

UNIT 1
INTRODUCTION TO ECONOMICS
(ECONOMICS THEORY AS A SCIENCE)

Topics:

- 1. Nature and scope of economics. Definition of economics:
- 2. Subject matter of economics
- 3. Economy and its systems

- **Additional material to Lecture 1 (Unit 1)**
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References:

Primarily

- *Alberto Bisin (2011) Introduction to economic analysis, Dept. of Economics NYU*
- *William A. McEachern (2006) Economics: A Contemporary Introduction, University of Connecticut*
- *Carl Menger (2007) Principles of economics, Ludwig von Mises Institute*

Additional

- (These publications are referred to in the chart by the brief titles shown in bold face)
- **Arthur D. Gayer, C. Lowell Harriss, Milton H. Spencer, Basic Economics: A Book of Readings (New York: Prentice-Hall, Inc., 1951) [Gayer and Others]**
- **Arleigh P. Hess, Jr., Robert E. Gallmann, John P. Rice, Carl Stern, Outside Readings in Economics (New York: Thomas Y. Crowell Company, 1951) [Hess and Others]**
- **Walter Adams and Leland E. Traywick, Readings in Economics: Principles and Problems (New York: The Macmillan Company, 1950) [Adams and Traywick]**
- **Paul A. Samuelson, Robert L. Bishop, John R. Coleman, Readings in Economics (New York: McGraw-Hill Book Co., Inc., 1952) [Samuelson and Others]**

1. Nature and scope of economics.

Definition of economics:

- **WITH** this sentence many of you begin your first study of Economics. You are about to spend time, effort, and money to gain an understanding of this subject. Do you know what you are buying? If you do, you are unusual. Just what is economics? What can you do with an understanding of economics that you cannot do without it? Why should anyone study economics? This chapter is designed to give you a first, brief answer to each of these questions.

WHAT IS ECONOMICS?

- **A preliminary definition.**
- Economics is a study of the ways in which people use resources to satisfy their wants. The word *wants* requires little explanation. All of us want the food, clothing, and shelter that we need to stay alive. But most of us (even college teachers!) want much more. We want cars, television sets, vacation trips—in fact, our capacity to want is almost unlimited. In contrast, the things we want are always limited in quantity. Even in a wealthy country like the United States there is never enough of everything to satisfy all the wants of every person in the country. How to narrow this gap between what people want and what they are able to get is the basic problem studied in economics. We shall refer to this problem as the problem of scarcity.



Narrowing the gap.

- There are two ways to narrow the gap. One is to want less; the other is to get more. Poets, philosophers, the proponents of various religions, and employers often counsel us to follow the first way. History shows that we have usually attempted the second way, the way of getting more, with varying and not-easily-measured degrees of success. The economist cannot say which way is the better. His studies, however, are limited to the second way, to the method of getting more rather than to the method of wanting less.

Getting more of what?

- The economist limits his studies to the attempts of people to get more of the things they want. But even in this limited area there are things which are outside his field of study. For reasons that will be made clear as we proceed, the economist confines his attention to those things which are exchanged. Useful, scarce goods which can be exchanged are called *economic goods*. All other goods are called *noneconomic goods*.
- Many of the things which satisfy human wants cannot be exchanged – the physical potential to play football, the liking of one's friends, the love of family members, etc. It may well be that these sources of satisfaction are more important than the ones which can be exchanged, the ones which the economist studies. However, most people seem to prefer some combination of economic and noneconomic goods.
- We now have limited the economist to a study of how people go about getting more economic goods – more food, clothing, and shelter, new cars, television sets, etc. Does goods this mean that each of you can learn how to get more of these things by studying economics? Unfortunately, the answer to this question is, “no.”
- People who do not understand this often ask us, “You're economists; why aren't you rich?” We regret even more than you do that we cannot tell you how to get rich. What do we mean, then, when we say that economics is a study of the method of getting more? We mean that economics is a study of how groups of people organize the use of resources to accomplish this goal. Let us take a closer look at what this means.

