

SECTION 1.1 ECONOMICS: A BRIEF INTRODUCTION

This section covers three basic questions: What is economics? Why study economics? How does microeconomics differ from macroeconomics?

- **Economists** do not limit themselves to studying the stock market and corporate finance. Economics is a unique and relevant way to analyze a broad range of topics, including discrimination, education, crime, divorce, political favoritism and many other issues that concern or should concern us.
- One definition of **economics** is that it is the study of the allocation of our limited resources to satisfy our unlimited wants.
- **Resources** are inputs that are used to produce goods and services. Resources are **scarce** because our wants exceed what our limited resources can produce. Scarcity forces us to make choices on how to best use our limited resources. By choosing one alternative we are necessarily forgoing other valuable alternatives. Therefore, every choice involves a cost - the opportunities we are forced to give up. Almost everything we do involves making choices between conflicting wants and desires in a world of limited resources. Therefore most of our decisions have an economic dimension and insight may be gained by considering our decisions with the economic way of thinking.
- The aspects of life usually considered “non-economic” have an economic dimension. Because love, sexual activity and religion, time, family commitment all have value and opportunity costs, these issues have economic dimensions.
- Economics is a social science, concerned with reaching generalizations about human behaviour. Other social sciences study the same problems but from a different perspective. The study of economics develops a disciplined method of analyzing problems and the problem-solving tools you learn studying economics will prove valuable to you in your personal and professional life.
- **Macroeconomics** deals with the aggregate economy and covers topics such as inflation, unemployment, business cycles and economic growth. **Microeconomics** deals with the decision-making behaviour of firms and households and their interaction in markets for goods and services.