



SNS COLLEGE OF TECHNOLOGY

(An Autonomous Institution)



COIMBATORE-35

**Accredited by NBA-AICTE and Accredited by NAAC – UGC with A+ Grade
Approved by AICTE, New Delhi & Affiliated to Anna University, Chennai**

DEPARTMENT OF ELECTRICAL AND ELECTRONICS ENGINEERING

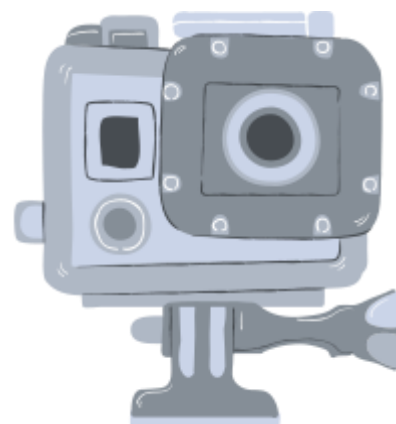
**COURSE NAME: 19MEE301/ ENGINEERING ECONOMICS AND COST
ANALYSIS**

III YEAR / V SEMESTER

Unit 1 – BASIC ECONOMICS

Topic 2: Economics and its basic concepts

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19MEE301/EECA/Mrs.B.CHRISTYJULIET/ AP/EEE



Engineering Economics

(Basic Concepts of Economics)



