ECO121 SUMMARY FROM NOUNGEEKS.COM

Keywords:

ECONOMICS, DECISION, DEFINITION, OBJECTIVE, BUSINESS, RESOURCE, AREA, INDIVIDUAL, CHOICE, CAR

Digest:

...ECO 121 PRINCIPLE OF ECONOMICS...

...Economics is a science which deals with wealth creation through production of goods and services, their distributions as well as consumption....

...The process plays a huge task in the society because it influences the majority of our decisions in our day-to-day activities....

...However, defining economics has pose difficulties because there is no single acceptable definition....

...Therefore different economists have given economics different types of definitions....

...Each of these famous economists either gave a definition which others think it is either too narrow or too broad to describe economics....

...However, the definition given by Lionel Robbins in his book, An Essay on Nature and Significance of Economic Science

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received several criticisms but remains a mainly acceptable definition of economics....

...This definition touched on major aspect of economics such as human behaviour (rationality), human needs and scarce resources, choices as a result of scarce resources and alternative uses of resources....

...The decisions made by individuals, corporations and governments are vital to their survival....

...Therefore, studying economics and understanding its principles is imperative....

...Studying economics provides many helpful benefits....

...For instance, an individual is assisted in understanding the decisions on household issues; it assists business outfit in understanding the financial sector, the impact of government decision making on their business and latest development in business society and the global economy....

...It also teaches the concept of relative scarcity as a result of limited resources, supply and demand, choices, opportunities, opportunity cost and benefits and how all these can impact the decision making of individuals, businesses and government....

...It also teaches how these decision making processes affect the society....

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...Economics can also be defined as the approach to understanding behaviour that starts from the assumption that people have objectives and tend to choose the correct ways of achieving them....

...The first half of the assumption is that people have objectives (it is assumed that the objectives are reasonable and by extension, simple) and the second half of the assumption, that people tend to find the correct way to achieve their objectives, is called rationality....

...this term suggests that the way in which people find the correct way to achieve their objectives is by rational analysis does not translate to the fact that the decision is rational....

...Sometimes somewhat complicated objective can lead to apparently irrational behaviour and decision....

...Technically, economics is the study of how diverse alternatives or choices are appraised in order to best achieve a certain objective....

...The sphere of economics is the study of processes by which scarce resources are allocated to satisfy unlimited wants....

...Ideally, the resources are allocated to their highest valued uses....

...A who is stuck in making two decisions: 1. What type of car to buy?...

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...(Note that an individual decision will affect two businesses, one is the car business and two is the estate management business)....

...A can perk up his decision by devoting time and effort in studying the alternatives available in each case....

...In the case of the car, if he considered fuel-efficiency of the cars in his list of choices, then his decision determines with certainty which car he gets and this is considered a rational decision....

...In the case of which area to live, in his decision (on the choice of house), he may be considering closeness to his office, the traffic in the route from the area to his office, road linkages and networks etc....

...If the area is far from his office and the road is always with traffic problems, but he choose the area because the house is beautiful; then he has wasted his time and efforts on considering better alternatives and maximising them; if he choose a house nearer to his office with less traffic problem, then his time is not wasted and the decision may be considered rational....

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Keywords:

DECISION, CHOICE, CHOCOLATE, INDIVIDUAL, ICE-CREAM, chocolate candy, MICROECONOMICS, CANDY

Digest:

...The study of individuals, their economic decisions making, and how those decisions intermingle is called microeconomics....

...Microeconomics could also be defined as the study of the decisions of individuals, households, and businesses in specific markets....

...Every decision involves choices and by extension having more of one good means having less of another good....

...Therefore there is usually a trade-off between the two choices....

...This is applicable not only to individuals but also to families, corporations, government and societies....

...Take for instance, if Ade has N20 and is stuck between buying an ice-cream or chocolate candy....

...He must take a decision whether to buy chocolate candy or go for the ice-cream....

...His decision might be influenced by some other factors....

...For example if it is a sunny day and Ade is thirsty, he might prefer ice-cream to chocolate candy....

...If he has discovered that taking chocolates stimulate him to a good sleep, he might go for chocolate because he need a

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good sleep thereafter or leave that choice because he must study thereafter....

Keywords:

COST, OPPORTUNITY, Opportunity Cost, CHOCOLATE, GIVEN

Digest:

...Opportunity cost is whatever must be given up to obtain something....

...The ice-cream becomes the opportunity cost of buying chocolate candy....

...An out-of-pocket expense is the price of the chocolate i.e....

...Opportunity cost is an implicit cost and other less obvious costs given up to have the best alternative....

...So implicit costs are cost that includes next best opportunity given up, this must be included in aggregate opportunity cost....

