



**EDO UNIVERSITY IYAMHO**  
**Department of Economics and Business**  
**ECO111 Principles of Microeconomics**



**Instructor:** *Dr. John Chiwuzulum Odozi*, email: john.Odozi@edouniversity.edu.ng  
Lectures: Tuesday, 8am – 10am, LC3, phone: (+234) 7035538613  
Office hours: Wednesday, 11am – 3pm, Office: Rm 7, Admin Block  
**ECO 111:**

**LECTURE ONE**

**MEANING AND NATURE OF ECONOMICS**

**PRESENTATION OUTLINES**

1. Why study economics
2. Definitions of economics
3. Biographies of renowned economists
4. Anatomy of Lionel Robbins definition
5. Subject matter of economics
6. Scope of economics /branches and specializations
7. Economic systems

**Learning outcomes: The student should be able to:**

1. **compare and contrast three traditional definitions of economics**
2. **analyze Lionel Robbins definition of economics**
3. **define the subject matter and scope of economics**
4. **identify two branches of economics and different economics specializations**
5. **Explain the economic system.**

## 6. To Create own definition of economics

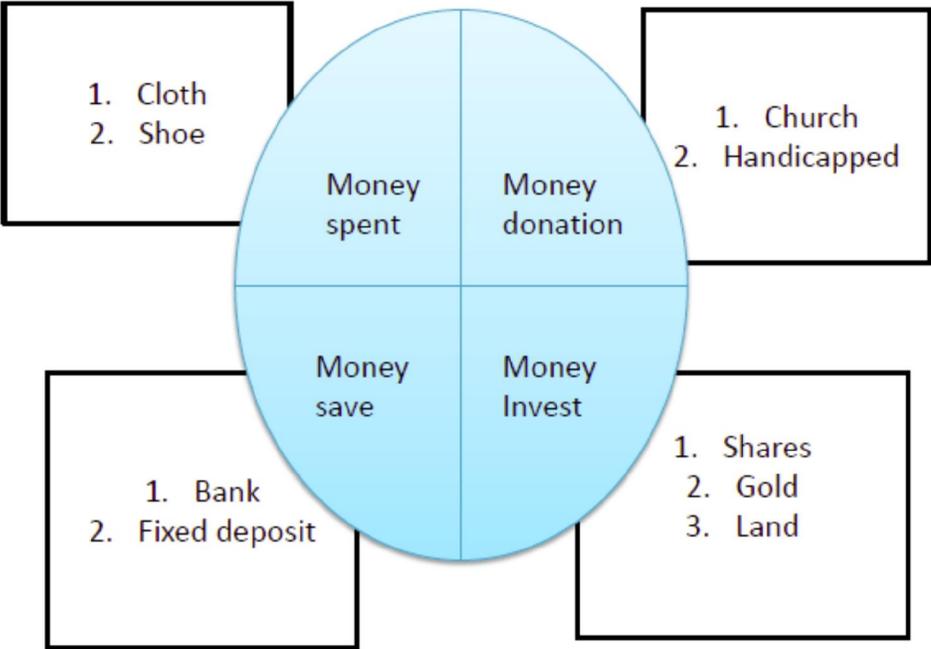
### Why study economics

- To learn how to think critically and objectively.....trains you on important concepts such as opportunity cost, marginal cost and working of efficient markets
- To understand society.....past and present economic decisions have an enormous influence on the character of life in a society. The current state of the physical environment, the level of material well-being and the nature and number of jobs are all products of the economic system.
- To understand global affairs.....global oil prices,
- To be an informed citizen

