SILESIAN
UNIVERSITY
SCHOOL OF BUSINESS
ADMINISTRATION IN KARVINA

BASIC TERMS AND CONTEXT OF ECONOMICS

LESSON I

Dr. Ingrid Majerova
Microeconomics/EVS/NAMIB

BASIC INFORMATIONS

Name: Michal Tvrdoň

Office: A 403

E-mail: tvrdon@opf.slu.cz

Consulting hours:

Info: my public
Moodle

SYLLABUS

1. Introduction into Economics
2. Market, Demand and Supply
3. Consumer s Behavior Theory – the Introduction
4. Consumer s Equilibrium, Demand Analysis
5. Firm’s Production Function
6. The Costs Analysis
7. Firm s Revenues, Profit Maximization Rule
8. Perfect Competition Firm Equilibrium
9. Imperfect Competition, Monopoly s Equilibrium
10. Oligopoly
11. Monopolistic Competition
12. The Input Market and its Characteristics
13. The Labor Market
14. The Capital Market

OUTLINE OF THE LECTURE

1. What is Economics?
2. Two Branches and Kinds of Economics …
3. Factors of Production …
4. Returns of Scale….
5. Models in Economics …

GENERAL ECONOMIC THEORY

WHAT IS ECONOMICS …

- Introduction to the study of economic disciplines is a general economic theory
  - deals with the regularities of society s economic life,
  - describes abstract mechanisms of their functioning that help to understand the logic of real economic processes.
- **Economics therefore examines how scarce resources are used to produce commodities**

ECONOMICS IS SCIENCE, ECONOMY IS REALITY

MICROECONOMICS

Microeconomics deals with behavior of individual units:

A) when consuming

B) when producing

Microeconomics and *Optimal Trade-offs*

1. Consumer Theory
2. Workers
3. Theory of the Firm

Microeconomics and *Prices*

- The role of *prices* in a market economy
- How *prices* are determined

MICROECONOMIC ANALYSIS

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TWO BRANCHES OF ECONOMICS

- **Mathematical branch** - asserts that the criterion of truthfulness is the possibility of mathematical proof:

  PROFIT = ...

- **Social branch -** rejects mathematics in economics, economics is a science of human behavior and production

  UNABLE TO WRITE INTO FORMULAS….

TWO ECONOMICS

- **Positive economics -** accepts the economic reality as it is. Its aim is to describe this reality and find in it regularities of the functioning:

  AN INFLATION RATE IS 1 %.

- **Normative economics -** exploring of reality is just the starting point. It evaluates the established facts and evaluates them usually critically. The aim of normative economics is to construct a prototype of more perfect economic system, play an active role in the development of human society.

  OPTIMAL GROWHT OF REAL GDP SHOUL BE 3% .

