

Lesson 07: Introduction to Economics

General objective:

- To know significant concepts about economics

Specific Objectives:

After completing this lesson, students will be able to:

- Understand the meaning of the concepts ‘economy and economics’
- State the two main types of economics ‘macro- and micro-economics’
- Understand the meaning of business cycle
- State the four phases of business cycle

A. Definition of Economy and Economics:

A.1. What is Economy?

Economy is a **system** that encompasses all the activities related to the production, consumption, and trade of goods and services in an entity, whether the entity is a nation, or a small town.

A.2. What is Economics?

Economics is a **social science** that focuses on the production, distribution, and consumption of goods and services, and analyzes the choices that individuals, businesses, governments, and nations make to allocate resources. In simple words, economics refers to the study of how money works and issued.

Related adjectives:

‘**Economic**’ and ‘**economical**’ are closely related adjectives, and sometimes have the same meaning. However, there are other times where they are used to mean different things.

- **Economic** (without an ‘s’) means ‘connected with economy’.

For example: The economic growth is very slow.

- **Economical** can refer to avoiding waste. This means using money or resources carefully, or using them in a thrifty manner.

For example: I have been trying to be more economical when shopping for groceries.

- It can also be used to describe a product that is cheap (not expensive) to buy, to use or to do.

For example: The company is making smaller, more economical cars.

B. Branches of Economics:

Economics can generally be broken down into two branches which are:

B.1 Macro-economics is the study of the overall economic phenomena or the total economy. It is mainly concerned with the behavior and performance of the aggregate (whole) variables and issues that affect the economy. It addresses important economic concerns such as: total consumption of a region, the general price level, interest rate, economic growth, unemployment, inflation...etc.

In other words, macro-economics analyzes entire industries and economics rather than individuals or specific companies; for example, It may analyze how the **unemployment rate** affects the **gross domestic product** (GDP).

B.2. Micro-economics is the branch of economics that studies how individual consumers and businesses (firms) make decisions regarding the allocation of resources and prices of goods and services. Micro-economics focuses on individual economic units. It is concerned with a single product, business, household, industry, costs...etc. It deals with concerns like how the price of an item affects the amounts bought and quantity provided, among other things.

So, **macro-economics** studies the behavior and performance of an **economy as a whole**, while **micro-economics** studies the issues of the **economy at an individual level**.

C. Business Cycle

C.1. Definition of Business Cycle

Business cycle, also known as **economic cycle**, is the change that occurs in an economy in a series of stages with constant expansions and contractions. It is measured by its GDP. A rise in the GDP depicts economic expansion or growth, and a decline in the GDP depicts an economic contraction.

The business cycle may last a few months or years based on the prevailing economic conditions and the measures taken to influence the various phases of the business cycle. Generally, there are no specific time frames in which a business cycle lasts. However, the expansion periods are often longer than contraction periods but with varying lengths.

C.2. Phases of Business Cycle

Business cycle consists of four main phases (or stages) namely **expansion**, **peak**, **contraction**, and **trough**. Expansion and contraction are the phases that depict the stage of the economy. In contrast, peak and trough depict the turning points at which the economy takes a different direction.

1. **Expansion:** Expansion in business cycle is the first phase, describing the economy's growth. It is deemed the desirable phase of the economy because the latter is in a boom and generally experiencing expansion. In this stage, the GDP rises due to the uptrend in the economy. The basic characteristics of this stage are:

- High disposable income
 - High velocity of the money supply
 - High employment
 - High demand for goods and services
2. **Peak:** the peak phase of the business cycle means the economy is growing uncontrollably to an unhealthy standard. It depicts the climax of the activities that occur in the expansion phase. Therefore, in this stage, the economy is deemed to have reached its limit. The characteristics of the peak phase are:
- Low unemployment
 - Increased prices
 - Real GDP growth

The peak phase is a turning point (the highest point) in the business cycle because the high productivity, high employment rate, and high GDP growth rate make the economy unable to stretch further

3. **Contraction:** Once the peak is reached, the economy usually enters into the contraction phase. In this phase, the growth slows down and unemployment increases.
4. **Trough:** This is the lowest point of the business cycle, which occurs when the recession reaches its deepest point before leading to economic recovery (an initial period of expansion, when the economy out of the trough phase) and expansion.

The trough is a reversal phase from recession to economic recovery. Hence, during this period, real GDP growth is at its lowest level; and, it may be accompanied by the following conditions:

- The unemployment rate reaches its highest point
- The inflation rate is at its lowest point because the economy shows high excess supply
- Low interest rates
- Excess production due to weak demand

D. Sectors of economy

What are the sectors of the economy?

Human activities which generate income are known as economic activities. Economic activities are broadly grouped into primary, secondary, tertiary activities. Higher services under tertiary activities are again classified into quaternary and quinary activities.

