Economics 101

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July 2010
What is Economics

- A study of charts, tables, statistics and numbers?
- Study of rational human behavior in pursuit to fulfill needs and wants
- Problem we all face: limited resources
- Economists: try to understand how both individuals and nations behave in response to certain material constraints.
Economics – History

- Adam Smith (1723 – 1790); father of modern economics, “Nature & Causes of Wealth of Nations” – explores how allocation of resources affects a nation’s wealth
- Assumes human beings aim to fulfill own self interest and are rational,
- A social science
- Alfred Marshall – in “The Principles of Economics” define it as: both the study of wealth & the study of man.
Introduction

- Economics study assumes scarcity of resources
- Tension between scarcity and unlimited needs and want.
- Study divided to:
  - Macroeconomics: total output of nation and the way it allocates resources to max production and promote trade and growth
  - Microeconomics: similar issues but at individual levels and companies within economy
  - Both are intertwined
Basics – Demand & Supply

- One of most fundamental concepts
- Backbone of the market economy

**Demand:**
- how much (quantity) of a product or services desired by the buyer,
- Amount willing to buy at a certain price,
- Price & quantity demanded = demand relationship

**Supply:**
- amount the market can offer,
- How much of a product or services offered by seller, at certain price,
- Price & quantity supplier = supply relationship.

**Price = a reflection of supply & demand**
Law of demand

- All else being equal. The higher the price of a good, the less people will demand of that good.
- As price goes up, opportunity costs of buying that good goes up
Law of supply

- Supply relationship is downward slope,
- The higher the price, the more quantity is supplied
- Selling at higher price increases revenue for producers.
Supply and demand - equilibrium

- When supply function & demand function interact, economy is at equilibrium.
- Allocation is most efficient at the price & quantity.
Disequilibrium

- Occurs whenever price or quantity is not equal to $P^*$ or $Q^*$.

Excess supply (price too high)  Excess demand (price too low)

Source: [www.investopedia.com](http://www.investopedia.com)
General economic terms

- **Gross domestic products (GDP)**
  - is a measure of a country's overall economic output. It is the market value of all final goods and services made within the borders of a country in a year

- **Inflation**
  - is a rise in the general *level of prices* of goods and services in an *economy* over a period of time.
  - When the price level rises, each unit of currency buys fewer goods and services; consequently, inflation is also an erosion in the *purchasing power* of money.
■ Unemployment rate
  - which is defined as the percentage of those in the labor force who are unemployed.
  - Unemployment occurs when a person is available and willing to work but currently without work.

■ Current account
  - One of component of Balance of Payment
  - Sum of the balance of trade (exports minus imports of goods and services), net factor income (such as interest and dividends) and net transfer payments (such as foreign aid).
  - Reflects change in nation’s income

■ Capital account
  - reflects net change in national ownership of assets.
    Capital account = Change in foreign ownership of domestic assets
    – Change of domestic ownership of foreign assets
Exchange rate

- also known as the **foreign-exchange rate**, **forex rate** or **FX rate** between two **currencies** specifies how much one currency is worth in terms of the other. It is the value of a foreign nation’s currency in terms of the home nation’s currency
- Related to interest rate (parity)

Interest rates:

- the rate at which **interest** is paid by a borrower for the use of **money** that they borrow from a **lender**
- Price of money
- are also a vital tool of **monetary policy** and are taken into account when dealing with variables like **investment**, **inflation**, and **unemployment**.
Pop Quiz

1. What are the main assumptions that economist make about human beings?
2. Who is the father of modern economics?
3. What are the two branches of study of economics?
4. Define what equilibrium means
5. On supply side, what happens to quantity when price is higher?
6. On demand side, what happens to quantity when price is lower?
7. What causes inflation?
8. What is the relationship between interest rates and exchange rate is known as?
Thank you