Course: **Economics I**

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Contents:

1. RESEARCH SUBJECT, ECONOMY AND ECONOMICS, MICRO AND MACROECONOMICS, POSITIVE AND NORMATIVE ECONOMICS

Subject of the exploration - Economics as a science is a system of ideas and views on exploring ways to meet human needs. The object of analysis is the satisfaction of human needs, motives, satisfying the needs, motives, production and reproduction process, macroeconomic variables, solving the problem of scarcity, etc. Economics explains the willingness of people to produce something and mismatch between needs and resources.

Economics (oikos - a house, nomos - law, in Greek) is the science that examines the motives and methods of decision-making of individuals and society as a whole on alternative uses of scarce resources and methods for distributing manufactured goods.

Economics is the science of choice. Studies how people choose between different uses of rare or scarce productive resources (land, labor, capital) are chosen as the ability to produce different commodities and different ways to distribute goods to different members of society for their consumption.

In the economic literature there are many definitions of economics, as is evident from the preceding list, but it is possible that each follows that economics is the science of choice, which explores how different societies use scarce resources to produce useful goods and how it is allocated between different groups.

The fundamental difference between economy and economics is that economics is "the science of the most general context in the economic life of society" and the **economy** is "the sum of production and economic relations in the development of society in a particular country, in the manufacturing sector. It's a real system, which has its elements and their relations.

The subject of **microeconomics** (Mikros - Greek small) are individual economic units (households, firms), their behavior, pricing in different markets, examining the effects of monopoly operators in the individual markets.

Macroeconomics deals with thse economy as a whole. It deals with a total production of goods and services in the economy, a decline in economic activity and growth, inflation rate, unemployment rate, issues of fiscal and monetary policy, balance of payments, exchange rates. Macroeconomics pays attention to issues of consumption, investment, the amount of money in circulation, the state budget, the development of interest rates, etc..

When we use economics, we must carefully distinguish between normative and positive production.

Normative economics involves value judgments and ethics, based on the evaluation and moral judgments, and therefore the answer to solving issues can not be solved by relying on facts. There are not right or wrong answers.
The answer has a polemical character, conducts research, and constructs a prototype of an improved economic system.

Positive economics describes facts and behavior in the economy. On this basis, it is lighter and able to solve complex problems. Takes the economic reality as it is, the goal of re reality and describe it in search patterns.

2. METHODS OF STUDYING ECONOMICS. ECONOMICS CAVEATS AND METHODOLOGICAL PROBLEMS.

It can be said that many of the basic economic phenomena are poorly understood and highly controversial. But economists and scientists from other disciplines have developed certain techniques - sometimes called a scientific approach - enabling them to understand the forces behind unemployment, prices and wages, income distribution and foreign trade. Among the phases of the research methods include observation economics, economic analysis, statistical analysis and experiment.

These four techniques - observation, analysis, statistics and experiments - are an approach that economic science moves forward. Each day a new problem arises. When solving economists test new ideas are rejected and the old economy is growing and changing. Textbooks contain generally accepted knowledge and questions that are now the subject of heated debate. In ten or twenty years new facts disprove the old theory and economics undergoes another change.

Methods of exploration:

• **Analysis** - decomposition of a whole into parts and elements to an improved understanding of the system.

• **Synthesis** - exploring the phenomenon as a whole through the composition of the elements into a whole.

• **Observation** - is one of the main sources of economic knowledge, the observation of economic processes, in particular by drawing on historical records.

• **Induction** - the process leading to the general experience on the basis of examining phenomena.

• **Deductions** - progress from the general to the individual, in which, based on the findings and allegations, which are considered to be objective, logically infer true conclusion.

• **Experiment**.

• **Comparative methods** - comparing phenomena in time and space.

• **Other methods**: methods of idealization and modeling idealization, abstraction, formalization and analogies, quantitative analysis, etc..

Economics and methodological pitfalls

• Precondition "**Ceteris paribus**" (studied factors are changing, while other factors are constant) - the principles of economic reasoning processes else being equal.

