

Chapter 1: Introduction to Economics (English)

Section 1.1: What is Economics?

Economics is the study of how individuals, businesses, and societies manage their scarce resources to fulfill their needs and wants. Imagine you have \$10 in your pocket and you have to make a choice between buying a chicken biryani or a cinema ticket. Choosing one means forgoing the other; this concept is known as opportunity cost. This is what economics is all about; economics delves into these trade-offs, requiring us to make decisions as our time and resources are limited.

With that being said, economics is mainly divided into two main branches: microeconomics and macroeconomics. Microeconomics focuses on the choices of individual households and firms, examining how they respond to changes in prices, income, and other factors. For instance, if the price of bread rises, a household may buy less bread, which is an example of microeconomics.

Macroeconomics, on the other hand, looks at the bigger picture. Most of the news on television, such as inflation, GDP growth, unemployment are examples of macroeconomics. Macroeconomics considers broader economic factors that impact an entire country or global economy, which is why understanding it is as important as microeconomics, if not more. For example, if there is a sudden increase in demand for rice, the prices might increase unless supply increases to meet this new demand. Therefore, economics, in essence, provides insights into everything from buying chai to government policies impact resource allocation, economic growth, and the overall quality of life.

Section 1.2: Historical Overview of Economic Ideas

The documentation of economic ideas is surprisingly a new endeavor, even though economic ideas have existed since the dawn of time. Early economic ideas can be traced back to ancient Egyptians, where trade, particularly bartering, were critical to survival. Economics emerged as a formal field of study in the 18th century, when a Scottish economist named Adam Smith published a book called, “An inquiry into the Nature and Causes of the Wealth of Nations.”

Smith introduced the idea of “invisible hand,” suggesting that individuals pursuing self-interest unintentionally contribute to society. For example, a baker making bread for profit provides a product that benefits society, as bread feeds people. Following Adam Smith, there were other thinkers like David Ricardo, Thomas Malthus, Karl Marx, John Maynard Keynes, and in the modern day, someone that most Bangladeshis actually know, Amartya Sen. When we talk about capitalism, we mostly derive the idea from Adam Smith, who wanted little government intervention in the economy, ergo the term, “free-market economy.”

However, in the 19th century, we saw Karl Marx criticize capitalism, arguing that it led to class struggles amongst the “bourgeoisie” (upper class), and the proletariat (working class). According to Marx, without government intervention, it would lead to the rise of large corporations with wealth generated by labor being concentrated among the few. This is why Marx called for more government intervention. His ideas laid the groundwork for socialism and influenced nations like the Soviet Union, North Korea, and Yugoslavia and more. While we won’t delve into whether capitalism or socialism is better, the point is these economic principles basically run the world, as most nations adhere to either of these.

In modern times, economics has been further refined by people like Keynes who talks about government intervention during economic downturn, as he famously stated, “in the long run we are all dead.” This school of thought influenced Keynes to introduce the notion of increasing public spending and cutting taxes during economic downturns that all governments should do. Contrasting Keynes, Milton Friedman, emphasized that limited government intervention was the best approach and argued that controlling money supply from the central bank was the best approach to control the economy. And our local favorite, Amartya Sen argued that the best way to understand economics is not through GDP or

through how much money individual citizens make, but rather through the quality of life which includes healthcare, education, and other social aspects.

Lastly, the latest branches of economics that have popped out in recent years include behavioral economics and econometrics — one focusing on how psychological factors influence economic decisions, and the other using statistical methods to analyze economic data. Therefore, we can see that, while economics officially started as a field of study 200 years ago, it is constantly evolving and continues to shape our understanding of the world.

Section 1.3: Core Economic Questions & Solutions

Every society, regardless of their wealth or resources, must address these three economic questions due to the basic challenge of scarcity that we talked about in section 1.1. The three questions that are at the core of economics are: what to produce, how to produce, and for whom to produce. These questions help determine how resources are allocated to meet the needs and wants of a population effectively. Let's dive into these three questions into detail below:

What to Produce:

Since resources are limited, we must make a choice regarding what to produce, in order to not waste resources. Imagine Bangladesh has a budget of \$1 million to allocate for production. Therefore, the government must choose between producing agricultural goods like mangos, manufactured goods like garments, or tertiary goods like banks. If the demand for mangos and organic produce are high, the government might allocate \$600,000 to agriculture and divide the rest among the manufacturing and tertiary sectors. Therefore, this question tries to allocate resources based on societal demands and the availability of resources.