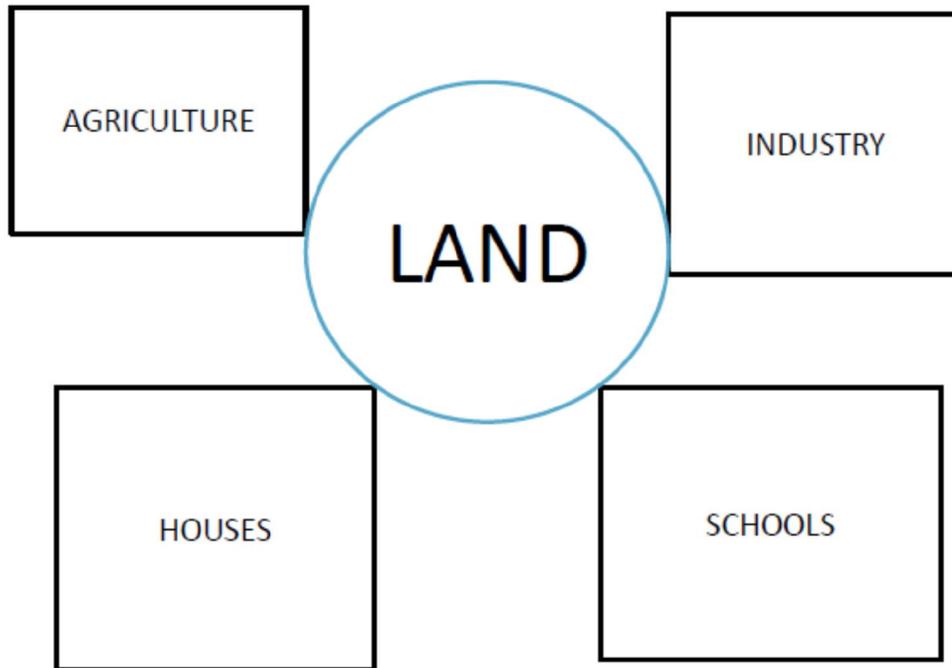
### Definitions of Economics

- Many definitions of economics but none has been generally accepted by economists while some have found some measure of acceptance
  - Lionel Robbins definition of economics**
  - "Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses"
  - (Robbins, Lionel (1935) p. 16).
  - An Essay on the Nature and Significance of Economic Science*. 2nd edition, London: Macmillan
- "Ends"**
1. human objectives,
  2. possible states of affairs that can be ranked in terms of their importance or desirability.
- "Means"**
1. Available time
  2. Other resources that could be deployed to achieve those ends.

# COMPETING USES OF MONEY RESOURCE



## COMPETING USES OF LAND RESOURCE



Economic problems arise because of competing ends of different levels of importance, and where the available means could be put to more than one use and are scarce relative to those ends.

Hence economics is the science of economizing. It is a decision science and a science that deals with what economists do

**Subject matter of Economics.**

**There is no dispute on this**

The principle that deals with human behaviour in the production, consumption and exchange of goods and services.

**CASE1: A woman who goes to the market to buy semo-vita to prepare launch for her children.**

- She is probably shown the various brand of semo-vita in the market (dangote, Golden penny, semo-lina, etc).
- The very act of choosing one brand among all the possible brands in the market is in itself an economic activity (allocation of resources, decision or buying or consumer behaviour).
- The consumer is faced with the quantity to buy, the price. Thus she makes her choice given her budget

**CASE 2: Consider also the long chain of other events (Production and exchange) that might have taken place before the semo-vita got to Iyamho market and them to the consumer:**

- There are the northern farmers who produced maize or wheat grain. Sold it to a middle man in Kano who arranged for its sale at the Abuja commodity market or dawanu market in Kano.
- Transport of the grain from Kano or the ware house to the factory in Lagos or Kano where it is produced by Dongote.
- The firm is faced with the question of how much of maize or wheat to purchase and the scale of production and the price to sell his products.
- This by no means exhausts the list of people who have had a share in the production of semo-vita.

**CASE3: consider also how all the various stages of production and exchange were financed and supported?**

- Commercial Banks assisting farmers, and the merchants. Government assisting farmers.
- Insurance companies covering risks of loss or damage to the materials in stock or in transit.
- Transportation provided by railways, trailers, ship
- Electricity companies supplying power to drive the machinery in the mills.
  
