INTRODUCTORY ECONOMICS

THE FUNDAMENTALS OF ECONOMICS

Before we make any decisions, we do a simple **cost benefit analysis** which we will illustrate this principle by describing to you how a person would start up a lemonade stand.

At the start, you would have to get a supply of lemons, build the stand and probably equipment to serve it with. All of these factors would contribute a cost in terms of money.

COST BENEFIT ANALYSIS

INCENTIVES

You may wonder what **motivates** the entrepreneur to start the lemonade stand? It can be said that incentives are what drives individuals into starting the business.

MAIN INCENTIVES THAT DRIVE ENTREPRENEURS TO START A BUSINESS

- **Financial benefits** such as additional disposable income.
- **Satisfaction** that comes with working hard to earn a living.
- Putting all the **free time to good use.**

OPPURTUNITY COSTS

This is the value of the next best alternative use of that resource.

In our example, a resource that is used is the entrepreneur's **time and effort**. If he or she were to spend time and effort to start the lemonade stand, then he would not have the time to spend with his family. **So his opportunity cost would be what he had to let go, in this case it is spending time with family.**

INTERNATIONAL ECONOMICS

BARRIERS TO TRADE

These are government imposed restraints on the flow of international exchange of goods.

Protectionist measure

One example of this is the government may impose an **import tariff** (tax on imports) on lemons in order to protect local lemon industry.

Comparative advantage

This is if a country can produce something at a cost lesser than everyone else.

Exchange rate

It is the price of a currency expressed in terms of another currency.

TRADING

Trade is the exchange of goods with money or other goods. A customer buying lemonade in exchange for money would be a good example of trade.

BALANCE OF PAYMENT

The balance of payment is the difference between imports and exports of a country. Let's assume that the lemons are transported in and out of the country and the country only trades one type of good.

If the cost of lemons is less than the value of lemonade exported it is said that the country has a trade surplus.

If the cost of lemons is higher than the value of lemonade exported it is said that the country has a trade deficit.

MICROECONOMICS

It is the study of the **behaviour and decisions of individuals and businesses in markets in the economy** and is concerned with how resources are used to produce goods and services to meet the needs and wants of individuals.

ASPECTS OF MICROECONOMICS

SCARCITY

Everything in this world exists in a limited amount and we as humans want many things, but the limitation of things confines us to the **notion of trade.**

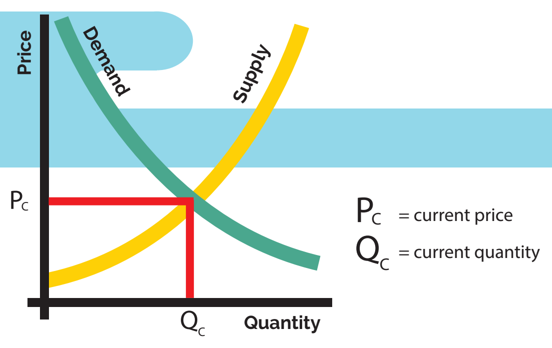
In the modern context, people obtain these goods in exchange for cash. A decision then represents itself; would you purchase lemonade in exchange for cash or use it for the attainment of other things? This idea of choice is an economic one.

Should you decide to purchase lemonade and quench your thirst, you'd lose out on, say that apple pie you were starving for. **This forfeiture is an opportunity cost.** This problem of 'scarcity' then requires us to make a choice regarding what, how and for whom to produce (resource allocation).

PRICING OF GOODS

The prices of things are determined to reflect the use of it to the consumer.

The price of a good is dependent on the collective perceived value of the good. This assumption of worth represents the demand of an item and provision of it is the supply.



We know diamonds are priced explicitly higher than water. Therefore diamonds are costlier because it takes more effort to produce. However, if you were in a dessert, there is no doubt that water is more valuable.

In conclusion, the price of goods a determined by the law of demand and supply.

MACROECONOMICS

Macroeconomics deals with the **aggregate economy**. Two of the common economic problems that plague the society we live in are **Inflation and Unemployment.**

INFLATION

Inflation is the general increase in prices which occur over each year.

THE PROBLEM WITH INFLATION

It **decreases** the value of money you have, so for that amount of cash you afford less.

UNEMPLOYMENT

This refers to category of people who are willing and able to work but for reasons are unable to enter the workforce. These problems give rise to policies to circumvent these social ills.

MONETARY POLICY

The actions of a central bank, currency board or other regulatory committee that determines the size and rate of growth of the money supply.

This in turn affects interest rates which then would affect decisions to save and decisions to invest.

Eg: A high interest rate may cause the lemonade vendor to store money in the bank istead of investing in expanding his business.

FISCAL POLICY

The use of taxation and government spending to influence economic activity.

Eg: Expenditure can be governments giving tax breaks to lemonade vendors for the first 5 years to help them establish themselves.

FINANCIAL LITERACY FOR YOUTHS

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