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Keywords:

BENEFIT, COST, RATIONAL, PERSON, ACTION, DECISION, IRRATIONAL

Digest:

...As far as basic economics is concern, it assumes that people act rationally so as to gain the most benefit for themselves especially when benefit is compared with the associated costs....

...Behaviour, decision, expectation etc. can be rational or irrational....

...For instance it is rational to pile up stones to make a wall, if you want to build a wall, but irrational to pile stones up in one place simply in order to move them to another place, and then move them back again....

...Rational people usually think at the margin by comparing costs and benefits such that changes in either the benefit or cost may change their decisions....

...Broadly speaking, people are more likely to buy a particular good if it is cheaper to other substitutes that are changes in cost determine their decision to buy....

...That is if an action becomes more costly, then there is an incentive to swap to other choices since there are substitutes for all actions....

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Keywords:

HOUSE, ACCOMPLISHED, ECONOMIC, PROBLEM, Basic Economic Problems, PRICE, MARKET, RESOURCE, REAL, HUMAN

Digest:

...Human wants are unlimited and ever dynamic due to ever changing demands and needs for resources which are limited....

...Therefore, in resolving the economic problems, the method of solving it spin round prioritisation of choices in order to know most pressing of the objectives and which ones to be solved first....

...Knowing which want can be accomplished and why and how it should be accomplished, when it should be accomplished and where it should be accomplished leads us to correct way of fulfilling the wants with the relatively scarce resources....

...House and other needs are fulfilled by patronising the product markets....

...Product markets obtain the needed factors of production from the factor markets after decision on basic economic problems had been answered....

...The resources (real incomes) to satisfy human want (house) have been falling according to the graph since 1970....

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...In contrast, home prices have been sky rocketing since 2002 such that the real wages is far below the house prices....

...This is an example of the most basic economic problem....

Keywords:

PRODUCE, SERVICE, DECISION, decision of what to produce

Digest:

...What to Produce?...

...What to produce - thorough evaluation and rating of goods and services from most valued to least valued is a required step in arriving at a decision of what to produce....

...How much to produce- since there are different goods and services in the marketplace competing, there is the need to determine how much of the goods or services of our choice we should produce....

...Demand for comparable goods or services may affect the decision making process on how much to produce....

...If the decision on how much to produce shows that large quantity should be produced then cost and benefit of large scale production may as well influence the decision on how to produce?...

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Keywords:

PRODUCE, PRODUCTION

Digest:

...How to Produce?...

...How to produce-there are different methodologies for production of goods, if the decision on how much to produce shows a large quantity it may influence the method of production to be adopted....

...There are other factors that may affect the decision on how to produce such as availability of raw material....

...For whom to produce- this is shaped by the principles governing how goods are distributed among the members of a society....

...The distribution method may modify incentives that influence the behaviour of individuals....

...When to produce- The timing of production and the time that the final output of a good (or service) is available in the market may affect its value....

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Keywords:

ECONOMIC, SOCIETY, economic problems, PRODUCTION, PRODUCE, BASIC, INSTITUTION, SERVICE, RESOURCE, LABOR

Digest:

...An economic system consists of individual, institutions and their interaction in the process of answering basic economic problems....

...Individual and institutions work together to answer basic economic problems in relation to the resources in the society, its scarcity and how these scarce resources can be allocated to meet conflicting and diverse objectives....

...The mechanism of production, distribution and consumptions varies in our society....

...This is because each society answers the basic economic problems in different ways....

...How each society answered the basic economic problems; that is the economic decisions they make; determines the type of economic system they will operate....

...In the economic decision making, we have the households as the major actor followed by the institutions and then the government....

...economic system must be able to answer basically three of the economic problems such as what to produce?...

...That is what types of goods and services to produce....

...That is what the resources available that can be employ for production of goods and services....

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...That is; who is the receiver of the final products from production....

...Hence an economic system encompasses various processes of organising and motivating labor, producing, distributing, and circulating of the fruits of human labor....

...Fruit of labor refers to products and services, consumer goods, machines, tools, and other technology used as inputs to future production, and the infrastructure within and in the course of which production, distribution, and circulation arises....

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Keywords:

FIRM, PRICE, PRODUCE, ALLOCATE, RESOURCE, PRODUCT, PRODUCTION

Digest:

...Firm as Primary Producing Unit...

...The role of firm is primarily to produce....

...For this to be achievable, some individuals must decide to produce a particular product(s)....

...In doing this, resources must be allocated (land, labour, capital, building etc); allocated resources are transformed into what we call output while the resources allocated are the input to generate the product....

...They engage in production so as to sell their products at a price higher than the cost price at production....

...The difference between the selling price and the cost price is known as the 'profit' ....

