

# Economics I

## **Introduction to Economics. The Basic Elements of the Market**

## Course Objectives:

The aim of the lecture is to define economics as a scientific discipline, define microeconomics and macroeconomics, the subject of inquiry, methods of economic science to define the basic factors of production and economic triad. Students will clarify the basic relationships of the economic system, possible principles of coordination of economic activities, explained the nature of the market system, which is now regarded as the most perfect way of streamlining production resources to the needs of society. It also aims to clarify the nature of the market and the market mechanism, the method of price formation in the market and clarify the various forms of competition.

## **Content:**

1. Introduction
2. Subject of inquiry economics, economics and economics, micro and macroeconomics, positive and normative economics.
3. Methods of investigation of the second economy. Pitfalls of economics and methodological problems.
4. Basic concept of economics.
5. Establishment and characteristics of the market. Types, market operators.
6. Basic elements of the market.
7. Competition.
8. Conclusion

## References and further reading:

1. MACÁKOVÁ, L. aj. *Mikroekonomie – základní kurs*. 10. vyd. Praha: Melandrium Slaný, 2007. ISBN 978-80-86175-56-0. s. 12-45.
2. SIRŮČEK, P., NEČADOVÁ, M. *Mikroekonomická teorie 1 – cvičebnice*. 1. vyd. Praha: Melandrium Slaný, 2001. ISBN 80-86175-17-0. s. 11-62.
3. BRADLEY, R. SCHILLER. *Mikroekonomie*. Brno: Computer Press, 2004. ISBN 80-251-0109-6.
4. HOLMAN, R. *Mikroekonomie – středně pokročilý kurz*. 1. vyd. Praha: C. H. Beck, 2002. ISBN 80-7179-737-5.
5. HOLMAN, R. *Ekonomie*. 3. vyd. Praha: C. H. Beck, 2002. ISBN 80-7179-681-6.
6. TULEJA, P., NEZVAL, P., MAJEROVÁ, I. *Základy mikroekonomie* (Učebnice pro ekonomické a obchodně podnikatelské fakulty). 1. vyd. Brno: Nakladatelství CP Books, a. s., 2005. ISBN 80-251-0603-9.

**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)  
s 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.

The fundamental difference between **economy** and **economics** is that:

**economics** is "the science of the most general context in the economic life of society,,

**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 the 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..

## 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 reality and describe it in search patterns.

2.

# **METHODS OF STUDYING. ECONOMICS CAVEATS AND METHODOLOGICAL PROBLEMS.**

## Methods of exploration:

- Analysis
- Synthesis
- Observation
- Induction
- Deductions.
- Experiment.
- Comparative methods
- **Other methods:** methods of idealization and modeling idealization, abstraction, formalization and analogies, quantitative analysis, etc..

# Economics and methodological pitfalls

- Ceteris paribus
  - Post hoc fallacy
- Fallacy of composition
- Subjectivity
- Uncertainty
- Credibility hypothesis

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 ?
- How ?
- For whom ?

# Economic scarcity

- Limited
- Usefulness
- The need to take action to action (resp. give up something)