- While all these people were going about their own individual tasks they had to be fed by the efforts of others who were employed in food production.

**The Scope of Economics**

- Economics is a broad discipline, both in the questions it asks and the methods it uses to seek answers.

- It is a social science that studies the actions and decisions of individuals, groups and society in their production, consumption and exchange activities.
- It is similar to other social science discipline such as psychology, political science and sociology in studying the actions of individuals and society
- It is interested in the essential activities of production, exchange and consumption of goods and the institutions which facilitate these activities.
- Falls within the province of economics to describe the working of the basic economic institutions, such as the banking system, and the money and capital markets.
- Economics is described as a science rather than a subject within the arts or humanities because it employs scientific methods.

### **Some specializations in Economics**

Specialization	Description
Behavioral economics	Use psychological theories to understand economic decision making and policy.
Comparative economic system	Examines the functioning of alternative economic systems
Economic development	Focuses on the problem of low income countries. population growth and control, provision for basic needs, and strategies for international trade
Economic history	Traces the development of the modern economy . what economic and political events and scientific advances caused the industrial revolution ?
Environmental economics	Studies the potential failure of the market system to account fully for the impacts of production and consumption on the environment and on natural resource depletion.
Finance	
Health economics	
The history of economic thought	
Industrial organization	
International economics	

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- **SUMMARY**

- Economics is a social science that deals with human behaviour in the production, exchange and consumption of goods and services. The problem of scarce resources and unlimited wants of individuals, firms and society stimulates the behaviour of how to allocate scarce resources to alternative uses. Thus economics is the study of how society decides what, how and for whom to produce.
- Thus economics is concerned with the way in which resources are allocated among alternative uses to satisfy human wants.
- It can also be defined as the study of how society decides what, how and for whom to produce

#### **Branches of Economics: Micro and macro economics**

1. **Micro economics and Macroeconomics.**
2. **Microeconomics - behaviour of individuals, households and firms. Studies the price and output decisions of a single company,**
3. **Macroeconomics- behaviour of the entire economy or society. Study the overall price level, unemployment rate and economic aggregates such as GDP.**
4. **Someone who studies the output behaviour or pricing policies of firms is a micro economist.**
5. **Someone who studies inflation or GDP is a macro economist.**

#### **The Economic system**

1. The activities of consumption, production and exchange, the behavior or decisions of individuals, households, firms and facilitating institutions depict an economic system.
2. **Market economic system: the economic problem of firms and society of what, how and for whom to produce and the economic problem of a consumer of what to buy and by how much are all determined by the decisions of many buyers and sellers in the market known as the price system.**
3. **Command economic system:**
4. In a command or centralized economic system, a government planning office decides on behalf what will be produced, how it will be produced, and for whom it will be produced. Government replaces the decisions of the many firms and households.
5. **Mixed Economic System:** Government intervenes in the economy in many instances to improve and facilitate market outcomes. In a market economic system, individuals pursue their own interests, trying to do as well for themselves without government's intervention. All the participants are interested in their own individual wellbeing and not that of the society.

#### **Why is Government necessary in the economic system**

1. We need government to enforce property rights.
2. Government is needed to ensure that economic prosperity is distributed equitably. A market economy rewards people based on their ability to produce things other people are willing to pay. Mikel for example, earns so much than a teacher because a lot of people are ready to pay to watch football than come to class and listen to the teacher. The market system does not ensure that everyone gets sufficient food, decent clothing and adequate health care. Many public policies such as income tax and the social security system, aim to achieve a more equitable distribution of income or wellbeing.
3. To intervene when there is market failure. Market failure is situation in which the market on its own fails to produce and allocate resources efficiently. Another possible cause of market failure is market power which refers to a single person or business or group of businesses to unduly influence market prices. Market failure also arises when there are missing markets. In the presence of market failure, well designed public policy can enhance economic efficiency.