Economy and Economics

Economy is Economics at play in a certain region*.*

New Terms on the block:

Gig Economy

Green Economy

New Economy

Informal Economy

Economics:

Father of Economics Adam Smith characterised Economics as "An **inquiry into the nature and cause of wealth of nations**". Yet there is no concrete definition as no definition is globally accepted. So it's better to have an idea about what Economics is rather than searching for definition.

The horizon of Economics is very wide. It talks about scarce source like diamond and also resources like air which are abundant in nature. As diamond is scarce it is priced high and as air is abundant so it priced zero. So it talks about the price of both, the scarce one and the abundant one. Adam Smith found that "**the things which have greater value in exchange have almost negligible value in use and vice versa**". For example water, it has great value in use. We can't live without it, but hardly can we buy anything by exchanging it. And look at diamond, we can buy many things but can we eat/drink/breath it? But as the human tendency is to care for scarce more so Economics talks about scarcity more often than not.

Economics is the study of how society use scarce resources to produce valuable commodities and distribute them among different people.

Here definition says about 2 ideas:

1: **The goods are scare.**

2: **And society must use the resources prudently**.

We know “There is no limit to human wants” but there is limit to resources available. And wants will be fulfilled only with the resources available. That means we have to make some choices before we start using resources. We have to prioritise our wants. There must be certain priorities of our wants. And Economics is that science which helps us deciding those priorities. It explains how to use resources most efficiently by building what we want most.

As resources are decreasing day by day that means whatever we have today is not same as whatever we had yesterday and what we will have tomorrow. That makes this subject more interesting. That is why economists call it as a *dynamic* subject. And they are right in every way calling it so because with decreasing of resources we must alter our priorities and the method by which we fulfil our priorities.

ECONOMY:

Economy is Economics at play in a certain region*.*

Let's understand this. We know what economics is. That is how we can produce more with less resources with prioritising our wants. This is a theory. And we apply all those theory we have planned on a territory say a country. Then the whole things become **ECONOMY**. For example **Indian Economy that is Economics at play in Indian Territory. Same way French Economy that is economics at play in France territory.**

Two countries might be facing same problem at same frame of time. Economist might have suggested a dozens of remedies for that, ultimately it depends upon that country to apply which theory. They might opt for same remedies or different remedies. There is every possible chance of getting different result even after choosing same theory and getting same result using different theory. Because economic theories are expectation of human behaviour about their economic activities. And as this is based on human behaviour this changes with respect to the region, historical background, perception, and psychic make and many more. No two economies are same. They may broadly be classified as “developed”, “ developing” and “developed” yet they are different from one another because people of one country may not act like other country on a same economic theory. That makes Economics highly interesting and pleasant. As an economist you have to think every now and then.

What Is Economics?

Economics is a social science concerned with the production, distribution, and consumption of goods and services. It studies how individuals, businesses, governments, and nations make choices on allocating resources to satisfy their wants and needs, trying to determine how these groups should organize and coordinate efforts to achieve maximum output.

Economics can generally be broken down into macroeconomics which concentrates on the behaviour of the aggregate economy, and microeconomics which focuses on individual consumers and businesses.

KEY TAKEAWAYS

- Economics is the study of how people allocate scarce resources for production, distribution, and consumption, both individually and collectively.
- Two major types of economics are *microeconomics*, which focuses on the behaviour of individual consumers and producers, and *macroeconomics*, which examine overall economies on a regional, national, or international scale.
- Economics is especially concerned with efficiency in production and exchange and uses models and assumptions to understand how to create incentives and policies that will maximize efficiency.
- Economists formulate and publish numerous economic indicators, such as gross domestic product (GDP) and the Consumer Price Index (CPI).
- Capitalism, socialism, and communism are types of economic systems.

Understanding Economics

The founding of modern Western economics is credited to the publication of Scottish philosopher Adam Smith's 1776 book, *An Inquiry into the Nature and Causes of the Wealth of Nations*.[1]

The principle (and problem) of economics is that human beings have unlimited wants and occupy a world of limited means. For this reason, the concepts of efficiency and productivity are held paramount by economists. Increased productivity and a more efficient use of resources, they argue, could lead to a higher standard of living.

Types of Economics
The study of economics is generally broken down into two disciplines.

- Microeconomics focuses on how individual consumers and firm make decisions; these individuals can be a single person, a household, a business/organization or a government agency. Analysing certain aspects of human behaviour, microeconomics tries to explain how they respond to changes in price and why they demand what they do at particular price levels. Microeconomics tries to explain how and why different goods are valued differently, how individuals make financial decisions, and how individuals best trade, coordinate and cooperate with one another. Microeconomics' topics range from the dynamics of supply and demand to the efficiency and costs associated with producing goods and services; they also include how labour is divided and allocated, uncertainty, risk, and strategic game theory.
- Macroeconomics studies an overall economy on both a national and international level. Its focus can include a distinct geographical region, a country, a continent, or even the whole world. Topics studied include foreign trade, government fiscal and monetary policy, unemployment rates, the level of inflation and interest rates, the growth of total production output as reflected by changes in the Gross Domestic Product (GDP), and business cycles that result in expansions, booms, recessions, and depressions.

