

# Why do you think it is important to study economics? assignment

[Economics](#)



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In this essay, it is my objective to be able to illustrate the importance and significance of economics in our daily lives. The Internet was mostly used as assistance in completing this essay. Also, the information here are gathered and reviewed from various Internet web pages and textbooks which can be found in the list of references at the end of this assignment. To begin with, I shall start with the definition of economics. There is no exact definition of economics as it varies from the opinions among economist.

However, many have chosen to agree with Alfred Marshall, a leading 19th century English economist, that economics is “ a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of wellbeing. ” In other words, it also means that economics is a study of how in our daily lives certain actions or decisions are related to the acquisition and usage of material requirements in our daily routines.

Additionally, economics is the study of how scarce or limited resources are used accordingly to satisfy people’s unlimited wants and needs. It is concerned with how people make decisions in a world of scarcity. In short, if there is no scarcity there would be no point in studying economics. Perhaps one of the most fundamental concepts of economics is demand and supply. It is because of demand and supply that we are compelled to make choices as generally demand is great but at the same time we are lacking in supply.

Firstly, demand refers to how much or the quantity of a product or service that is desired by buyers. The quantity demanded is the amount of a product

that people are willing to purchase at a certain price; the relationship between price and quantity demanded is known as the demand relationship. If we were to look closer there is a Law of Demand which states that holding all nonprice factors constant, as a product's price increases, the quantity of the product demanded decreases and as a product's price decreases, the quantity of the product demanded increases. Refer to Graph 1 in the Appendix to see an example of a demand curve. ) Secondly, supply represents how much the market can offer. It is defined as the different amounts of a good or service that a seller would make available for sale at different prices in a given period. The quantity supplied regards the amounts of a certain good producers are willing to supply when receiving a certain price. The correlation between price and how much of a good or service is supplied to the market is known as the supply relationship.

Like the Law of Demand, there is also a Law of Supply which holds the definition that holding all nonprice factors constant, the quantity of a good or service that a supplier is willing to offer on the market relates directly to price. Meaning that as the price increases, the quantity supplied increases as well. The reason for this is because sellers' would prefer to sell more at higher prices so that they can cover costs and at the same time earn a profit. (Refer to Graph 2 in the Appendix to see an example of a supply curve. )

Another concept of economics which partly encompasses demand and supply is monopoly. Based on economics context, a monopoly is a market structure in which there is only one producer or seller for a producer or service. In other words, the single business is the industry. Entry into such a

market is impossible and highly restricted due to high costs or other impediments which may be economic, social or political. For instance, Tenaga Nasional Berhad (TNB) is an example of a company which holds a monopoly on electricity generation, transmission and distribution in Peninsular Malaysia.

It is impossible for new sellers to enter into the market as they would not be able to obtain permission to operate from the respected authority. Monopoly is one of the two extreme forms of market structure, its opposite is pure competition. Pure competition is characterised by a large number of sellers producing many products that are similar in nature and as a result, becoming substitutes. It is easy to gain entry into a purely competitive market and also easy to exit it. There are few, if any, barriers to entry and the prices are determined by the demand and supply of the market.

Most agricultural products like potatoes or wheat are supplied by individual sellers in a purely competitive market. There are hundreds or thousands of independent sellers who compete against each other to gain profit. In economics, the scope is very wide. Hence, the study of economics is organized under two major vantage points from which the economy is observed: macroeconomics and microeconomics. Macroeconomics concerns the operation of the economy as a whole and the interactions of the major groups like the household, business, government, and foreign sectors in the economy.

After observing society as a whole, Adam Smith noted that there was an “invisible hand” that turning the wheels of the economy: a market force that

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keeps the economy functioning. Macroeconomics helps us understand the roles of the household, business, and government sectors plays in the economy, and how the sectors relate to each other. It also informs us about the problems and issues that arise in the economy as a whole and how those problems can be resolved. One of the primary issues in macroeconomy that needs to be overcome is unemployment.

The consequences of unemployment are economic loss for society as well as hardships that must be faced by individuals. Another issue that will affect the economy is inflation. Similar to unemployment, inflation can incur adverse consequences. Inflation occurs when there is an increase in the general level of prices. It does not mean that the price is high but rather that they are increasing. Next, microeconomics focuses on the behaviour of individual businesses and households and on specific product and resource markets.

It tends to be more scientific in its approach, and studies the parts that make up the whole economy. It analyses certain aspects of human behaviour.

Microeconomics shows us how individuals and firms respond to changes in price and why they demand what they do at particular price levels. One of the parts that make up the whole economy is called households. A household is made up of a person living alone or a group of related or unrelated persons occupying a house, an apartment or any other housing unit.

All of us belong to a household and in order to get by each day, we are required to spend money. Most of the spending that we do comes from the income that we earn and to earn income we sell our labour. Every household's income differs with gender, age, or education of the head of the

household. But what is the use of income? Basically, households use their incomes for three purposes: spending, saving and paying taxes. Usually more than half of the income usually goes to spending and the rest goes to saving and paying taxes.

Another sector which is studied in microeconomics is the business sector. A business is an organisation established to produce and sell goods and services. Business decisions especially about output and prices can have a powerful influence on the economy. Large firms which employ huge numbers of people can have a significant impact on employment conditions in an industry or region and firms with a substantial share of a market that accounts for a significant amount of consumer spending could contribute to inflation by raising their prices.

Businesses can be in the legal forms of these three: proprietorship, partnership or corporation. As much as it is to know the very basics of economics, it is also important to be aware of the impact of economics on ourselves and the society. First of all, economics made me realise that possibly in the future we may face a serious problem where our resources are very much inadequate to satisfy our wants. I also learned the meaning of opportunity cost whereby I am compelled to weigh my decisions and make value judgements.

Studying economics also gave me a clearer idea of how and why prices of certain products escalates and falls. On the other hand, for businesses and firms, they would benefit by being able to be familiar with the market and save costs if possible by being aware of price elasticity, buyers' demand and

also to look out for competition. With the knowledge of economics, firms can plan for short-run and long-run costs and therefore have an opportunity in maintaining profit maximisation or minimising loss.

In an economic system, the government holds a lot of influence in the spending of other sectors through the taxes that are imposed. The government can use its spending and taxing to change the direction of the economy. Thus, it means that the government must possess the right economic way of thinking lest the economy goes into turmoil. Fiscal policy should be practised by the government to reduce unemployment by injecting more spending into the economy through increased government purchases, increased transfer payments and/or decreased taxes.

Finally, if we were to envision an entire society with the right economic way of thinking, then there would be very little situations of poverty, disemployment and people being in debt. People would be more careful in spending and understand what opportunity costs and trade-offs are. As a final word, I would like gather everything I have mentioned above and simplify it into a single statement that having some sort of knowledge in economics will help people allocate their money expenditure rightfully and also to know where a part of their income goes to, like for example government taxes.

It does not matter if it is just basic knowledge you have, just the very fundamentals can help you manage your everyday choices and decisions not only in monetary aspects but also your life as a whole. REFERENCES About Economics unknown, online, retrieved 16 August 2008, from <https://assignbuster.com/why-do-you-think-it-is-important-to-study-economics-assignment/>

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