

UNIVERSITY OF M'SILA
FACULTY OF ECONOMICS AND MANAGEMENT
MODULE: ENGLISH
THIRD YEAR LEVEL
TEACHER: MEDDAH/M

Lesson one: Microeconomics and Macroeconomics

The field of economics is typically divided into two broad realms: microeconomics and macroeconomics. It is important to see the distinctions between these broad areas of study. Microeconomics is the branch of economics that focuses on the choices made by individual decision-making units in the economy—typically consumers and firms—and the impacts those choices have on individual markets. Macroeconomics is the branch of economics that focuses on the impact of choices on the total, or aggregate, level of economic activity. Why do tickets to the best concerts cost so much? How does the threat of global warming affect real estate prices in coastal areas? Why do women end up doing most of the housework? Why do senior citizens get discounts on public transit systems? These questions are generally regarded as microeconomic because they focus on individual units or markets in the economy. Is the total level of economic activity rising or falling? Is the rate of inflation increasing or decreasing? What is happening to the unemployment rate? These are questions that deal with aggregates, or totals, in the economy; they are problems of macroeconomics. The question about the level of economic activity, for example, refers to the total value of all goods and services produced in the economy. Inflation is a measure of the rate of change in the average price level for the entire economy; it is a macroeconomic problem. The total levels of employment and unemployment in the economy represent the aggregate of all labor markets; unemployment is also a topic of macroeconomics. Both microeconomics and macroeconomics give attention to individual markets. But in microeconomics that attention is an end in itself; in macroeconomics it is aimed at explaining the movement of major economic aggregates—the level of total output, the level of employment, and the price level. We have now examined the two branches of economic way of thinking: microeconomics and macroeconomics.

Source: Principles of Microeconomics <http://www.saylor.org>

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Lesson two: Factors of Production

Choices concerning what goods and services to produce are choices about an economy's use of its factors of production, the resources available to it for the production of goods and services. The value, or satisfaction, that people derive from the goods and services they consume and the activities they pursue is called utility. Ultimately, then, an economy's factors of production create utility; they serve the interests of people. The factors of production in an economy are its labor, capital, and natural resources. Labor is the human effort that can be applied to the production of goods and services. People who are employed or would like to be are considered part of the labor available to the economy. Capital is a factor of production that has been produced for use in the production of other goods and services. Office buildings, machinery, and tools are examples of capital. Natural resources are the resources of nature that can be used for the production of goods and services. The three basic building blocks of labor, capital, and natural resources may be used in different ways to produce different goods and services, but they still lie at the core of production.

Labor:

Labor is human effort that can be applied to production. People who work to repair tires, pilot airplanes, teach children, or enforce laws are all part of the economy's labor

People who would like to work but have not found employment—who are unemployed—are also considered part of the labor available to the economy. In some contexts, it is useful to distinguish two forms of labor. The first is the human equivalent of a natural resource. It is the natural ability an untrained, uneducated person brings to a particular production process. But most workers bring far more. The skills a worker has as a result of education, training, or experience that can be used in production are called human capital. Students who are attending a college or university are acquiring human capital. Workers who are gaining skills through experience or through training are acquiring human capital. Children who are learning to read are acquiring human capital. The amount of labor available to an economy can be increased in two ways. One is to increase the total quantity of labor, either by increasing the number of people available to work or by increasing the average number of hours of work per week. The other is to increase the amount of human capital possessed by workers.

Capital

Long ago, when the first human beings walked the earth, they produced food by picking leaves or fruit off a plant or by catching an animal and eating it. We know that very early on,

however, they began shaping stones into tools, apparently for use in butchering animals. Those tools were the first capital because they were produced for use in producing other goods—food and clothing. Modern versions of the first stone tools include saws, meat cleavers, hooks, and grinders; all are used in butchering animals. Tools such as hammers, screwdrivers, and wrenches are also capital. Transportation equipment, such as cars and trucks, is capital. Facilities such as roads, bridges, ports, and airports are capital. Buildings, too, are capital; they help us to produce goods and services. Capital does not consist solely of physical objects. The score for a new symphony is capital because it will be used to produce concerts. Computer software used by business firms or

government agencies to produce goods and services is capital. Capital may thus include physical goods and intellectual discoveries. Any resource is capital if it satisfies two criteria:

1. The resource must have been produced.

2. The resource can be used to produce other goods and services. One thing that is not considered capital is money. A firm cannot use money directly to produce other goods, so money does not satisfy the second criterion for capital. Firms can, however, use money to acquire capital. Money is a form of financial capital. Financial capital includes money and other —paper assets (such as stocks and bonds) that represent claims on future payments. These financial assets are not capital, but they can be used directly or indirectly to purchase factors of production or goods and services.

Natural Resources

There are two essential characteristics of natural resources. The first is that they are found in nature—that no human effort has been used to make or alter them. The second is that they can be used for the production of goods and services. That requires knowledge; we must know how to use the things we find in nature before they become resources.

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Lesson three: Five Principles of Urban Economics

Why do some cities grow faster than others? Why do some generate more wealth? Why do some decline? No simple answers exist, and much remains open to speculation. More than 50 years of research allows stating certain principles about the economies of cities.

Cities are first and foremost places—agglomerations of people—rather than economic and political units. That fact complicates the study of urban economies. Also, cities' power to make economic policy is limited. (City-states like Singapore are an exception.) The policies that most significantly affect urban economies usually come from higher levels of government. This doesn't mean that local policies don't matter, but it does mean that their ability to affect broad economic and geographic trends is sharply circumscribed. Finally, that cities aren't economic and political units in the way countries or even states are means that they face particularly fierce competition for mobile resources, especially for talent and brains. After all, it's much easier to move your residence or your business to a nearby city than to move it to another country or another state. This reality is of fundamental importance in the knowledge economy, whose primary scarce resources are brains, skills, and entrepreneurial spirit.

Those roots are the subject of the first principle of urban economics: cities' size and location are key determinants of wealth. For example, in every European nation, the biggest city a century ago remains the biggest one today. The advantages of size and location are the outcome of decades, even centuries, of investments in infrastructure and in institutions.

The first principle of urban economics doesn't mean that every city's fate is preordained. And that brings us to the second: when cities do experience dramatic changes in their growth paths, the reason is almost always outside events or technological change. European postwar borders are an example of the way political conditions can shape growth. After the Iron Curtain was drawn in 1947, cities in West Germany had access to the growing European Economic Community, while cities in East Germany didn't.

New transportation technology or infrastructure is an especially powerful agent of change, since it can alter a city's location advantage, turning a good location into a bad one or vice versa. The emblematic example is the construction of the Erie Canal in the 1840s, which gave New York City access to western markets and solidified its position as America's biggest city.

Also related to transportation is the third principle: accessible, well-connected cities exhibit higher growth. The city that succeeds in positioning itself as the meeting place and market center for a wider region has won a tremendously important battle, since transportation and travel hubs have historically emerged as dominant finance and business centers, attracting talent, money, and brains.

The fourth principle of urban economics is that every industry leaves its imprint on a city—and it isn't always a good one. In North America and Europe these days, the best illustration of this principle is that cities with a legacy of heavy industry and large assembly plants generally exhibit slower growth. The first cities to industrialize, not long ago models of economic progress, are often among the most troubled today. Many have found it tough to move to the knowledge economy.

The fifth principle of urban economics: though much remains unexplained, good and bad policies do matter. Local business and political culture surely plays a part in a city's growth.

(Source: http://www.city-journal.org/2013/23_1_urban-economics.html)