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SOCIAL SCIENCES (GEN. EDUCATION)

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ECONOMICS

Economics - ***Key words: - scarcity and choices (unlimited wants and needs but limited resources)***

Definitions:
1. Samuelson and Nordhaus: "The study of how societies choose to use scarce productive resources that have alternative uses, to produce commodities of various kinds and to distribute them among different groups."
2. Gerardo Sicat: "The study of how individuals and society in general **make choices** that involve the use of **scarce resources** from among alternative wants that need to be satisfied."
Science of Choices: "You must let go of choices to make the right decision."

Two main branches of Economics: Microeconomics and Macroeconomics
1. MICROECONOMICS – looks at how individual markets work; focuses on how individual households and firms make their choices
Examples: deals with the factors that determine the price of rice and how much of it is produced and sold
2. MACROECONOMICS – looks at the economy as a whole; looks at the aggregate prices, production and income
Examples: analysis of gross national income and total employment; economic growth; inflation, unemployment, economic fluctuations, etc.

5 Economic Questions:
1. WHAT to produce (make)
2. HOW MUCH to produce (quantity)
3. HOW to Produce it (manufacture)
4. FOR WHOM to Produce (who gets what)
5. WHO gets to make these decisions?

4 Categories of Economic Resources: 1. Land 2. Labor 3. Capital 4. Entrepreneur
1. **Land** - Includes all natural resources that we use in the production process.
   - The income received from these resources in rent/rental income.
   - Ex. Arable land, forests, mineral and oil deposits, water resources
2. **Labor** - refers to all the physical and mental talents of individuals available and usable in producing goods and services.
   - The income realized to those who supply labor is called wages that include salaries and all wage and salary supplements such as bonuses, commissions and royalties.
   - Ex. Teachers, engineers, factory workers, physicians, professional basketball players
3. **Capital** - includes all produced goods used again to produce consumer goods and services.
   - The income received from using capital is interest income.
   - Ex. Tools, machinery, equipment
4. **Entrepreneur** - an individual who combines **land**, **capital** and **labor** to produce goods or service. The entrepreneurial income is called **profit**.

Three parts to the production process:
1. Factors of Production – what we need to make goods and services
2. Producer – company that makes goods and/or delivers services
3. Consumer – people who buy goods and services (formerly known as "stuff")

ECONOMIC SYSTEMS - A system of production, distribution and consumption; A mechanism which deals with the production, distribution and consumption of goods and services in a particular society.

1. MARKET ECONOMY (Capitalism) - An economic system where the individual consumers and businesses interact to solve the economic problem; Often called the "free enterprise system"
   - An economic system in which the means of production of goods and services are privately owned and operated for a profit

2. MIXED ECONOMY (Socialist) - An economic system in which the government manages the economic resources for the society
   - Centrally planned economy
   - A system where **both** the **private** and **public** institutions exercise economic control
   - Public and private ownership of the means of production
   - Here people are allowed to own private properties
   - Ex: Cuba, Russia

3. COMMAND ECONOMY (Communist) - An economic system where the factors of production and distribution are owned and managed by the state

I. Law of Demand - "as price increases, quantity demanded decreases; and as price decreases, quantity demanded increases, if other factors remain constant." *It indicates an* ***inverse relationship*** *between price and quantity demanded.*
Law of Demand Scenarios: 1. Price – goes UP; Demand – goes DOWN 2. Price – goes UP; Demand – goes DOWN
II. Law of Supply - "as price increases, quantity supplied increases; and as price decreases, quantity supplied decreases, if other factors remain constant." *The law of supply indicates a* ***direct relationship*** *between price and quantity supplied.*

Difference between the Law of Demand and the Law of Supply:

LAW OF DEMAND (http://www.investopedia.com/university/economics/economics3.asp#ixzz4kVcXQ14L)	LAW OF SUPPLY
The law of demand states that, if all other factors remain equal, the higher the price of a good, the less people will demand that good. In other words, the higher the price, the lower the quantity demanded.	Unlike the law of demand, the supply relationship shows an upward slope. This means that the higher the price, the higher the quantity supplied. Producers supply more at a higher price because selling a higher quantity at a higher price increases revenue.

