

MICRO ECONOMICS

1

Chapter 1

Introduction to Economics

Prepared By: Tahir
Lecturer Economics Kardan Institute of Higher
studies kabul afghanistan.
e-mail:

Economics

- Greek word :

“Oikonomos” means to “**manage the house**”

Or management of household especially in those matters which are relating to the income and expenses of the family.

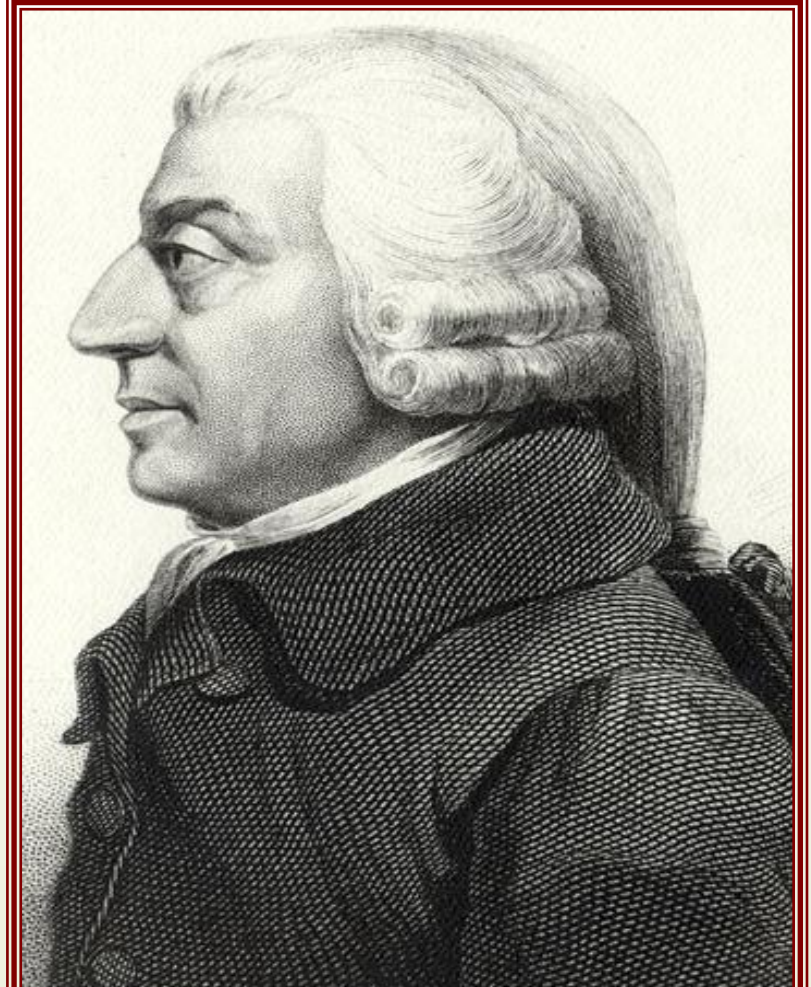
Definition of Economics

There are three broad groups to Define Economics.

- 1. Classical view.....science of wealth.**
- 2. Neo-classical view.....science of material welfare.**
- 3. Modern view.....science of unlimited wants and limited resources**

CLASSICAL VIEW

- **Western Philosophers**
- **18th century**
- **Name: Adam Smith**
- **Birth: June 5, 1723
Scotland**
- **Death: July 17, 1790
(age 67) Edinburgh,
Scotland.**
- **Father of Economics**