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

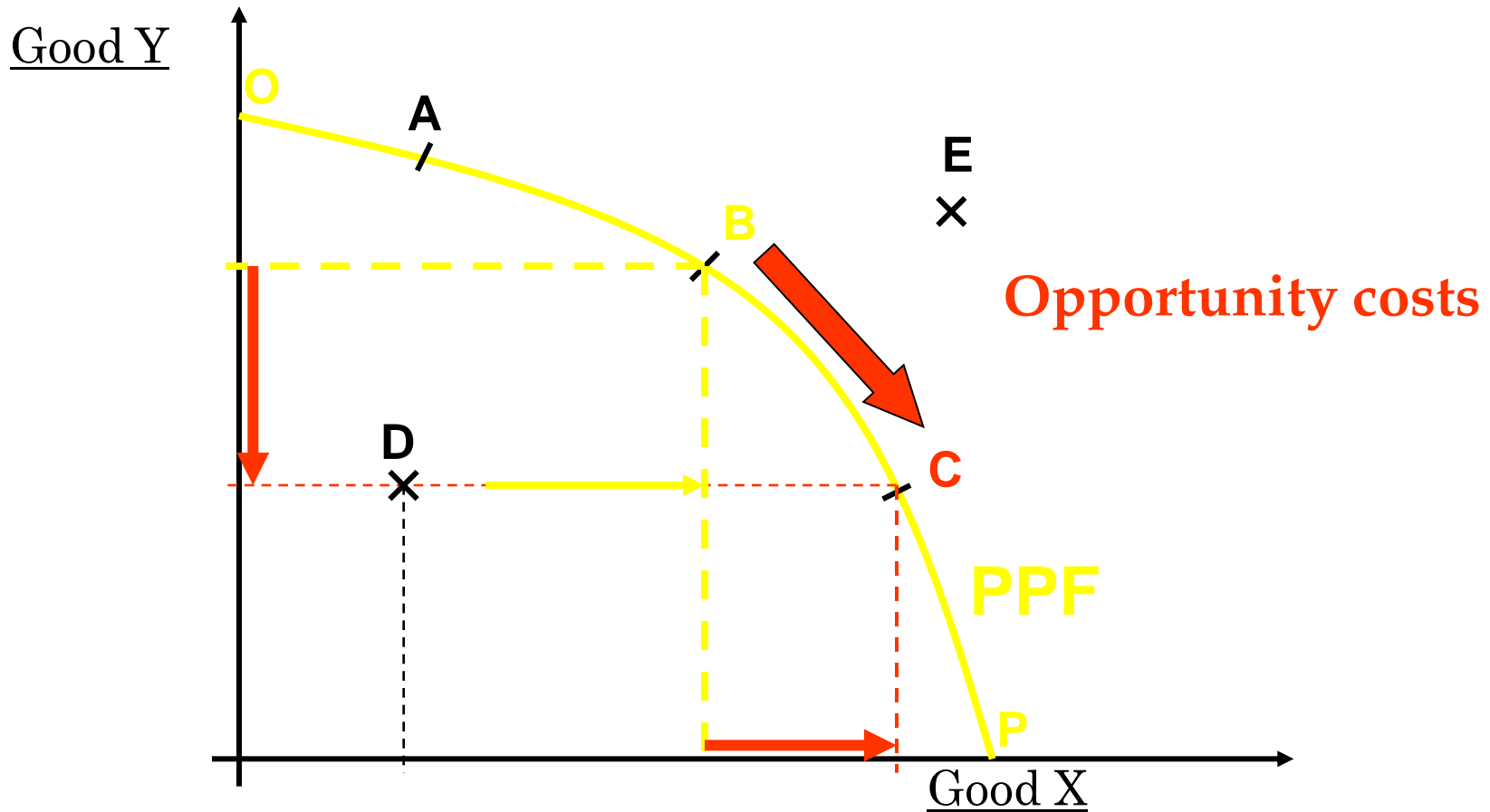
**Free good** - a subject that is useful, but it is freely available (air, water at the sea shore).

## 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.

# Production-possibility frontier (PPF)



# Factors of production

- Soil
- Work
- Capital

# Revenues from the production factor

- 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 =  $\text{input (volume of the factors of production)} / \text{output (volume produced useful goods)}$

## 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.



**4.**

# **ESTABLISHMENT, CHARACTERISTICS AND TYPES OF MARKETS. MARKET SUBJECTS.**

**The division of labor can be divided into four groups:**

- *Natural division of labor*
- *Social division of labor*
- *Division of labor in work operations*
- *International division of labor*

## Types of markets

*According to the territorial aspects:*

- Local
- National
- World

*According to the number of goods in the market follow:*

- Partial
- Aggregate

*According to the subject of purchase and sale:*

- Market factors of production - land, labor, capital,
- Money market
- Products market

# Market subjects

- Households
- Firms
- State

# Forms of economic organization

*Economic systems:*

- Customary system
- Command economy
- Market economy
- Mixed economy

5.

