CHP:4:Basic Concepts relevant to Economics

Concepts

- Demand
- Supply
- Production
- Distribution
- Consumption
- Consumption Function
- Margin
- Optimisation
- Average
- Cost
- Profit
- Elasticity
- Micro & Macro economics
- Short-Term & Long-term Demand
- Derived Demand
- Autonomous Demand
- Price
- Competition

Continue…..

- **Demand:**

Demand refers to desire backed by ability and the willingness to purchase.

- Ability means the income or purchasing power of the persons.
- Willingness means the readiness to buy the product.

- **Supply:**

Supply refers to the amount of a commodity that producers are able and willing to offer for sale in a market at a given price.

- The Term ‘able’ refers to the stock that a producer possesses at a giventime.Largerthe stock of a commodity greater is the ability to supply.
- The Term ‘Willingness’ isinfuencedby price. Given the stock, the producer is willing to supply more at a higher price.

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- **Production:**

It refers to the Transformation of inputs into outputs of goods and services.

- Inputs are the resources used in the production of goods and services likelabour, capital, land or natural resources.

- **Consumption**:

The amount consumed at a specific level ofincome.Consumptionof a commodity is depends upon the income.

- **Consumption Function:**

It refers to the whole schedule which shows consumption at various levels of income.

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- **Distribution**:

Distribution in refers to the way total output, income, or wealth is distributed among individuals or among the factors of production (such as labour, land,andcapital).

- **Margin**:

In economics, a **margin** is a set of constraints conceptualisedas a *border.*

Margins aresometimesconceptualized as *extensive* or *intensive*:

extensive margin corresponds to the number of usable inputs that are in some sense employed. For example, hiring an additional worker would increase an extensive margin.

An **intensive margin** corresponds to the amount of use extracted within a given extensive margin. For example, reducing required production from a given set of workers would decrease the intensive margin.

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- **Optimisation**:

Decision making that involves solving ofmaximisationandminimisationproblems is called as ‘Optimisation’.

➢ For efficient decision it is necessary for a successful manager to learn the techniques ofoptimisation.

- Average:

In economics, **average cost** and or **unit cost** is equal to total cost divided by the number of goods produced (the output quantity, Q).

- Profit:

In classical economics ,**profit**is the return to an owner of capital goods or natural resources in any productive pursuit involvinglabour, or a return on bonds and money invested in capital markets.

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- Cost:
  - An amount that has to be paid or given up in order to get something.
  - In business, cost is usually a monetary valuation of (1) effort, (2) material, (3) resources, (4) time and utilities consumed, (5) risks incurred, and (6) opportunity forgone in production and delivery of a good or service. All expenses are costs, but not all costs (such as those incurred in acquisition of an income-generating asset) are expenses.
- Price:
  - Inordinary usage, **price** is the quantity of payment or compensation given by one party to another in return for goods or services.
  - Inmodern economies, prices are generally expressed in units of some form of currency. (For commodities, they are expressed as currency per unit weight of the commodity, e.g.eurosper kilogram.)
  - In many financial transactions, it is customary to quote prices in other ways. The most obvious example is in pricing a loan, when the cost will be expressed as the percentage rate of interest.

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- **Short-Term & Long-Term Demand:**
  - Short term demand is immediately affected by the change in price of product or service and in the income of consumers.
  - Long term demand of a product or serviceis expected demand of that product or service in future.
- **Competition**:

In economics, **competition** is the rivalry among sellers trying to achieve such goals as increasing profits, market share, and sales volume by varying the elements of the marketing mix: price, product, distribution, and promotion. Merriam-Webster defines competition in business as "the effort of two or more parties acting independently to secure the business of a third party by offering the most favorable terms." Itwas described by Adam Smith in The Wealth of Nations (1776).

- **Derived Demand:**

demand which is demand which is depend on the purchase of the finalproduct,itscalled deriveddemand.eg:purchaseofthefuel for thecar.i.ecar is the main or final product and fuel is derivedproduct.

- **Autonomous demand:**

autonomous demand is independent of the other product or mainproduct.itsnot linked or tie-up with the other goods or commodity.eg: foodartical,cloths.

Thanks