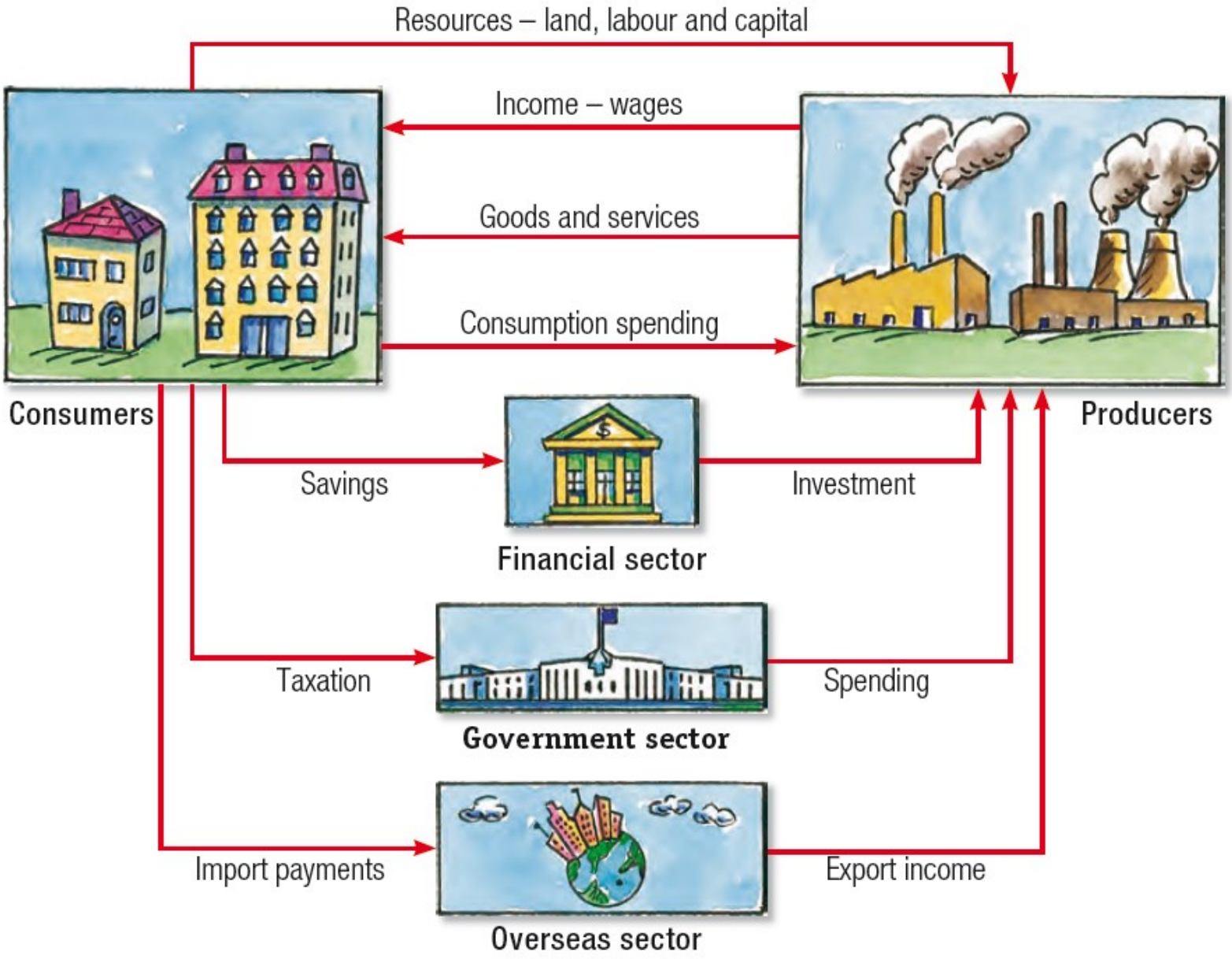
TWO ECONOMICS

- **Economics** is divided into:
  - **Microeconomics** - examines the behavior of individual economic entities (households, firms and state) and development of individual markets

    PRICES ON MOBILE PHONE MARKET

  - **Macroeconomics -** deals with the economy as a whole (aggregate level)

    CHANGES OF AGGREGATE PRICE LEVEL (INFLATION)


Resources – land, labour and capital
Income – wages
Goods and services
Consumption spending
Consumers
Producers
Savings
Investment
Financial sector
Taxation
Spending
Government sector
Import payments
Export income
Overseas sector

INPUTS AND OUTPUTS

- **Inputs** - goods or services which are used by companies in manufacturing

  FLOUR

- **Outputs** - goods or services that are either consumed or used for further production

ECONOMIC RARENESS

- **Economic goods -** items that man needs or desires; goods are materials that satisfy human wants and provide utility
- A common distinction is made between **goods** that are **tangible property**, and **services**, which are **non-physical**

