

# **Chapter I : Introduction to Microeconomics**

## **1. Preamble**

### **➤A General Introduction to Economics**

The ancient Greeks were the first to define 'economy' as the rational, conscious and organised management of the home and family, or the rules and laws by which the head of the household is able to manage the affairs of his home and family. The Greeks' use of the word economy was not limited solely to the management of domestic affairs, but the concept was broadened to include the management of the affairs of the state or the establishment of rules and laws governing the affairs of the state, considering that the state is a home and all citizens are members of the same family. It was at this point that Adam Smith introduced his book

"The Wealth of Nations", stating:  
« Economics is the science that seeks to create wealth for the people and the state ».

The current global definition of economics is: "It is the branch of the social sciences that studies how to use limited resources to satisfy multiple and unlimited human needs." In fact, it tries to find solutions to economic problems.

### **What is the economic problem?**

**Economic problem :** The economic problem is linked to the scarcity of economic resources needed to satisfy society's unlimited needs. It is therefore linked to two fundamental factors: the human needs to be satisfied are multiple and unlimited, and the resources available to satisfy human needs are limited.

**Human needs:** are represented by the individual's feeling of a

certain desire to obtain various means of satisfaction. These needs may be innate (such as food, clothing, etc.) or acquired, developing and growing with the evolution of lifestyles, such as luxury goods and services. Needs are characterised by multiplicity, competition, repetition, renewal, complementarity and the ability to be satisfied.

**Resources:** The means of satisfying human desires are resources, represented by various goods and services. Anything that has the capacity to satisfy is called a 'good', whatever its nature. Some goods are material or tangible and can be described quantitatively and qualitatively. We generally call them "goods", such as food, clothing, tools, etc. Others are intangible and are called "services", such as education, health, transport, etc.

### ➤ **Types of Economic Goods :**

## **1. Economic and Free Goods**

- **Economic goods:** they exist in nature in limited quantities in relation to the desire to have them, and a certain amount of resources is allocated to their production. They have several characteristics, including scarcity, ownership not prohibited by law, being offered on the market and generating a profit.
- **Free goods:** These are goods that are abundant in nature, require no effort to obtain, and do not use any resources to produce, such as air, which is currently the only free good. Water has to be treated and transported and therefore has a cost.

## **2. Necessities and luxury goods**

- **Necessary goods:** are goods that satisfy a person's biological needs, such as food, drink, clothing and shelter.
- **Luxury goods:** these are goods that the majority of people consider to be necessary with the least possible urgency.

### **3. Ordinary and inferior goods**

- **Ordinary goods:** These are goods for which demand rises as consumer income rises and for which demand falls as consumer income falls.
- **Inferior goods:** these are goods that satisfy a direct human need but are of low quality. An individual's demand decreases when his or her income increases and he or she switches to the consumption of another good of better quality.

### **➤ Economic concepts**

Economic analysis is divided into microeconomic analysis, which is

the subject of our study, and macroeconomic analysis, which is studied at a higher level.

**- Microeconomic analysis :** It is the analysis that deals with the study of economic and individual units of society, such as the individual consumer, the individual producer, the commodity and the single market. behaviour of individuals, whether they are consumers or producers. This means that it deals with the economic activity of small individual economic units, which is linked to the behaviour of the consumer or the individual. factor of production and the way in which the individual distributes his savings.

**- Macroeconomic analysis:** This is related to the idea of agglomeration and global relationships, as it studies

economic relationships and phenomena as a whole as a global relationship, rather than studying separate processes in themselves or individual economic decisions. In other words, macroeconomic analysis is concerned with the study of the overall economic activity of society, such as theories of aggregate demand and aggregate supply, theories of income determination and the analysis of general economic equilibrium.