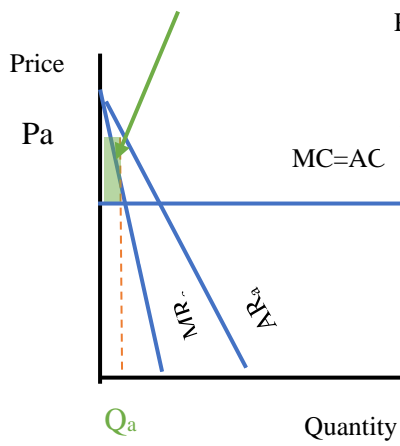


# Introduction to Economics

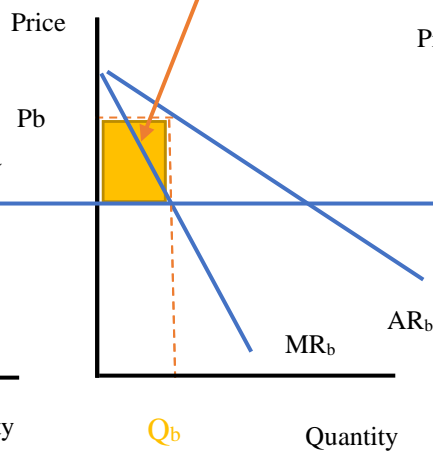
## Market A (PED < 1)

Demand in segment A of the market is relatively inelastic. A higher price is charged.

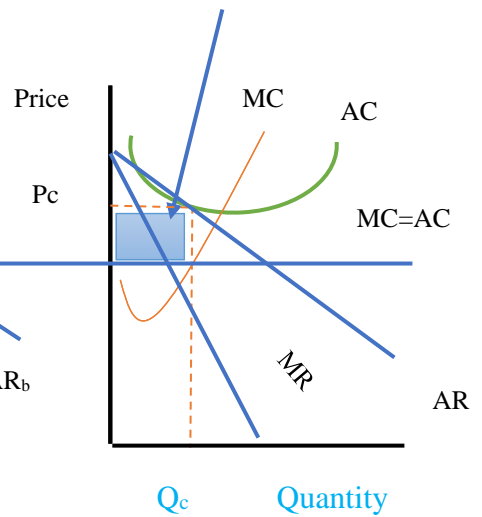


## Market B (PED > 1)

Profit from selling to market A with a relatively elastic demand and charging a lower price.



## Total Market A+B



## **About the Author**

Dr. T T Osadiya is an Economist with more than 20 years teaching experience in the United Kingdom (UK). He has been an examiner for Advanced Level Economics for the UK's Edexcel and AQA examination boards since 2014. Dr T T Osadiya is currently the Module Leader and Lecturer in Managerial Economics at the University of Wales Trinity Saint David, UK.

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## Foreword

This book is written with the intention of exposing undergraduate students to the world of Economics. The book aims to achieve the following objectives:

- To expose students to the fundamental principles, theories and concepts of economics that will lay the foundation, which they could build upon at higher education level.
- I am of the view that possession of knowledge of macroeconomics and microeconomics environments is an essential skill that we must all have in order to navigate the complex economic environments we are exposed to in our daily lives. Having said that, it must be noted that, although, knowledge is an essential attribute, on its own, it can only make a minimal contribution to examination success. Therefore, to be able to score high marks in Economics examinations, students must demonstrate knowledge with ability to apply economic theory, principles and concepts, analytical and evaluative skills. In view of this, the book has been written in such a style that would enable them to develop these skills. There are practice questions posed at the end of selected chapters, which students could attempt to gauge their understating of chapters' topics. The answers to those questions are also provided at the end of the book.

## Chapter 1: An Introduction to Economics

### What is Economics?

In the olden days in Europe, it is often the case that society viewed men as the heads of families while women were expected to assume the role of housewives who ensured that household resources are effectively allocated to meet the needs of their families.

In societies like these, it was not surprising to see husbands waking up and going to work in the mornings, while the wives stayed at home to take care of the children as well as engaging in other matrimonial duties. At the end of the week or month depending on when the husband is paid, he gives what he earns to his wife with the expectations that she knows what the needs of the family are. The wife then assesses all their immediate needs, prioritise these needs and allocates the husband's salary accordingly.

