

Economics and Economy

Economics

Choices or decisions made by individuals, businesses, and governments involved in production, distribution, and consumption of goods and services.

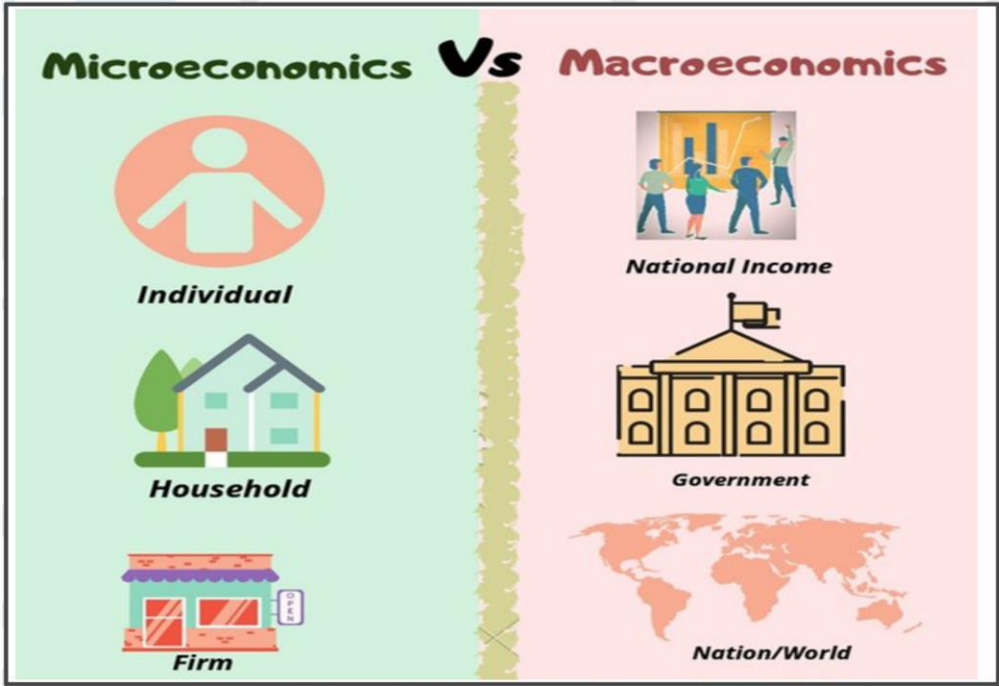
- studies problems at **individual level**
- determines output and price at individual level
- narrow scope

Micro-Economics

- studies problems at **level of economy as a whole**
- determines aggregate output and general price level
- wider scope