SURPLUS - a situation wherein **quantity <u>supplied</u>** is **<u>greater</u>** than quantity ***demanded***.
SHORTAGE - a situation wherein **quantity <u>demanded</u>** is **greater** than quantity ***supplied***.

MARKET EQUILIBRIUM - The price attained when quantity demanded equals quantity supplied.

LAW OF DEMAND AND SUPPLY - "Whenever quantity demanded exceeds quantity supplied, price INCREASES;
Whenever quantity supplied exceeds quantity demanded, price DECREASES."

TYPES OF GOODS

1. Substitute goods - (or competing goods) are goods which are used in place of other goods. *Ex: butter and margarine.* ***- The price of one good and the demand for the other are directly related.***	**3. Normal good** - If demand for a good increases when incomes rise and decreases when incomes fall, the good is called a normal good.
2. Complementary goods - are goods that go together. Ex: car and gasoline. If you buy a car you must buy gasoline. ***The price of one good and the demand for the other are inversely related.***	**4. Inferior good** - if demand for a good decreases when incomes rise or if demand increases when incomes fall, the good is called an inferior good.

Illustration for Complementary goods

Price of Gasoline	**Demand for car will**
Increases	Decrease
Decreases	Increase

NORMAL VS. INFERIOR GOOD

Example: If people's incomes rise and they increase their demand for movie tickets, we say that movie tickets are a normal good. But if people's incomes fall and they increase their demand for jeepney rides, we say jeepney rides are an inferior good.

GDP AND GNP (Macroeconomics concerns)

GDP \(Gross Domestic Product)	**GNP/(Gross National Product)**
A measure of the value of commodities produced **within the country's borders** in a given period.	A measure of the total expenditures made on final goods and services; the market value of the final goods and services produced by a country's citizens in a given period.
Basis: Territory Total income earned by **domestically-located factors of production**, REGARDLESS OF NATIONALITY	**Basis: Citizenship (Ex: OFW income)** Total income earned by the **nation's factors of production**, REGARDLESS OF WHERE IT IS LOCATED

UNEMPLOYMENT - consists of persons in the labor force who are reported as (1) without work; and (2) currently available for work; and (3) seeking work or not seeking work because of the belief that no work is available, or awaiting results of previous job application, or because of temporary illness or disability, bad weather or waiting for rehire or job recall. *(Source: Philippine Statistics Authority)*

UNDEREMPLOYMENT - refers to the employed persons who express the desire to have additional hours of work in their present job or an additional job, or have a new job with longer working hours. *(Source: Philippine Statistics Authority)*

Cases of underemployment:
1. mismatch of skills; 2. part-time employees; 3. employed full-time but the work does not maximize the employee's skills

Opportunity Cost - The next best thing that you forego in order to make/choose one.
- The value of what you give up in order to have that good.

Law of Diminishing Returns - states that all other factors held constant, additional units of an input will yield less and less output.

SOME USEFUL CONCEPTS

<u>1. MONOPOLY</u> - A market structure in which there is only ONE SELLER of a good or service	**<u>OLIGOPOLY</u>** - A market structure in which there are a FEW SELLERS	**<u>MONOPSONY</u>** - A market situation in which there is only ONE BUYER
<u>PERFECT COMPETITION</u> - A form of market structure in which MANY SMALL PRODUCERS sell an IDENTICAL product with easy entry Ex: cellphone load sellers, farmers	**<u>IMPERFECT COMPETITION</u>** - A form of market structure in which INDIVIDUAL BUYERS and SELLERS are such a big part of the market that they can affect the market price by their actions.	**<u>OLIGOPSONY</u>** - a market in which there are only a FEW LARGE BUYERS for a product or service.

REFERENCES: 1. Vibal textbook in Economics 2. www.investopedia.com
3. Camba and Camba Notes to Introduction in Economics 4. Philippine Statistics Authority website