## BASIC MARKET ELEMENTS



INVESTICE DO ROZVOJE VZDĚLÁVÁNÍ

# Supply

**Aggregate supply (AS)**

**Individual supply**

**Partial (market) supply (Market Supply – MS)**

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

# Demand

**Aggregate demand (AD)**

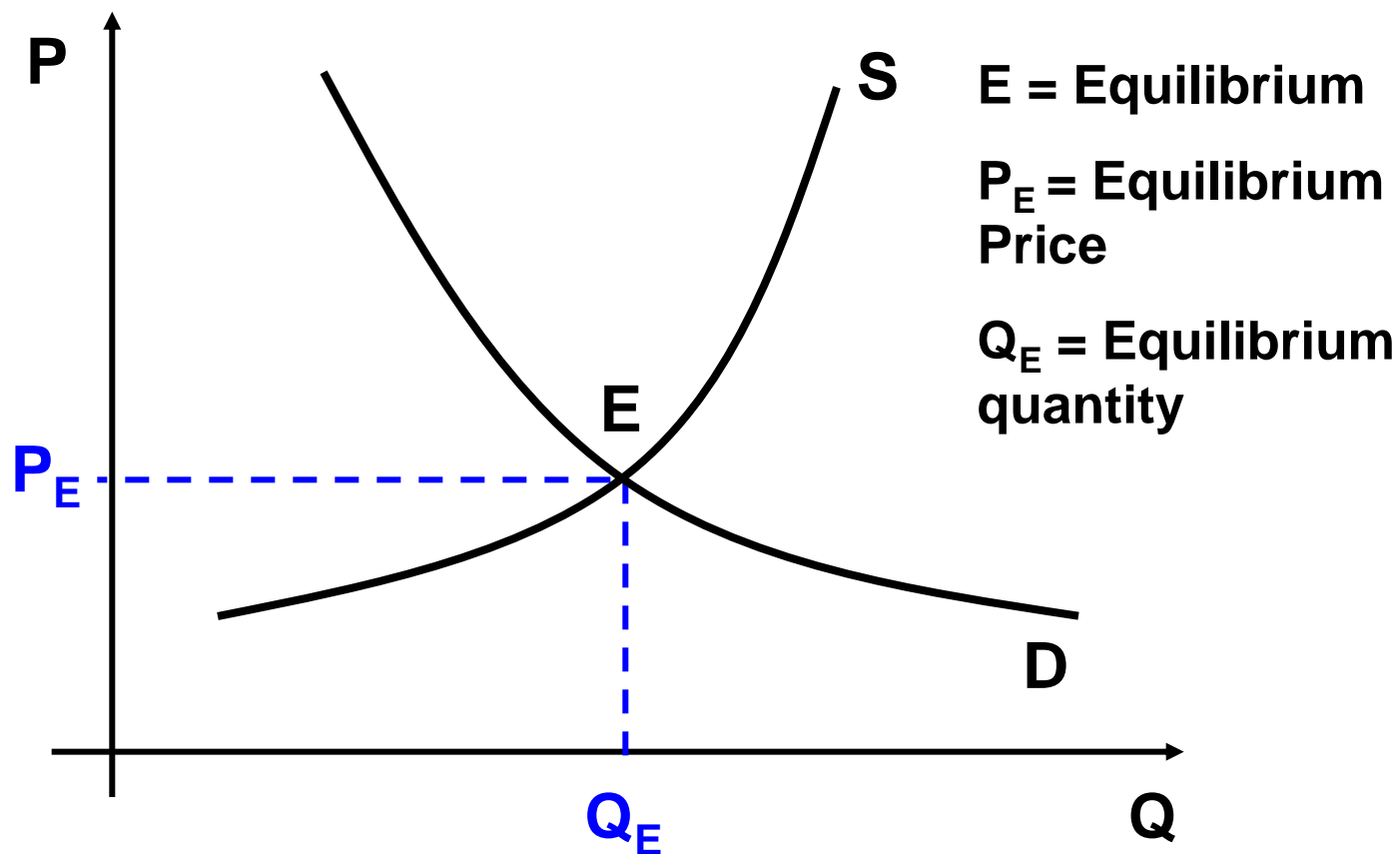
