

الاقتصاد الجزئي 1

Microeconomics 1

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Chapter I

Introduction to economics

What is Economics

Economics is a social science that focuses on the production, distribution, and consumption of goods and services, and analyzes the choices that individuals, businesses, governments, and nations make to allocate resources.

The two branches of economics are microeconomics and macroeconomics.

The study of microeconomics focuses on the choices of individuals and businesses, and macroeconomics concentrates on the behavior of the economy as a whole, on an aggregate level.

Why do we study economics?

And

what is the economic problem?

Why do we study economics?

The study of economics helps people understand the world around them. It enables people to understand people, businesses, markets and governments and therefore better respond to the threats and opportunities that emerge when things change.

what is the economic problem?

All societies face the **economic problem**, which is the problem of how to make the best use of limited, or scarce resources. The economic problem exists because, although the needs and wants of people are endless, the resources available to satisfy needs and wants are limited.

Resources are limited in two essential ways:

- Limited in physical quantity, as in the case of land, which has a finite quantity.
- Limited in use, as in the case of labor and machinery, which can only be used for one purpose at any one time.

in order to solve the economic problem societies must endeavour to answer three basic questions

- What to produce?
- How to produce?
- And, For whom to produce?

What to produce?

Societies have to decide the best combination of goods and services to meet their varied wants and needs. Societies must decide what quantities of different resources should be allocated to these goods and services.

How to produce?

Societies also have to decide the best combination of factors to create the desired output of goods and services. For example, precisely how much land, labour, and capital should be used to produce consumer goods such as computers and motor cars?

For whom to produce?

Finally, all societies need to decide who will benefit from the output from its economic activity, and how much they will get. This is often called the problem of distribution.

Different societies may develop different ways to answer these questions.

Factors of production

Factors of production is an economic term that describes the inputs that are used in the production of goods or services in order to make an economic profit. The factors of production include land, labor, capital and entrepreneurship.

- **Land** as a factor of production can take on various forms, from agricultural land to commercial real estate to the resources available from a particular piece of land. Natural resources, such as oil and gold, can be extracted and refined for human consumption from the land.
- **Labor** refers to the effort expended by an individual to bring a product or service to the market. Again, it can take on various forms. For example, the construction worker at a hotel site is part of labor.

- **capital** typically refers to money. However, money is not a factor of production because it is not directly involved in producing a good or service. Instead, it facilitates the processes used in production by enabling entrepreneurs and company owners to purchase capital goods or land or to pay wages.

- **Entrepreneurship As a Factor**

Entrepreneurship is the secret sauce that combines all the other factors of production into a product or service for the consumer market.

The economic problem is one of scarcity

the economic problem, also referred to as the scarcity problem, arises because the resources that we have available for the production of goods and services are limited, while our needs and wants for goods and services are unlimited.

The economic problem is a choice problem

Problem of choice refers to the allocation of various scarce resources which have alternative uses that are utilized for the production of various commodities ...

What Are the Different Types of goods

Economic goods and free goods

What's the difference?

Economic goods are those goods which **use scarce resources** in their production. For example, to produce simple good such as a **paper clip**, scarce resources are used including the material itself - usually steel wire, the machinery the shapes the clip, the machine operatives, the boxes to pack the clips in, and so on.

The use of scarce resources to produce one paper clip **creates a cost** to the producer, called the **marginal cost**. While this would be extremely small, the fact that the marginal cost is greater than zero means that scarce resources are being used, and the good is an economic good.

In contrast, a **free good** is one that does not require scarce resources for its production, and hence has a **marginal cost of zero**. The classic example of a free good **air**. Air exists as a gift of nature and is a free good.

Opportunity cost

The difference between economic and free goods can be developed further when we introduce the concept of **opportunity cost**.

Opportunity cost exists when there is an **alternative use** of the resources used to make a product. In our simple example of a paperclip, the steel wire, machinery and labour could all be used to make something other than a paper-clip. Hence, a paper clip is an economic good because there is an opportunity cost in terms of its production.

Necessary goods and Luxurious Goods

- **Necessary goods** something needed for basic human existence, e.g. food, water, housing, electricity.
- **luxury goods** are things which are not **necessary**, but which give you **pleasure** or make your life more comfortable.

Normal goods and inferior goods

- **Normal goods**, are products or services that increase or decrease in demand with income. This means that if employee wages in a particular region increase, the demand increases.
- **inferior goods**, is a commodity that consumers demand more disproportionately as their incomes increase.

Capital goods and Consumer Goods

- **Capital goods** are private goods that are not sold directly to the consumer.

Examples of capital goods include :Manufacturing machinery, Office buildings, Transportation vehicles

- **Consumer goods**, or final goods, are goods sold to consumers for their use or enjoyment

Complementary Goods and Substitute goods

- **Complementary Goods.** Goods which are used together, e.g. TV and DVD player.
- **Substitute goods.** Goods which are alternatives, e.g. Pepsi and Coca-cola.

Substitute goods are commodity which the consumer demanded to be used in place of another good.

Perishables goods and Durable Goods

- **Perishable goods** are goods that spoil quickly and therefore have a short shelf life, such as milk, bread, fruit, and vegetables.
- **durable goods**, are a category of consumer goods that do not wear out quickly and therefore do not have to be purchased.