

INTRODUCTION TO ECONOMICS

[Unit 1] [Part 3]

Mind-Hub

Econ-Hub

Theory



RECAP

[1.4] POSITIVE VS. NORMATIVE

Positive Statements: highly 'objective' nature statement, which can be tested: proven, corrected or disproven, using the available actual evidence and logical thinking

Normative Statements: highly 'subjective' nature statements, which are based on an opinion and generally have value judgements.

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



RECAP

[1.5] MICROECONOMIC VS. MACROECONOMIC ANALYSIS



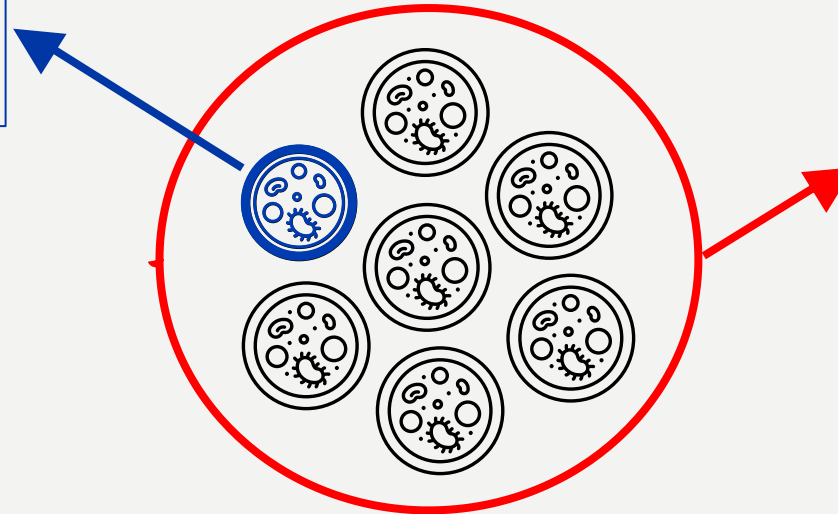
The branch of economics which studies the behavior of the economy as a whole. Simply 'big picture economics'

Microeconomic Analysis

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

Of a **given** Good or Service

The branch of economics which studies the economic behavior of 'individual decision making units in an economic system'



Macroeconomic Analysis

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

Of **all** Goods and Services



ECONOMICS SYLLABUS

(1) Intro to Economics

Microeconomic Units

- (2) **Market Economics**
- (3) **Government Market Intervention**
- (4) **Production and Market Structures Analysis**

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Macroeconomic Units

- (5) **National Accounting Process**
- (6) **Macro. Equilibrium Analysis**
- (7) **Money and Banking**
- (8) **Government Economics**
- (9) **International Trade**
- (10) **International Finance**
- (11) **Growth and Development**
- (12) **Economic Policies**



RECAP

[1.6] ECONOMICS METHODOLOGY [SCIENTIFIC METHOD]

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[1.7] WHY STUDY ECONOMICS

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Note:

Please make sure you have watched the virtual learning sessions [1.1] and [1.2] and covered all the **learning key (1)** areas, using the **recorded catch-up sessions/options** (www.mind-hub.lk)

LEARNING KEY [1]

TEST YOUR KNOWLEDGE [TYK] QUESTIONS

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[2.1] HUMAN NEEDS [DEFINING NEEDS]:

In economics human needs are defined as essential or necessary requirements to live one's life in a socially acceptable manner, as a human being.

- Needs tend to be indispensable
- Humans cannot live or survive in society unless 'Basic' needs are fulfilled

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TYPES OF NEEDS [CLASSIFYING NEEDS]:

[1] Material Needs and Psychological Needs

TYPES OF NEEDS [CLASSIFYING NEEDS]:

[2] Basic Needs and Other Needs

Basic Needs: Food, Clothes, Shelter, health care and basic education

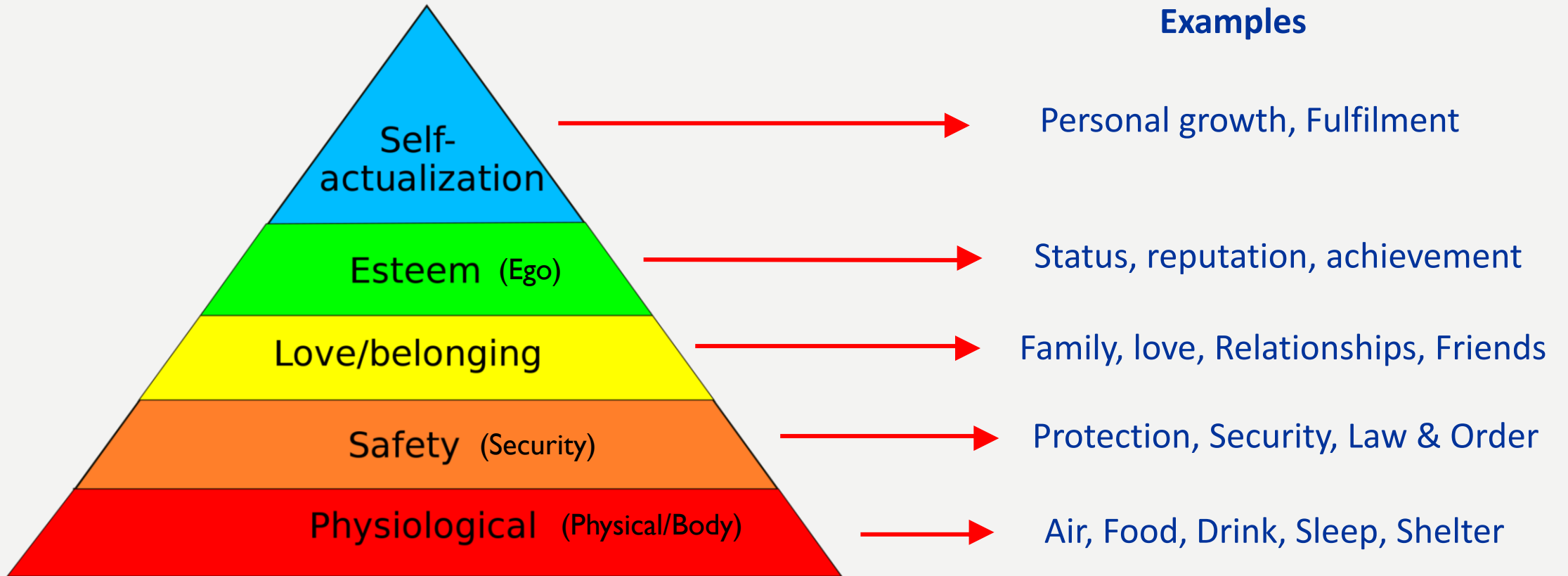
Other Needs: Communication, transportation, safety and security, self-esteem, respect, achieving life goals

[3] Maslow's Hierarchical Needs

The fulfilling human needs is a continuous process, since when one need is fulfilled, another need shall arise. This is because humans continuously look to improve our physical and social standard of life.

These needs we attempt to satisfy one after the other, is outlined through the 'Maslow's Hierarchy of Needs Model', presented by Abraham Maslow

'Maslow's Hierarchy of Needs Model'



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[2.2] HUMAN WANTS [DEFINING WANTS]:

Also important: Needs are essential, and wants are luxuries

MAIN CHARACTERISTICS OF HUMAN WANTS

[1] Unlimited Wants

- At a given point of time, there are many unattained (unsatisfied) human wants, when considering the society of any country as whole.
- When one want is fulfilled, immediately another want(s) is created, generally related to the formerly fulfilled want.
- Factors that determine (make) wants unlimited:

[Source: P. Perera, 2020; p23]

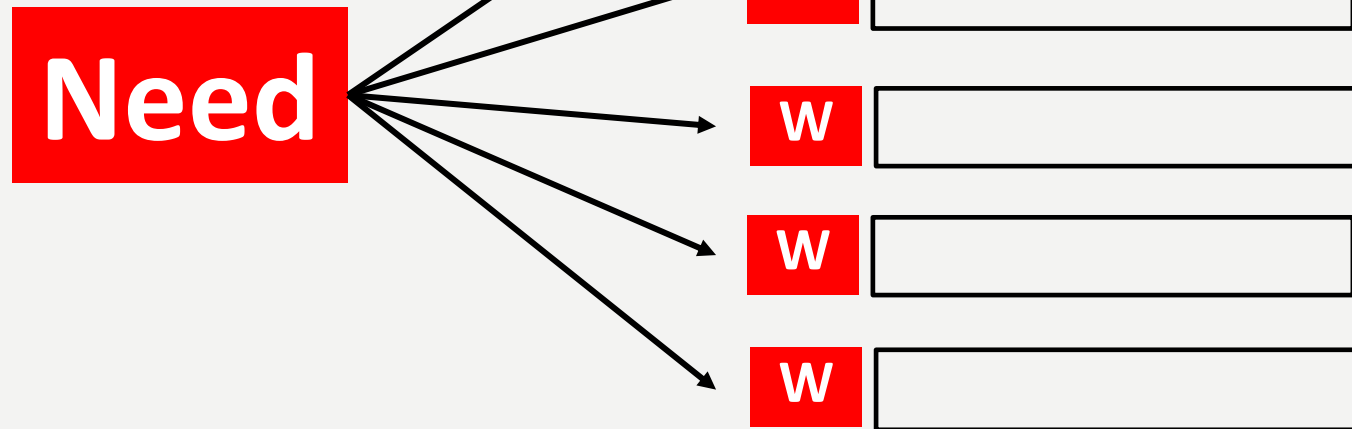
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FURTHER CHARACTERISTICS OF HUMAN WANTS

[2.3] HUMAN NEEDS & WANTS

E.g.

- Food
- Clothes
- Communication
- Transportation
- Entertainment



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[2.4] Needs to 'Satisfaction'

Also Relevant: Law of Diminishing Marginal Utility:

This is where the additional or marginal utility received by consuming an increase number of the same product by one unit at a time on continuous basis tends to gradually decrease or diminish.

THE LAW OF DIMINISHING MARGINAL UTILITY

Burger 1

Eating the first burger gives the consumer a lot of *satisfaction*

(*utility*)



Satisfaction thermometer

Burger 2

Eating a second burger will not give as much *extra satisfaction* as the first did

(*marginal utility*)



Burger 3

Eating a third burger will give even *less extra satisfaction* than eating the second one (*diminishing marginal utility*)



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