**Individual demand**

**Partial (market) demand - (Market Demand – MD)**

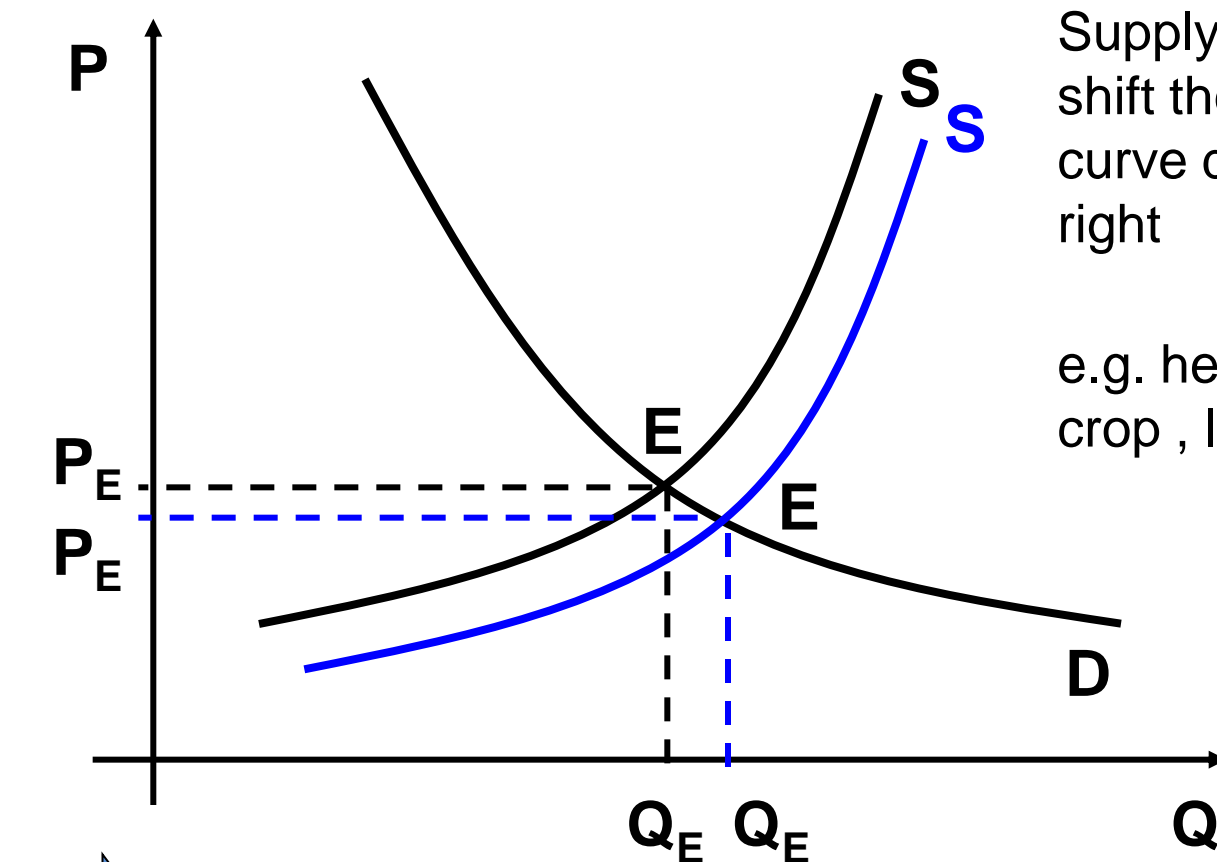
**The law of diminishing demand** - demand curve is downward. When the price rises, demand falls when the price falls, demand rises.



