INTRODUCTION TO ECONOMICS

[Unit 1] [Part 1]

Mind-Hub | **Econ-Hub** | **Theory**
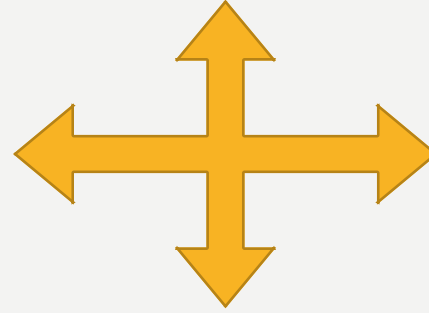
BASIC ECONOMICS SYLLABUS OUTLINE [NEW]

[Unit 1]   Introduction to Economics   [50 Study Periods]

- Defining Economics and Basic Economic Concepts

- Production Possibilities Model [PPM]

- Economic Systems and Solving Basic Economic Problems

[1.1] Introduction:

ECONOMICS

WEALTH

HUMAN BEHAVIOR

CENTRAL PROBLEM

'SCARCITY OF RESOURCES'

ECONOMIC PROCESS

CONSUMPTION

PRODUCTION

EXCHANGE

SM (B1) Page: 3

[1.2] DEFINING ECONOMICS [SCARCITY BASED DEFINITION]:

According to Prof. Lionel Robbins; **"Economics is the science that studies human behavior as a relationship between ends and scarce means which have alternative uses."**

Economics in simple terms is a study of the ways in which people provide for their welfare or satisfaction.

Key Questions [lets understand our definition]:

SM (B1) Page: 3

WHAT IS ECONOMICS ?

SM (B1) Page: 4

1. **Science**
2. **Human Behavior**
3. **Ends**
4. **Scarce means**
5. **Alternative uses**

(1) Science:

✓ All economic theories, concepts and laws are constructed using the **'Scientific Methodology'**

✓ We explain things using 'Logical Conclusions' reached based on 'Experiments and Observations'

(2) Human Behavior:

Economics is a dynamic '**Social Science**' (not a natural science), focusing on **physical** and **financial human needs** and **decision making** (behavior).

WHAT IS ECONOMICS ?

SM (B1) Page: 4

1. **Science**
2. **Human Behavior**
3. **Ends**
4. **Scarce means**
5. **Alternative uses**

(3) Ends:

(4) Scarce means:

WHAT IS ECONOMICS ?

