

Economics project

Literature, Russian Literature



June 28, Economics Project Economic principles play a crucial role in the decision making of individuals, business firms and thus of society. The choices made by them are often influenced by these principles and this increases the scope of economics. “ Economics is the study of allocation of scarce resources, choices, and opportunity costs” (Department of Economics: Description and Mission of Department par. 1). The choices are made mainly for two purposes- consumption and production. The major economic principles that influence the choice of a society with the view point of a consumer are utility analysis, indifference curve analysis, and demand theories. The choices made by business firms are often influenced mainly by the principles of production function, cost analysis and supply theory. The important principles that influence choice are put forward by Mankiw, “ People Face Tradeoffs, the Cost of Something is What You Give Up to Get It, Rational People Think at the Margin, People Respond to Incentives” (Principles of Economics par. 2). The economic principles laid down by Mankiw are clearly defined using the following theories and concepts. The principles of utility analysis are of two types- ordinal and cardinal. Cardinal utility analysis which states that utility is quantitatively measurable consists mainly of two analyses namely, diminishing marginal utility and equi-marginal utility. The law of diminishing marginal utility put forward by Alfred Marshall states that the utility derived from the additional units of a commodity diminishes as the stock of that commodity increases. The law of diminishing marginal utility helps the consumers to make choices on the basis of their marginal utility. Equi-marginal utility, on the other hand, states that the consumer will use his income to purchase two commodities in a

combination of respective units that the utility derived from both the commodities will be the same. This principle helps the consumers to adjust the marginal utility of commodities in such a way that the marginal utilities derived from the both commodities would be equal. The choices of consumers are clearly revealed using equi-marginal utility. Another economic principle that helps the consumers in making choice is the indifference curve analysis, which is an ordinal concept. An indifference curve shows the preference of a consumer between two commodities and the satisfaction derived from consumption of the goods is the same along a particular indifference curve. A set indifference curves is known as indifference map. In a graph showing various indifference curves, the highest indifference curve is shows the highest level of satisfaction experienced by the individual when consuming the commodities. Therefore, the consumer chooses that point where the highest possible indifference curve is tangent to the consumer budget line. Other economic principles that help in the consumer choices are the theories of demand. The major demand theories are revealed preference theory of Samuelson and logical ordering theory of demand by J. R. Hicks. The revealed preference theory states that the consumers strongly reveal their choices out of the various alternatives made available to them and thus their choice reveals their preference. On the other hand, under the weak ordering preference, the indifference concept is neglected and the preference of consumers is weakly ordered so that the consumers are able to choose a higher preference when they want. Individual choices under the situation of risk and uncertainty are also answered through economic principles. The St. Petersburg paradox and the

Bernoulli's hypothesis are the primary principles that help the individuals to make choices at the face of risk and uncertainty. Neumann-Morgenstern utility concept also helps the consumers to make choice in a risky situation. Freidman-Savage hypothesis which is based on the marginal utility concept helps the consumers to make choice at different income levels. The problem related to the choice of an individual or firm as a producer is what to produce, how to produce and for whom to produce. These problems are tackled using various economic principles such as production function, cost analysis and supply theory. A production function gives the ratios of inputs used in the production of a good. So the production function helps the producer in making choice between input combination so as to reduce the wastage of resources and thereby increase the production. The principle of production function includes fixed and variable proportion production functions, linear homogeneous production function, Cobb-Douglas production function, and returns to scale. The principle of cost analysis is used to minimise the cost of production and increase the profit of the producer. Cost analysis is a detailed concept, which helps the producers in making choice between input combinations and devising ways to maximise their profit. Opportunity cost is a basic concept in economics that gives us the cost of the alternative, which is sacrificed to produce the good. The theory of cost consists of short run and long run cost, distinguished on the basis of variability of inputs. The different concepts of cost used are total cost, average cost and marginal cost. Linear programming is another way of making choices as it helps to make decisions regarding output and process of production. Supply theory also helps the producers to make their choice

about the process and quantity of commodities to be supplied. Work Cited
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