• The principle of correct reasoning about the causes and consequences of "**post hoc fallacy**" (mistake thereafter, thus because of this) - this methodological error occurs most often when making phenomena, if event A precedes event B, then it means that the phenomenon A causes B phenomenon.

For example: Mortality district XY is the highest in the Czech Republic - conclusion: there is a bad environment, but does not take into account the average age of the population, work and other life risks. For example: when soccer referee whistles, and it starts to rain, does not mean that football referee caused rain.

• "**fallacy of composition**" - a whole is not always the sum of the parts - a mistake of judgment on the part of the whole - an error of judgment on the part of the whole occurs when we believe that what is true for the part, must therefore apply to the whole.

• "**Subjectivity**" - economic reality we consider and evaluate on the basis of the theoretical approaches and concepts that we possess. By that often become prisoners of their own opinions, we lose the ability to understand what the other is the starting platform.

• "**Uncertainty** in economic life" - economics reflected the results of its exploration into the formulation of economic laws, expressing the main, most important links and relationships between two or more economic phenomena. The economic laws of nature, is likely, however, have laws apply only in diameter.

• "**Credibility hypothesis**" - the conclusions of economic research worthy of trust must be the result of a scientific approach to reality. Application of scientific methods in practice involves several phases: the process of observation, forming hypotheses, testing, interpretation and synthesis.

Economic Sciences:

The economy explores the economic discipline. The basis of economic science is an economic theory - examines the most general economic problems. Among other theoretical disciplines include history of economic theory, global economics, the theory of economic policy. The economic theory followed departmental science disciplines - economics of industry, agriculture, commerce and cross-cutting scientific disciplines - banking, stock exchange, labor economics, management.

3. BASIC CONCEPTS AND CONTEXT OF ECONOMICS

The economic triad (three basic questions of economics)

The aim is to meet the economic needs of the population. Resources to satisfy the needs are limited, so must each economy to address three basic economic problems:

• **What** to produce - what goods to be produced and in what quantities and when.

• H**ow** to produce - who will produce different kinds of goods, what technology and what technology is used in the production.

• **For whom** to produce - as will be distributed production results, who will be consumer goods and services.

Economic scarcity

Before the questions: What, How, Who? We face to because people want to consume far more than the economy can produce. If it were possible to produce an infinite amount of any estate, or if human needs were fully met, people should not worry with the efficient use of scarce resources. Each of us could have as much as they wanted, no one would be not to worry about the distribution of income between different people or classes.

In such a world there would be no economic goods - meaning goods that are rare or whose supply is limited. It would be saving in consumption and economics would no longer be vitally necessary science. All goods should be free, like sand in the desert or water at the sea shore.

Economic scarcity

• The limited

• Usefulness

• The need to take action to action (resp. give up something)

Economic good - good, which is rare, or whose supply is limited.

Free good - a subject that is useful, but it is freely available (air, water at the sea shore).

Factors of production

• Soil

• Work

• Capital

Production-possibility frontier (PPF)