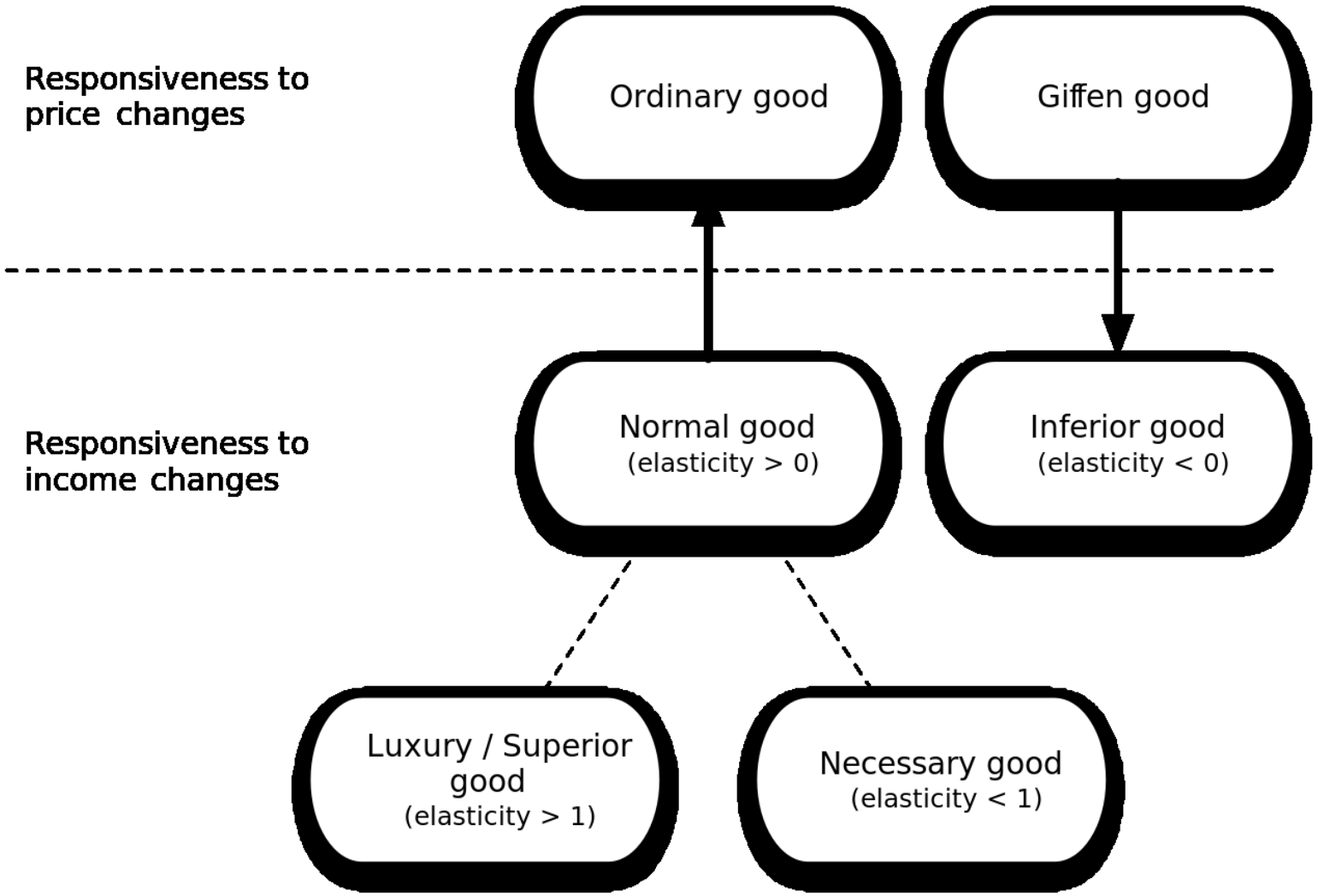
  - Economic goods are characterized by their rarity

- **All goods are characterized by two properties**
  - usefulness (satisfies the needs)
  - availability (scarcity)

- **Rare good -** a subject that is useful, goods are limited, consumers are willing to pay for them, most of goods are rare

- **Free good -** a subject that is useful and also freely available (e.g. water, air)

TYPES OF GOOD



classification of goods according to their exclusivity and competitiveness

- **rivalrous or rival if its consumption** by one consumer prevents simultaneous consumption by other consumers, or if consumption by one party reduces the ability of another party to consume it (TV)

Private goods	**Common-pool resources**
food, clothing, cars, parking spaces	fish stocks, timber, coal

- A good is considered **non-rivalrous** or **non-rival** if, for any level of production, the cost of providing it to a marginal (additional) individual is zero, or in other words may be consumed by one consumer without preventing simultaneous consumption by others (e.g. Broadcast TV)

Club goods	**Public goods**
cinemas, private parks, satellite television	free-to-air television, air, national defense

PRODUCTION

• **Production -** the process of transformation of natural resources (through factors of production) to economic goods that satisfy needs

• man must produce most of the goods from natural sources, which can be found in nature in limited or unlimited amount
  – but these resources by themselves are useless

FACTORS OF PRODUCTION

• In the production of economic goods human uses rare goods - **Factors of Production - F**:

•**Land - A** - is a product of nature, but it is not a free good. Land rent is a revenue from the land. Land is a part of natural resources.
•PRIMARY PRODUCTION FACTOR

•**Labor - L** - is a human activity, the holder is human. The result of the use of labor is wage.
•PRIMARY PRODUCTION FACTOR

•**Capital - K** - goods that were made to participate in the production of other goods.

FACTORS OF PRODUCTION

• **Capital** - is not made for immediate consumption, but to become a production factor. Capital can also be called capital goods. The result of using capital is profit or interest.
• SECONDARY PRODUCTION FACTOR

•**Technology** - a special form of capital, which has no material form (thoughts, ideas, original approach). Can significantly multiply the effects of labor and capital.

•**Income from the production factors have motivational character**

⇒ **driving force of the economic system.**

RETURNS OF SCALE

• High production efficiency is conditioned by high returns of production factors.

