastic.
Market Failure	Situations where markets alone do not allocate resources efficiently (e.g., externalities, public goods, information asymmetry).	Pollution from a factory imposes health costs on nearby residents—an externality.

4. Economic Systems

System	Ownership of Resources	Decision Making	Typical Example
Traditional	Communal, based on customs	Customary, slow to change	Indigenous societies
Command (Planned)	State-owned	Central planners set output & prices	Former Soviet Union
Market (Capitalist)	Private ownership	Prices set by supply & demand	United States
Mixed	Combination of private & public	Both markets and government intervene	Most modern economies (e.g., Canada, Germany)

5. Key Economic Indicators

Indicator	What It Measures	Why It Matters
GDP (Gross Domestic Product)	Total market value of all final goods/services produced in a period	Shows overall economic activity & growth
Unemployment Rate	Share of labor force without a job but actively seeking work	Reflects labor market health

Introduction to Economics

Indicator	What It Measures	Why It Matters
Inflation Rate (CPI)	Percentage change in price level of a basket of goods	Indicates purchasing power stability
Balance of Payments	Record of a country's transactions with the rest of the world	Shows external sustainability
Interest Rates	Cost of borrowing money	Influences investment, consumption, and inflation

6. The Economic Way of Thinking

1. **Model Building** – Simplify reality with assumptions to analyze cause?