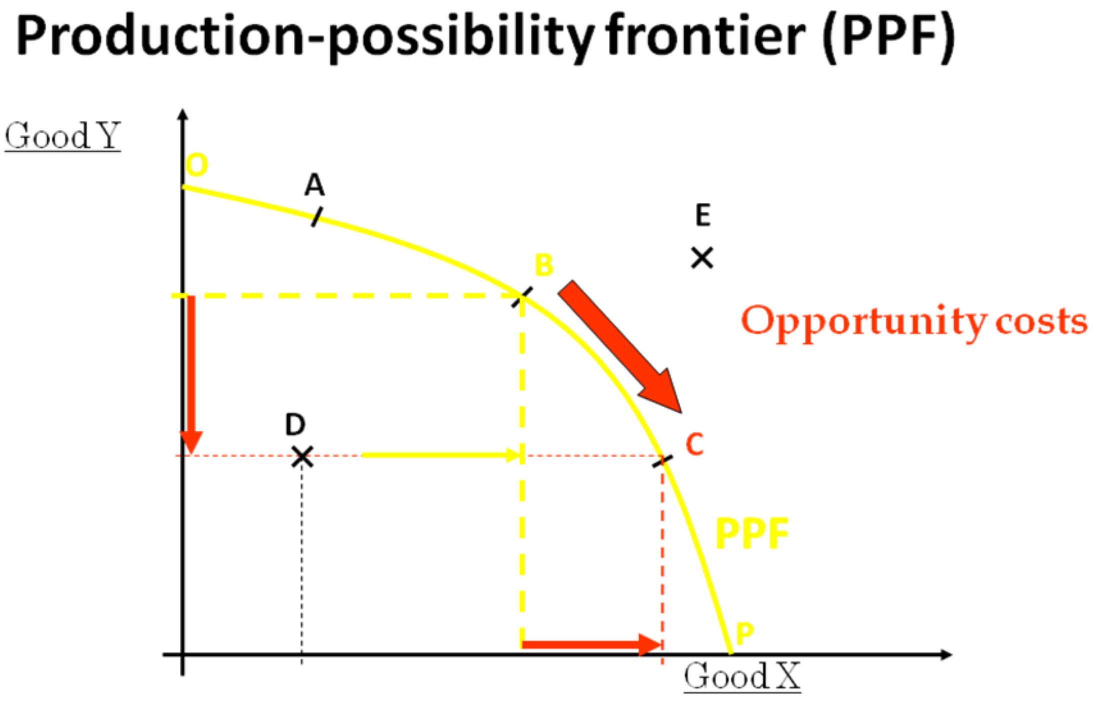
Represents the maximum number of pairs goods or services that can be produced with given resources of the economy concerned. Production-possibility frontier:

- Defines basic characteristics of economics, which says that it is the science of selecting which goods to be manufactured.

- Provides precise definition of scarcity.

- Illustrates the three basic economic problems: what, how, for whom?

- Illustrates the inherent necessity to choose between a variety of limited opportunities.



Graph n. 1: Production possibility frontier (PPF)

The opportunity cost

Arise because the vote rarity in the world of one thing means giving up something else.
The opportunity cost represents the value of lost goods or services.

Revenues from the production factor

• The use of factors of production in order to obtain something (profits, benefits, etc..)

• production efficiency - the quantitative relationship between input and output.

revenues from production factor = input (volume of the factors of production) / output (volume produced useful goods)

Returns of scale

• the volume of all factors of production grows evenly:

a) increasing returns of scale - if the growth of the factors of production leads to a higher rate of growth in revenues from them,

b) constant returns of scale - if the revenue from production factors increases proportionally with the increase in the extent of their involvement in the production,

c) decreasing returns of scale - if revenue growth of factors of production is lower than the growth of these factors.

The law of diminishing returns

The law of diminishing returns says that while gradually adding additional doses of certain inputs while keeping the other inputs unchanged, we will still receive smaller increases in output.

The law of diminishing returns – is valid provided that output increases due to the growth of a single factor of production volume and other factors of production are constatnt.

4. ESTABLISHMENT AND CHARACTERISTIC OF THE MARKET. TYPES OF MARKETS, MARKET SUBJECTS

The division of labor is a product of the historical development of the manufacturing process.

It means the specialization of production to individual participants work or work operations. Production has a social character. This implies that the main factor of market division of labor.

The division of labor can be divided into four groups:

1. *Natural division of labor* - historically the first form of dividing work activities by personal natural dispositions.
2. *Social division of labor* - works on the same principle as the natural division. It had occurred later dividing the farmers and herdsmen, separation of crafts, trade from production.
3. *Division of labor in work operations* - was established with the manufacture production consists in gathering that one worker focuses only on one activity.
4. *International division of labor* - assessment in terms of location.

With the division of labor arose the problem concerning the exchange activities between individual producers. It was possible to exchange the product for the product (barter). Gradually, more complex division of labor, this becomes very difficult and may cause money.

Money - are a special good that provides the exchange of other goods, facilitates the exchange and eliminates the need for intermediate exchanges.

Market - Arrangement in which interact seller and buyer, which leads to the determination of prices and quantities of the commodity.