# Market Equilibrium– partial market

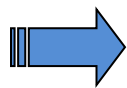


# Changes in the market - supply growth



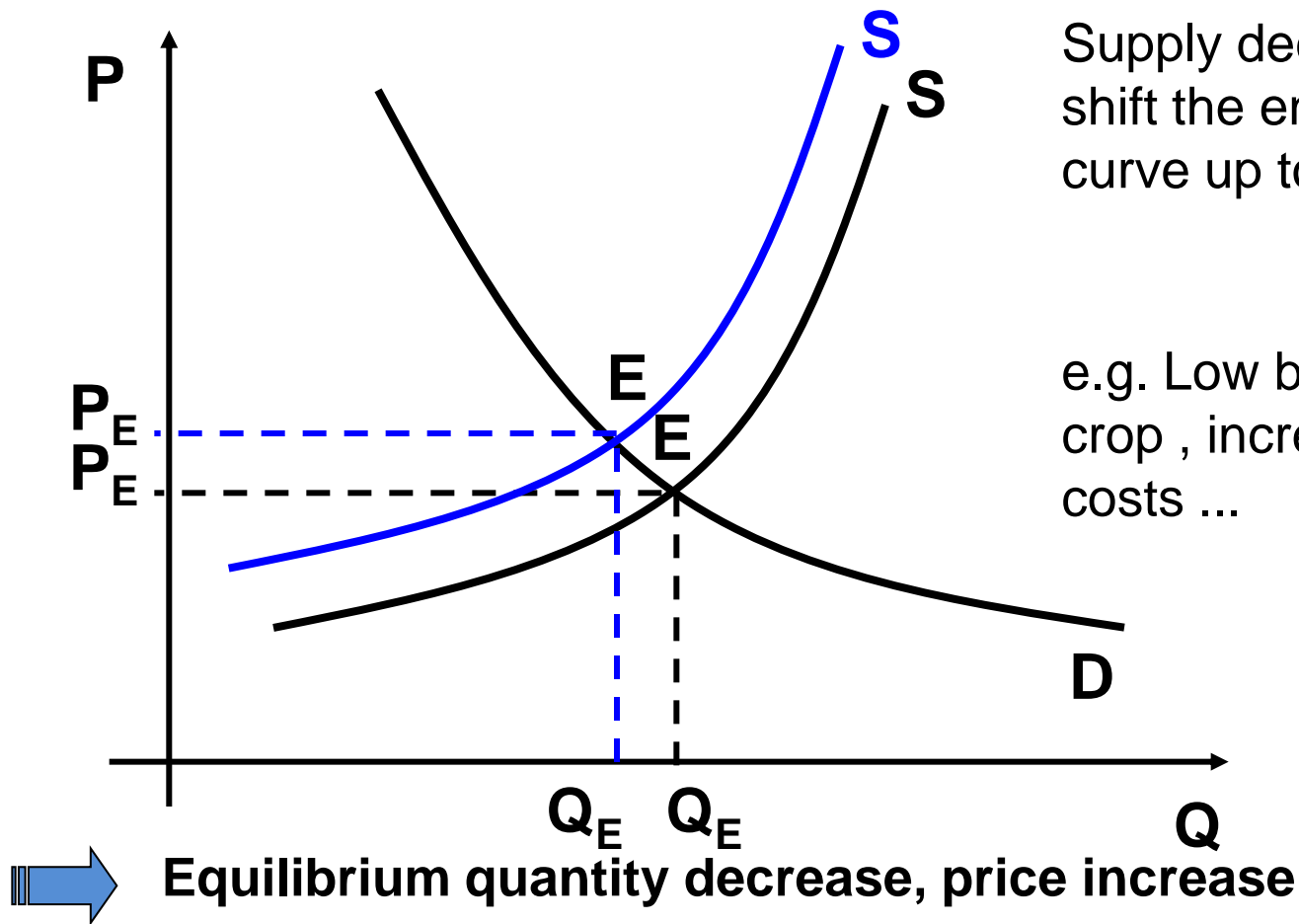
Supply increase –  
shift the entire supply  
curve down to the  
right

e.g. heavy banana  
crop , lower costs ...

