

Principles of economics in society and country

[Finance](#), [Market](#)



This work was made in order to explain the principles of economics that is handled in society or a country. People, companies, the government and society must face a common problem: managing scarce resources. Scarcity means that society has limited resources and therefore can not produce all the goods and services that people want to have (unlimited wants). To address the shortage must choose between different alternatives available (go to the stadium or a party, buy a coat or a suit) . The economy is the social science that studies the choices that individuals, government and society made to face shortages.

It is based on ten principles grouped as follows. Objectives What kind of questions about the economy? How individuals make decisions? How do the Individuals? How does the economy as a whole? ECONOMIC PRINCIPLES The principles of economics are based on ten principles grouped as follows: Group 1: Principles that govern how Individuals make decisions. Else they want. Making decisions is choosing between two objectives. If a student studies, it is leaving a few hours of sleep. If a parent buys food, you are not buying someone else's reduce.

When they decide to spend an additional weight in a well, are having a weight less to spend on other goods or services. Individuals are grouped to form companies which also face these dilemmas. Example, buy more weapons for national defense or increase public spending to improve wages or offer better education. In developing an economic policy, society is faced with the dilemma between efficiency and equity, 'e, thinning the most of scarce resources and the equitable sharing of the benefits of these resources among its members. 2 The cost of something is what is forgone to obtain it.

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As individuals face tradeoffs, making decisions should compare the costs and benefits of different alternatives. While determining a benefit is relatively obvious, appears equal to the event cost. Consider for example the decision to study (in college or high school). The benefits of this decision can be summarized as intellectual enrichment and a better employment opportunities after graduation. Among the costs have the monetary cost of tuition, fees, food, transportation, photocopying, books and materials that will address over the years of study, but in addition we must consider the use of time devoted to study.

The valuation of this time corresponds to the higher salary that would have earned by working instead of studying. This is what is known as opportunity cost alternative higher value that is left to do to get something (in other words, what you give up is the cost of what we get). 3 Rational people think at the margin. Manama describes the desire for a rational person to buy a good as if it were based on the marginal surplus that person would bring an extra element. Manama points out the difference in value between water and diamonds.

A marginal increase in the water supply of a person rarely involves a significant cost to that person. On the Usually the decisions that individuals make are not only two aspects, there is a range of possibilities. So a student does not choose between studying for a contest 0 hours or 24 hours a day, choose an intermediate time. These small additional adjustments to a plan of action are known as marginal changes. Individuals and companies can make

better decisions thinking at the margin. A decision is rational only if the marginal benefit involved is greater than the marginal cost.

Suppose that an airline must decide how much to charge passengers for a flight between Santiago and Miami. Suppose the round trip on a plane with a capacity of 200 seats is \$ 900, 000. In this case, the average cost per seat is \$ 4, 500. One might be tempted in this case to conclude that the airline should not sell tickets at prices below \$ 4. 500. Sin But the airline can increase profits marginally thinking. Suppose the flight is about to leave with 20 empty seats, and suppose there is a passenger waiting to take the plane and is willing to pay \$ 3, 000 for it.

Should the airline sell you a ticket? Of course you do. If the plane has empty seats, the cost of adding a passenger is negligible: although the average cost is \$ 4, 500, the marginal cost is simply the food that the extra passenger will consume. So, while the passenger was willing to pay more than the marginal cost, selling a ticket is profitable. 4 People respond to incentives. Individuals decide comparing costs and benefits, but their behavior may change if the costs and benefits change.

Example, if you raise the price of a kilo of apples this becomes an incentive to buy pears. If the government maintains the fuel tax is an incentive to increase purchases of cheap cars. Group 2: Principles relating to the way in which individuals interact. Trade can improve the welfare of each individual. This is because there specialization. Afamily may decide to move in the field and build your home, grow food, raise cattle, produce wool and leather to

make clothing, etc. But not everyone has the skills to perform all those tasks which makes the action is inefficient.

That's why there is trade (between individuals, businesses, countries) where each actor specializes in what it does best and this eventually leads to there being a greater quantity and variety of goods and services at lower cost as their production is efficient (so there Fats) 6. Arrests are a good way to organize economic activity. Currently the market economy has shifted to centralized economies, IEEE those in which the central government planning models determined what occurred, who did it, how much and who consumed him.

The market economy involves the decisions of millions of individuals and businesses. People decide what to buy with their incomes and firms decide what to produce. These individuals and firms interacting in markets for goods and services where prices and self-interest guide their decisions. As stated in the above principle, the markets are good regulators of economic activity, over at times the state should intervene to promote efficiency and equity. This happens when " market failures" which are situations in which the market alone does not efficiently allocate resources are presented.

Externalities and market power are two examples of market failures.

Externalities are consequences that the action of an individual or company has on the welfare of another individual or company. Example is pollution; a company in the production process pollutes not try to decrease unless the State applies fines for polluting. Market power, meanwhile, is defined as the ability of an agent or a small group of them to significantly influence market

prices. This is the case of monopolies, oligopolies, monopoly (ANSI, Arafat) and oligopolies (supermarkets who buy vegetables to farmers).

Group 3: principles of how the economy works as a whole. 8 The standard of living of a country depends on its ability to produce goods and services. Productivity levels, IEE, the amount of goods and services produced for each hour of work are key determinant of living standards of the countries. Thus, a country with high productivity will have more products and its people have more clothes, more DOD, more cars, etc. , which makes your standard of living is high compared to countries with low productivity where the supply of products is lower.

This leads us to note that the growth rate of productivity of a country determines the growth rate of its average income. Obviously that productivity is not the only determinant of quality of life, but the most important. Others are public policies that foster education, technology acquisition, training of employees, etc. 9 Prices rise when the government prints too much money. A government decides to increase the amount of money when it is not able to solve TTS spending to revenues (taxes, patents, etc. , the problem is that this leads to inflation, IEE the increase in the general level of prices in the economy . A high and prolonged inflation imposes some costs on society, so keep at a low level is a goal of those responsible for the economic policy of a government (and worldwide). 10 Society faces a short-run tradeoff between inflation and unemployment. The inflation problem could be solved if the government reduces the amount

of money in the economy, but the solution is not really as simple as closely (inversely) with inflation is unemployment.

This is reflected in the Phillips curve: If the overspent decides to actually decrease the amount of money in order to reduce inflation, a general fall in prices (more lengthen the short term), resulting in a drop in occurs corporate income, if this happens, companies will seek to decrease their costs financial management conclusion In conclusion this work we did with the learning or understanding of economic principles which are governed in a country that are 10 principles to consider in a given economy, we will see a summary of each of them, to know . People face tradeoffs. To have something, we usually sacrifice something else, either time, money or other sources. 2 The Cost of Something is what you give up to get. Everything has a cost and a benefit. Our decisions will compare these costs and benefits between the alternatives. Here comes the issue of opportunity cost, which basically refers to what you give up to get something else. 3 Rational People Think at the Margin. People make decisions by comparing costs and benefits in terms of margin.

This involves knowing the benefits and costs of each decision alternative. 4 The People Respond to Incentives. Marginal changes in costs or benefits motivate people to respond. Then decisions will sake an alternative when the marginal benefit is greater than marginal cost. 5 The Exchange can make everyone better. People earn for their ability to exchange something for something else. This exchange allows people can specialize in what it does best. Markets are Usually a Good Way To Organize Economic Activity. In a

market economy there is a relationship between the families and businesses. On the one hand families decide what they will buy and who will work for this and on the other hand businesses decide what will be produced and who will hire for this. 7 Governments sometimes can improve economic performance. When markets fail, the government can intervene to promote efficiency and equity.