D.1.Primary activities

Primary activities are directly dependent on the environment as these refer to utilisation of earth's resources such as land, water, vegetation, building materials and minerals. It, thus includes hunting and gathering, pastoral activities, fishing, forestry, agriculture, and mining and quarrying.

People engaged in primary activities are called red-collar workers due to the outdoor nature of their work.

D.2. Secondary activities

Secondary activities add value to natural resources by transforming raw materials into valuable products. Secondary activities, therefore, are concerned with **manufacturing**, processing and construction (infrastructure) industries.

People engaged in secondary activities are called blue-collar workers.

D.3. Tertiary activities

Tertiary activities include both production and exchange. The production involves the ‘provision’ of services that are ‘consumed’. Exchange involves trade, transport and communication facilities that are used to overcome distance.

Tertiary jobs = White-collar jobs.

D.4. Quaternary activities

Quaternary activities are specialized tertiary activities in the ‘Knowledge Sector’ which demands a separate classification. There has been a very high growth in demand for and consumption of information-based services from mutual fund managers to tax consultants, software developers and statisticians. Personnel working in office buildings, elementary schools and university classrooms, hospitals and doctors’ offices, theatres, accounting and brokerage firms all belong to this category of services. Like some of the tertiary functions, quaternary activities can also be outsourced. They are not tied to resources, affected by the environment, or necessarily localized by market.

D.5. Quinary activities

Quinary activities are services that focus on the creation, re-arrangement and interpretation of new and existing ideas; data interpretation and the use and evaluation of new technologies. Often referred to as ‘gold collar’ professions, they represent another subdivision of the tertiary sector representing special and highly paid skills of senior business executives, government officials, research scientists, financial and legal consultants, etc. Their importance in the structure of advanced economies far outweighs their numbers. The highest level of decision-makers or policymakers performs quinary activities.

Quinary = Gold dollar professions.

Exercise 01: Complete the following sentences with (economy, economics, economic and economical)

1. It is more to purchase an electronic vehicle because you can spend less money on gasoline as you drive.
2. The Growth is very slowly.
3. An increase in tourism will help the city's
4. The new system maybe more but i twill lead to a decline in programmed quality.
5. He gained a first class honourous degree in
6. Further increases in imports could destabilize the
7. He has never read around the subject of
8. The country has been in a very poor state ever since the decline of its two major industries.

Exercise 02: Choose the correct answer from the choices given between brackets ()

1. The low point in the business cycle is referred to as the (trough, peak, expansion)
2. When an aggregate economic activity is increasing, the economy is said to be in (turning point, expansion, contraction)
3. In a boom, (employment, demand, unemployment) is likely to fall.
4. Peaks and troughs of the business cycle are known collectively as..... (real business cycle events, equilibrium points, turning points).
5. A significant characteristic of business cycles is that

Exercise 03: Choose the right answer from below

1. When we produce a good by exploiting natural resources, it is called _____.

- A. Primary sector
- B. Service sector
- C. Public sector
- D. Tertiary sector

2. Name one type of classification of the economy.

- A. Urban Rural
- B. Public/Private
- C. State/National
- D. Urban

3. Name one functioning activity of the Tertiary sector.

- A. This sector gradually became associated with different kinds of industries.
- B. Activities in which natural products are changed into other forms through ways of manufacturing.
- C. Produce a good by exploiting natural resources.
- D. Goods that are produced would need to be transported by trucks or trains and then sold in wholesale and retail shops.

4. Not every good (or service) that is produced and sold, needs to be counted. It makes sense only to include the _____ to get the total production.

- A. Final goods and services.
- B. Adding up the actual numbers of goods.
- C. Goods and services in the three sectors.
- D. Values of goods and services in production.

5. The task of measuring GDP is undertaken by the _____.

- A. State government
- B. Provincial government
- C. All of the options are correct
- D. Central government

6. How do big private companies contribute to the development of a nation?

- A. By increasing their profits.
- B. By increasing productivity of the country in the manufacturing of industrial goods.
- C. By providing private hospital facilities for the rich.
- D. By increasing the demands for their products through advertisements.

7. Which of the following types of activities are covered in the secondary sector?

- A. Natural products are changed through manufacturing.
- B. Goods are produced by exploiting natural resources.
- C. It includes agriculture, forestry, and dairy.
- D. It generates services rather than goods.

8. Where will you find the most disguised unemployment? Select the correct option from those given below:

- A. In most of the government offices.
- B. In big private companies.
- C. Among agricultural workers working for small farmlands.
- D. Among part-time industrial workers.

9. Life insurance is an activity of the _____.

- A. Secondary sector
- B. Service sector
- C. None of the above options are correct
- D. Primary sector

10. Employment figures of a country are based on data collected from a 5-yearly survey on employment and unemployment. Which organisation conducts this survey?

- A. NREGA 2005—National Rural Employment Guarantee Act, 2005.
- B. ILO — International Labour Organisation.
- C. Census of India.
- D. NSSO—National Sample Survey Organisation.