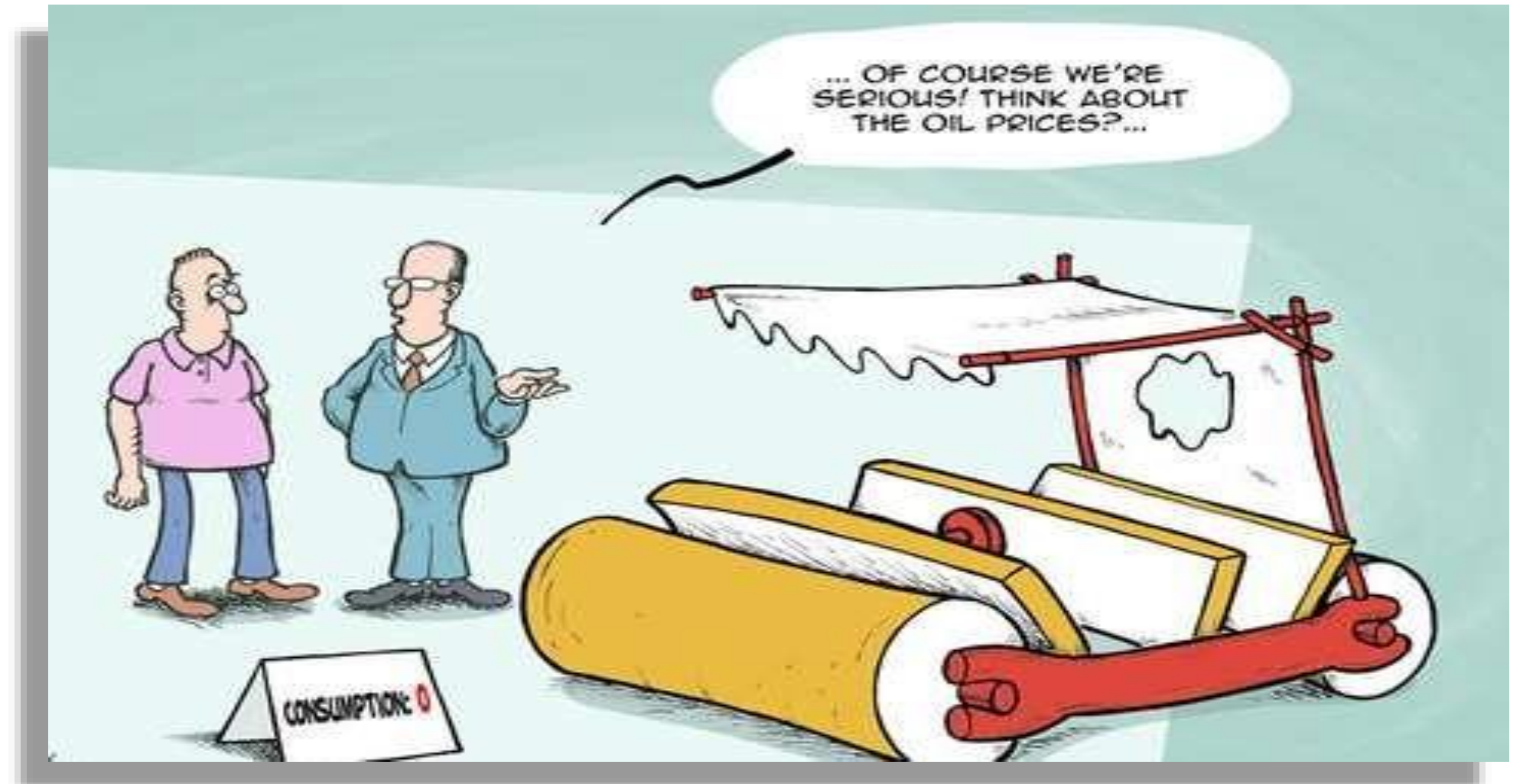


Basic Concepts of Economics

- **Economics is the study of how economic agents or societies choose to use scarce productive resources that have alternative uses to satisfy wants which are unlimited, and of varying degrees of importance.**
- *For example, due to the increase in the number of automobiles, the consumption of fuel has increased. Oil has many uses, other than as fuel in automobiles.*
- However, oil reserves are limited, and at some point, will be completely depleted. In such a situation, society has several choices: reduce consumption of oil as fuel for automobiles; or reduce its consumption for other uses, for example, in making plastics; or, maintain existing consumption levels, till all the oil runs out. Now, to reduce oil consumption, we can use electric cars. But then we have to deal with the problem of energy generation since electricity generation is still mostly based on coal or gas, both of which are also limited resources.



Basic Concepts of Economics





Basic Concepts of Economics



ECONOMICS

MONETARY
MACROECONOMICS
ANALYSIS
DISTRIBUTION

GROWTH

INFLATION
POSITIVE
COMPETITION
EFFICIENCY





Basic Concepts of Economics

- Thus, *economics can be defined as a social science that deals with the production, distribution and consumption of scarce resources in an economy.*
- **It examines how resources can be optimally distributed to satisfy the needs of individuals and the economy as a whole.**
- In other words, economics explains how day-to-day economic activities such as spending money, making purchases, etc., take place in an individual's life.
- *For example, it explains how an individual exchanges labor for money, exchanges money for goods and services, etc.*



Basic Concepts of Economics



SCARCITY

land
labor
capital
entrepreneurship
Limited Resources
and Time

food, clothing, shelter
security, comfort, medicine,
jewelry, affection, transportation,
good health, children, variety in diet,
knowledge, convenience, recognition,
travel, wisdom, recreation, control,
respect, entertainment, love,
Virtually Unlimited
Human Wants



Economics

- **Economics** is science that deals with the production and consumption of goods and services and the distribution and rendering of these for human welfare
- In simple, it is the study of how individuals and groups make decisions about the allocation of limited resources.



Scope of Economics

Traditional Approach:

- Economics is a social science.
- It studies man's behaviour as a rational social being.
- It considered as a science of wealth in relation to human welfare.
- Earning and spending of income was considered to be end of all economic activities.
- Wealth was considered as a means to an end – the end being human welfare.



