Notes on Chapter 1

For definition and examples, you should consult the text book. The purpose of these notes is to provide a general guideline as to what has been covered in class and their relative importance. These notes are never intended to be used as a replacement of the text book.

We started our discussion with the distinction between Renewable and Nonrenewable natural resources. We pointed out the fact that natural resources, be it renewable or nonrenewable, are finite in supply (scarce) and care should be taken in using these.

Since human wants are insatiable and resources are scarce, we need to make choices. Even if we had unlimited supply of natural resources, still the problem of scarcity would have existed. The problem of scarcity remains because we need time to convert resources into goods and services and since our wants are unlimited, we will never have enough time to produce all the goods that would be demanded at a given point of time. So even if the resource supply are unlimited, there would be scarcity of goods and services that is available for final consumption and the problem of choice would continue to be a part of every society. It is this problem of choice where the origin of economics lies. Please study the definition of Economics carefully and its four central issues (who produces what, how it is produced, who consumes and who decides). In relation to who decides, we discussed the issue of Consumer Sovereignty (make sure you know what it is).

Economic Models:

Things to remember: Definition of Economic model, what is meant by abstraction from reality. The notion of Ceteris Paribus. Make sure you know what is meant by the Circular Flow Model of Goods and Money. It is important that you know what is the difference between the product market and the resource market and what is exchanged in these markets and from whom to whom.

Micro and Macro Economics:

Once again the definitions are very important and it is also important for you to identify if a particular issue is a Micro or a Macro issue. In other words it is important for you to look at the examples and think of some Micro and Macro issues by yourselves.

Positive and Normative Economics:

You have to be able to identify and distinguish between a normative and a positive statement.

Appendix: We also discussed the appendix of the chapter to show how mathematics, tables and graphs can help us in conveying economic ideas in a much precise and convenient way. We also looked at a demand equation and found out how to compute its slope. We also looked at a non linear supply equation and considered its slope at different sections.