Micro- and macroeconomics are intertwined; as economists gain an understanding of certain phenomena, they can help us make more informed decisions when allocating resources. Many believe that microeconomics' foundations of individuals and firms acting in aggregate constitute macroeconomic phenomena.

Schools of Economic Theory
There are also schools of economic thought. Two of the most common are monetarist and Keynesian. Monetarists have generally favourable views on free markets as the best way to allocate resources and argue that stable monetary policy is the best course for managing the economy. In contrast, the Keynesian approach believes that markets often don’t work well at allocating resources on their own and favours fiscal policy by an activist government in order to manage irrational market swings and recessions.

Economic analysis often progresses through deductive processes, including mathematical logic, where the implications of specific human activities are considered in a "means-ends" framework.

Economics 101

The Economics of Labour, Trade, and Human Behaviour
The building blocks of economics are the studies of labour and trade. Since there are many possible applications of human labour and many different ways to acquire resources, it is difficult to determine which methods yield the best results.

Economics demonstrates, for example, that it is more efficient for individuals or companies to specialize in specific types of labour and then trade for their other needs or wants, rather than trying to produce everything they need or want on their own. It also demonstrates trade is most efficient when coordinated through a medium of exchange, or money.

Economics focuses on the actions of human beings. Most economic models are based on assumptions that humans act with rational behaviour, seeking the most optimal level of benefit or utility. But of course, human behaviour can be unpredictable or inconsistent, and based on personal, subjective values (another reason why economic theories often are not well suited to empirical testing). This means that some economic models may be unattainable or impossible, or just not work in real life.

Economic Indicators
Economic indicators are reports that detail a country's economic performance in a specific area. These reports are usually published periodically by governmental agencies or private organizations, and they often have a considerable effect on stocks, fixed income, and forex markets when they are released. They can also be very useful for investors to judge how economic conditions will move markets and to guide investment decisions.

Some of the major indicators used for fundamental analysis:

Gross Domestic Product (GDP)
RetailSales
Industrial Production
Employment Data
Consumer Price Index (CPI)

Types of Economic Systems
Capitalism
Capitalism emerged with the advent of industrialization. Capitalism is defined as a system of production whereby business owners (capitalists) produce goods for sale in order to make a profit and not for personal consumption. In capitalism, capitalists own the business including the tools used for production as well as the finished product. Workers are hired in return for wages, and the worker owns neither the tools he uses in the production process nor the finished product when it's complete. Capitalist production relies on the market for the allocation and distribution of the goods that are produced for sale. A market is a venue that brings together buyers and sellers, and where prices are established that determine who gets what and how much of it. The United States and much of the developed world today can be described as capitalist market economies.

Capitalism Alternatives
Alternatives to capitalist production exist. Two of the most significant ones developed in the 19th century as a response to what was seen as capitalism's abuses.

Socialism is a system of production whereby workers collectively own the business, the tools of production, the finished product, and share the profits – instead of having business owners who retain private ownership of all of the business and simply hire workers in return for wages. Socialist production often does produce for profits and utilizes the market to distribute goods and services.

Communism is a system of production where private property ceases to exist and the people of a society collectively own the tools of production. Communism does not use a market system, but instead relies on a central planner who organizes production (tells people who will work in what job) and distributes goods and services to consumers based on need. Sometimes this is called a command economy.

What is an Economic System?

An economic system is a means by which societies or governments organize and distribute available resources, services, and goods across a geographic region or country. Economic systems regulate factors of production, including capital, labor, physical resources, and entrepreneurs. An economic system encompasses many institutions, agencies, and other entities.

Types of Economic Systems

1. Traditional economic system

The traditional economic system is based on goods, services, and work, all of which follow certain established trends. It relies a lot on people, and there is very little division of labor or specialization. In essence, the traditional economy is very basic and the most ancient of the four types.

Because of its primitive nature, the traditional economic system is highly sustainable. In addition, due to its small output, there is very little wastage compared to the other three systems.

2. Command economic system

In a command system, there is a dominant, centralized authority – usually the government – that controls a significant portion of the economic structure. Also known as a planned system, the command economic system is common in communist societies since production decisions are the preserve of the government.