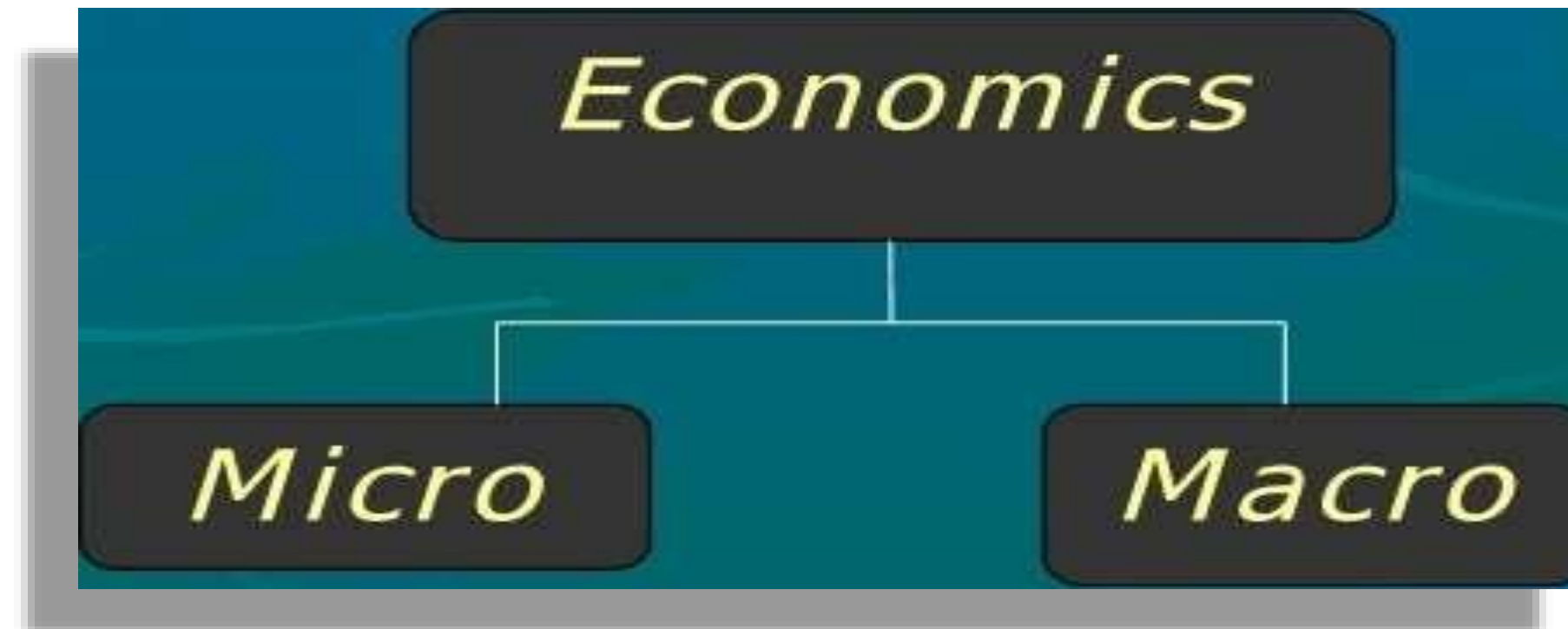
Scope of Economics

Modern Approach

- An individual, either as a consumer or as a producer, can optimize his goal is an economic decision.
- The scope of Economics lies in analyzing economic problems and suggesting policy measures.
- Social problems can thus be explained by abstract theoretical tools or by empirical methods.
- In classical discussion, Economics is a positive science.
- It seeks to explain what the problem is and how it tends to be solved.
- In modern time it is both a positive and a normative science.
- Economists of today deal economic issues not merely as they are but also as they should be.
- Welfare economics and growth economics are more normative than positive.