Definition of economics:

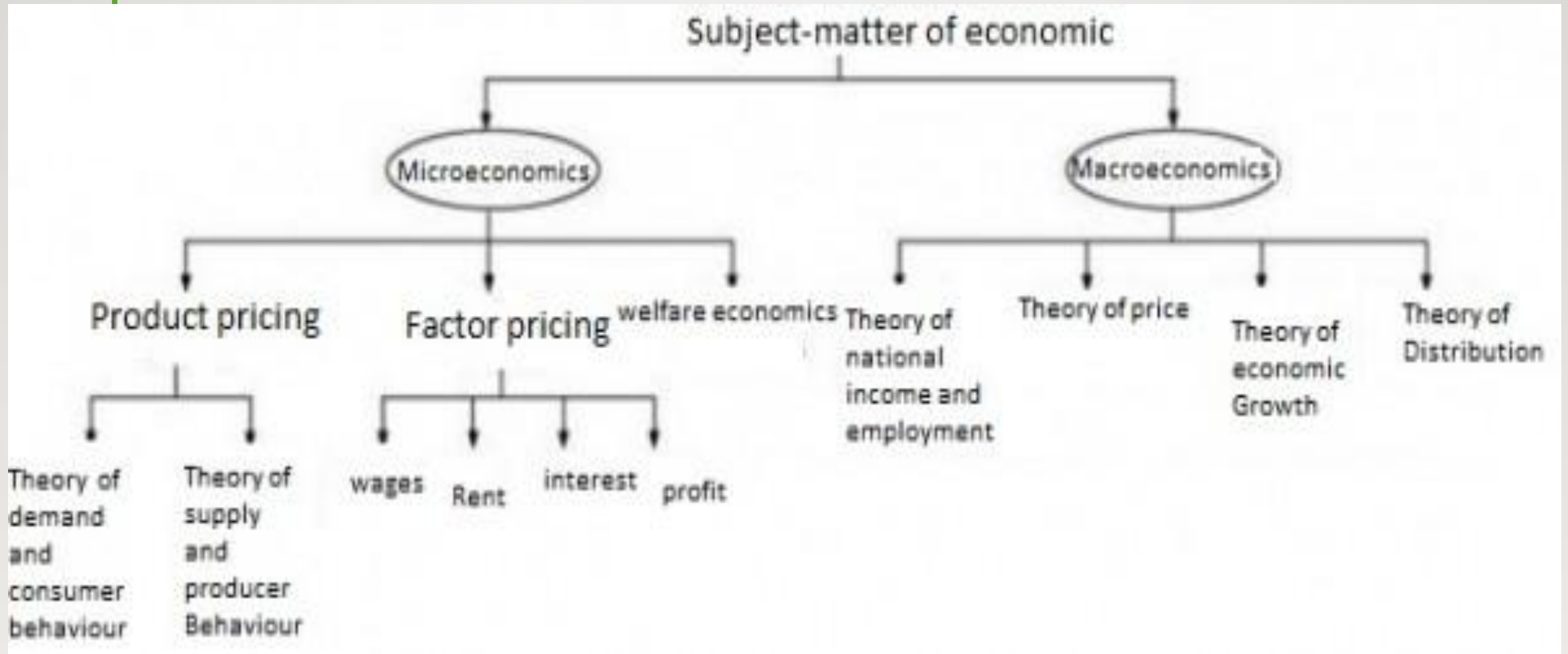
- – **Wealth definition (1776)** of economics (Adam Smith). According to him, According to A. Smith, economics is that subject which studies “The nature and causes of wealth of nations”. It’s means simply the “**Origin of wealth of nations**”.
- During the long period of time, this definition was considered to be a good definition of economics.
- But after classic period (A. Smith and Davis Ricardo), the neoclassic school was to say that A. Smith was give no efficient definition, considering only one category (Wealth). It means that this definition has been criticized and rejected was not accepted by neoclassic ([Léon Walras](#), [Carl Menger](#), [William Stanley Jevons](#), etc.,
- One more definition which we call *welfare definition*

- – **Welfare definition of economics (1890) (Alfred Marshall)**. This definition was given by **Alfred Marshall**. According to this definition, economics is that science which studies the *ordinary business of life of person*. According to A. Marshall economics *examines step by step human and social actions which is most closely related to the material requirements*.
- **Welfare definition (1890)** – “*Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of material requisites of wellbeing*”.
- **It is one side a study of wealth; and on the other side, a study of human welfare based on wealth.**
- And this is second definition was given by A. Marshall, But during the long period of time this definition was also criticized by economists on the basis of Material. Because according to them A. Marshal consider only the material thing as the origin of welfare of economics and ignored another part that we called services. And they really noted that in another countries services is more important that material; production (e.g. the service of doctor, the services of engineers, in a service of the teacher, etc).