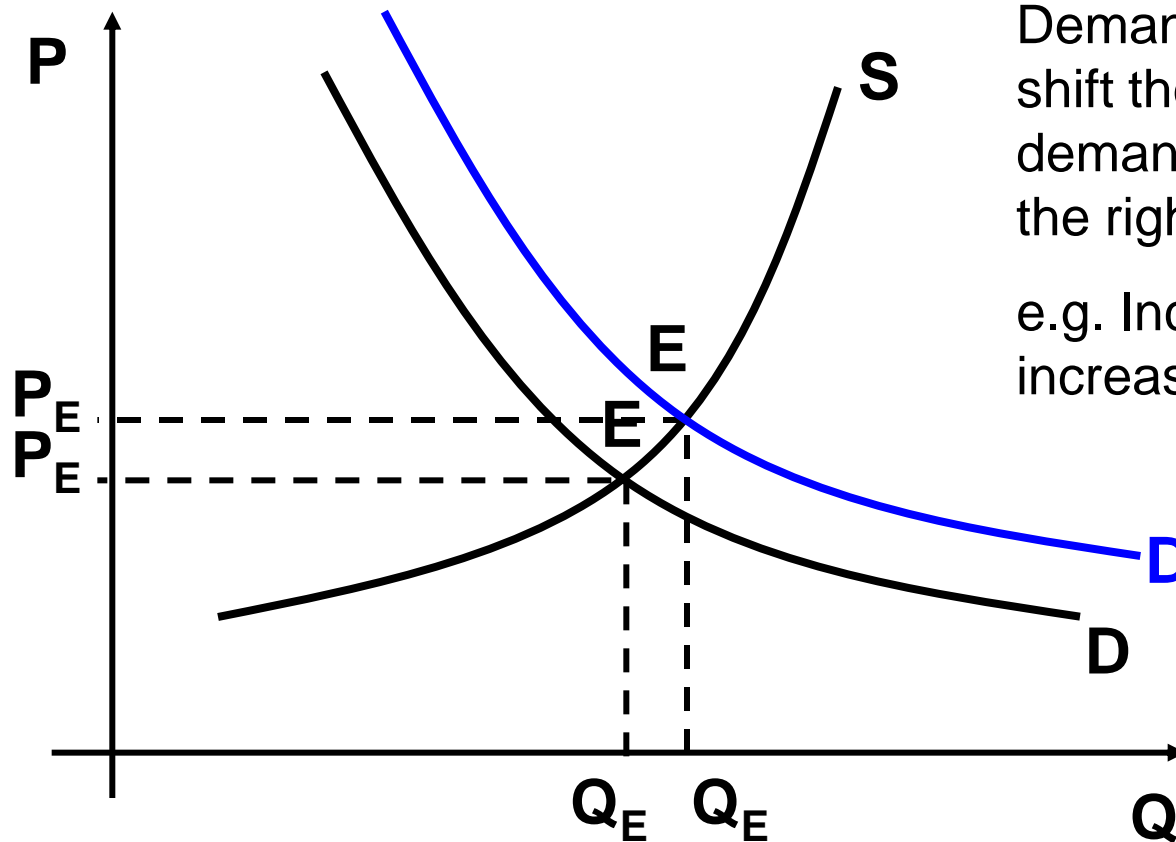


**Increase of the equilibrium quantity, drop in price**

# Changes in the market – supply decline

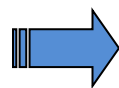


# Changes in the market – demand growth



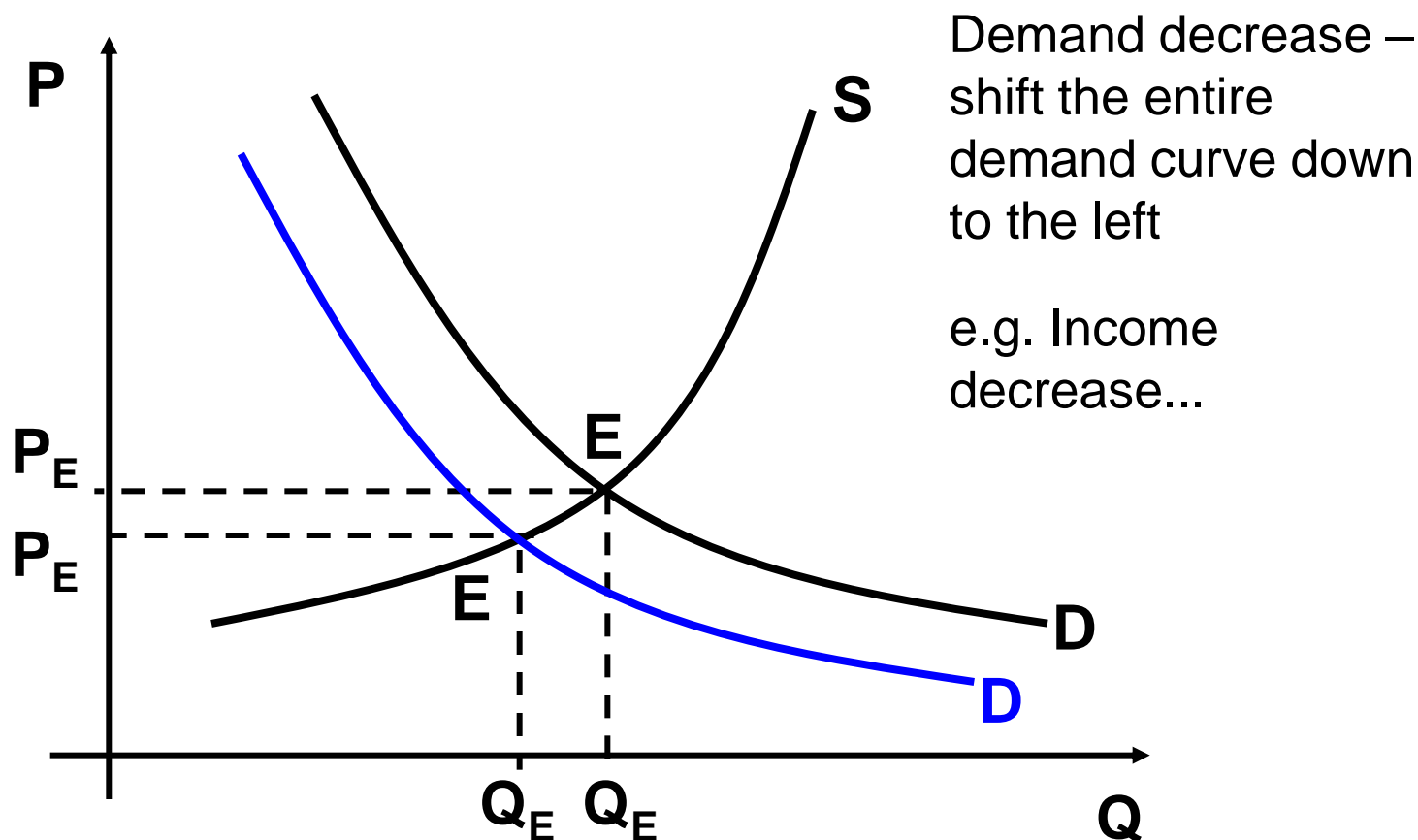
Demand increase –  
shift the entire  
demand curve up to  
the right

e.g. Income  
increase, Eastern...



**Equilibrium quantity increase, price increase**

# Changes in the market – demand decline



➡ Equilibrium quantity decrease, price decrease

# Questions?

## Thank you for your attention



INVESTICE DO ROZVOJE VZDĚLÁVÁNÍ