SM (B1) Page: 4

1. **Science**
2. **Human Behavior**
3. **Ends**
4. **Scarce means**
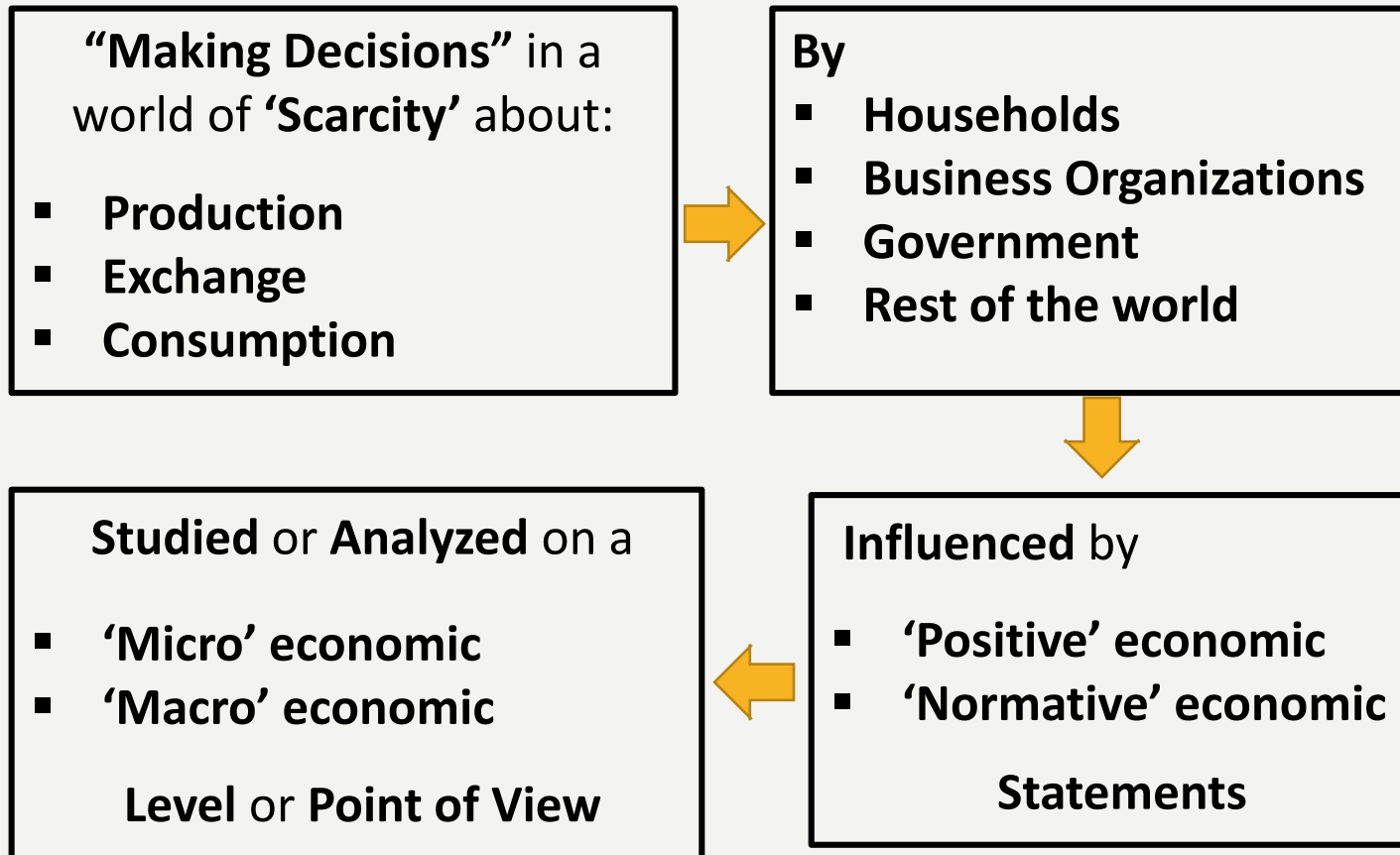5. **Alternative uses**

(5)   Alternative uses:

Scarce resources have many possible (alternative) uses, makes **Choice** (trade-off) unavoidable and creating **Opportunity Cost**.

Key Points:

- Human beings have unlimited number of wants. Resources are limited or scarce in supply. Thus the attainable amount of commodities and service are subject to scarcity.

- There must be an efficient utilization of limited resources

[Source: P.Perera, 2020; p4]

[1.3] WHAT DO WE REALLY LEARN IN ECONOMICS…

"Making Decisions" in a world of **'Scarcity'** about:

- **Production**
- **Exchange**
- **Consumption**

→

By
- **Households**
- **Business Organizations**
- **Government**
- **Rest of the world**