Macro Economics

Types of Economics

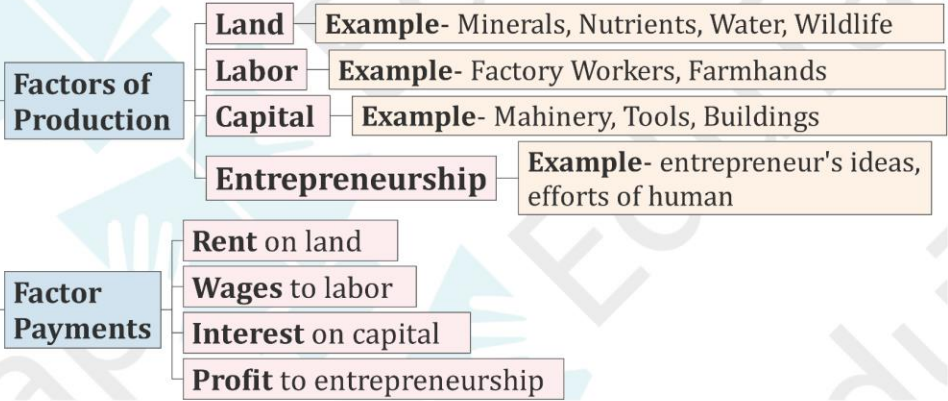


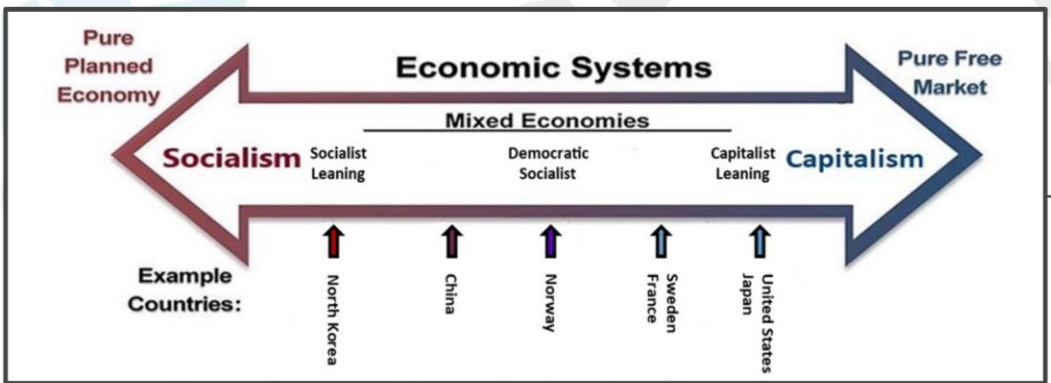
Economy

System consisting of Economic Agents involved in production, distribution, and consumption of goods and services



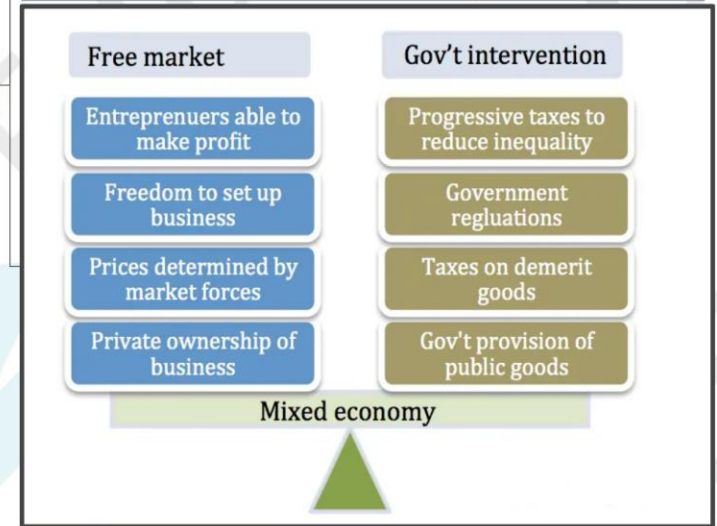
Factors Inputs





Both private and Government ownership on most resources, goods

India follows Mixed economic system



Types of Economic System

Also known as **Market economy**

Private ownership of most resources, goods

Government's role only to **maintain public goods, law and order**

Economic decisions taken by **Individual businesses and consumers**

Capitalism



Mixed Economy

Government ownership on most resources, goods

Government decides what goods are to be produced

Main objective- correction in market failures, income and wealth equality

Socialism



Various sectors of Economy



Examples- Retail, banking, insurance, tourism, banking

Also known as services sector

Tertiary sector

Primary sector

Extracts or harvests products from the earth

Examples- Agriculture, mining, forestry, grazing, fishing, quarrying



Examples- Intellectual activities related to innovation such as Information technology, education, research

Also known as knowledge economy

Quaternary sector

Secondary sector

Produces finished goods from raw materials

Examples- Manufacturing, processing, construction



Examples- Top executives, officials in government, science, universities

Related to highest levels of decision making

Quinary sector



Types of Goods

Economic Goods

Goods whose demand is more than the supply

Toothpaste, soap, bread, table, buses

Economic good

- A good with some benefit to society and an opportunity cost. It can include both private and public goods.



Private goods

Goods that are privately owned

watch, scooter, table, clothes

Public goods

Goods that are owned by society as a whole

roads, bridges, park

Private Goods	Public Goods
	
They are goods which are meant for Consumption (use) of Particular person	They are goods which are Meant for Consumption (use) of all members of society
Example- Car	Example -Bridge

Free goods

Goods that are freely available(gifts of nature)

Sand, clean air, water

Free good

- Good with no opportunity cost, e.g water, air.



