

What is Economics?

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What is Economics?

- Economics is a study of *allocation of a scarce resource*.
- Economics is a study of *incentives*, which motivates human beings' behaviors.
- Economics is a study of *trade-offs between costs and benefits*.

Agents

- Agents: individuals who live in the world of economics.
- For example, agents are households, workers, and firms.
- Each agent is endowed with resources.
- A worker is endowed with hours and human capital (or skills).
- A firm is endowed with capital and technology.

Markets and Organizations

- A market is a place where goods and services are traded. The relationship between a buyer and a seller is temporary. They are *anonymous* to each other.
- (An) organization is a group of people, who trade goods and services with each other within the group. Their relationship is not temporary but lasts long.

Production and Consumption

- Production is a process in which a variety of *inputs* are transformed into a variety of *outputs* (goods and services)
- Consumption is a process in which agents obtain *utility* from goods and services.

Preference, skill, and Technology

- An individual decides his/her consumption according to his/her *preference*, the way he/she evaluates various goods and services.
- *Skills* and *technologies* are the factors that determine the efficiency of production.

Centralized and Decentralized Trades

- Many good and services, natural resources, currencies, and stocks for example, are traded in *centralized markets*, where *terms of trade* are determined by *auctioneers* in order to balance demand and supply.
- Many good and services, commodities for daily life and labor for example, are traded in *decentralized markets*, where terms of trade are determined through *bilateral negotiations* between buyers and sellers.

Prices and Quantities

- Prices and quantities are the most important components of terms of trade.
- In many bilateral trading situations, prices are *posted* and quantities are determined by the *take-or-leave-it* principle.

Private and Public Sectors

- Many goods and services are supplied by firms, which seek to *maximize their profits*.
- Some goods and services are supplied by *public corporations*, which are monitored and controlled by the government.
- Some services are supplied directly by the government: police (public security), national defense, and education for example.

Competition and Monopoly

- If there is no agent who can affect prices, market is *competitive*. In a competitive market, agents acts as *price-takers*.
- In *monopoly*, *duopoly*, *oligopoly*, and *monopolistic competition*, sellers have some power to affect prices.

Microeconomics and Macroeconomics

- Microeconomics is a study of decision makings by individual agents, and their interactions.
- Macroeconomics is a study of relations between aggregate variables such GDP, employment, money supply, and government expenditure.