
1.2. WHAT IS ECONOMICS?

All your life – from **cradle** to grave – you will run up against the **brutal truths** of economics. As a voter, you will make decisions on **issues** – on the government budget, regulating industries, **taxes** and foreign trade – that cannot be understood until you have **mastered the rudiments** of this subject.

Choosing your life occupation is the most important economic decision you will make. Your future depends not only on your own **abilities** but also upon how economic forces **affect** your wages. Of course, studying economics cannot make you a genius.

Economics is exciting and important. Anyone who thinks otherwise has failed to realize that economic ideas have moved people to **rebellion**, and nations to war. The great problems that surround us today—among them international conflict, unemployment, **inflation**, poverty, **discrimination**, and environmental pollution—have **economic roots**. Even the small problems – impossibility to find a parking space, the high price of goods and products in our stores are economic in nature.

ECONOMICS IS THE STUDY OF HOW SOCIETIES USE SCARCE RESOURCES TO PRODUCE VALUABLE COMMODITIES AND DISTRIBUTE THEM AMONG DIFFERENT PEOPLE.

Notice that “**scarcity**” in the economic sense doesn’t refer directly to quantity of a resource. The earth has a great deal of land, yet most of the earth land is scarce because it has alternative uses. If land is used for a **college campus**, that same land isn’t **available** for a shopping mall or a park.

All societies **confront** the problem of scarcity which **implies** the existence of **alternatives**; choices must be made among those alternatives. The ways in which the choices are made, are determined by a society’s laws, customs and practices. These constitute a society’s **economic system**. Today, the two major types of economic systems are capitalism and socialism.

MICRO AND MACRO

Beginning courses in economics are traditionally divided into two components: microeconomics and macroeconomics.

The two branches of economics contain some differences in viewpoint as well as some similarities. Microeconomics is concerned with the specific parts or economic units that make up an economic system and with the relationships between those parts. The main emphasis is placed on understanding the behavior of individual households, firms and industries, and the ways in which such **entities** interact.