Scope of Economics





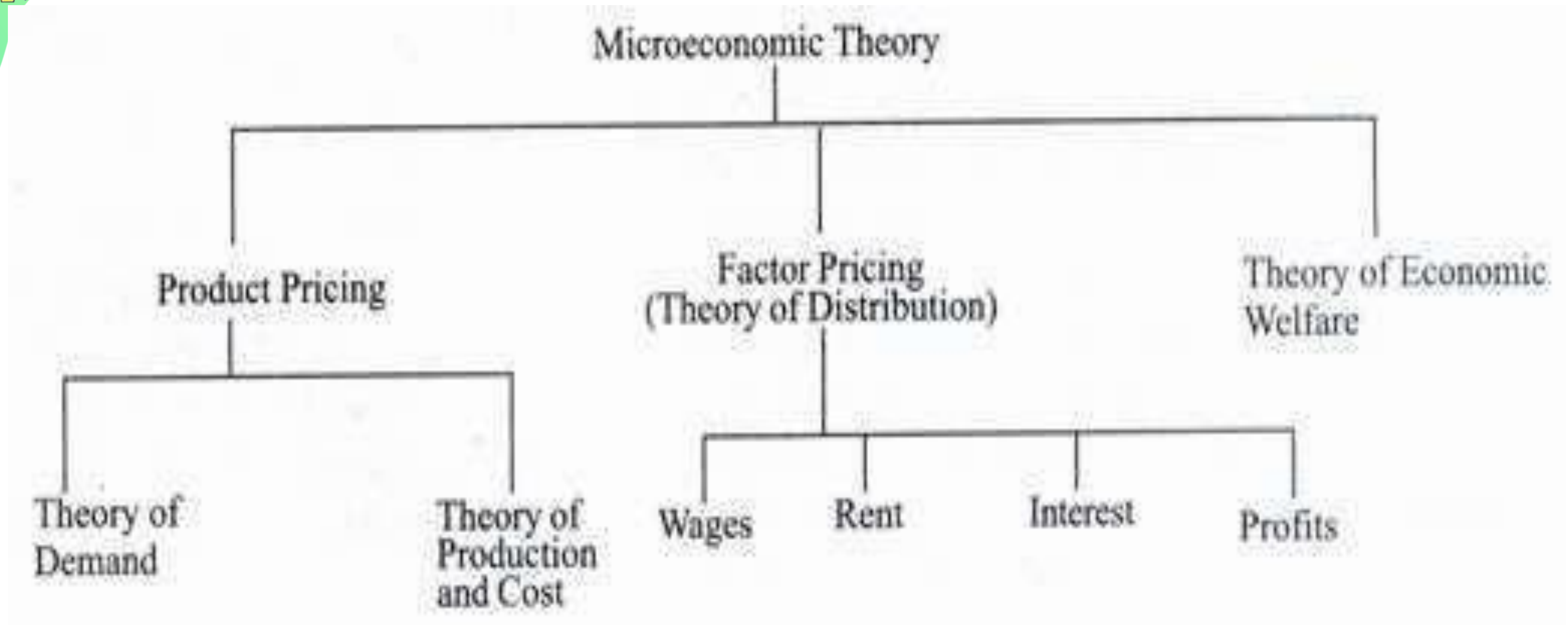
Micro economics



- **Micro economics studies the economic behaviour of individual economic units.**
- **The study of economic behaviour of the households, firms and industries form the subject-matter of micro economics.**
- **It examines whether resources are efficiently allocated and spells out the conditions for the optimal allocation of resources so as to maximize the output and social welfare.**
- **For example, micro economics is concerned with how the individual consumer distributes his income among various products and services so as to maximize utility.**
- **Thus, micro-economics is concerned with the theories of product pricing, factor pricing and economic welfare.**