All those things that cannot be met due to limited resources (Salary amount) may have to be deferred. Hence this practice is called **'Oikonomos'** meaning **'Household Management' in Greek language**. Therefore, the word 'Economics' originates from the Greek word **'Oikonomos'**. **This is a two-word joined together as one:**

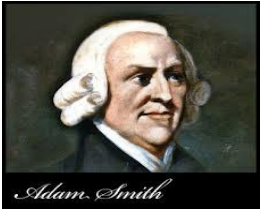

- (a) 'Oiko', means 'Household', and
- (b) 'Nomos' means 'Management'.

Thus, Economics means **'Household Management'**. The head of a family faces the problem of managing the unlimited wants of the family members within the limited income of the family. In fact, the same is true for a society also because, if we consider the whole society as a 'family', then, it is rational to assume that society will also face the problem of tackling unlimited wants of the members of the society with the limited amount of resources that are available in that society. This explains why Economics is often viewed as the study of the way in which mankind organises itself to tackle the basic problems of scarcity. All societies have more wants than the amount of resources that are available to them. In view of this, it is perfectly reasonable for us to devise a system that enables us to allocate the available resources efficiently between competing ends.

### Classification of Economic Definitions

1. Wealth definitions,
2. Material welfare definitions,
3. Scarcity definitions, and
4. Growth-centred definitions.

**Table 1.1 Classification of Economics Definitions**

<p><b>The Wealth Definition – Adam Smith</b></p> 	<p>Adam Smith, considered to be the founding father of modern Economics, defined Economics as:</p> <p><b>“The study of the nature and causes of nations’ wealth or simply as the study of wealth”</b></p> <p>The central point in Smith’s definition is wealth creation. Implicitly, Smith identified wealth with welfare. He assumed that, the wealthier a nation becomes, the happier are its citizens. It therefore becomes imperative for economists to devise the means of knowing what a nation needs to do to be wealthy. Economics is the subject that tells us how to make a nation wealthy. This explains one of the reasons why Adam Smith’s definition is classified as a wealth-centred definition of Economics.</p>
<p><b>Alfred Marshall’s Definition – Material Welfare Definition</b></p> 	<p>Although, Alfred Marshall also stressed the importance of wealth, he emphasised the role of the individual in the creation and the use of wealth. Hence, he defined Economics as thus:</p> <p><b>“Economics is a study of man in the ordinary business of life. It enquires how he gets his income and how he uses it”</b></p> <p>This definition can be interpreted as thus: it is on the one side, the study of wealth and on the other and more important side, a part of the study of man”. Marshall, therefore, stressed the supreme importance of man in the economic system. This explains why the Marshall’s definition is considered to be material-welfare centred definition of economics.</p>
<p><b>Lionel Robbins’ Definition – Scarcity Definition.</b></p> 	<p>The next important definition of Economics was due to Professor Lionel Robbins. In his book - ‘Essays on the Nature and Significance of the Economic Science’, published in 1932, Robbins gave a definition which has become one of the most popular definitions of Economics. To Robbins,</p> <p><b>“Economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses”</b></p> <p>A long line of economists after Robbins, including Scitovsky and Cassel, have agreed with this definition and carried on their analysis in line with this definition. Basically, it is a scarcity-based definition of Economics.</p>
<p><b>Modern Growth-Oriented Definition of Professor Samuelson</b></p> 	<p>In relatively recent times, more comprehensive definitions of Economics have been offered. Professor Samuelson writes:</p> <p><b>“Economics is the study of how people and society end up choosing, with or without the use of money, to employ scarce productive resources that could have alternative uses to produce various commodities over time and distributing them for consumption, now or in the future, among various persons or groups in society”.</b></p> <p>This definition analyses costs and benefits of improving patterns of resource allocation. It is important to stress that a large number of modern economists have subscribed to this broad definition of Economics.</p>

## **Economics as a Social Science**

For centuries, Economists have been developing models and theories that are helping societies provide rational explanations for choices that they make in their daily lives. These models are often based on assumptions that can often help to simplify analysis, but also frequently subjected to criticisms for the simple reason that they are not realistic. This assumption is frequently featured in Economics arguments. In order to provide justifications for the assumptions made, Economists often use the *ceteris paribus* as a defence mechanism.

### **The *ceteris paribus* assumption.**

In Economics, the term ‘*ceteris paribus*’ simply means “all other factors remaining constant”. The *ceteris paribus* assumption allows Economists to isolate the effect of one variable on another variable. For example, there are many factors that can affect the quantity supply of rice in Africa, but at a specific period, we may just want to focus on the impact of a change in just one of the assumed factors.

