

# **INTRODUCTION TO ECONOMICS**

**[Unit 1] [Part 2]**

**Mind-Hub**

**Econ-Hub**

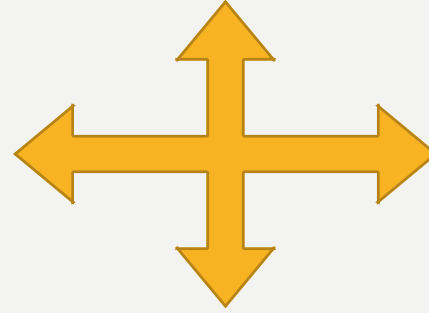
**Theory**

[1.1] Introduction:



# ECONOMICS

**WEALTH**



**HUMAN  
BEHAVIOR**

**CENTRAL PROBLEM**

**'SCARCITY OF RESOURCES'**



**ECONOMIC PROCESS**

**CONSUMPTION**

**PRODUCTION**



**EXCHANGE**



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## RECAP

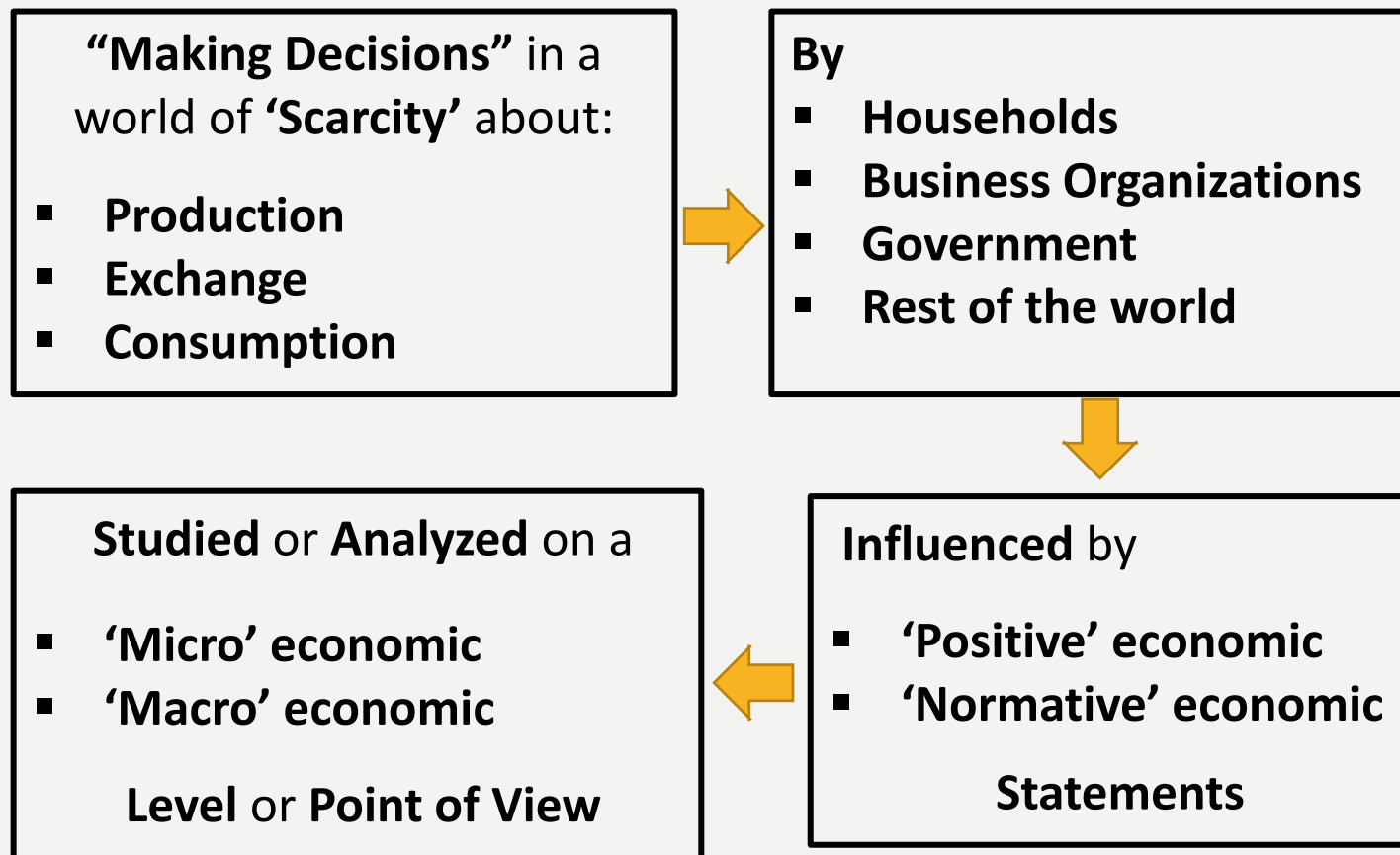
# [1.2] DEFINING ECONOMICS [SCARCITY BASED DEFINITION]:

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.