Micro economics





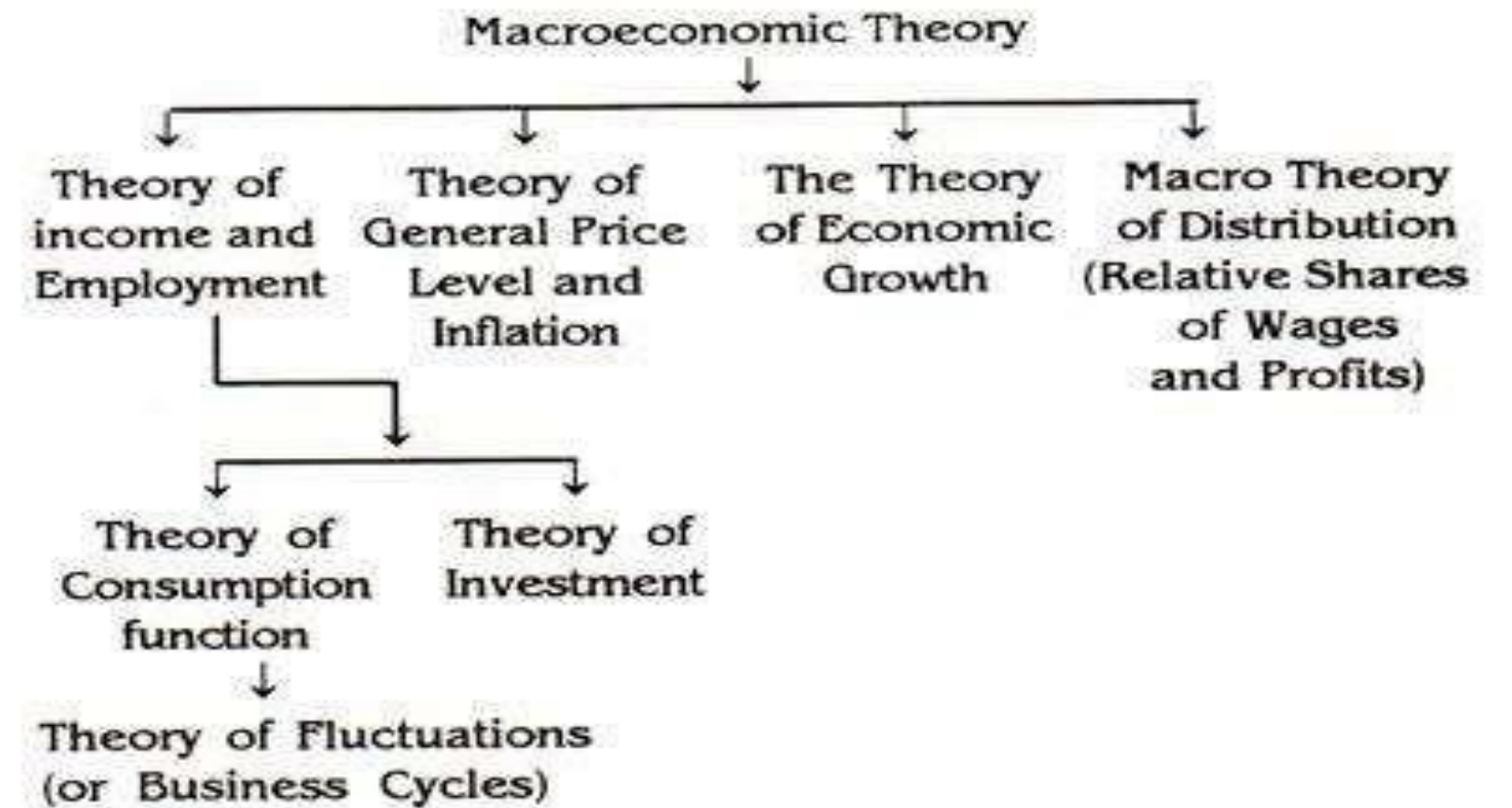
Macro economics



- Macro economics deals with the functioning economy as a whole.
- *The study of economic behaviour of the households, firms and industries form the subject-matter of micro economics.*
- It examines whether resources are efficiently allocated and spells out the conditions for the optimal allocation of resources so as to maximize the output and social welfare.
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Macro economics



