INTRODUCTORY ECONOMICS

SCOPE OF ECONOMICS

DEFINITION • MICRO & MACRO • POSITIVE & NORMATIVE

Learning outcomes

By the end of this session, you should be able to:

01 Define economics

Explain economics as the study of scarcity, choice, resource allocation and human behaviour.

02 Distinguish branches

Compare microeconomics and macroeconomics by focus, questions, variables and examples.

03 Classify statements

Identify positive statements (what is) and normative statements (what ought to be).

Central idea: Economics studies how people and societies make choices when resources are limited.

Why do we study economics?

Every individual, business and government faces choices.

Limited resources

Time, money, labour, land, machinery and natural resources are finite.

Multiple wants

People have many wants, but cannot satisfy all of them at the same time.

Choice & trade-offs

Choosing one option means giving up another; this involves opportunity cost.

Example: A student with ₹500 may choose between a book, a meal out or saving the money. Economics examines the reasoning and consequences behind such choices.

What is economics?

Economics is a social science that studies how individuals, businesses, governments and societies allocate scarce resources among competing uses to satisfy human wants.

Economics examines…

- Production: What goods and services are created?
- Consumption: How are goods and services used?
- Exchange: How do people trade?
- Distribution: How is income and output shared?

The central economic problem

Because resources are scarce and wants are numerous, choices must be made about what to produce, how to produce and for whom to produce.

Economics is not only about money. It also studies time, incentives, institutions, public policy and well-being.

The three basic economic questions

WHAT to produce?

Which goods and services should be produced, and in what quantities?

Example: Should more resources go to public transport, housing or luxury cars?

HOW to produce?

Which methods and combinations of resources should be used?

Example: Should a firm use labour-intensive methods or automation?

FOR WHOM to produce?

Who receives the goods and services produced?

Example: How are healthcare, education and other services distributed?

Different economic systems answer these questions through varying combinations of markets, governments and communities.

Microeconomics: the individual parts

Microeconomics studies the economic decisions of individual units and how these units interact in particular markets.

Households

- Consumer choice
- Demand for products
- Saving and spending decisions

Firms

- Production and costs
- Pricing decisions
- Profit and competition

Specific markets

- Demand and supply
- Market price
- Market structure

Example: How does a rise in the price of coffee affect the quantity of coffee demanded by consumers?

Typical questions in microeconomics

- Why might consumers switch from one brand to another when prices change?
- How does a rise in wages affect a firm's production costs?
- How does competition influence the price and quality of mobile services?
- How does a tax on a particular product affect buyers and sellers?
- How does a business decide the quantity it should produce?

Think of the unit of analysis

A consumer, a firm, an industry or a particular market.

Macroeconomics: the economy as a whole

Macroeconomics studies the behaviour and performance of an entire economy, or large aggregate sectors of it.

National income & output

GDP, economic growth, productivity and aggregate production.

Employment & prices

Unemployment, inflation, cost of living and purchasing power.

Policy & external sector

Fiscal policy, monetary policy, trade, exchange rates and balance of payments.

Example: What explains a rise in India's overall inflation rate, and what can policymakers do about it?

Typical questions in macroeconomics

- What causes an economy's GDP to grow or contract?
- Why does the general price level rise, and how is inflation measured?
- What factors influence the overall unemployment rate?
- How can government taxation and spending influence economic activity?
- How do interest-rate decisions affect borrowing, investment and aggregate demand?
- How do exchange-rate movements influence imports and exports?

The focus is on economy-wide totals, averages and relationships.

Microeconomics vs Macroeconomics

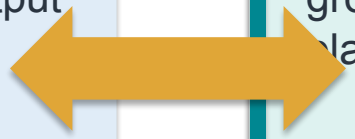
BASIS	MICROECONOMICS	MACROECONOMICS
Meaning	Study of individual economic units	Study of the economy as a whole
Focus	Specific markets and decisions	Aggregate output, income and employment
Key variables	Individual price, demand, supply, cost, profit	GDP, inflation, unemployment, interest rates
Main units	Consumer, household, firm, industry	National economy and major sectors
Typical question	Why did the price of one product rise?	Why is the overall price level rising?
Policy relevance	Competition policy, product taxes, market regulation	Fiscal policy, monetary policy, growth policy

Micro and macro are complementary perspectives—not competing explanations.

Micro and macro: how are they connected?

Micro decisions shape macro outcomes

Household consumption and firm investment decisions contribute to aggregate demand, output and employment.



Macro conditions influence micro decisions

Inflation, interest rates, taxation and economic growth affect household budgets and business plans.

Example: Higher interest rates may reduce a household's loan demand (micro) and, across the economy, moderate consumption and investment (macro).

Positive economics: what is

Positive economics describes and explains economic facts, behaviour and relationships using evidence that can be examined or tested.

Characteristics

- Descriptive and analytical
- Based on observable evidence
- Can be tested against data
- May be supported or contradicted by research

Examples

- A rise in the price of a product may reduce quantity demanded, other things equal.
- Higher interest rates can increase the cost of borrowing.
- India's GDP grew by a measured rate in a given year.

Positive does not mean 'good' or 'favourable'. It means concerned with what is, was or may be, based on evidence.

Normative economics: what ought to be

Normative economics involves value judgements, opinions and recommendations about what economic outcomes or policies should be.

Characteristics

- Evaluative and prescriptive
- Reflects values and priorities
- Often uses words such as should, fair, better or desirable
- Cannot be settled by facts alone

Examples

- The government should increase spending on public healthcare.
- Income inequality should be reduced.
- Essential food items ought to be made more affordable.

Normative analysis matters in policy debates because societies must make choices about fairness, priorities and social goals.

Positive vs Normative: identify the difference

Statement	Type	Why?
A rise in petrol prices increases transport costs for many firms.	**Positive**	It describes a relationship that can be investigated with data.
The government should reduce taxes on petrol.	**Normative**	It recommends a policy and reflects a judgement about priorities.
The unemployment rate was 6% in a particular period.	**Positive**	It reports a measurable economic indicator.
The government ought to prioritise job creation over deficit reduction.	**Normative**	It expresses a preference between policy objectives.
A minimum-wage increase may raise labour costs for some employers.	**Positive**	It proposes a testable possible effect.

A statement can contain both: separate the measurable claim from the value judgement.

When positive and normative statements appear together

Consider this policy argument:

Positive component

“A higher carbon tax can increase the cost of using fossil fuels and may reduce emissions.”

This is a claim about likely effects that can be studied empirically.

Normative component

“Therefore, the government should raise the carbon tax to protect the environment.”

This is a recommendation based on environmental and social priorities.

Economic policy often combines both: evidence helps predict consequences, while values help determine which outcomes society prefers.

Putting the concepts together

Economics

Studies how scarce resources are allocated among competing uses to satisfy wants.

Micro & Macro

Micro: individual units and specific markets.

Macro: aggregate performance of the economy.

Positive & Normative

Positive: what is / what can be tested.

Normative: what ought to be / value judgement.