 **RECAP**

# [1.3] WHAT DO WE REALLY LEARN IN ECONOMICS...

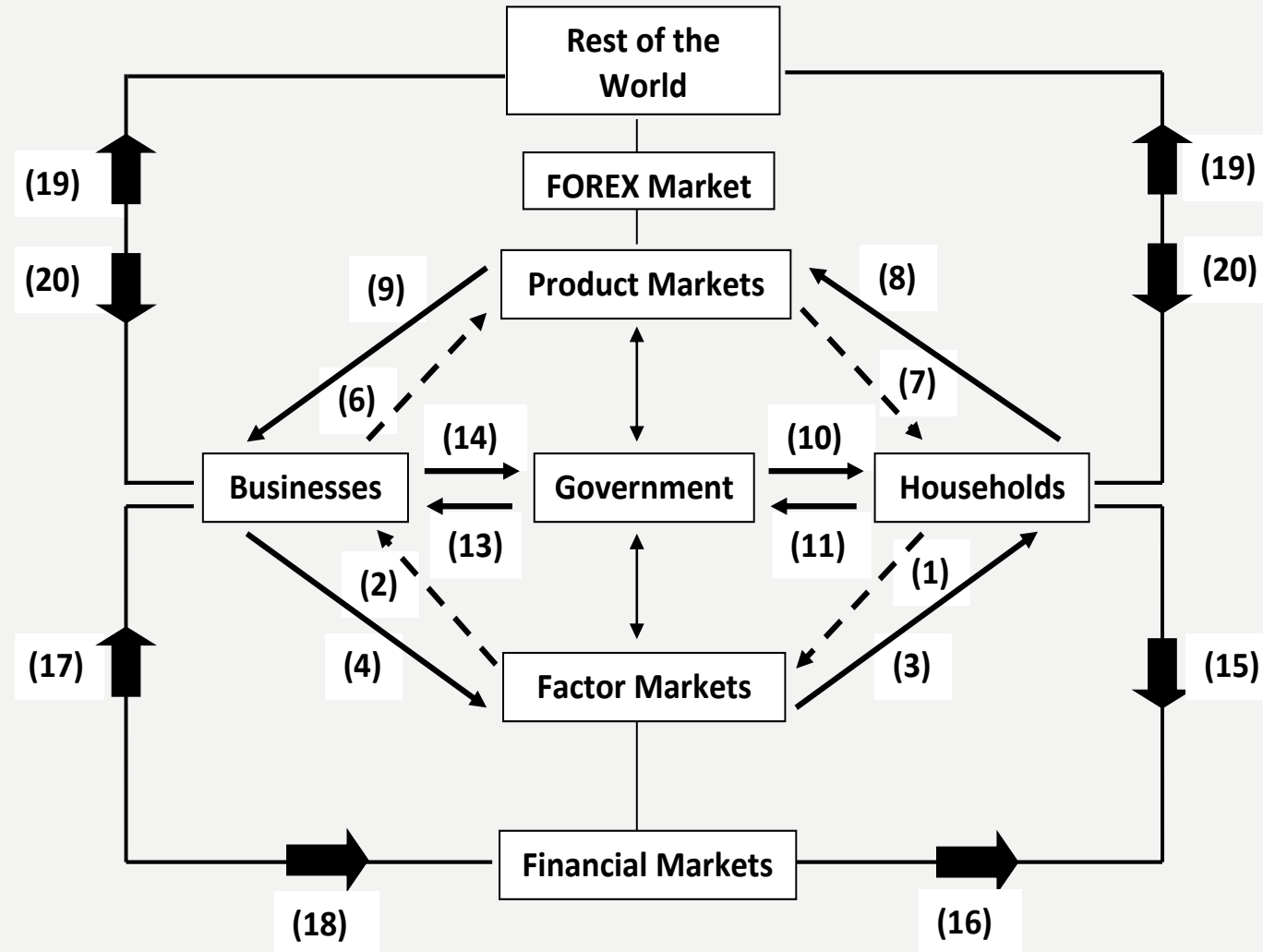


## The Central Economic Problem

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

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# THE CIRCULAR FLOW OF INCOME – EXPENDITURE MODEL



# [1.4] POSITIVE AND NORMATIVE STATEMENTS

- **Positive** economic statements are highly 'objective' nature statement, which can be tested: proven, corrected or disproven, using the available actual evidence and logical thinking (i.e. using the scientific method).
- Positive economics or statements focus on explaining or answering questions such as 'what was' (the past), 'what is' (the present) or 'what might be' (the future).