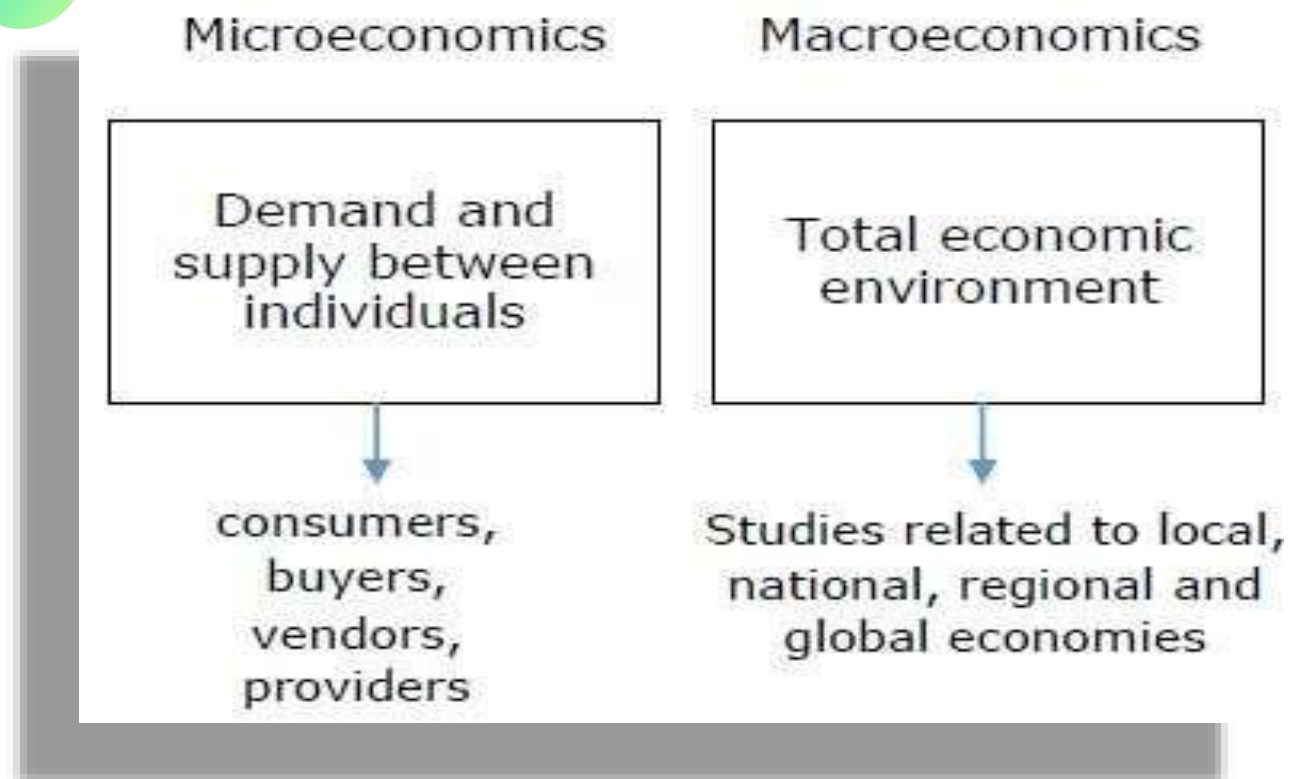


Interdependence between micro and macro economics

- **Micro Economic analysis and Macro Economic analysis are complementary to each other;**
- They do not complement but supplement each other.
- **The basic goal of both the theories is same: the maximization of the material welfare of the nation.**
- From the micro economic point of view, the nation's material welfare will be maximized by achieving optimal allocation of resources.
- From the macro economic point of view, the nation's material welfare will be maximized by achieving full utilisation of productive resources of the economy.
- The study of both is equally vital so as to have full knowledge of the subject-matter of economics.
- The contemporary economists are concerned with both micro economics and macro economics.



Interdependence between micro and macro economics



Meaning	
Micro-Economics	Macro-Economics
<ul style="list-style-type: none">• Micro economics studies the decisions made by individual and business concerning the distribution of resources and prices of goods and services.• It deals with a specific industry or a sector, the connections of firms and households in the market.• For example, microeconomics would study how a company could lower its prices to increase its product demand in the market.	<ul style="list-style-type: none">• Macroeconomics, studies the behavior of not only particular company or industries but whole economy.• It includes understanding how unemployment, price levels, growth rate affects the economy wide aspects such as the Gross National Product (GNP).• For example, macroeconomics would look at how an increase/decrease in net imports would affect a nation's capital account.



Difference between micro and macro economics



Microeconomics

1. Microeconomics studies the economic behaviour of individual entities such as individuals, households, firms, industry, etc.
2. Microeconomics explains the inter-relationships between economic units like consumers, commodities, firms, industries, markets, etc.
3. Microeconomics analyzes the conditions for efficiency in consumption and production.
4. Microeconomic theory describes product pricing which explains the theories of demand, production, and cost; factor pricing which explains concepts of wages, rent, interest, and profit; and the theory of economic welfare.
5. Understanding microeconomics helps a great deal in individual decision making i.e., managerial decision- making.
6. Microeconomic analysis helps in addressing the problems related to the quantity to be produced, the procedure to be followed for production of goods, and the final consumers for the goods produced.

Macroeconomics

1. Macroeconomics studies the economy as a whole.
2. Macroeconomics explains about the total national income, aggregate demand and supply, general price level, total employment, etc.
3. Macroeconomics analyzes the fluctuations and trends in the overall economic activity in a country and/or between various countries in the world.
4. Macroeconomic theory describes the theory of income and employment to explain economy-wide consumption and investment, the theory of the general price level and inflation, theories of economic growth, and the macro theory of distribution.
5. Macro economic study is vital in the formulation and execution of economic policies by government.
6. Macroeconomic analysis includes study of national aggregates of output, income, expenditure, savings and investment.

