

Overview of Economics

Overview of 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 Question:** *What to produce? How to produce? For whom to produce?*
 - **Key Concepts:** Scarcity, choice, opportunity cost, marginal analysis.
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2. Major Branches

Branch	Focus	Typical Topics
Microeconomics	Behavior of individual agents (consumers, firms, markets)	Supply & demand, elasticity, consumer theory, production theory, market structures, welfare analysis
Macroeconomics	Aggregate economy-wide phenomena	GDP, inflation, unemployment, fiscal & monetary policy, economic growth, business cycles, international trade & finance
Econometrics	Quantitative measurement of economic relationships	Regression analysis, hypothesis testing, time series, panel data
Development Economics	Economic progress in low-income countries	Poverty, inequality, institutions, aid, growth strategies
Behavioral Economics	Psychological influences on economic decisions	Heuristics, biases, prospect theory, nudges

3. Fundamental Principles (Micro)

1. **Scarcity & Choice** – Limited resources force trade-offs.
2. **Opportunity Cost** – Value of the best alternative foregone.
3. **Marginal Thinking** – Decisions made at the margin (incremental changes).
4. **Incentives** – Behavior responds to changes in costs or benefits.
5. **Trade & Specialization** – Gains from exchange arise when parties specialize according to comparative advantage.

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6. **Markets & Efficiency** – Competitive markets allocate resources efficiently under certain conditions.
 7. **Government Intervention** – Market failures (externalities, public goods, information asymmetry) may justify policy action.
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4. Supply & Demand Framework

Element	Description	Law
Demand	Quantity consumers are willing & able to buy at each price	Law of Demand: Downward sloping; higher price ? lower quantity demanded
Supply	Quantity producers are willing & able to sell at each price	Law of Supply: Upward sloping; higher price ? higher quantity supplied
Equilibrium	Intersection of supply & demand curves	Determines market price & quantity
Shifts	Factors other than price (income, technology, preferences, input costs)	Move the entire curve left/right

Key tools: Price elasticity, income elasticity, cross-price elasticity, consumer/producer surplus.

5. Market Structures

Structure	Number of Firms	Product Differentiation	Price Setting	Typical Example
Perfect Competition	Many	Homogeneous	Price taker	Agricultural markets
Monopolistic Competition	Many	Differentiated	Some price power	Restaurants, apparel
Oligopoly	Few	May be homogeneous or differentiated	Strategic interaction (game theory)	Airlines, telecom
** monopoly**	One	Unique	Price maker	Utilities, patents

Key outcomes: Efficiency, deadweight loss, role of barriers to entry.

6. Macroeconomic Aggregates

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Aggregate	Measurement	Importance
Gross Domestic Product (GDP)	Value of all final goods & services produced within a country in a period	Indicator of economic activity
Unemployment Rate	% of labor force without work but actively seeking	Labor market health
Inflation (CPI, PPI)	Rate of price	