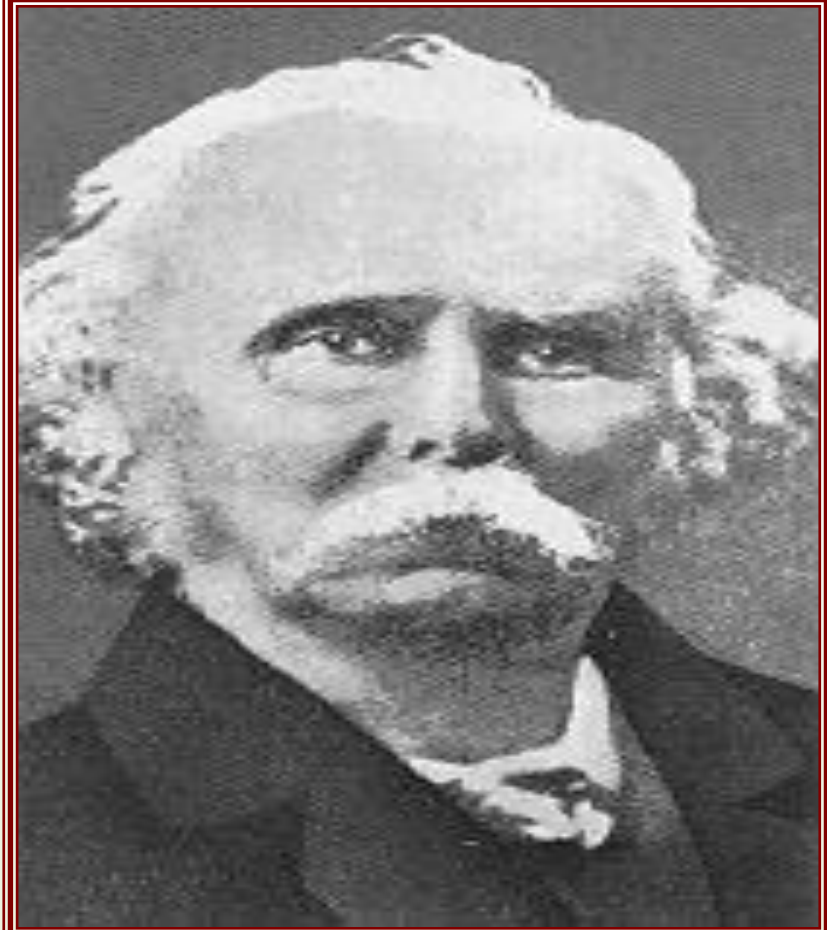
The Classical view:

- The classical economists beginning with **Adam smith**
- who is called the founder of economics, wrote a book
- entitled “**Nature and causes of wealth of nation**” in **1776**.
- He define economics as, “**Economics is a science of wealth**”.

Classical View

- **Production of Wealth.** it deals with how a nation increases his wealth ? Here we have simple equation
$$\text{Wealth} = f(\text{land, labor, capital, organization})$$
- **Distribution of Wealth.** it deals with distribution process i.e. How we shall distribute the produced wealth among four factors of production?
- **Exchange of Wealth.** it deals with exchange of wealth how can we exchange the wealth for goods and services ?
- **Consumption of wealth:** it deals with consumption pattern of individual i.e. how wealth people consume the wealth ?

- **Western Philosophers.**
- **19th century philosophy.**
- **Name: Alfred Marshall**
- **Birth: July 26, 1842**
(Bermondsey) London,
England.
- **Death: July 13, 1924**
(Bermondsey) London,
England.
- **Became one of the most**
influential economists of
his time.



2 The Neo-Classical view:

- Dr. Alfred Marshall (1842-1924), wrote a book in 1890 in Cambridge which was entitled “Principle of economics”.
- “He define economics as, economics is the 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 use of material requisites of wellbeing.”

Explanation of Marshall Definition

1. Mankind in the ordinary business of life:

it means common man who lives in society and we will study common way of life

2. Part of individual and social action:

it studies a single person as well as common way of life of society.

3. Material requisites of wellbeing:

it shows general needs of people or society such as food, cloth, shoes etc

Modern definition



- Lionel Robins was a famous British economist of 1920s, he was acting as a senior professor of London school of economics, UK. He wrote a book entitled by the name of “ **Nature and significance of economic sciences**” in 1931, where he defined economics in terms of some realistic economic problems of human beings.

In the words of Robins.

- “ Economics is the science which studies human behavior as a relationship between multiple wants and limited means which have alternative uses”.

This definition points out the problem of scarcity and choice in the economic life of people. There are three main points of his definition which are given as under.

1. Multiple wants.
2. Limited means and
3. Alternative uses.

Major points of Robins definition.

- **Multiple wants.** Multiple wants mean no limit to wants. human wants are unlimited they keep on rising again and again. This mean they do not come to an end even if they are satisfied once.
- **Limited resources .** There is no limit to human wants, but the means to satisfy these wants are limited in number. This means that resources are limited in the sense that one cannot have as many goods and services as he wishes for the satisfaction of wants.

CONT`D

- **Alternative uses.**
- The third point gathered from Robins definition is alternative uses of limited resources. For example, a person has money resource of 1000 Afs, with this limited resource of money income he is able to do anything, he can buy cloths, entertain friends or dine outside with his family. But, being a rational consumer, he will choose the most optimum use of his limited resource of income.

Branches of Economics

1- Micro Economics:

2- Macro Economics:

Micro Economics

- **Micro economics deals with a small individual unit of the economy, like the price of a particular commodity, consumption pattern of a particular consumer, income of particular individual and Producer.**

Macro economics

- Macro economics:

Macro economics deals with total or aggregate level of output, aggregate level of consumption, aggregate level of investment, aggregate level of employment and general price level in economy



THE END

**ANY
QUESTION ?**