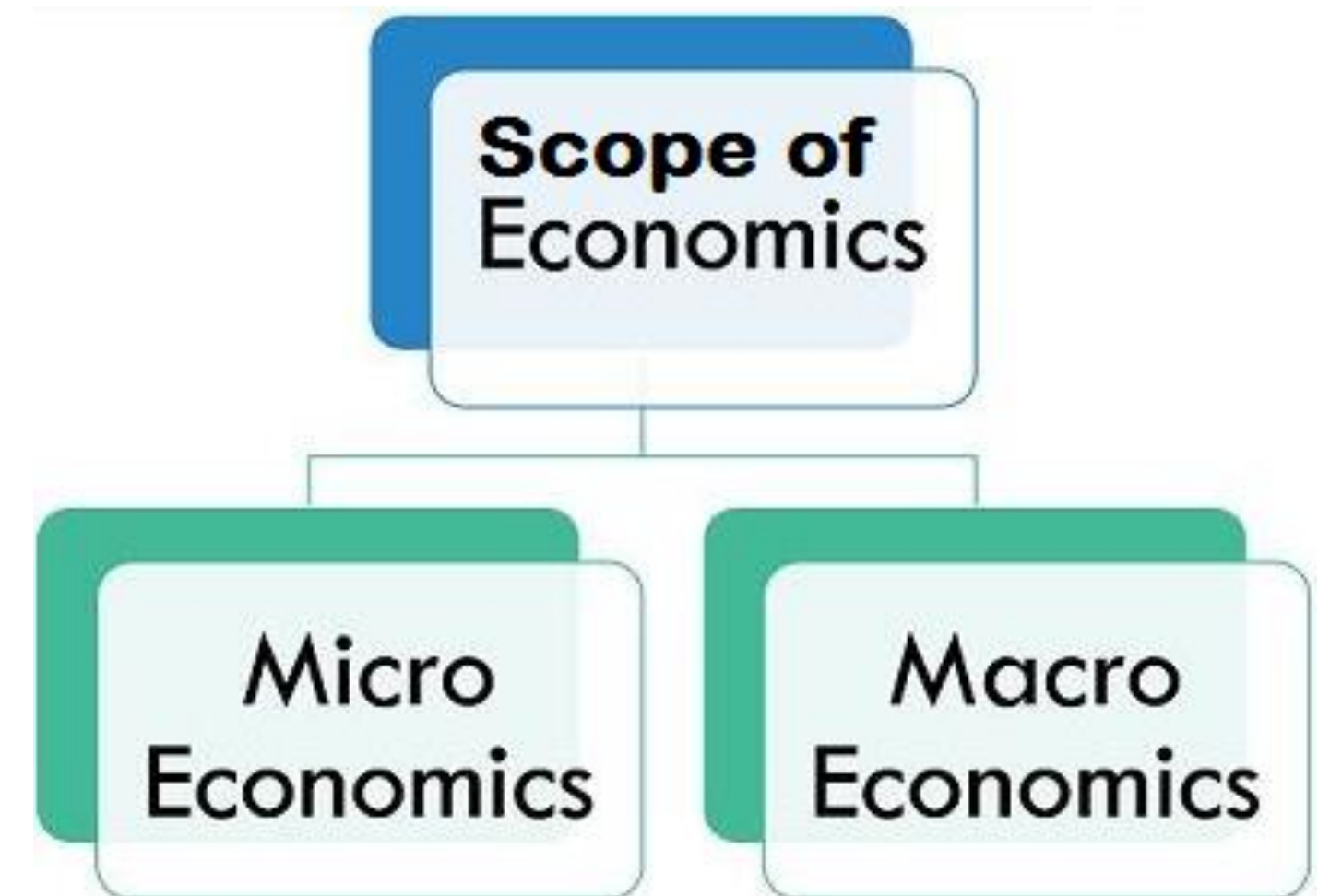
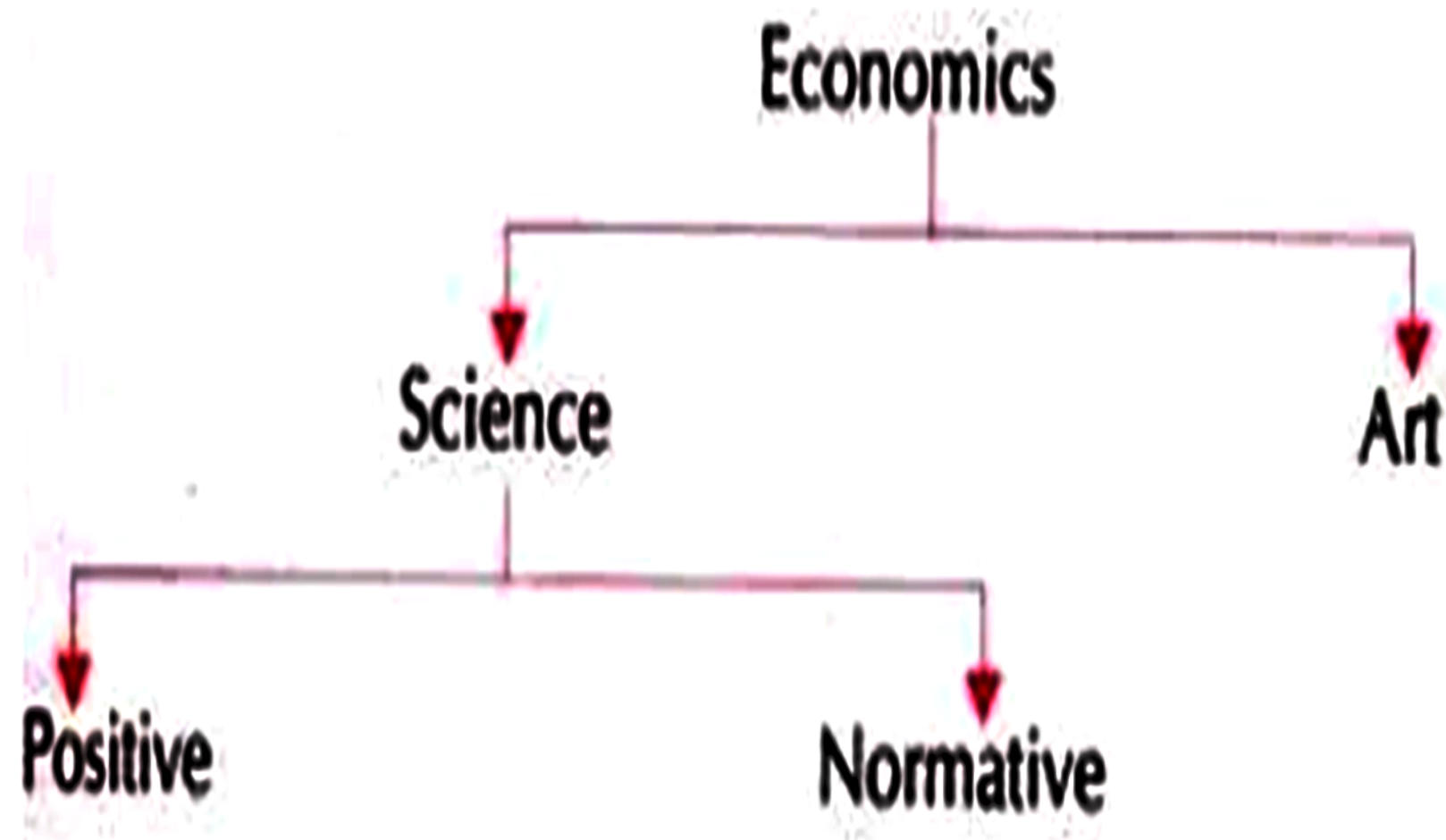


Nature of Economics

- ▶ **Economics as a science:** Economics creates an effort to find a relationship between cause and effect and provides measurable results.
- ▶ **Economics as a social science:** It deals with studying the behaviour of human beings and their relationships in a society.
- ▶ **Economics is an art:** Economics requires human imagination for the practical application of scientific laws, principles, and theories to perform a particular activity.
- ▶ **Economics as a positive science:** It deals with what is and not what ought to be.
- ▶ **Economics as a normative science:** It involves value judgements. It deals with what ought to be.



Nature and Scope of Economics





*Thank
You!*