

# Definition of economics and its main terms

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Economics is known as the study of scarcity and opportunity costs (Patel, 2018). It is also the study of how people make use of limited resources, respond to incentives or make decisions (American Economic Association).

## **Supply and Demand**

Supply and demand is a basic concept in economics. Demand refers to how much of a product or service is desired by buyers and supply represents how much the market can offer (Hayes, 2017). There are existing laws for supply and demand such as the Law of Supply and Law of Demand. Law of Demand mentions that when the price of a good increases, the demanded quantity of the good falls, and as the price of a good decreases, the quantity demanded of the good rises. On the other hand, the Law of Supply rules that when the price of a good increases the quantity supplied will also see a rise. Likewise, as the price of a good decreases, the quantity supplied will also see a fall. (Arnold, 2008).

## **Gross Domestic Product**

Gross Domestic Product, otherwise known as GDP is a way of measuring a country's economy. GDP is the final totalled up value of all produce by the various people and companies within the country's border (Amadeo, K). However, GDP does not include activities that are not recorded, sales of goods that have been used and certain non-market goods. The sales of stocks and shares are also not included in a country's GDP. In essence, GDP only measures the country's production of units and not transactions that have no produce. (Arnold, 2008)

**Fiscal Policy**

A Fiscal Policy is a policy implemented to induce changes in government expenditures/ taxes so as to attain certain economic goals like, a low unemployment rate, prices that do not fluctuate too much, and ultimately, positive economic growth (Arnold, 2008). There are two main kinds of Fiscal Policies, namely, the Expansionary Fiscal Policy and the Contractionary Fiscal Policy with the Expansionary Policy being the most widely used one (Amadeo, K). The Expansionary Fiscal Policy basically means an increase in government expenditures and/or a decrease in taxes to achieve specific economic goals. Whereby a Contractionary Fiscal Policy would be the other way round where a decrease in government expenditures will be seen and/or an increase in taxes to attain the goal. (Arnold, 2008)

**Monetary Policy**

The Monetary Policy is a policy that manages the change in the supply of money or in the rate of change of the money supply so that the country can achieve certain macroeconomic goals (Arnold, 2008). It is the policy that regulates the amount of money created in a government, which often looks at factors such as inflation and unemployment.

**Federal Reserve System**

The Federal Reserve, abbreviated as ' Fed', carries out duties which are essential to the country's monetary regulation. It was created with the purpose of giving the nation a financial system that is more safe, flexible, and stable. Its responsibilities can be divided into 4 main areas – handling of the monetary policy, overseeing and acting as a regulator over banks and financial institutions, maintaining the stability of the financial system, and

lastly, providing financial services to an array of government related institutions. (FRS)

For my example, I will use the costs of building and upkeeping the Marina Coastal Expressway versus the costs of building and upkeeping Changi Airport's Terminal 4 from the period of 2013 – 2016. The X-axis will be the amount of money spent to invest in Road Building whereas my Y-axis will be used to represent the money spent on Airport building. This is assuming Ceteris Paribus, where all other variables are constant, allowing us to focus on the specific 2 (Patel, 2018).

At that period of time, the government took stand at Point A, with the opportunity cost being the reduced expenditure on building the airport. In year 2013 – 2016, the construction and maintenance of the Marina Coastal Expressway infrastructure weighed in at approximately \$4.72 billion Singapore dollars (Ministry of Transport, 2016). Whereby on the other hand, the total cost of building Changi Airport's Terminal 4 was only \$1.28 billion Singapore dollars – approximately a third of its cost (Airport-Technology).

Due to the existence of the Basic Economic Problem, whereby there is a scarcity of many factors such as labour and budget and choices would have to be prioritised, the government would have had to choose to further invest in one between the two. (Patel, 2018) Namely, a better aircraft terminal or a more advanced expressway.

The costs of building a more advanced expressway, which includes it running under a portion of the sea, would mean a much higher cost in terms of

building the infrastructure and technology required. However, the choice made to increase the expenditure in building this kind of expressway would be one that would seek a more long-term, comprehensive benefit as compared to investing more in an airport terminal.

The Marina Coastal Expressway was created to merge together the West and the East side of Singapore by a common highway and to also ease up congestions on the roads that link the two sides up. It will also link up 3 different expressways, making commute easier and faster within the country (TODAY, 2013). To do so, the expressway must definitely run through the Central Business District (CBD) but by investing in the technology, the biggest benefit apart from the commuters would be the freed up space on the land, which will allow the construction of financial hubs, hence better utilizing the space as compared to having a highway built on ground (Land Transport Authority).

Without a doubt, the opening of a new terminal will boost employment and also an increase in the number of flights, which will bring positive growth to the tourism industry and to the economy of Singapore. Despite the benefits of such, the creation of a new expressway was the prioritised choice for the time within 2013 – 2016, which means the lower expenditure on Terminal 4 would be the Opportunity Cost.

An Opportunity Cost arises when a decision is made between the 2. In this instance, the government has decided to sacrifice the benefits of building the new Terminal 4, and gain the pros of having an expressway run under the city instead of on ground. (Patel, 2018)

When there is an economic recession, there will be a decrease/slowdown in the production and in the monetary expenditure within the country. From the graph above, assuming there is a recession, there would be both a decline in the amount of money funnelled into building the new Terminal and the Marina Coastal Expressway. Henceforth projecting a congruent curve, indicating that there is still productivity, but of a lower rate than before the recession, which can be referred to from above by a smaller dark blue curve.