↓

Influenced by

- **'Positive' economic**
- **'Normative' economic**

Statements

←

Studied or **Analyzed** on a

- **'Micro' economic**
- **'Macro' economic**

Level or **Point of View**

The Central Economic Problem

Resource **Scarcity**
+
Alternative Uses
↓
Problem of Choice
↓
Opportunity Cost

SM (B1) Page: 6

THE CIRCULAR FLOW OF INCOME – EXPENDITURE MODEL
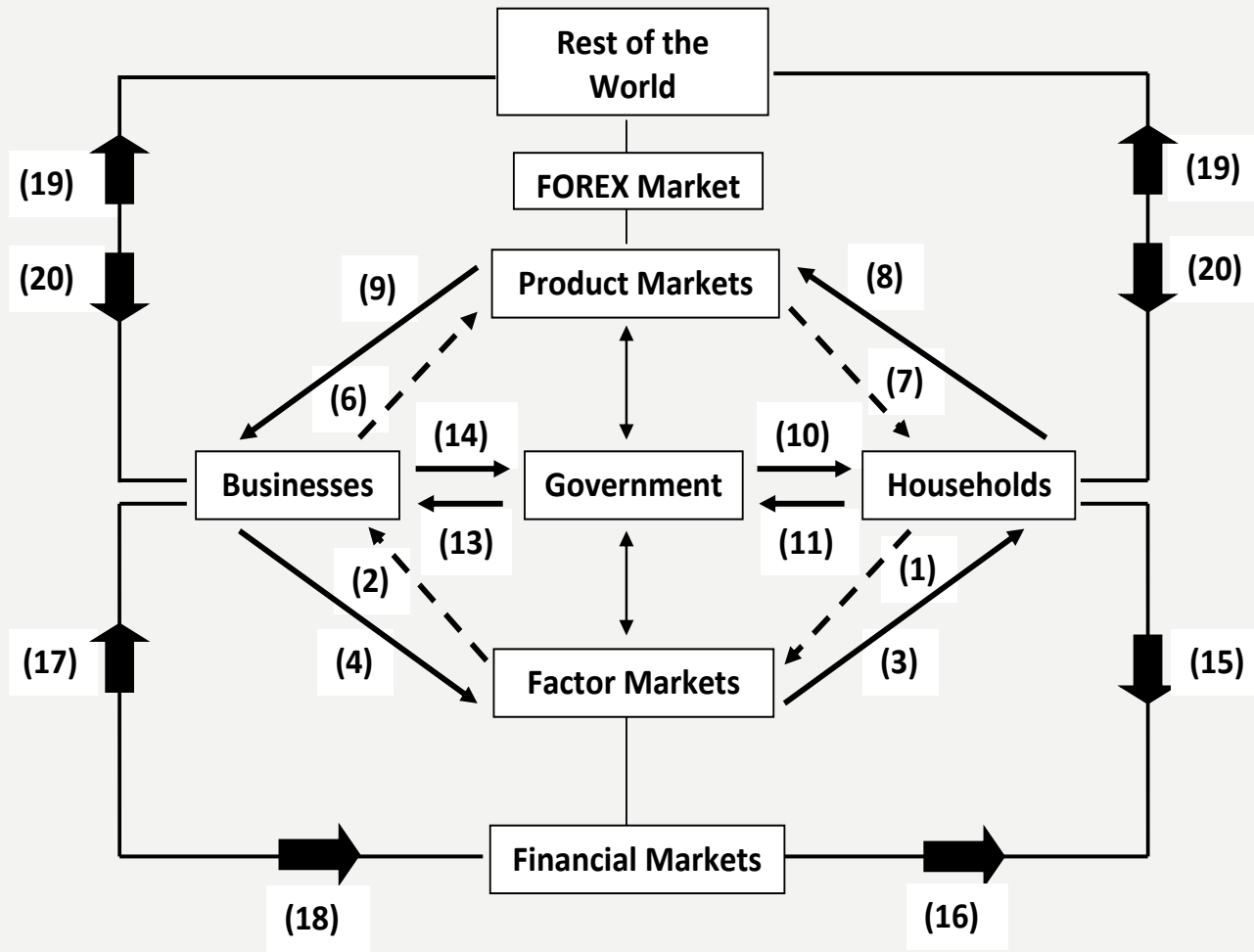
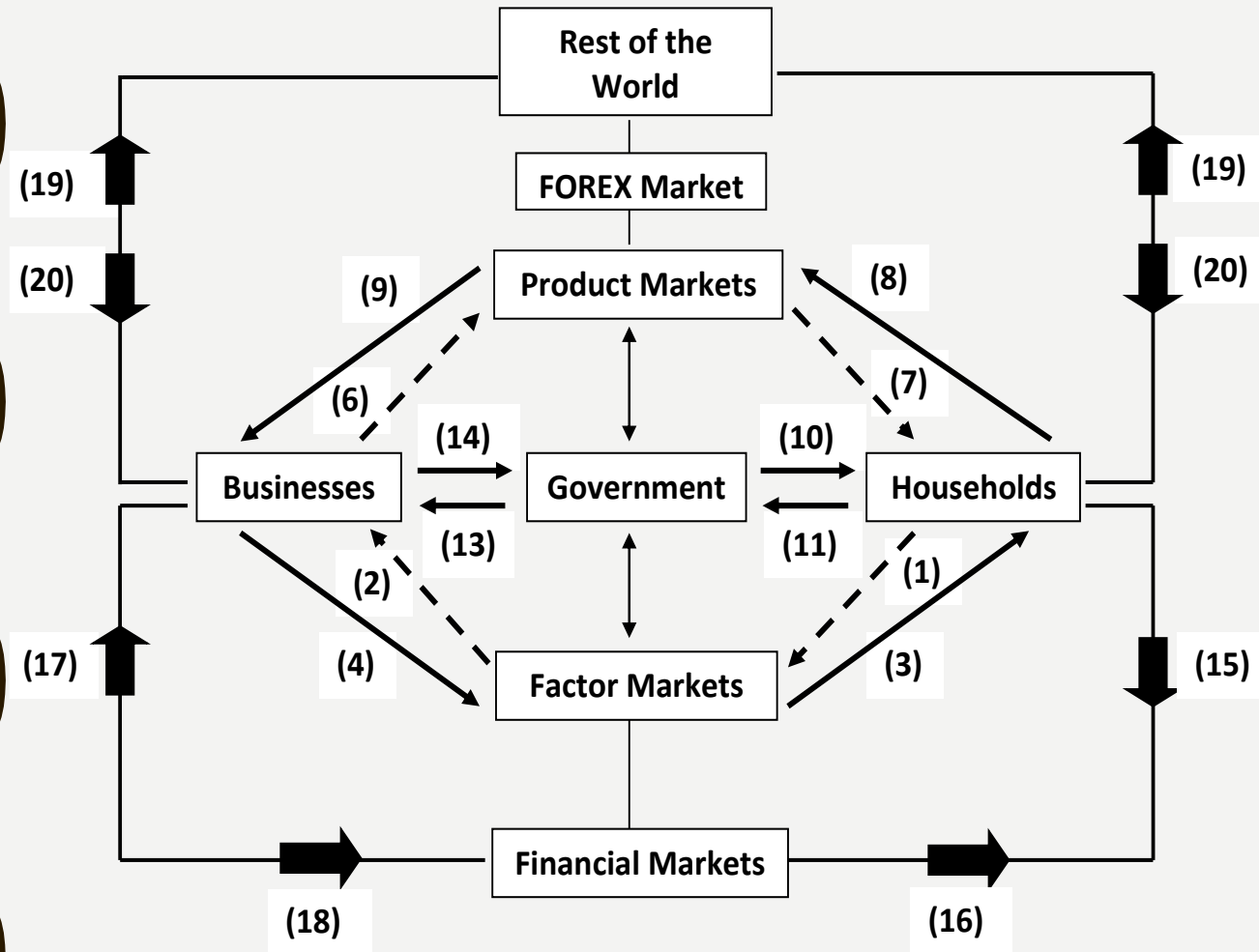