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# **[1.4] POSITIVE AND NORMATIVE STATEMENTS**

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# NORMATIVE STATEMENTS

- Normative economic statements are highly 'subjective' nature statements, which are based on an opinion and generally have value judgements.
- Normative statements involve the opinions: ethics, believes, values and norms of the person or institution making the statement.
- These statements tend to suggest what 'should' be done or how the economy should be. Normative statements always has a personal value judgement or opinion (such as the word 'should') and will be more focused on economic policies.

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# POSITIVE VS. NORMATIVE

## Positive [Common Words]

- Was or wasn't
- Has or Hasn't
- May or May not
- Shall or shall not

**Vs.**

## Normative [Common Words]

- Should or Shouldn't
- Good or Bad
- Right or Wrong
- Faire or Unfair

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# EXAMPLES

Positive	Normative
High interest rates may encourage people to save more	
A high tax on tobacco has discourage smoking	
Color coding of soft drinks based on sugar level has no impact on the demand for soft drinks	
Capital Punishment may help reduce drug related major crimes	

# [1.5] MICROECONOMICS AND MACROECONOMICS

## 'MICRO' economics:

- Microeconomics is the branch of economics which studies the economic behavior of 'individual decision making units in an economic system such as consumers, labourers, resource or factor owners, business firms and government
- In microeconomics we study the inter-relationship between these units and determine the patterns of production and distribution of goods and services.

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# [1.5] MICROECONOMICS AND MACROECONOMICS

**'MACRO' economics:**

- In macroeconomics we very closely observe an economy's structure, performance and behavior of an 'aggregate' basis.
- This branch of economics focuses on concepts such as circular flow model, business cycle, national income, unemployment, inflation and exchange rates

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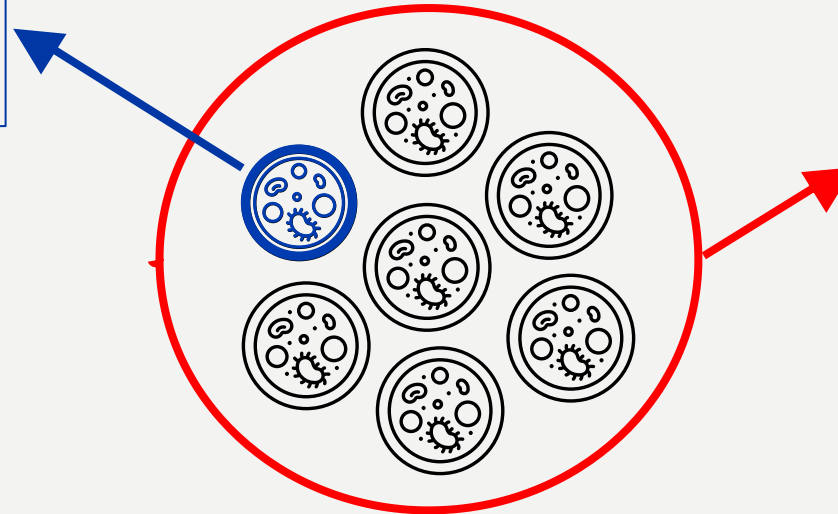
# MICROECONOMIC VS. MACROECONOMIC ANALYSIS



## Microeconomic Analysis

- ✓ Market Demand
- ✓ Market Supply
- ✓ Market Price

Of a **given** Good or Service



## Macroeconomic Analysis

- ✓ Aggregate Demand
- ✓ Aggregate Supply
- ✓ General Price Level (Inflation level)

Of **all** Goods and Services

# **ECONOMICS SYLLABUS**

## **(1) Intro to Economics**

### **Microeconomic Units**

### **Macroeconomic Units**

|  
|  
|  
|  
|  
|  
|  
|

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# [1.6] ECONOMICS METHODOLOGY [SCIENTIFIC METHOD]

Main steps to be followed when using the scientific method to explain positive statements or economic theories tend to be:

- Observation and measuring the data that describes the economic variables
- Constructing models (based on dependent and independent variable)
- Testing the model based on empirical (practical or observed) evidence

**Economic models are generally based on the relationship among variables**

Simply: ***Experiment*** (testing), ***observation*** (evidence) and ***conclusion***

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# [1.7] WHY STUDY ECONOMICS

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# **[1.7] WHY STUDY ECONOMICS....**

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# **LEARNING KEY [1]**

# **TEST YOUR KNOWLEDGE [TYK] QUESTIONS**

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**“IF YOU CAN BELIEVE,  
YOU CAN ACHIEVE”**