RETURNS OF PRODUCTION FACTORS = OUTPUT / INPUT

•The **Law of Diminishing Returns -** return of one factor, whose volume increases, will decrease.

•Valid only assuming that output is increasing due to the growth of a one factor of production when volume of other factors is unchanged.

THREE TYPES OF RETURNS OF SCALE

- **Increasing Returns of Scale -** growth in the volume of used production factors leads to more rapid growth of revenues from them.

- **Constant Returns of Scale -** income from production factors increases proportionally with the growth of the scale of their involvement in the production.

- **Diminishing Returns of Scale -** revenue growth in factors of production is lower than the growth of these factors.

MODELS IN ECONOMICS

•The economic relations are displayed by the models

•The **economic model** is a (non)formalized displaying of real functioning economy, whose main aim is to simplify the described economic system, keeping its essential characteristics.

⇨ It can be formulated:

- verbally,
- graphically,
- mathematically.

ECONOMIC ANALYSIS

- **FUNCTION**

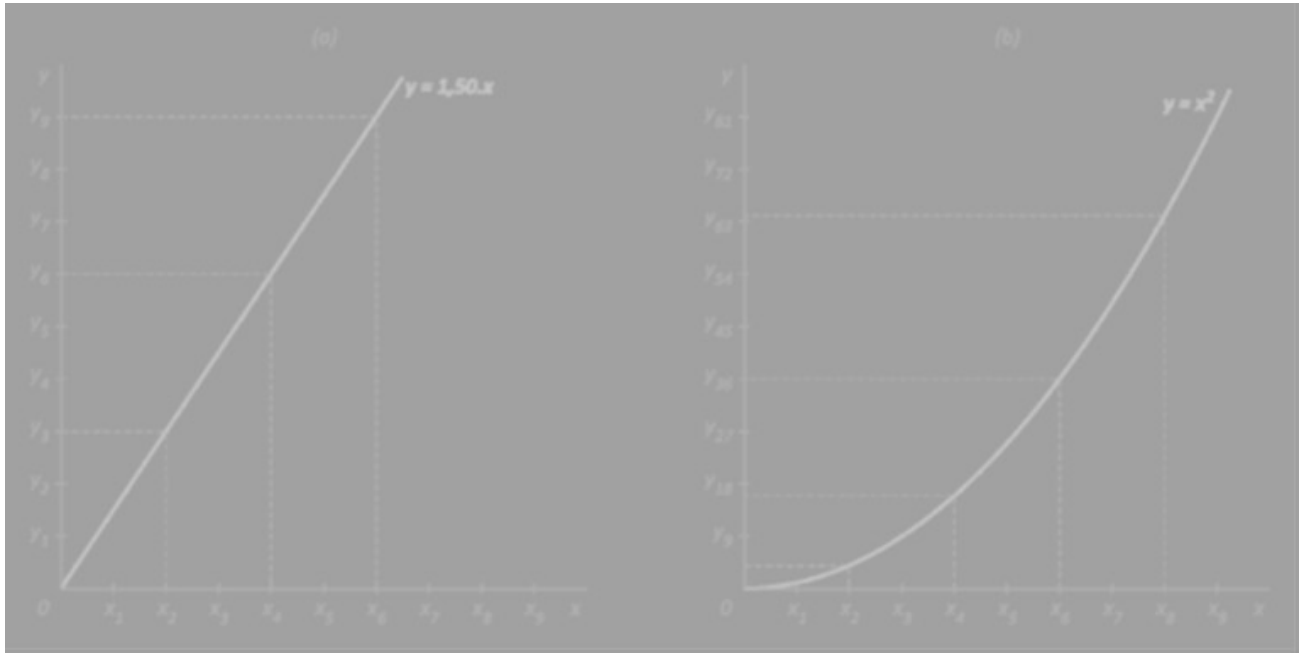
- Mathematical formulation of the relationship, in which the values of a number of independent variables determine the value of one dependent variable.

→ **linear** **and** **nonlinear**

$y = a + bx$ $y = ax^2$

ECONOMIC ANALYSIS

- **GRAPH**
- graphical representation of the function
- alteration of function is expressed with slope



- The slope of the linear function graph is expressed mathematically by first derivative

ECONOMIC ANALYSIS

•The **derivative** is changing of the dependent variable related to infinitely small change in the independent variable.

•Economics interprets the **first derivative** of the total variable function as its (total) marginal variable.

•**Marginal value** expresses increase in the dependent variable due to changes in the independent variable by one unit.

•We also determine the **average value** (the share of dependent variable per unit of the independent variable)

THE END

- THANK YOU FOR YOUR ATTENTION . . .