Types of markets

According to the territorial aspects:

- Local - one of the earliest forms, apply directly to a particular place (fair, City Market)
- National - means the market in the context of state entity,
- World - autonomy of national markets is only partial.

According to the number of goods in the market follow:

- partial - market which buys and sells single commodity,
- aggregate - market for all goods.

According to the subject of purchase and sale:

- **Market factors of production** - land, labor, capital,
- **Money market**,
- **Products market** - products and services.

Market subjects

Households come to the market in order to meet the needs. They want useful rare goods for its consumption. Are buyers on the market of products and services. Households act as a seller's market of production factors, in order for revenue to purchase products for their consumption.

Firms are entities producing for a sale. Are sellers on the market of products and services.

With the money buy factors of production in order to repeat. Their goal is to maximize the profit.

State enters the market with the aim to influence it, modify its operation, to remove some of its negative impacts on the economy and its positive impact on the contrary stimulate.

Forms of economic organization

Economic systems:

- **Customary system** based on the history, customs and traditions. Some questions do not address the rationality, but only by custom and tradition.
- **Command economy -** the economy, where the government fully decides on production and distribution. It can be dictatorial, or even democratic. The basis is that it prescribes what will consume and produce.
- **Market economy -** are the fundamental questions of economic life decides the price system, markets, profits and losses.
- **Mixed economy -** contains elements of market orders and customs. It is a compromise approach to the economy.

5. BASIC MARKET ELEMENTS

Supply

Aggregate supply (AS) is the sum of all the planned sales. The total supply is determined by the volume of production by all producers and the prices at which they sell their products.

Individual supply - offer the same manufacturer. It is determined by the volume of production of the manufacturer and the intended price of its products.

Partial (market) supply (Market Supply - MS) - offer a single product from different manufacturers. It is an offer on the market a product.

The law increasing supply - Growth rates induces an increase in supply, the price drop will cause decline of supply.

The positive correlation between the price offered and the amount resulting from the action of two factors:

- High prices are manufacturer stimulus
- Rise in prices attracts new producers.

The amount of the offered goods is determined by several factors:

- Price of the goods
- Production costs
- Price of substitutes
- Market organizations
- Specific factors

It is necessary to distinguish shift along the curve (due to change) and shift the entire curve.

Demand

Aggregate demand (AD) is the sum of all planned purchases in the market. Total demand is the volume of products that buyers want to buy and the price at which they are willing to buy these products.

Individual demand is demand of a single buyer or a demand for the production of a single producer.

Partial (market) demand - (Market Demand - MD) - the demand for one product.

Demand understands the only effective effective demand, which is demand limited budget (only the demand for which we have the money).

The law of diminishing demand - demand curve is downward. When the price rises, demand falls when the price falls, demand rises.

We distinguish between quantity demanded changes (shift along the curve) from changes in demand (shift of the curve).

Price

The equilibrium price - the price at which trades in the event of an equality of supply and demand.

Market price is the price that arises on the market at the current supply and demand conditions.

Formation of market equilibrium:

• Situations where the volume of goods offered on the market volume exceeds demanded quantity.

• Situations where the volume of the offered amount decreases too much and volume of demanded quantity is on the contrary growing rapidly.

List of tasks for students:

1. Explain the concepts of economics, economics, microeconomics, macroeconomics, positive and normative economics, scarcity, free good, an economic good, economic triad, factors of production, production possibility frontier, the market and the market mechanism, competition and its types.

2. Study the using of graphs: MACÁKOVÁ, L. et al. Microeconomics - basic course. 10th ed. Praha: Melandrium Salty, 2007 ISBN 978-80-86175-56-0. p. 238 - 252.

3. Think about the reasons why to study economics.

4. Find positive and normative statements in the daily press and explain them.

5. Provide three examples of free goods and economic goods.

6. Which of the following induces a shift of the demand curve and what induces a shift of the entire demand curve for university studies:

    a) increase in the disposable income of the parents of students,

    b) lower tuition (where it exists),

    c) more student loans,

    d) increase in the price of the resource.

7. What would happen at the apple market, if the government set the price of 10 CZK / kg? What would motivate such a policy?

References and further reading:

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