

# ECONOMICS: An Introduction to The Discipline

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## **Abstract:**

Economics, as a discipline, provides a comprehensive understanding of how individuals, businesses, and governments allocate scarce resources to fulfil their needs and desires. This Paper attempts to introduce Economics as a discipline. It delves into macroeconomic concepts such as inflation, unemployment, and economic growth, alongside microeconomic issues including consumer behaviour, production costs, and market competition. This introduction underscores the relevance and importance of economics in both everyday life and global contexts.

**Keywords:** Economics, Supply and Demand, Market, Macroeconomics, Microeconomics, Resources, Government, Decision-Making

Economists use theories and models to understand economic phenomena and to develop policies aimed at improving economic outcomes. Being a student of economics and earning a living disbursing my limited knowledge to young people I thought it would be befitting to introduce this much revered and in-focus discipline. Although the use of jargons has been tried to be kept at a bare minimum some use of the same has been unavoidable. I hope persons from other and varied background could gain an insight to this magnificent subject through this article.

Economics is said to be the oldest of professions but the newest of disciplines. The basic theme of it is how individuals, businesses, governments, and societies make choices about allocating scarce resources to satisfy their unlimited needs and wants. As Joseph Stiglitz writes, Economics is the study of how we use our resources to satisfy our wants (Stiglitz, 1997, p.5). It involves examining production, distribution, and consumption of goods and services.

"It is not from the benevolence of the butcher, the brewer, on the baker that we expect our dinner, but from their regard to their own interest." (Wealth of Nations, I:II) pg. 26-27. Ever since the great economist Adam Smith wrote these words over 200 years ago, much of the world has experienced an era of unimagined prosperity; some have seen affluence and others are experiencing raise in standards of living. But this has led to competition. Individuals, organizations and nations compete pursuing microeconomic and macroeconomic trade policies designed to give them a competitive economic advantage. If anything, competition has become more intense. We live in an era of global market where money and goods flow more easily over national borders than ever before. In earlier times our competitors lived down the street or in the next town. Now they may be halfway across the globe in America, West Indies or Russia. And for the first time everyone is playing by the same set of rules, the rules of a global market economy, who can best adapt to changing markets, who can best ride the new waves of new technology. The stakes best are high. To the winners go higher profits and wages, while the losers lag behind.

### FOR WHOM THE BELL TOLLS

Understanding the global marketplace is only one reason why people study economics today. Some people study economics because they hope to make money. Others worry that they will be illiterate if they cannot understand the laws of supply and demand. People are also concerned learn about how we can improve our environment or why countries like our own or Russia are moving to a free market economy. The overriding reason to learn the basic lessons of economics is that all your life from cradle to grave you will run up against the brutal truths of economics. As a voter, one makes decisions on issues- on the government deficit and taxes, on free trade, on inflation and unemployment that cannot be understood until one has mastered the rudiments of this subject.

### SCARCITY AND EFFICIENCY: THE TWIN THEMES OF ECONOMICS

What then is Economics? Over the last 30 years the study of economics has expanded to include a vast range of subjects. What are the major definitions of this growing subject? The important ones are - it studies how the prices of labour, capital and land are set in the economy, and how these prices are used to allocate resources; it studies the upswings and downturns in unemployment and production that make up the business cycle and develops government policies for improving economic growth: it explores the behaviour of the financial markets, and analyses how they allocate capital to the rest of the economy. The list is a long one, but the common theme of all of them can be boiled down in the following definition.

Economics is the study of how societies use resources to produce valuable commodities and distribute them among different people. Scarcity leads to the existence of so called economic goods and since wants are unlimited, it is important that an economy makes the best use of its limited resources. That brings us to the critical notion of efficiency, efficiency means absence of waste, or using the economy's resources as effectively as possible to satisfy people's needs and desires. More specifically, the economy is producing efficiently when it cannot produce more of one good without producing less of something else.