[SM (B1) Page: 7]

Lets understand the Model

Households [Right-side]

Businesses [Left-side]

L,L,C : Land, Labour and Capital   **R,W,I :** Rent, Wages and Interest

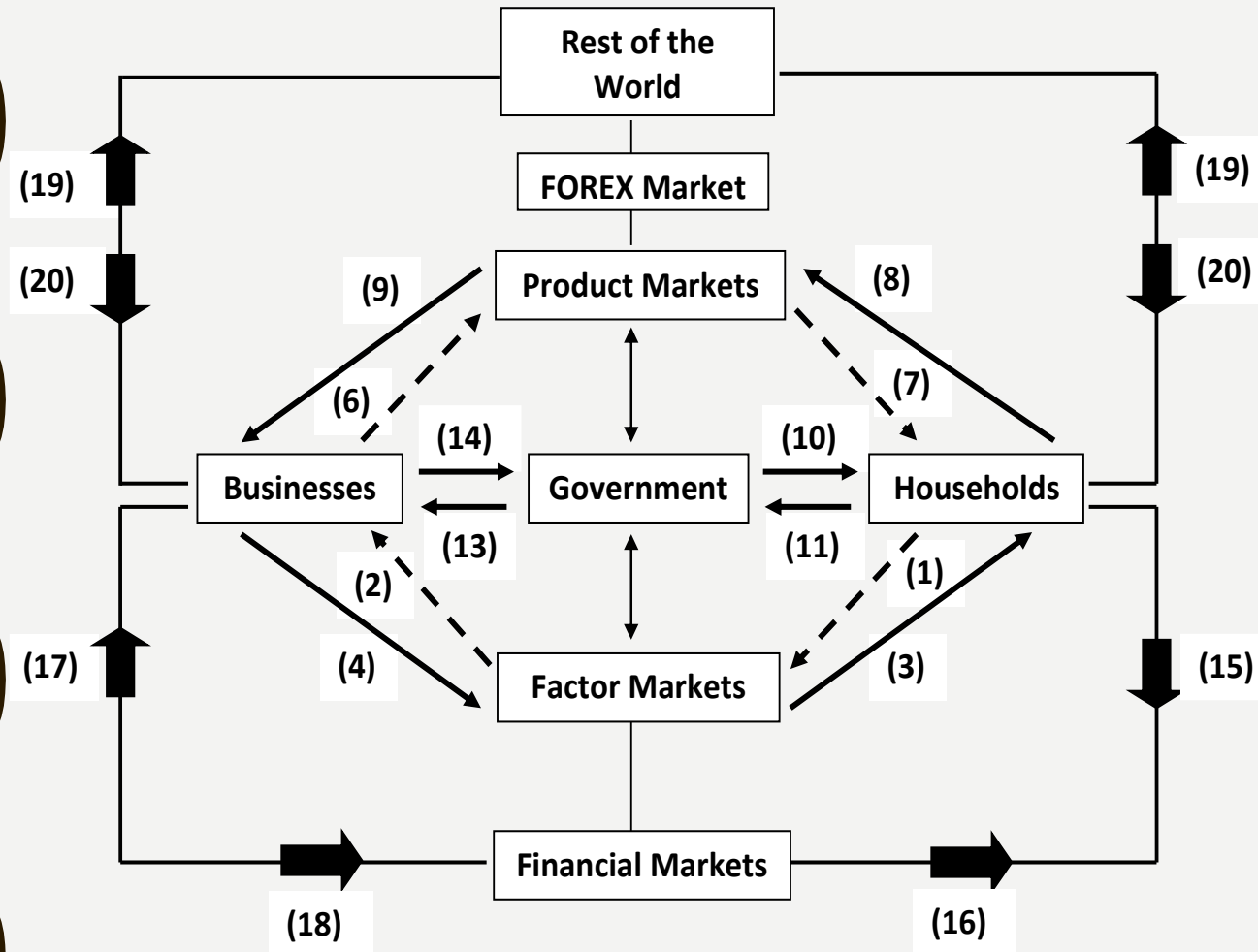# THE CIRCULAR FLOW OF INCOME – EXPENDITURE MODEL

[SM (B1) Page: 7]

Lets understand the Model

Households [Right-side]

Businesses [Left-side]