Consumer goods

Goods that directly satisfy the want of consumers

Bread, fruits,milk

Consumer Good



Producer goods

Goods that indirectly satisfy the want of consumers

Machinery, tools, raw materials

 Machinery	 Tools	 Vehicles
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Goods that can be used only once

Bread, butter, egg, milk



**Single use
goods**

Goods that can be used again and again

Clothes, furniture, tractors, machines



**Durable
use goods**

Types of Goods

Goods that are no further transformed

**Milk used at home, machinery used by
firms**

**Final
goods**

Final Good



***We don't use a
shirt to make
something else.***

**Intermediate
goods**

Goods that are used to produce
final good

**Cotton fiber used by spinning
mill, coffee beans used by cafe**

Intermediate Good

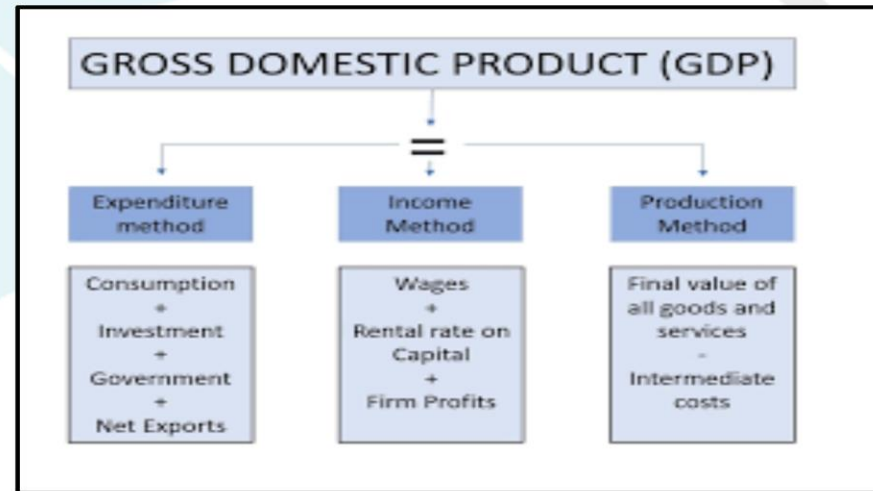


**When the baker makes
bread, he adds salt.**



He sells the bread

Methods of calculation of GDP



Product/ value added method

Value added = Sales - Intermediate goods

In this method, we calculate aggregate value of goods and services produced

We get **GVA mp** or **GDP mp**

Income method

Adding all the sources of income together

W (wages and salaries) + P (total profits) + In (total interest) + R (total rent)

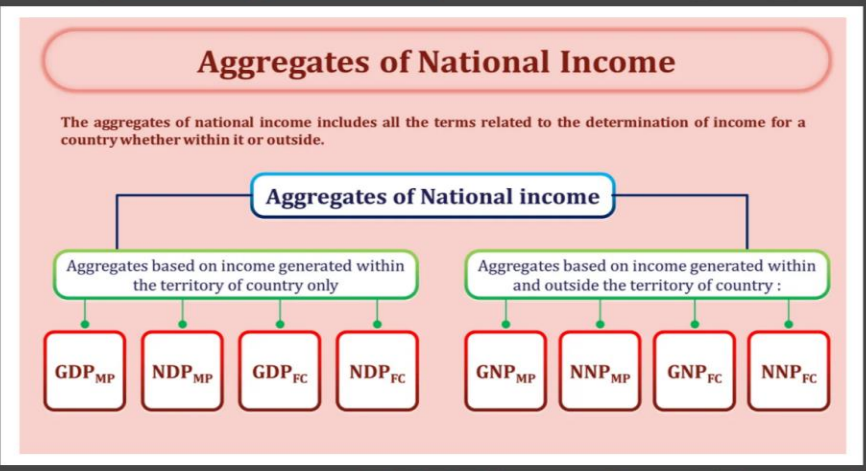
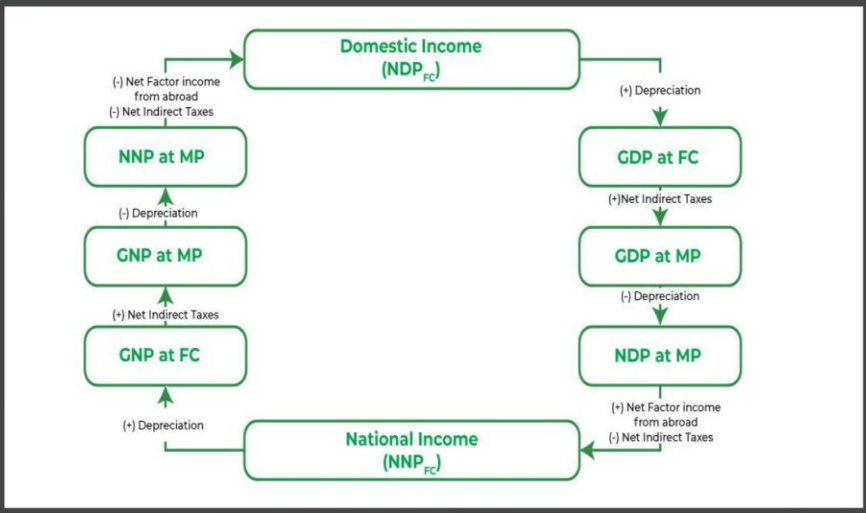
We get **NDP_{fc}**