If an economy enjoys access to many resources, chances are that it may lean towards a command economic structure. In such a case, the government comes in and exercises control over the resources. Ideally, centralized control covers valuable resources such as gold or oil. The people regulate other less important sectors of the economy, such as agriculture.

Such economies are vulnerable to economic crises or emergencies, as they cannot quickly adjust to changed conditions.

3. Market economic system

Market economic systems are based on the concept of free markets. In other words, there is very little government interference. The government exercises little control over resources, and it does not interfere with important segments of the economy. Instead, regulation comes from the people and the relationship between supply and demand.

4. Mixed system

Mixed systems combine the characteristics of the market and command economic systems. For this reason, mixed systems are also known as dual systems. Sometimes the term is used to describe a market system under strict regulatory control.

Mixed systems are the norm globally. Supposedly, a mixed system combines the best features of market and command systems. However, practically speaking, mixed economies face the challenge of finding the right balance between free markets and government control. Governments tend to exert much more control than is necessary.

Economic systems are grouped into traditional, command, market, and mixed systems. Traditional systems focus on the basics of goods, services, and work, and they are influenced by traditions and beliefs. A centralized authority influences command systems, while a market system is under the control of forces of demand and supply. Lastly, mixed economies are a combination of command and market systems.

A market-based economy is one where goods and services are produced and exchanged according to demand and supply between participants (economic agents) by barter or a medium of exchange with a credit or debit value accepted within the network, such as a unit of currency.

A command-based economy is one where political agents directly control what is produced and how it is sold and distributed.

A green economy is low-carbon, resource efficient and socially inclusive. In a green economy, growth in income and employment is driven by public and private investments that reduce carbon emissions and

pollution, enhance energy and resource efficiency, and prevent the loss of biodiversity and ecosystem services.

A gig economy is one in which short-term jobs are assigned or chosen via online platforms.

New economy is a term referred to the whole emerging ecosystem where new standards and practices were introduced, usually as a result of technologicalinnovations.

An informal economy is economic activity that is neither taxed nor monitored by a government, contrasted with a formal economy. The informal economy is thus not included in that government's gross national product (GNP). Although the informal economy is often associated with developing countries, all economic systems contain an informal economy in some proportion.

Informal economic activity is a dynamic process that includes many aspects of economic and social theory including exchange, regulation, and enforcement. By its nature, it is necessarily difficult to observe, study, define, and measure. No single source readily or authoritatively defines informal economy as a unit of study.

The terms "underground", "under the table" and "off the books" typically refer to this type of economy. The term black market refers to a specific subset of the informal economy. The term "informal sector" was used in many earlier studies, and has been mostly replaced in more recent studies which use the newer term.

The informal sector makes up a significant portion of the economies in developing countries but it is often stigmatized as troublesome and unmanageable. However, the informal sector provides critical economic opportunities for the poor and has been expanding rapidly since the 1960s. As such, integrating the informal economy into the formal sector is an important policy challenge.

In microeconomics, **economies of scale** are the cost advantages that enterprises obtain due to their scale of operation (typically measured by the amount of output produced), with cost per unit of output decreasing with increasing scale. At the basis of economies of scale there may be technical, statistical, organizational or related factors to the degree of control.

Economies of scale apply to a variety of organizational and business situations and at various levels, such as a production, plant or an entire

enterprise. When average costs start falling as output increases, then economies of scale occur. Some economies of scale, such as capital cost of manufacturing facilities and friction loss of transportation and industrial equipment, have a physical or engineering basis.

Another source of scale economies[1] is the possibility of purchasing inputs at a lower per-unit cost when they are purchased in large quantities.

The economic concept dates back to Adam Smith and the idea of obtaining larger production returns through the use of division of labor.

Economies of scale often have limits rate.

Large producers are usually efficient at long runs of a product grade (a commodity) and find it costly to switch grades frequently. They will, therefore, avoid specialty grades even though they have higher margins. Often smaller (usually older) manufacturing facilities remain viable by changing from commodity-grade production to specialty products.[

Economies of scale must be distinguished from economies stemming from an increase in the production of a given plant. When a plant is used below its optimal production capacity, increases in its degree of utilization bring about decreases in the total average cost of production.

The simple meaning of economies of scale is doing things more efficiently with increasing size.[5] Common sources of economies of scale are :

Purchasing

Managerial

Financial (lower-interest

Marketing
Technological (taking advantage of returns to scale in the production function).

Each of these factors reduces the long run average costs (LRAC) of production by shifting the short-run average total cost (SRATC) curve down and to the right.

Economies of scale is a concept that may explain real-world phenomena such as patterns of international trade or the number of firms in a market. The exploitation of economies of scale helps explain why companies grow large in some industries. It is also a justification for free trade policies, since some economies of scale may require a larger market than is possible within a particular country

There is a distinction between two types of economies of scale: internal and external.

