

ECONOMICS



Figure source: <http://thelibertycaucus.com/the-economics-of-sustainability/>

INTRODUCTORY INFO

Tomáš Hanák

R703

hanak.t@fce.vutbr.cz

Lectures: each week

Practices: every even week

ABOUT COURSE

CURRICULUM

Economics – basic terms and relations

Financial markets

Principles of macroeconomic theory

Macroeconomic policy

Products and services, market

Productive market factors,
International economic
integration

LITERATURE

- Korytářová, Sádlik, Schusterová – Základy ekonomie, Principles of Economics (2004)
- Samuelson – Economics (2001)
- Holman – Ekonomie (2001)

STUDY MATERIALS

- www.fce.vutbr.cz/ekr

STUDY OBLIGATIONS

1. Credit

- Max 1x unexcused absence on practices
- All practices – checked by teacher

2. Exam

- Credit
- Passed test – min 50% points

3. Celebration

WHAT IS ECONOMICS ALL ABOUT?

production

employment

price trends

money

economic
policy

banking

market, ...

DEFINITIONS

Macroeconomics – examines an economy as a whole with a view to understanding the interaction between economic aggregates such as national income, employment and inflation

Microeconomics – examines the behavior of individual economic units such as individuals, business and households and government interactions, as well as the economic consequences of these decisions on other actors

Positive economics – describes and analyses data, facts and behavior of subjects in the economy (e.g. the influence of rising price of cigarettes on a number of smokers)

Normative economics - concerns on ethics and value opinions. It assesses „what should be“ (e.g. Should the deficit of government budget be decreased by higher taxation or by the reduction of expenditures?)

METHODS USED IN ECONOMICS

Observation

- observation of economic processes is one of the main sources of economic knowledge

Analysis

- the history and facts are very important for the science like economics, but historical data have to be completed by economic analysis
- *Economic analysis* is the attitude which deduces or predicts certain types of economic behavior
- *Statistical analysis* is the usage of statistics in the economics, it solves only quantitative side of a problem

Experiments

- basic requirement of the experiment in economics is that only one quantity changes while the others keep constant, the problem is the *subjectivity* that affects the observation; we have to keep in mind that the experiments has been carried out in the modeled situation

LIMITED RESOURCES FOR PRODUCTION

Economic scarcity

- comprises two aspects: *limitation of resource and utility of resources*
- The objects we need or we sigh for are called *economic goods* – they are limited in amount and have to be produced to be at disposal
- The goods that are freely available are called *free goods*, such as water or air

Production factors

- Are used during production of goods and services, we distinguish primary production factors (labor and land) and secondary production factors (capital)
- **Labor** – is human activity, no matter if physical or mental; quality and amount of labor depends on man's skills
- **Land** – is the product of nature, but isn't free good, the amount of land is limited and cannot be extended
- **Capital** – in general comprises goods of long-term usage (e.g. buildings, machinery) and short-term usage (e.g. productive stock).
- **Technology** is a special form of capital, e.g. know-how etc.

ALTERNATIVE USE OF PRODUCTION FACTORS

The producer decides what to produce firstly; then, the decision concerning types and amount of production factors is made. Anything can be produced, but not everything at once since the amount of production factors is limited.

The key choice is whether to produce only consumer goods and services for consumption now, or to produce capital goods for further production of more consumer goods in future.

Effective points = 1) all resources are fully utilized in production and 2) production of one good or service cannot be increased without decreasing the production of the other good or service

OPPORTUNITY COST

Measured by rate of transformation (the amount of good A that must be sacrificed to get one unit of good B)

OP for 1 kg of berries is **5** kg of fish on the upper part of PPS and **20** kg of fish on the lower part of PPC.

PPC will shift outward if:

additional productive resources are made available

current available resources become more efficient

more productive ways of combining resources are found

More on <http://www.docscrowbanks.com/ppt/microeconomic-factors-in-business> , Economics 102.

ECONOMIC SYSTEMS

Economic systems are ways of organizing the economic life of country. There are several systems differing according to solving 3 basic problems:

- **What to produce?** (what products of what amount)
- **How to produce?** (choice of type and amount of production factors)
- **To whom produce?** (how is the product proposed to consumers)

The answers to these questions form structure of production, combination of production factors and income distribution manner.

ECONOMIC SYSTEMS

Manner economy

- is based on traditions forming the everyday life of a society. The production techniques are passing from one generation to another, the progress is none or slow.

Command economy

- is run by central (governmental authority), the commands are defined by central plan, the central authority sets the production goals and way to achieve them.

Market economy

- is characterized by price system, the prices are formed on free markets as an interaction between supply and demand, the main aim is to realize profit

Mixed economy

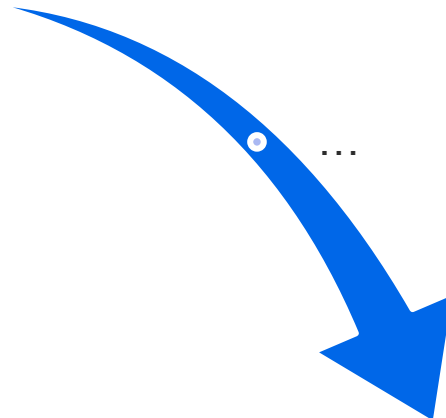
- is a combination of market and command economy.