The essence of economics is to acknowledge the reality of scarcity and then figure out how to set up society in a way which produces the most efficient use of resources. That is where economics makes its unique contribution.

### THE STUDY OF ECONOMICS

Where and when did the great river that is economics today arise? We can date the origins of modern economics in 1776, the year when Adam Smith. published the classic *An Inquiry into the Nature and Causes of the Wealth of Nations*.

Smith can be rightly considered the founder of the field of micro-economics, the branch of economics which today is concerned with the behaviour of individual entities such as markets, firms and households. In the *Wealth of Nations*, Smith considered how individual prices are set, studied, how the prices of land labour and capital are set and inquired into the strength and weaknesses of the market mechanism. Most important, he identified the remarkable efficiency properties of markets, the "invisible hand" that brings out a common good out of the self- interested actions of individuals. As Thomas Sowell says, "Economics is more than just a study of money and finance. At its core, it is the study of human behaviour and how people make choices" (Sowell, 2007, p. 3).

By contrast, macroeconomics, the branch of economics that is concerned with the overall performance of the economy, did not exist in its modern form until 1936. That was when Lord John Mayvard Keynes published his revolutionary *General Theory of Employment, Interest and Money*. In the wake of the great

depression of 1930's Keynes argued that market economies could malfunction and that governments have an important role in soothing the ups and downs of business cycle. In his book, he developed a theory of what causes unemployment and economic downturns, how investment and consumption are determined, how central banks manage money and interest rate and why some nations thrive and others stagnate. The two streams micro-economics (behaviour of individual consumers, firms, and markets) and macro – economics (overall economic environment and the policies) converge to form modern economics. At one time the boundary between the two was quite sharp; more recently, the streams have merged as economists have applied the tools of micro-economics to such topics as unemployment and inflation. Yet to develop a full understanding of economics, it is still necessary to explore both sides of the river.

### **THE THREE PROBLEMS OF ECONOMIC ORGANISATION**

Every society no matter how rich or poor, make choices between health care and yachts, between highways and lamps, between education and restaurant meals because production is limited due to lack of resources and technological knowledge. That means every society must have a way of determining what commodities are produced, how these goods are produced and for whom they are produced.

One key task for economics is to study and explain the different ways that a society can answer the questions what, how and for whom. Different societies are organised through alternative economic system and economists study the different mechanisms that society can use to allocate its scarce resources.

Today we can distinguish between two fundamentally different ways of organising an economy. At one extreme, government makes most economic decision, with those on top of the hierarchy giving economic commands to those further down the ladder. At the other extreme, decision are made in markets, where individuals or enterprises voluntarily agree to trade inputs and outputs, usually through payments or money. The latter called a 'market economy' is one in which individuals and private firms make the major decisions about production and consumption. A system of prices, of markets, of demand and supply, of profits and losses determines what, how and for whom. The extreme case of a market economy, where the government has almost no economic role is called a laissez-faire economy.

The former, by contrast, a command economy is in which the government makes all decisions about production and distribution. In a command economy the government owns most of the means of production (hand and capital), it also owns and directs the operations of enterprises and most industries, it is the employer of most workers and tells them how to do their jobs, and the government in a command economy decides how the output of the society is to be divided among different goods and services. But no contemporary society falls completely into either of these polar categories. Rather all societies are mixed economies with element of market and command.

### **Terms in Economics**

The terms like Supply & Demand, Opportunity Cost, Elasticity, Market Structures, Gross Domestic Product (GDP), Inflation & Deflation, Unemployment, Fiscal Policy, Monetary Policy, International Trade & Finance, form the backbone of economic theory and practice, and influence economic behaviour and outcomes.

The study of economics equips individuals with analytical tools to make informed decisions, addresses critical societal challenges, and contributes to effective policy formulation. With the world coming to an age where economics touches every aspect of human life, a sound knowledge of it could go a long way in

understanding the various dimensions of the world economy. Economics will continue to evolve and adapt to address new opportunities and challenges.

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