- Then, one more definition of economics was given by **Lionel Robbins**.
- – **The definition given by Robbins (1932) (The Scarcity definition)** was considered as very important, and we can say more scientific definition of economics. According to professor Robbins **“Economics is that science which studies the relationship between ENDS, LIMITED RESOURCES which ALTERNATIVE USES.**
- **For his definition, Robbins took three categories – Ends, Limited resources, and alternative uses).**
- **Robbins emphasized on “choice under scarcity”. In his own words, “Economics is concerned with that aspect of behavior which arises from the scarcity of means to achieve given ends”.**

- Another economist who proposed another definition is **Paul Anthony Samuelson**.
- –he definition of Samuelson is known as **Growth definition of economics (1948)**. Samuelson was simply developed the definition given by Robbins. He was developed the Scarcity definition and said that – *“Economics is the study of how men and society choose with or without the use of money, to employ the scare productive resources which have alternative uses, to produce various commodities over time and distribute them for the consumption now and in future among various people and groups of society. It analyses the costs and benefits of improving pattern of resource allocation”*.
- The definition given by Samuelson introduced the dimension of growth under scare situation.
- **So, let’s go to do the main conclusion of the concepts of economics.**
- The economics means – **MAKING OF CHOICE IN PRESENCE OF SCARCITY** – This the main conclusion of all definitions.
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2. Subjects and methods of economics



Macro-economic Theory

Theory of
Income &
Employment

Theory of
General Price
level &
Inflation

Theory of
Economic
Growth &
Development

Theory of
Distribution
(Showing
relative shares
of factors of
production)

Theory of
Consumption
Function

Theory of
Investment

Theory of Fluctuation
(or Business Cycles)

What's the difference between Microeconomics and macroeconomics

Macroeconomics and Microeconomics

Macroeconomics

- ✓ analyzes the **economy as a whole**;
- ✓ studies **aggregate economic behavior**, i.e. the behavior of aggregate economic agents on aggregate economic markets;
- ✓ deals with the economic issues that affect the **entire economy** and **most of society**;
- ✓ studies **aggregate variables** such as gross domestic product, national income, aggregate demand, aggregate supply, general price level, rate of unemployment, public deficit, exchange rate, etc.

Microeconomics

- ✓ analyzes **individual** components of the economy;
- ✓ studies **economic behavior of individual units** (individual firm or individual household) on **markets for particular goods** and services (wheat, computers, oil, bicycles, gold, etc.);
- ✓ deals with the decision-making of a **certain firm** (a producer) or a **certain household** (a consumer);
- ✓ studies such variables as the amount of a firm's output or of a consumer's income, quantities demanded and supplied of particular goods and their prices, etc.

3. Economy and its systems

- **Economy is a system which provides working and living to people during production process.**
- The word **Economy** (from Greek. Οἶκος “house, economy; housekeeping” + νόμος “nom, territory of economic management; rule, law”; literally “housekeeping rules”) - the economic activity of the company, as well as the totality of relations emerging in the system of production, distribution, exchange and consumption.
- For the first time in scientific work, the word "economy" appears in the IV century. BC e. at Xenophon, who calls it "natural science." Aristotle contrasted the economy with chrematistics - a branch of human activity related to profit-making. In modern philosophy, economics is considered as a system of social relations, considered from the perspective of the concept of value. The main function of the economy is to constantly create such benefits that are necessary for the livelihoods of people and without which society cannot develop. The economy helps meet human needs in a world of limited resources.
- The economy of society is a complex and all-encompassing organism that provides the vital functions of every person and society.

- Nearly every economist has at some point in the standard coursework been exposed to a brief explanation that the origin of the word "economy" can be traced back to the Greek word *oikonomia*, which in turn is composed of two words: *oikos*, which is usually translated as "household"; and *Nomos* (*nemein*), which is best translated as "management and dispensation." Thus, the cursory story usually goes, the term *oikonomia* referred to "household management", and while this was in some loose way linked to the idea of budgeting, it has little or no relevance to contemporary economics. This article introduces in more detail what the ancient Greek philosophers meant by "*oikonomia*." It begins with a short history of the word. It then explores some of the key elements of *oikonomia*, while offering some comparisons and contrasts with modern economic thought. For example, both Ancient Greek *oikonomia* and contemporary economics study human behavior as a relationship between ends and means which have alternative uses. However, while both approaches hold that the rationality of any economic action is dependent on the frugal use of means, contemporary economics is largely neutral between ends, while in ancient economic theory, an action is considered economically rational only when taken towards a praiseworthy end. Moreover, the ancient philosophers had a distinct view of what constituted such an end—specifically, acting as a philosopher or as an active participant in the life of the city-state.



- Thank you very!