

# Unit 1: Economics as a science.

## 1. The economics dilemma.

### 1.1 Scarcity:

The vast majority of people identify scarcity as that situation in which a certain good or service is insufficient in quantities. In strict terms, scarcity appears when, before a particular good or service, we could provide valuable use to an additional unit of that good or service.

### 1.2 Human needs:

People experience a need when we feel the lack of something and, at the same time, we want to satisfy it. Human needs are, in principle, unlimited. That is, as a general rule, people always experience needs, whatever they are.

Maslow's pyramid

<u>Types of needs</u>	<u>Description</u>	<u>Examples</u>
<u>Primary or vital</u>	<u>They must be satisfied to preserve life and ensure minimum health and dignity.</u>	<ul style="list-style-type: none"> <li>• <u>Food.</u></li> <li>• <u>Clothes.</u></li> <li>• <u>Shelter.</u></li> </ul>
<u>Secondary or sumptuary</u>	<u>Relative. More or less important depending on who experiences them.</u>	<ul style="list-style-type: none"> <li>• <u>Have a specific vehicle.</u></li> <li>• <u>Living in a particular location.</u></li> </ul>
<u>Individual</u>	<u>Experienced individually.</u>	<ul style="list-style-type: none"> <li>• <u>To eat an apple.</u></li> <li>• <u>Go to the movies.</u></li> </ul>
<u>Collective</u>	<u>Experienced by a set of individuals</u>	<ul style="list-style-type: none"> <li>• <u>Public healthcare.</u></li> <li>• <u>Forces of public order.</u></li> </ul>

### 1.3 The choice:

The confrontation of scarce goods and services with unlimited human needs leads inevitably to choose. This choice is aimed at solving the dilemma between:

- Limited resources: scarce goods and services.
- Unlimited human needs: of any kind and intensity.

Economics, being the science that studies the ordinary activities of life, has as its object the study of how societies have their limited resources to satisfy their unlimited needs. In this way, they will have to decide:

- What goods and services can be produced with the scarce resources available to them (a scarce resource can have several alternative uses).
- How to produce them (what work is needed to produce something and what technology you need to use).
- For whom they can be produced (how to distribute the output)

## 2. Basic economics concepts

### 2.1 Fundamental economic terms:

- Good: everything that allows people to satisfy a need.
- Production: an activity that makes it possible to obtain goods and services using different types of resources. Among these, it is essential to include human resources.
- Resources: goods and services that can be used to produce other goods and services. Most of the resources are scarce and susceptible of alternative uses, so we will have to choose on which we use them. We also include here the human capacity to devise, create, apply and transform something (human resources).
- Necessity, scarcity and choice: already seen in the previous slide, when studying the definition of economy.

- Value: initially, amount of work needed to produce a good. For a little more than a century, the value of goods has been caused by the expectation that the most consumed unit generates in the consumer.
- Price: monetary expression of value.
- Income (net): income stream (net of expenses) that is segmented over a period of time in a given activity.
- Wealth: quantity of goods, rights and money that a person possesses at a given time.
- Assets vs liability.

## **2.2 Basic economic concepts in reality:**

Concept	Example
Good	soda (satisfies thirst)
Production	Obtain goods combining different raw materials.
Resource	Physical capital (machinery), financial capital (allows people to acquire machinery), intangible capital (brand, patents) and human capital (all people involved in its creation, design and manufacture).
Value	Granted by each consumer at the time of making the decision to consume it.
Price	Result of several factors:(cost,...)
Income (net)	Current income (net of expenses) in a month.
Wealth	On a certain date, the amount of goods, rights and money that the manufacturing company owns.
Assets	Machinery, patents, trademark, money in checking accounts, etc.
Liability	Return of loans to buy machinery, payment to workers, etc.

## **3. The method in Economics.**

### **3.1 Why a method?**

All sciences need a method to explain reality because of:

- Uncertainty: we can understand this lack of certainty about something. If science pretends to explain a phenomenon, we must equip it with tools to reduce uncertainty.
- Chance: the results of science should not be a product of mere chance or luck. That would create uncertainty, and we would never know when something that we expect will happen.

To try to counteract these two factors and reduce their influence, science uses what we call the scientific method.

### **3.2 The inductive method and the deductive method**

- **The inductive method:** The inductive method consists of explaining reality from its observation. It is a process that goes from the particular to the general.
- **The deductive method:** The deductive method consists of explaining reality from logic. It is a process that goes from the general or abstract to the particular.

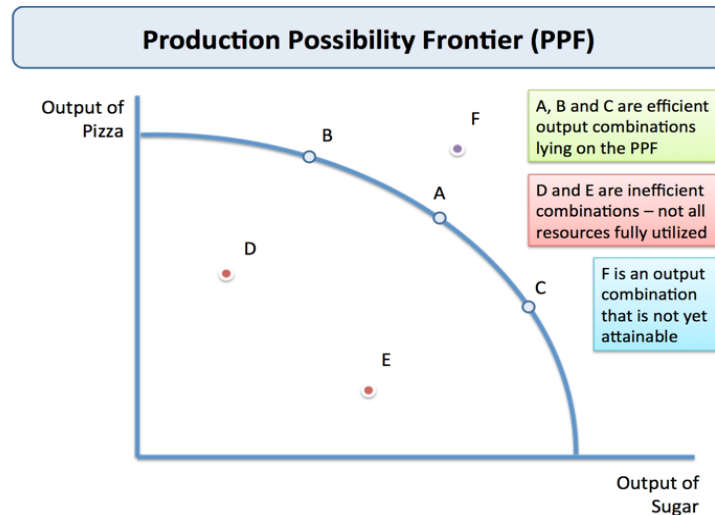
## **4. The Border of Possibilities of production.**

### **4.1 The opportunity cost:**

In terms of production, we will define the opportunity cost as the quantity of other goods and services that must be waived to produce the goods and services selected.

### **4.2 The Production Possibilities Frontier (PPF):**

All societies have a limited amount of resources (human and material) and a state of technology. On the basis of these two variables, societies may produce certain goods and services in certain quantities.



## 5. Economic agents

**5.1 Economic agents:** Shape the world in which we live. The allocation of resources depends on their choices.

**Definition:** An economics decision maker who can recognize that different factors influence and motivate different groups.

There are 3 types of economic agents:

- **Consumers:**
  - One who consumes a produced good or service
  - These are generally called Households.
- **Firms:**
  - Economic agents whose role is to transform factors of production into goods and services to sell.
  - They can be public/private/voluntary.
- **Governments:**
  - An economic agent who provides rules for how firms and consumers should interact.
  - These are generally called public sector.

## 5.2 How are economic agents related?