*(5) Production process

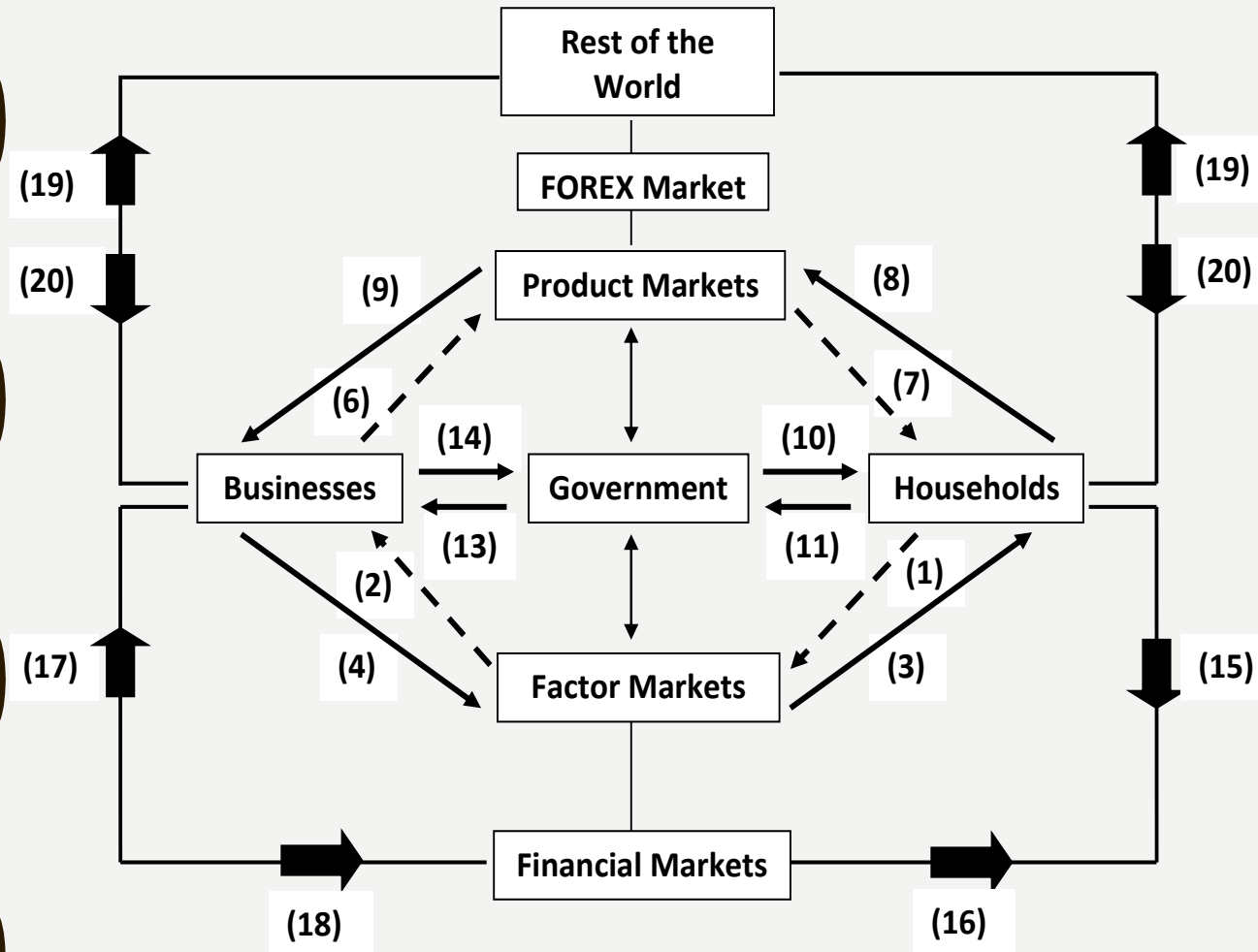# THE CIRCULAR FLOW OF INCOME – EXPENDITURE MODEL

[SM (B1) Page: 7]

