Module : Humanities and Social Sciences
Level : 1st year
Teacher: Dr. Nassima Amirouche

Lecture 4: Economics

1. **Etymology**

The word "economics" comes from the Greek words "oikos" meaning "household" and "nomos" meaning "management" or "law." The term "oikonomia" was used in ancient Greece to refer to the management of a household, including its finances and resources.

2. **Definition**

Economics is defined as the social science of making, distributing, selling, and purchasing goods. People who study economics, called economists, look at how people create wealth, how they use it, and how different people get different amounts of it.

Terminology

Goods – physical items that are bought and sold; they are manufactured, grown, taken out of the earth or taken off the earth and out of the sea.

Services – are actions that someone provides for another or pays someone to do for them. These can be teaching, providing medical care, providing transportation or banking services, etc

Expansion – The economy of an area is growing and becoming self-sufficient. This raises the standard of living for those in the area. The people have more than they need to sustain life.

Recession – It is a time when there is a decline in production that lasts for a few months and people are afraid to spend money.This can be triggered by a natural disaster, a drop in stock values, or perhaps a pandemic.

Governments usually respond by increasing available money, decreasing interest rates, or increasing government spending.

Depression – This is an extended recession. This is a severe decrease in the demand for goods and services which can cause businesses to lay off their workers and even close.Wages drop dramatically and unemployment skyrockets.

Parts of an Economy

A society creates wealth by producing goods and services. Goods include such objects as apples, cars, and roads. Services are things that people do for others—for example, gymnastics lessons, banking, and dental care. People who buy these goods and services are called consumers.

The process of creating the goods and services is called ***production***. There are three major factors in production. The first is ***land***. Land can mean a large farm or a tiny workshop. Land also includes natural resources like oil and minerals. The second factor of production is ***labor***, or people who work for pay. Workers may be rewarded with wages, or—if they own the business—with profits. (Profits are the money that a business keeps after paying costs.) The third factor of production is ***capital***. This includes the tools, factories, and offices that are used to make the goods and services.

Money is not counted as a factor of production. Rather, it is the means by which companies pay for land, labor, and capital. Companies get this money from consumers who buy their goods or services. And most consumers get their money by working for companies.

All the companies producing a particular kind of product or service are grouped together in what is known as an industry. Industries that make things are called manufacturing industries. Industries that sell services are called service industries.

Producers of similar goods or services compete with each other for consumers. The producers and consumers in an industry together form a market.

3. Branches of Economics

There are several different branches of economics. The study of individual consumers and businesses is called microeconomics. The study of how a whole country's economy works is called macroeconomics.

Microeconomics

Economists who study microeconomics look at how consumers spend their money. They try to explain why consumers buy one product rather than another. They also look at why companies choose to produce one good or service rather than another.

The amount consumers want to buy is called demand. The amount companies produce is called supply. Price strongly affects supply and demand. If a manufacturer charges a high price for a product, usually it will sell few products. If it reduces the price, usually it will sell more products. A manufacturer aims to find the price that will result in the highest total profit.

Macroeconomics

Economists who study macroeconomics look at the value of all the goods and services that a country produces. In this way, they measure a whole country's wealth. They also study economic growth, or how a nation's wealth becomes larger.

Governments are interested in macroeconomics, too. A government plays an important role in its country's economy. When a government decides which goods and services should be produced and sold, the economy is said to be planned. Countries with socialist or

Communist governments usually have planned economies. In these countries, the government owns the means of production—capital and land.

By contrast, when a government lets companies and consumers decide what will be produced, the economy is called a free market. Countries with capitalist governments have free-market economies. But even capitalist governments affect the economy. They do this by raising or lowering taxes and changing the amount banks can charge for loans. These actions cause people to have more or less money to spend on goods and services.

Homework

What is the importance of studying Economics?