DIVISION OF LABOUR

Division of labor is a manner of production organization, characterized by dividing the production process into many simple operations that are carried out by specialized laborers.

Division of labor is a natural product of historical evolution

Separation of duties
between men and women



Social division of
labour

Cooperation
Concentration and centralization
Specialization
Combination

MARKET AND ITS SUBSTANCE

Market is

- an institution through which buyers and sellers meet or communicate in order to realize the trade. Market determines the relation of price and amount of goods.
- a social arrangement that allows buyers and sellers to discover information and carry out a voluntary exchange of goods or services

In market economy every good or service has its price, even the price for man's labor (called wage)

Market economy solves basic economic problems:

- Structure of production (what to produce)
- Combination of sources (how to produce)
- Income distribution manner (wages are spent by buying of goods)

Market is necessary – it's the best known regulator and stimulator of economic development

GOOD

Good is one of the basic market categories. It's the product to be sold on the market. But not every product is a good (products consumed by their producers aren't goods)

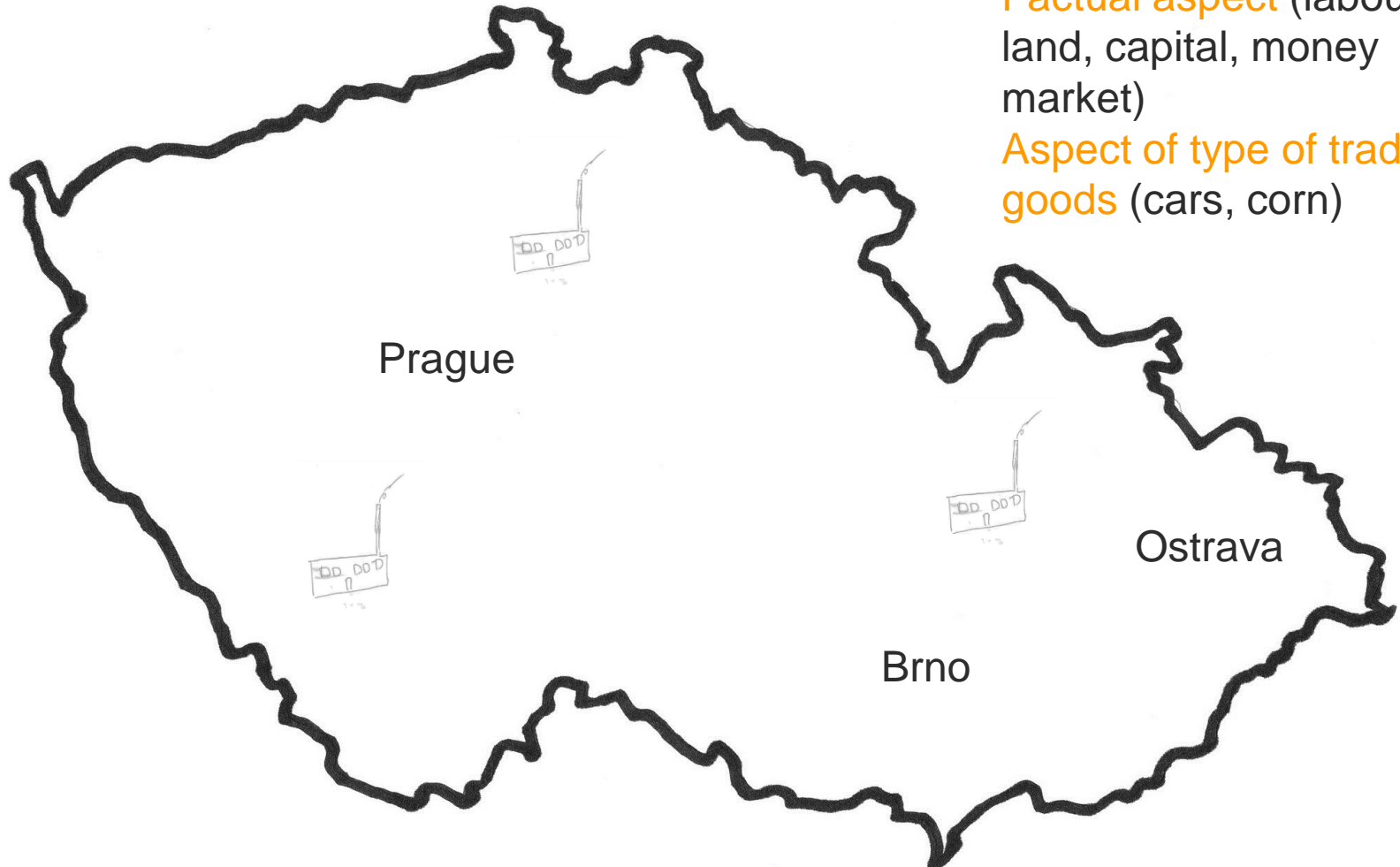
- **Utility**, the ability to satisfy man's needs is the basic character of goods.
- **Exchange value** is another character of goods, it's the rate of exchange for another goods, in terms of money expressed by **price**.