Lets understand the Model

Government
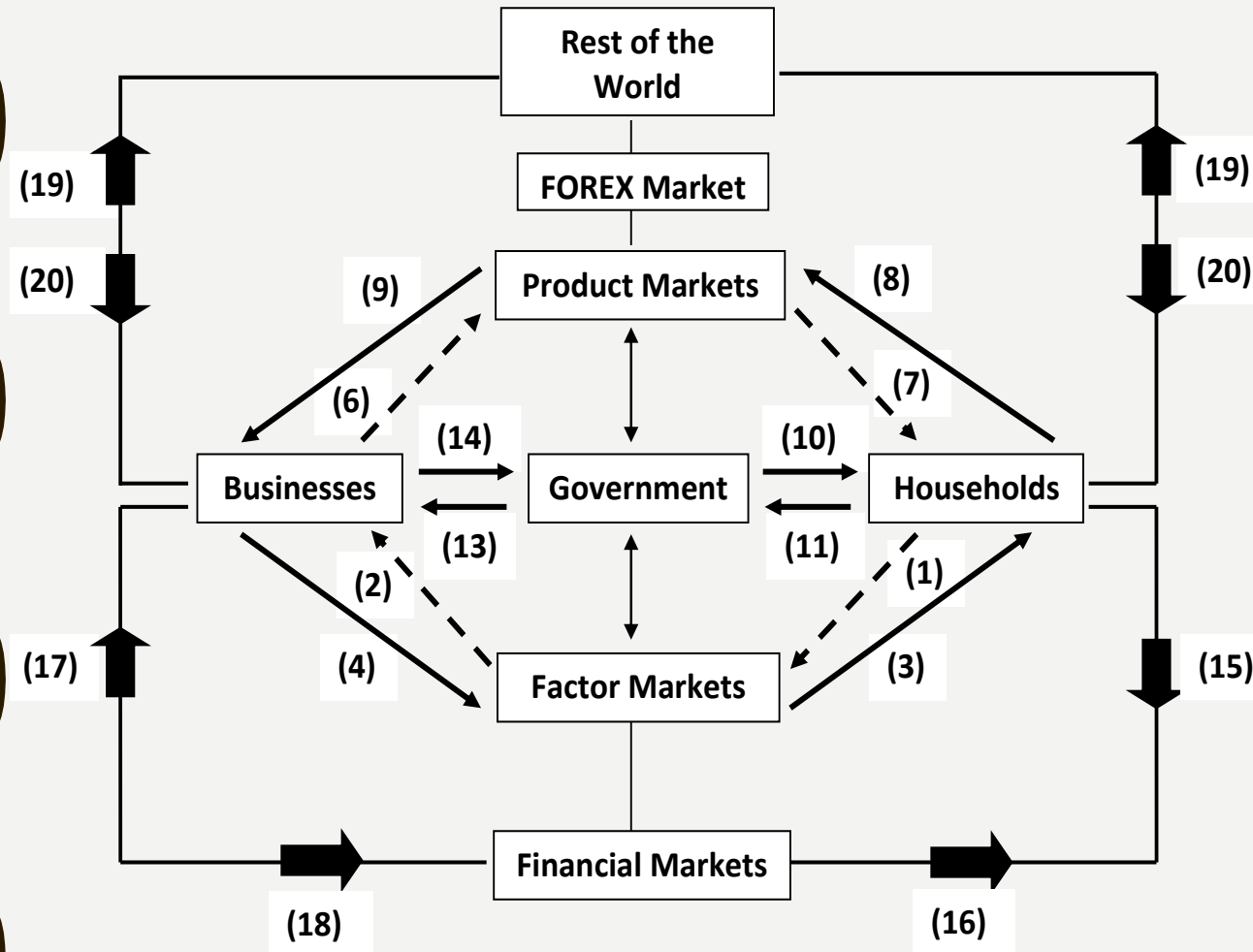
THE CIRCULAR FLOW OF INCOME – EXPENDITURE MODEL

[SM (B1) Page: 7]

Lets understand the Model

Financial Market Interactions

THE CIRCULAR FLOW OF INCOME – EXPENDITURE MODEL

[SM (B1) Page: 7]

Lets understand the Model

Rest of the World

FOREX Market

Demanding and supplying foreign currency (FOREX) in return for domestic currency for Importing and exporting