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Keywords:

PRICE, DEMAND, EFFECT, quantity demanded, BUY, INCOME, NAIRA, LITER, ITEM, HOUSEHOLD

Digest:

...Demand and Price: A Link...

...Determination of prices of commodity is known as " price theory" in economics....

...Income and substitution effects are better use in explaining the link between demand and price....

...This situation is referred to as income effect....

...Income effect is the effect of a change in price on quantity demanded as a result of price changes which made them worse off....

...Meanwhile, Quantity demanded can be define as the amount of goods or commodities that consumers are willing and able to buy at a given price over a given period of time....

...In a situation like this people will feel poorer because they will not be able to buy so many goods that the same money was buying before the increase in price....

...Household therefore may have to cut down the amount of items they always consume....

...Household that consumes may be 10 liters of petrol that use to cost 650 naira on their generator will now have to pay 970 naira to get the same liters of petrol....

...This household has three options:...

...That means cutting down the numbers of liters they use to buy....

...Substitution effect is the effect of a change in price on quantity demanded as a result of switching by consumers to alternative or from alternative products....

...By implication, quantity demanded of some items the household is consuming must be cut back as a result of price increase....

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...A rise in prices of goods and services will mean a fall in quantity demanded....

...Consequently, a fall in prices of goods and services will mean a rise in quantity demanded ceteris paribus (all things being equal)....

Keywords:

DEMAND, PRICE, quantity demanded, QUANTITY, demand schedule, SCHEDULE

Digest:

...Referring back to law of Demand above, a rise in price of goods will translate to a fall in quantity demanded....

...However when definite quantities are demanded at particular prices for a particular commodity especially when the lower and higher prices are considered, then we have what we call demand schedule....

...The total quantity demanded at each price by Ade, Joke, Ola and others is the market demand schedule for the month....

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Keywords:

DEMAND, SUPPLY, PRICE, MARKET, rise in price, QUANTITY, UNIT, TOY, Excess Demand, baby toy

Digest:

...When quantity demanded is greater than quantity supply then we have what is called “shortage” or ‘excess demand’....

...Exces s demand is define as market condition that exists when quantity demanded exceeds quantity supplied at the current market price....

...This is one of the three market conditions, this condition associated with limited supply can lead to a rise in price as consumers compete with one another to have the limited supply....

...The rise in price may persist until the demand is equal to supply in the market....

...The excess demand situation led to a rise in price of baby toy per unit from #100 to #175....

...The rise in price in turn led to a fall in demand because buyers dropped out of the market....

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Keywords:

COCOA, quantity supply, quantity demanded, EQUILIBRIUM, PRICE, supply curve, AFFECT, movement along the demand, supply is less than quantity demanded, Market Equilibrium

Digest:

...In the previous section, movement along the demand curve when plotted with the supply curve depicted the excess or shortage in the market when quantity supply is less than quantity demanded....

...We have seen how this market condition has led to increase in price and exit of some consumer from the market until the quantity supplied equals to quantity demanded....

...Also, we have seen another market condition where quantity supplied is more than quantity demanded....

...This has led to a decrease in price of the commodity and a reduction in the supply until the quantity supplied equals to quantity demanded....

...Under this section we shall be looking at how quantity supply or quantity demanded cause a shift in their curves and how this will affect the equilibrium point....

...Remember market will be at equilibrium when quantity supply is equal to quantity demanded....

...Let assume that Nigeria is number one producer of cocoa in the world such that any reduction in Nigeria supply to the world market is enough to affect the equilibrium of cocoa market and the price of cocoa in the world market is affected....

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...Unfortunately something happened in Nigeria that affected cocoa harvest so much that the world price of cocoa was affected due to low supply....

...movement along the demand curve....

...Also when there is shift in the demand curve then there would be a movement along the supply curve....

Keywords:

PRODUCTION, FIRM, FACTOR, factors of production

Digest:

...A person who manage and or own a firm; who also assume risk of operating and organising a business outfit is referred to as entrepreneur....

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Keywords:

PRODUCTION, Production Function, INPUT, FARM, LEVEL, OUTPUT, LAND, factor of production, CASSAVA, DAY

Digest:

...Production is a process of transforming input (factor of production) into output (goods and services) that satisfy human wants....

...When the inputs are economically and efficiently combined given the available level of technology, a relationship between input and output is established....

...This relationship could be described as production function....

...Therefore production function is the minimum quantity of physical input required to produce efficiently a certain level of output....

...Production function is a function of available technological level, land, labour, equipment and other factors of production of a firm....

...New development in technology, training that enhances labour's efficiency and other improvements on other factors of production usually will lead to a new production function....

...The two methods are part of production function of cassava....

...Given the available inputs and the production function; it is assumed that both farms will produce at maximum level of output....

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