TYPES OF MARKET

Territorial aspect

Factual aspect (labour, land, capital, money market)

Aspect of type of traded goods (cars, corn)



MARKET SUBJECTS

Households

- proprietors of production factors (land, labor, capital)

Firms

- are basic units providing material or non-material production

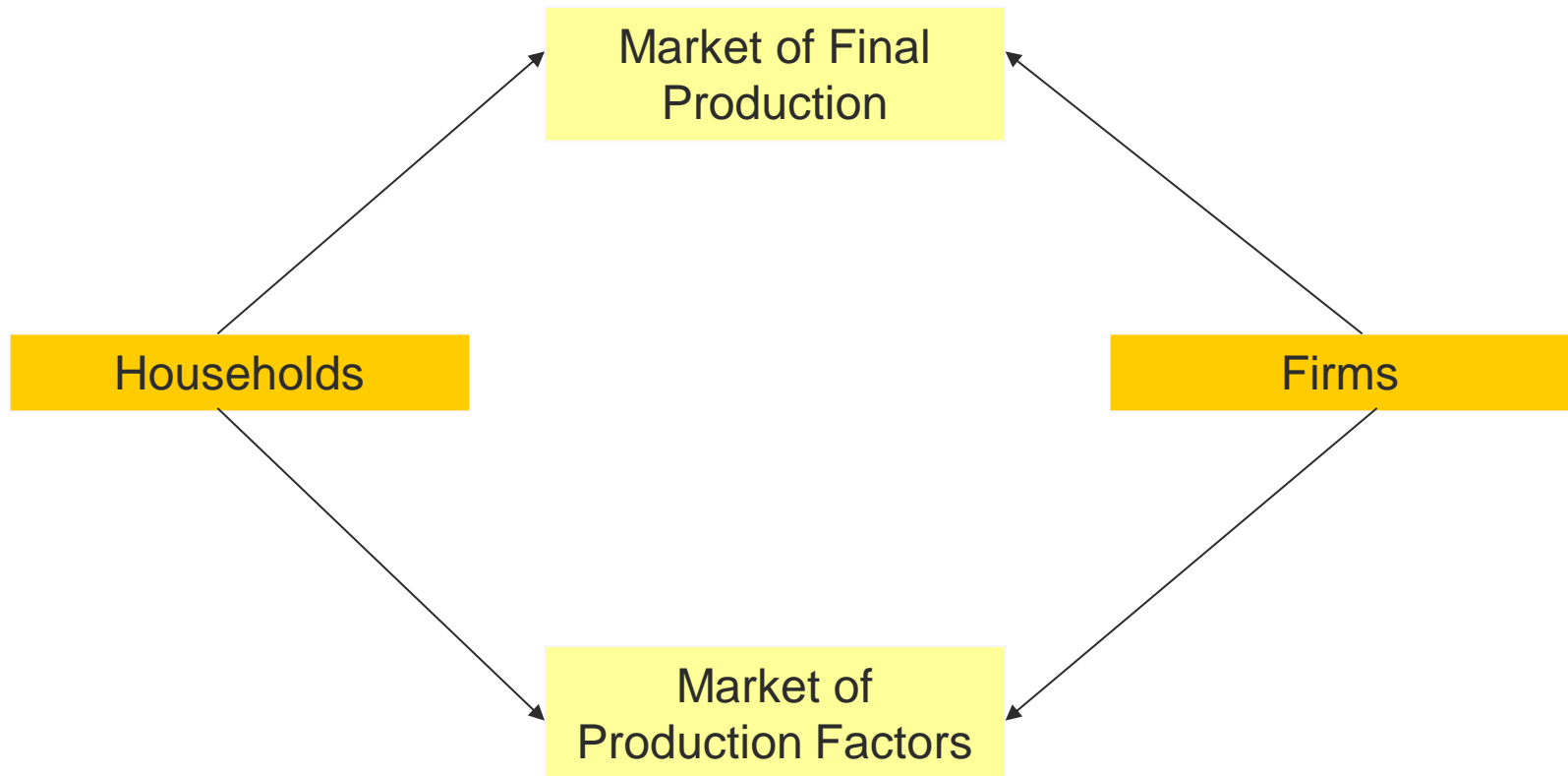
Government

- as the market subject occurs in 1930s
- First governmental activity was taxation

Foreign countries

- no economy that wants to prosper can stay isolated from the surrounding world, it's the interconnection between national economies

RELATION HOUSEHOLDS VS. FIRMS



Thank U 4 your attention

and see you next week