

Lectures of: English for students of economics

Second semester: 2021/2022

Department of: Economics

## Lecture 01: Introduction to economics

***Read the Text carefully then underline the New Words.***

### **I- What's economics?**

Understanding how various economies work is the basic purpose of studying economics. Through studying economics, we seek to know how an economy is organized, how it behaves, and how successfully it achieves its basic objectives.

Economics is a social science that studies individuals and organizations engaged in the production, distribution, and consumption of goods and services. The goal is to predict economic occurrences and to develop policies that might prevent or correct such problems as unemployment, inflation, or waste in the economy.

Economics is subdivided into *macroeconomics* and *microeconomics*. Macroeconomics studies aggregate output, employment, and the general price level. *Microeconomics* studies the economic behavior of individual decision makers such as consumers, resource owners, and business firms.

### **II- The scarcity problem:**

Our world is a finite place where people, both individually and collectively, face the problem of scarcity. Scarcity is the condition in which human wants are forever greater than the available supply of time, goods, and resources. Because of scarcity, it is impossible to satisfy every desire. Unfortunately, nature does not offer the Garden of Eden, where every desire is fulfilled. Instead, there are always limits on the economy's ability to satisfy unlimited wants. Alas, scarcity is pervasive, so "You can't have it all."

Scarcity is a fundamental problem for every society. Decisions must be made regarding what to produce, how to produce it, and for whom to produce. What to produce involves decisions about the kinds and quantities of goods and services to produce. How

to produce requires decisions about what techniques to use and how economic resources (or factors of production) are to be combined in producing output.

Scarcity implies that every decision involves opportunity costs. Opportunity costs exist in all situations where available resources are not abundant enough to satisfy all our desires. You can select only a few of all available alternatives.

*Pause for a moment to list some of your unsatisfied wants.  
Perhaps you would like a big home, gourmet meals,  
designer clothes, clean air, better health care, shelter for the  
homeless, more leisure time, and so on.*

### **III- Factors of production:**

Because of the economic problem of scarcity, no society has enough resources to produce all the goods and services necessary to satisfy all human wants. Resources are the basic categories of inputs used to produce goods and services. Resources are also called factors of production. Economists divide resources into three categories: land, labor, and capital.

**III-1-Land** is a shorthand expression for any natural resource provided by nature. Land includes those resources that are gifts of nature available for use in the production process. Land includes anything natural above or below the ground, such as forests, gold, oil, coal, wind, and the ocean. Two broad categories of natural resources are renewable resources and nonrenewable resources. Renewable resources are basic inputs that nature can automatically replace. Examples include lakes and clean air. Nonrenewable resources are basic inputs that nature cannot automatically replace. There is only so much coal, oil, and natural gas in the world.

**III-2-Labor** is the mental and physical capacity of workers to produce goods and services. The services of farmers, assembly-line workers, lawyers, professional football players, and economists are all labor. The labor resource is measured both by the number of people available for work and by the skills or quality of workers. One reason nations differ in their ability to produce is that human characteristics, such as the education, experience, health, and motivation of workers, differ among nations.

**III-3-Capital** is the physical plants, machinery, and equipment used to produce other goods. Capital goods are human-made goods that do not directly satisfy human wants. Capital also consists of factories, office buildings, warehouses, robots, trucks,

and distribution facilities. College buildings, the printing presses used to produce this textbook, and iPhones are also examples of capital.

The term capital as it is used in the study of economics can be confusing. Economists know that capital in everyday conversations means money or the money value of paper assets, such as stocks, bonds, or a deed to a house. This is actually financial capital. In the study of economics, capital does not refer to money assets. Instead, capital in economics means a factor of production, such as a factory or machinery. Stated simply, you must pay special attention to this point: Money is not capital and is therefore not a resource.

### Remember

Economics helps to solve the three important questions of *what* to produce, *how* to produce it, and *for whom* to produce.



### Key concepts:

- **Scarcity** is the fundamental economic problem that human wants exceed the availability of time, goods, and resources. Individuals and society therefore can never have everything they desire.
- **Resources are factors of production** classified as **land**, **labor**, and **capital**. Entrepreneurship is a special type of labor. An entrepreneur seeks profits by taking risks and combining resources to produce innovative products.
- **Economics** is the study of how individuals and society choose to allocate scarce resources in order to satisfy unlimited wants. Faced with unlimited wants and scarce resources, we must make choices among alternatives.
- **Macroeconomics** applies an economywide perspective that focuses on such issues as inflation, unemployment, and the growth rate of the economy.
- **Microeconomics** examines individual decision-making units within an economy, such as a consumer's response to changes in the price of coffee and the reasons for changes in the market price of personal computers.
- **What to Produce?** Should society devote its limited resources to producing more health care and fewer military goods? Should society produce more iPods and fewer CDs? Should more capital goods be produced instead of consumer goods, or should small hybrid cars and fewer SUVs be produced? The problem of scarcity restricts our ability to produce everything we want during a given period, so the choice to produce "more" of one good requires producing "less" of another good.

- **How to Produce?** After deciding which products to make, the second question for society to decide is how to mix technology and scarce resources in order to produce these goods. For instance, a towel can be sewn primarily by hand (labor), partially by hand and partially by machine (labor and capital), or primarily by machine (capital). In short, the How question asks whether a production technique will be more or less capital-intensive.
- **For Whom to Produce?** Once the What and How questions are resolved, the third question is For Whom. Among all those desiring the produced goods, who actually receives them? Who is fed well? Who drives a Mercedes? Who receives organ transplants? Should economics professors earn a salary of \$1 million a year and others pay higher taxes to support economists? The For Whom question means that society must have a method to decide who will be “rich and famous” and who will be “poor and unknown.”

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