Expenditure method

Sum of all final expenditures on goods and services for end use

C (consumption) + I (investment) + G (government) + Net exports ($X - M$)

We get **GDP_{mp}**



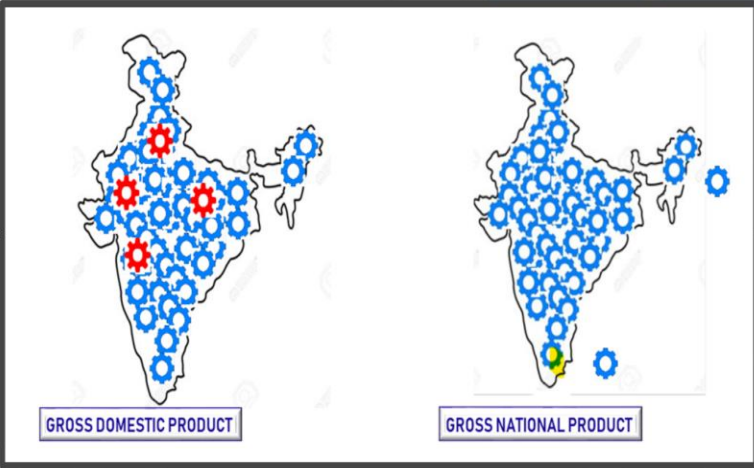
Important Macroeconomic Identities and formulas



Gross Investment = Net Investment + Depreciation

Gross Domestic Product (GDP)	Net Domestic Product (NDP)
The amount of goods and services available within a country's borders is measured by its gross domestic product (GDP).	In an economy, net domestic product measures the overall value of goods and services after depreciation.
Depreciation is not taken into consideration when measuring GDP since certain goods are not used and are sold without being used.	Depreciation is taken into account when measuring NDP since some production can be lost due to depreciation.

GDP=NDP+ Depreciation



GNP=GDP+ NFIA(Factor income from abroad- to abroad)

Nominal GDP, Real GDP, GDP deflator and Limitations

Nominal GDP

measure of the value of all final goods and services produced within a country's borders at current market prices

Includes current quantities at **current year prices**

Formula= Price of current year* quantity of current year

For example, price in 2022 is 100, price in 2011(base)=50, quantity in 2022 is 5

Nominal GDP=100*5=500

Real GDP

measure of the value of all final goods and services produced within a country's borders at base year prices

Includes current quantities at **base year prices**

Formula= price of base year* quantity of current year

For example, price in 2022 is 100, price in 2011(base)=50, quantity in 2022 is 5

Real GDP=50*5=250

GDP Deflator

Ratio of nominal GDP to real GDP

GDP Deflator

$$= \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

GDP deflator= 500/250*100=200

Other concepts

Inclusive Growth

Inclusive growth is economic growth distributed fairly across society and creates opportunities for all

Human Development & Inclusive Growth are closely related.

To be Sustainable, growth needs to be Inclusive.



Development

Broad concept

Quantitative+Qualitative

Multidimensional and based on long term

Indicators-GDP/ Per capital income+ HDI, Life expectancy, literacy rate



Growth

Narrow concept

Quantitative in nature

Single dimensional based on short term

Indicators- GDP/ Per capital income



Limitations of GDP

Quality of Life

Although GDP is often used as a quality of life measurement, there are factors not covered by it. These include leisure time, pleasant surroundings, and personal safety.

Nonmarket Activities

GDP does not measure goods and services that people make or do themselves, such as caring for children, mowing lawns, or cooking dinner.

Negative Externalities

Unintended economic side effects, such as pollution, have a monetary value that is often not reflected in GDP.