Economics: An Overview, Importance and Principles

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Abstract:
The independence-era Indian economy (from 1947 to 1991) was based on a mixed economy combining features of capitalism and socialism, resulting in an inward-looking, interventionist policies and import-substituting economy that failed to take advantage of the post-war expansion of trade. This model contributed to widespread inefficiencies and corruption, and the failings of this system were due largely to its poor implementation In 1991, India adopted liberal and free-market principles and liberalized its economy to international trade under the guidance of Manmohan Singh, finance minister from 1991 and 1996, and previously under the leadership of P.V. Narasimha Rao, prime minister from 1991 to 1996, who had eliminated License Raj, a pre- and post-British era mechanism of strict government controls on setting up new industry. Following these major economic reforms, and a strong focus on developing national infrastructure such as the Golden Quadrilateral project by Atal Bihari Vajpayee, prime minister, the country's economic growth progressed at a rapid pace, with relatively large increases in per-capita incomes.

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1. Introduction

Many assume economics is a subject best left for government officials and students who love statistics. However, everyone incorporates tenets of this field into their lives on a daily basis: fathers shopping at the grocery store for dinner, teenagers deciding how to spend their summer and a truck driver calculating his route are just a few examples. Economists Charles Wheelan and Burton Malkiel explain in their book, "Naked Economics: Undressing the Dismal Science," that despite the pervasiveness of economics in everyday life, too few people understand how this field applies to them.

2. Definition of Economics

Economics is the study of how people, firms or institutions choose to allocate resources. Resources are not always dollars and cents: time, skill and land are all resources. People make economic decisions with the intention of maximizing their return. For example, a college student might allocate his time and substantial amounts of money to earn a degree. In return, that degree will ideally yield him numerous job opportunities and an increased income.

3. Economics in our Daily Life

3.1 Life Decisions

Some of the most important life decisions are made using economic reasoning. When you choose to have children, whom you marry and where you will live are just a few of these. Before deciding on any of these events, a person performs what economists call a "cost-benefit analysis." Simply put, the pros are weighed against the cons. If one choice provides more "utility" (or personal satisfaction) than another choice, a decision is made.

3.2 Household Budgeting

Economics permeates into everyone's daily life in the area of purchasing decisions. How much money you have in your bank account dictates what types of purchases you make. Economics groups purchasing choices into three groups: luxury goods, normal goods and inferior goods. Economist.com defines inferior goods as products less desired when income increases. An example is store-brand cereal: As you earn more money, you might purchase name-brand cereal instead. More normal goods, like movie tickets and restaurant outings, are purchased with a rise in income. The purchase of luxury goods like a Ferrari or Porsche also rises once a certain income is achieved.

3.3 Price Tags

How much you buy once an item's price tag changes is also an economic issue. The responsiveness to a change in price is known as elasticity. If you continue to buy a product in the same quantity regardless of a price change, like gas, then it is an inelastic good. On the other hand, if you cease to buy lattes when the price is raised by 50 cents, then coffee is elastic.

3.4 Employment

Gregory Makiw's book, "Principles of Economics," uses a graph to explain how a person allocates her time based on the desire for more goods or leisure. In everyday life, this scenario is demonstrated when she turns down a high-paying job because of the 60-hour work weeks that come with it. Conversely, a person might pick up overtime shifts to earn more money at Christmas.

4. Principles of Economics that Relate to Our Daily Life

4.1 Supply and Demand

Supply and demand is a basic economics principle that refers to the relationship between consumers' desire for a product and that product's price. You may notice this principle in action during the holiday shopping season, when parents frantically try to find the "it" toy of the year for their children. Consumer demand for the toy is high, so merchants raise their prices for it because they know that their customers will buy it at that higher price. Conversely, merchants put the toys that aren't popular that year on sale because they know parents won't pay more for them.

4.2 Market Value

When you go to the grocery store, you may notice that there are often many different brands offering the same product. There are dozens of varieties of peanut butter but they vary widely in price. Merchants determine market value using the principles of supply and demand and by making claims about a product to convince you that it is worth more. They use marketing strategies, such as product labeling and television commercials, to convey this message to you. You may not have considered this before, but think about it the next time you find yourself choosing the $5 peanut butter with omega-3 fish oil in it over the $2 standard peanut butter.

4.3 Competition

Companies compete for your business all the time, and they position themselves to compete with other companies that sell similar products or services. If there is just one sandwich shop, like Subway, in a neighborhood, then all of the local residents will go to that Subway for sandwiches.

Subway has a monopoly on the sandwich market in that neighborhood because it doesn't have any competitors. If a competitor, like Jersey Mike's, opens a shop down the street from the Subway, it must compete for the residents' business. Jersey Mike's will offer lower prices or different products, such as a wider variety of sandwich ingredients, to entice regular Subway customers to eat there. Subway might then respond by lowering its prices or offering a two-for-one deal or other special to try to convince customers to continue eating there. Consumers benefit from competition as merchants lower prices and offer deals to retain customers.

4.4 Property Value

Local conditions help determine the values of properties in a neighborhood. If your home is in a clean, safe neighborhood close to schools, parks, public transportation, shopping, dining and entertainment, it will be assigned a higher property value than a house in a neighborhood that is plagued by crime or litter or that is in an industrial part of town with limited access to public transportation because it offers a higher standard of living and better quality of life. Other factors, such as major banks' abilities to extend loans to home buyers and the buyers' ability to repay the loans as promised, also affect house property values. The 2008-2009 recessions resulted when national banks repeatedly gave loans to overextended home buyers, who then could not repay them. This resulted in a crash in the housing market, causing many home property values to plummet.

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