

Unit 73. An Overview of Economics

The study of economics is primarily a social science. Although typically viewed as more scientific than many of the other fields in the humanities, it is still centrally concerned with human behavior. More specifically, the field examines the behavior of humans in the presence of limited resources. If the world's resources were infinite and people could have everything they needed or wanted with ease, then the study of economics would be pointless.

Within this environment of finite resources, an economic problem arises: How does a society deal with the production and distribution of a finite number of goods to satisfy a nearly infinite demand for said goods? Economists attempt to understand how various societies have dealt with this age-old economic question. Adam Smith was the first economist to deal with this very issue, and his writing set the stage for traditional economists' studies in the future.

The principles of supply and demand are the most basic components of economic study. They are defined by value—what the average consumer is willing to pay for goods or service. Labor can also have a value, decided by what an employer is willing to pay a person to complete a given task. As a rule, the cheaper the goods or service, the greater the demand for it; as the price goes up, the demand will drop. Supply—that is, the amount of goods or a service that a market provides—is the other component of all markets. Generally speaking, supply will rise as the market price rises. As such, the more money consumers will pay for goods relative to its production cost, the greater the amount produced by suppliers. Price is determined by the supply and the demand within a market; they balance one another. Understanding supply, demand, and their effect on price is a key part of both macroeconomics and microeconomics.

Microeconomics analyzes the behavior of individuals within an economy. Considerations include an agent's choices in the presence of scarcity, government control, and other factors. Macroeconomics is larger in scope and examines entire nations' markets and interactions between national economies. Macroeconomists are usually immensely interested in currency issues, interest rates, and a nation's employment. Besides just being theories, economists' studies also serve a practical purpose. Understanding the way a country's market functions is necessary to keeping

it healthy. Most economists judge the health of an economy by its liquidity—that is, how quickly an asset can be converted into currency that can be exchanged for a good or service. The flow of currency is essential in gauging how robust and healthy an economy is. Thus, in gauging economic health, economists need to take into account a number of factors. Interest rates, investment patterns, consumer confidence, employment levels, and stock market behavior are all objects of economic study.

Governments can interact with an economy in numerous ways but most dramatically by controlling interest rates and the supply of money. By printing more money or slowing the output of currency, a government can control inflation and deflation, thus maintaining a healthy economy. Alternatively, the government can adjust the interest rate they charge to institutions that have borrowed from them to help keep the economy healthy. These prescriptive elements of economics need to be balanced by an understanding of aspects outside of government control. Interest rates and currency output can only control so much of a market. Consumer confidence—the willingness of agents to spend their money instead of saving it—is an integral part of a healthy economy. The ways stocks and bonds are traded in a market are also essential aspects of a market's health.

Newer fields of economics have been developing at a rapid pace, especially since the Industrial Revolution swept the modern world. Karl Marx was the first prominent economist to bring ethical questions into the field of economic study. Since Marx, more and more economists have begun to address not only how markets work, but also how they should work. As such, the field of economics is now informing government policy across the world and serves a profoundly important role.