### **Economics as a social science**

Economics is regarded as a social science because it studies the complex nature of human behaviour. It is a fact that human behaviour is not homogenous as it is influenced by a variety of factors such as demographic, culture, traditions, gender, level of education, social, financial and environmental issues. It is therefore difficult to make scientific experiments in Economics. Although, in recent times, some behavioural economists have tested their ideas in laboratories to better understand some of their ideas, regrettably, the way human beings behave when they are subjected to laboratory experiments is always different from the behaviour one they display when they are confronted with real world events.

### **What are the main purposes of economic activity?**

This has always been the central question that has dominated economic discourse for centuries. Of course, it is rational to believe that the main purpose of economic activity is the production of goods and services with the aim of satisfying the ever-changing human needs and wants. The attempt to satisfy these infinite needs and wants with available finite resources has been the basic economic problem as choices will have to be made due to limited resources. Based on this, economists are actively working to address three fundamental issues, called ‘economic problems’:

**(i) What goods and services to produce?** Does the Nigerian economy use its resources to build more hospitals, roads, schools or military weapons? Should the country be making more smartphones and smart watches? Should the country invest more in Agriculture in order to be able to feed their citizens?

**(ii) How best to produce goods and services?** What is the best use of the country’s scarce resources? Should government privatise the Nigerian National Petroleum Corporation (NNPC) to increase revenue? Should the Nigerian government continue to subsidise the cost of petrol to boost transportation and reduce the cost of production of local firms?

**(iii) Who is to receive goods and services?** Who will get scarce hospital treatment – and who not? Which states get the go-ahead for transport infrastructure project and which miss out?

## Scarcity

**Scarcity is basically a case of infinite wants versus finite resources.**

The human nature consistently desires new wants and needs which producers consistently attempt to supply using factors of production. Because of scarcity, consumers, businesses and governments are often forced to make choices. For example, millions of people go to work in Lagos daily and each time a worker is about to leave home for office, they must make a choice on the mode of transport to office. Should use the public transport? Drive their own car? Walk or cycle to office?

## Trade-offs and Choices

Making a choice or decision normally involves a trade-off – this means that choosing one or more things can only be achieved by giving up something else in exchange.

- **Housing:** Choices about whether to rent or buy a home – both decisions involve risk. People must weigh up some of the costs and benefits of the decision.
- **Working:** Do you work full-time or part-time? Is it worth working while studying for a degree? How have these choices been affected by the introduction of university tuition fees?
- **Transport and travel:** The choice between traveling from Lagos to Abuja by air or by road.

**Hence, these decisions are often subject to Cost Benefit Principle.**

In many decisions where people consider the costs and benefits of their actions – economists make use of the ‘marginal’ idea i.e. what are the costs and benefits of consuming a little extra of a product. Please note that the term ‘**marginal**’ in economics means ‘**extra**’ or ‘**additional**’.

## Value Judgements, Normative and Positive Statements in Economics

Value Judgements – these are statements or opinions expressed that are not testable. They cannot be verified and depend very much on the views of the individual and the values they hold.

## Why is this important in economics?

It is important to be able to distinguish between objective facts and subjective statements particularly when reading economics articles. It is often the case that when economists are writing economic articles for public consumption, they often have their subjective opinions regarding the issue in question and these will have an influence on how these articles are presented. Hence, these articles carry value judgements as the writers are trying to convince the readers that their views hold when in fact, the articles may be lacking in objectivity. This why it is important for us to understand the difference between facts and opinions.



## **Type of Statements in Economics**

**Positive statements** – these are objective statements. They are statements of facts, which can be tested against the existing real-world data. For example, as at April 2020, 75% of Nigeria’s revenues are expended in servicing the nation’s debt. This is an objective fact as the data is readily available at the Ministry of Finance and available to those who might be interested in finding out more about the issue to enable them to accept or reject this claim. *For example, if someone said ‘the price of oil fell by more than 50% during 2021’; this would amount to a positive statement because it is based on fact. The statement could be proved.*

**Normative statements** – these are subjective statements which carry value judgements. They are statements, which cannot be proved or disproved. For example, if an economist suddenly made a statement that the African government should drastically reduce their emissions, this will be viewed as a normative statement as it is expressing someone’s subjective opinion that cannot be tested against real-world data. *For example, if someone said ‘it is unfair that some consumers of electricity get charged different amounts depending on their ability to pay. The word unfair makes this a normative statement because the person is expressing his/her personal view, which is a very subjective one.*