Economics Note and Question Solve

Chapter 1:

What is Economics, Microeconomics and Macroeconomics? Explain with example.

Economics is the social science that studies how people, businesses, and governments use limited resources to satisfy their unlimited wants. Since resources like money, time, land, and materials are limited, economics helps us decide what to produce, how to produce, and for whom to produce.

Example: If someone has only 100tk, then he can buy a burger or a book. He chooses burger over the book. This act of choosing is studied at economics.

Economics subject has two parts:

1. Microeconomics
2. Macroeconomics

1. Microeconomics (Individual Level)

Microeconomics is the branch of economics that studies the behavior and decisions of individual units such as consumers, households, and firms. It focuses on how they use limited resources, how prices are determined, and how they react to changes in demand and supply.

Example: A shopkeeper sets the price of chips based on customer demand, or a student decides how to spend their pocket money.

2. Macroeconomics (Country Level)

Macroeconomics is the branch of economics that examines the overall performance and structure of an entire economy. It deals with large-scale economic factors such as national income, inflation, unemployment, and economic growth.

Example: Bangladesh's GDP growth rate, national unemployment rate, and overall inflation level are studied under macroeconomics.

Here is the Difference Between Microeconomics and Macroeconomics:

Basis	Microeconomics	Macroeconomics
Scope	Studies individual units like consumers, firms, and markets.	Studies the entire economy of a country.
Focus	Focuses on small parts of the economy.	Focuses on large-scale economic factors.
Key Issues	Deals with prices, demand, supply, and individual decision-making.	Deals with national income, inflation, unemployment, and GDP.
Objective	To understand how individuals make choices.	To understand and improve the economic health of a nation.
Tools Used	Uses demand-supply analysis and price theory.	Uses national income accounting and economic indicators.
Example	Price of eggs increases because of higher demand.	Inflation rate of Bangladesh increases this year.

What are the Three Basic Economic Questions?

1. What to produce?

Every society must decide which goods and services should be produced using its limited resources. Example: Should a country produce more food, houses, or mobile phones?

2. How to produce?

This question asks what methods or techniques should be used in production. Example: Should rice be grown using machines or by using more workers?

3. For whom to produce?

It decides who will receive the goods and services produced (e.g. rich or poor, young or old, rural or urban people). Example: Should healthcare be provided free for everyone or those who can pay?

How the three basic economic problems are solved in different economic systems? Explain.

1. Market Economy: In a market economy, people and private companies decide what to produce, how to produce, and for whom to produce. Prices, profits, and competition guide all decisions. If customers want something, companies produce it. If a product is costly or unprofitable, firms produce less of it

2. Command Economy In a command economy, the government controls everything. The government decides what goods will be produced, how they will be made, and who will receive them. Most factories, land, and resources are owned by the government, and most workers work for the government.

3. Mixed Economy A mixed economy combines both market and government control. People and businesses make many decisions, but the government also helps by making rules, protecting consumers, providing education, healthcare, police services, and controlling pollution. Most countries today use this system.

Can the Pursuit of Self-Interest Promote the Social Interest?

Self-Interest

Self-interest means doing something because it is best for you or gives you the maximum personal benefit. People usually make choices that satisfy their own needs, wants, or happiness. Example: You order a pizza because you are hungry and want to enjoy it.

Social Interest

Social interest means doing something that is good for society as a whole, not just for yourself. It focuses on two things:

1. **Efficiency** – using resources in the best possible way so society benefits the most.
2. **Equity (Fairness**) – making sure benefits are shared in a fair manner.

Example: When a city builds public parks, it serves both individuals interest and the broader social interest.

Yes, in many situations, choices that people make for their own self-interest can also create outcomes that benefit society as a whole.

How self-interest can promote social interest:

- ✓ Producers earn profit → Society gets goods and services
- ✓ Workers want income → Society gets labor and services

Write and explain three Fallacies in Economics with example.

1. Post Hoc Fallacy: This fallacy assumes that if one event happens before another, then the first event must have caused the second, even when there may be no real connection.

Example: A student wears a “Blue shirt” during an exam and scores well. He believes the shirt caused the good result, but actually hard work, not the shirt, caused the success.

2. Ceteris Paribus Fallacy: “Ceteris Paribus” means "other things remaining the same." The fallacy occurs when we forget that many factors can change at the same time, not just one.

Example: If the price of milk goes down, the people buy more milk, assuming their income, taste and preference don't change at the same time.

3. Fallacy of Composition: This fallacy assumes that what is true for one part must be true for the whole, which is often wrong.

Example: If one student becomes first in the class, we say he is a very good student. But if every student becomes first, then no one can be called the best student because the meaning of "best" disappears.

What are the Twin Themes of Economics? Explain with examples.

The twin themes of economics are two main ideas that help us understand how an economy works. These themes are:

1. Scarcity: means that resources are limited, but human wants are unlimited. Because we cannot get everything we want, we must make choices about to decide what to produce, how to produce, and for whom to produce.

Example: A country cannot produce unlimited food and clothes because it has limited land and workers.

2. Choice: Since resources are limited, people and societies must choose between alternatives. Every choice has an opportunity cost means the next best thing we give up. Economics studies how people make these choices to get the most benefit.

Example: If a student chooses to study instead of playing, the opportunity cost is the fun they gave up.

Inflation (Short Note)

Inflation means a steady rise in the prices of goods and services in a country over time. When prices go up, the value of money falls, so the same amount of money cannot buy as many things as before. Because of inflation, people have to spend more money to buy the same products. It affects everyone in the economy, especially people with fixed incomes, because their money loses strength.

Example: If last year 1 liter of oil cost 100 taka, and this year it costs 150 taka, then you are paying more for the same thing. This increase in price shows inflation.

Causes of Inflation

- **Demand-Pull Inflation:** When people demand more goods and services than the economy can produce, prices rise. Example: During a festival, more people buy clothes, and prices increase.

- **Cost-Push Inflation:** When the cost of production increases, businesses raise prices. Example: If fuel prices rise, transport and product costs increase.
- **Excess Money Supply:** When the government prints more money then money loses it's value, and prices rise. Example: Too much money in the market can make basic goods more expensive.

Effects of Inflation

- **Reduced Purchasing Power:** Money buys fewer goods and services, so living becomes more expensive.
- **Uncertainty in Business:** Businesses find it hard to plan for the future because prices keep changing.
- **Impact on Savings:** The real value of savings decreases if interest rates are lower than inflation.
- **Income Inequality:** People with fixed income suffer more, while some may benefit if their earnings rise with inflation.