How to Produce:

After deciding what to produce, an economy needs to determine the best methods to achieve this. This involves choosing manual labor-intensive and automatic capital-intensive production methods. For example, a garments company with \$500,000 could either set up a manufacturing line for clothing by hiring more workers or investing in the latest technology to do that. But then again, this depends on the price of the different production methods.

Considering labor is inexpensive – say \$5 per day in Bangladesh – the company might choose a labor-intensive model, hiring many workers to meet production rather than buying let's say a \$100,000 machine from South Korea. Conversely, if wages are high — let's say \$50 per day in Germany – a German company might decide to invest in the machinery for \$100,000 upfront. Though more costly initially, machinery could reduce long-term expenses as the machine is more efficient. This in essence is what “how to produce” is all about, it is crucial for aligning production processes with a society's economic and ethical values.

For Whom to Produce:

The final question is about distribution: who will have access to the produced goods and services. In a free market economy, purchasing power largely dictates this. For instance, a luxury car manufacturer like Mercedes may price cars at \$600,000, targeting people with high-income. In this case, only individuals with a large portion of income can access this product, while the majority of the people will be left out of this market.

However, for essential or necessity goods like food items, governments often step in to ensure wider accessibility. Suppose rice is priced at \$10 per kg, but low-income families will struggle to afford it. If that happens, the government can subsidize this item, meaning that they can lower the price to \$2 per kg for lower-income families. Therefore, the question of whom to produce is important in ensuring how the distribution is managed in an equitable manner.

Overall, all these questions are at the heart of economic decision-making, and these core questions guide policymakers, businesses and individuals in order to influence the structure and future direction of the economy.

Section 1.4: Real-Life Applications

Economics isn't just about charts and numbers; it's also about choices and consequences that affect our everyday lives. One of the most pertinent real life applications of economics is in personal finance, particularly it teaches us our choices due to scarcity of time and resources. Should we save for college over buying a new phone? That's, choice, right there!

Moreover, governments use macroeconomics to manage the economy. For example, reducing taxes often increases public spending as people have more disposable income. Likewise, raising interest rates decreases businesses from expanding, as more costly borrowing discourages investments. Public policies, on immigration for instance, can be analyzed through the lens of labor economics to understand how the inflow of workers affects national employment rates and wages. Additionally, global trade dynamics are also shaped by economic policies that influence tariffs, trade agreements, and international relations.

On the other hand, microeconomics is used by businesses to determine pricing strategies, production levels, and resource allocation to maximize profits. For example, a company might analyze the demand for a particular product like chewing gum to decide how a change in price could affect total sales.

Not only that, environmental economics offers another real-life application, providing insights into how economic activities impact the environment and informing sustainable practices and regulations. For instance, carbon pricing is an economic tool used to encourage industries to reduce their carbon emissions, aligning economic incentives with environmental sustainability.

Lastly, the new field of behavioral economics examines the psychological aspects behind economic decisions, illustrating how human behavior influences seemingly rational choices. For example, the concept of “nudging” – small design changes that can significantly alter people’s behavior without restricting choice – is used in various settings, like in advertising companies to encourage healthier purchases or in government programs to increase tax compliance and retirement savings.

Besides all these real-life applications of economics, the job prospects of economics are bountiful! Economists are highly sought after in a variety of fields. Economists help design government and public policies for instance. So if you are patriotic about your country, instead of joining the army, consider becoming an economist! Your policies could impact millions of people! Likewise, in the banking sector, consulting sector, healthcare, real estate, insurance, and in academics, economists are needed to analyze trends and make informed decisions.

Therefore, economists don't only have applications in real life, but with an economics background, truly, for you, the sky's the limit!

Section 1.5: Fun Facts

Economics doesn't have to be all serious and gloomy! Here are some fun facts, which we are sure to leave you amazed!

Did you know before money was invented people used to trade goods and services in a system called barter? For example, someone might trade a basket of papaya for a basket of corn. This method of exchange has declined in popularity but imagine the inconvenience of trade with it!

Did you know that the amount of money in a standard Monopoly game is \$20,580? Interestingly, the game was originally created to demonstrate the evils of land ownership!

Did you know, economists use the "Big Mac Index" as an informal way of measuring the purchasing power parity between two currencies? It compares the cost of a Big Mac burger in McDonald's restaurants in different countries.

Did you know Adam Smith's famous concept of "invisible hand" appears only three times in his writing? But it has become a central idea of market theory and the crazy part might be, Smith did not think it was as significant as we do today!