An industry that exhibits an internal economy of scale is one where the costs of production fall when the number of firms in the industry drops, but the remaining firms increase their production to match previous levels. Conversely, an industry exhibits an external economy of scale when costs drop due to the introduction of more firms, thus allowing for more efficient use of specialized services and machinery.

The determinants of economies of scale

Physical and engineering basis: economies of increased dimension

Some of the economies of scale recognized in engineering have a physical basis, such as the square-cube law.Similarly the strength of beams increases with the cube of the thickness.

Drag loss of vehicles like aircraft or ships generally increases less than proportional with increasing cargo volume, although the physical details can be quite complicated. Therefore, making them larger usually results in less fuel consumption per ton of cargo at a given speed.

Heat loss from industrial processes vary per unit of volume for pipes, tanks and other vessels in a relationship somewhat similar to the square-cube law. In some productions, an increase in the size of the plant reduces the average variable cost, thanks to the energy savings resulting from the lower dispersion of heat.

Economies in holding stocks and reserves

At the base of economies of scale there are also returns to scale linked to statistical factors. In fact, the greater of the number of resources involved, the smaller, in proportion, is the quantity of reserves necessary to cope with unforeseen contingencies (for instance, machine spare parts, inventories, circulating capital, etc.).

Transaction economies

A larger scale generally determines greater bargaining power over input prices and therefore benefits from pecuniary economies in terms of purchasing raw materials and intermediate goods compared to companies that make orders for smaller amounts. In this case we speak of pecuniary economies, to highlight the fact that nothing changes from

the "physical" point of view of the returns to scale. Furthermore, supply contracts entail fixed costs which lead to decreasing average costs if the scale of production increases.[11]

Economies deriving from the balancing of production capacity

Economies of productive capacity balancing derives from the possibility that a larger scale of production involves a more efficient use of the production capacities of the individual phases of the production process. If the inputs are indivisible and complementary, a small scale may be subject to idle times or to the underutilization of the productive capacity of some sub-processes. A higher production scale can make the different production capacities compatible. The reduction in machinery idle times is crucial in the case of a high cost of machinery.[12]

Economies resulting from the division of labour and the use of superior techniques

A larger scale allows for a more efficient division of labour. The economies of division of labour derive from the increase in production speed, from the possibility of using specialized personnel and adopting more efficient techniques. An increase in the division of labour inevitably leads to changes in the quality of inputs and outputs.[13]

Managerial Economics

Many administrative and organizational activities are mostly cognitive and, therefore, largely independent of the scale of production. When the size of the company and the division of labour increase, there are a number of advantages due to the possibility of making organizational management more effective and perfecting accounting and control techniques.[15] Furthermore, the procedures and routines that turned out to be the best can be reproduced by managers at different times and places.

Learning and growth economies

Learning and growth economies are at the base of dynamic economies of scale, associated with the process of growth of the scale dimension and not to the dimension of scale per se. Learning by doing implies improvements in the ability to perform and promotes the introduction of incremental innovations with a progressive lowering of average costs. Learning economies are directly proportional to the cumulative production (experience curve). Growth economies occur when a company acquires an advantage by increasing its size. These economies are due to the presence of some resource or competence that is not fully utilized, or to the existence of specific market positions that create a differential advantage in expanding the size of the firms.

That growth economies disappear once the scale size expansion process is completed. For example, a company that owns a supermarket chain benefits from an economy of growth if, opening a new supermarket, it gets an increase in the price of the land it owns around the new supermarket. The sale of these lands to economic operators, who wish to open shops near the supermarket, allows the company in question to make a profit, making a profit on the revaluation of the value of building land.[17]

Capital and operating cost

Overall costs of capital projects are known to be subject to economies of scale. A crude estimate is that if the capital cost for a given sized piece of equipment is known, changing the size will change the capital cost by the 0.6 power of the capacity ratio (the point six to the power rule).[18][19]

In estimating capital cost, it typically requires an insignificant amount of labor, and possibly not much more in materials, to install a larger capacity electrical wire or pipe having significantly greater capacity.[20]

The cost of a unit of capacity of many types of equipment, such as electric motors, centrifugal pumps, diesel and gasoline engines, decreases as size increases. Also, the efficiency increases with size.[21]

Crew size and other operating costs for ships, trains and airplanes]

Economical use of by-products

E.g.In the pulp and paper industry it is economical to burn bark and fine wood particles to produce process steam and to recover the spent pulping chemicals for conversion back to a usable form.

Economies of scale and returns to scale]

Economies of scale is related to and can easily be confused with the theoretical economic notion of returns to scale. Where economies of scale refer to a firm's costs, returns to scale describe the relationship between inputs and outputs in a long-run (all inputs variable) production function.