

What is
economics
?

183.102

154.178

245.57

Brainstorm 5 things you think economics is all about

(and no its not just about money!!!!)

Economics

Defined as

"The study of the production, distribution and consumption of wealth in human society"

But what does this actually mean? And why is it important?

What is Economics?

- Economics is the study of efficient use of scarce resources for producing goods and services, and distributing them among people.
- Resources are scarce and human wants are unlimited.
- Need appropriate choice or allocate resources properly.
- Economics helps us make rational choice.
- Hence, it is a science of choice with scarce means and unlimited ends.
- It helps us to entangle many economic issues emanating from scarcity.

What is the
difference
between a social
science and a
natural science?

Natural sciences are studies of the natural world. This generally involves lifeforms, but also geology and weather. The occur naturally and are physically observable. It is quantitative study (referring to quantities and measurable characteristics).

Social sciences are the study of interactions between lifeforms, most commonly focusing on the dynamic interface between people, their societies, or their cultures. These are not observable as physical objects but are instead a study of behaviours and action. It is a qualitative study, as in the examination of qualities.

Write these definitions



Natural science – the scientific study of the physical world



Social science – the scientific study of human society and social relationships



So where does economics fall?

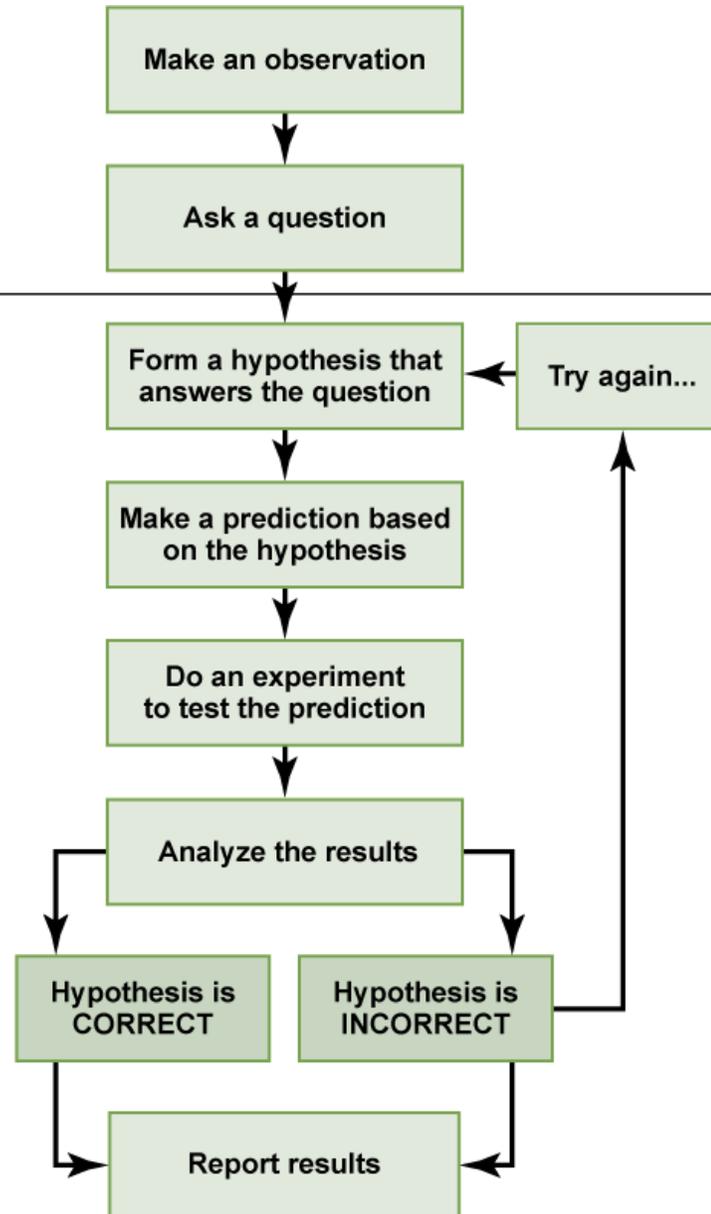
Watch this video and decide where economics falls

https://www.youtube.com/watch?v=eG-6_1l9daA

Write down where economics falls and why?

How do we come up with economic theory? (don't worry about the specific example he is using we will study this soon).

Write down a flow chart for economic methodology



Positive vs Normative statements

These are useful for us to be able to distinguish between as we want to make sure the decision we make are having the desired effect.

I.e. we want to be able to test them!

Activity : Fact or opinion?



A rise in the number of car accidents will increase insurance policy rates.



Since gas prices are increasing gas taxes should decrease.



Higher production costs will reduce company profits.



Minimum wage should increase to £10 an hour.

Positive statements

Positive statements are **objective statements** that can be tested, amended or rejected by referring to the available **evidence**.

Positive economics deals with **objective explanation** and the testing and rejection of theories.

For example:

A fall in incomes will lead to a rise in demand for own-label supermarket foods

Can a false statement also be a positive one?

Normative statements

A **value judgement** is a subjective statement of opinion rather than a fact that can be tested by looking at the available evidence.

Normative statements are **subjective statements** – i.e. they carry **value judgments**.

For example:

- Pollution is the most serious economic problem

Positive Statements



Objective and testable theories

Normative statements



Value judgements and opinions

Key point:

Most economic decisions and policy are influenced by value judgements, which vary from person to person, resulting in fierce debate between competing political parties.

Positive vs Normative

Read through the following articles – use two colours to highlight any positive and normative statements

<http://www.bbc.co.uk/news/uk-politics-24005723>

<http://www.bbc.co.uk/news/business-24011795>



Positive statement

Normative statement

Unemployment could be almost double the official figure of 2.5 million when groups such as the economically inactive are added to the total, union organisation the TUC has said.

The figures are far higher than official data once wider measures of joblessness are included, it said.

The TUC said that on top of the 2.5 million, 2.26 million people wanted a job but were not classified as jobless.

Employment Minister Mark Hoban said it showed the unions were "out of touch".

The number of people out of work fell by 46,000 to 2.56 million in the three months to June, according to the Office for National Statistics.

'Job crisis'

The TUC report was published ahead of the TUC Congress in Bournemouth later.

Its general secretary Frances O'Grady said: "Unemployment may have started to fall in recent months but we are still in the midst of a job crisis."

DECEMBER 2009

7. Privatisation occurs when a government takes a business owned by the government itself and sells that business to a private enterprise. Which of these statements about privatisation is a **positive** economic statement?
- (a) Privatisation of Britain's railways should have been done many years ago.
 - (b) Privatisation has created a service that is charging higher prices now. This is unfair to poor travellers.
 - (c) Privatisation has decreased the amount of money being invested in the railways.
 - (d) Privatisation ought to have been regulated more carefully.

MARCH 2010

20. Which one of the following is a normative economic statement?
- (a) Free health care should be provided to all citizens at the point of consumption.
 - (b) A reduction in government spending on the Health Service will result in some redundancies.
 - (c) Additional funding for the Health Service could be provided by switching expenditure from other government programmes.
 - (d) A reduction in free health care facilities will have most impact on lower income groups.

JUNE 2010

1. Which of the following is a normative statement?
- (a) The recession has led to the collapse of hundreds of firms.
 - (b) Britain has longer life expectancy than Egypt.
 - (c) People are poor because they are too lazy.
 - (d) Top-up fees will increase social inequality in Britain.

AUGUST 2010

13. Which of the following is a positive statement?
- (a) As UK citizens earn more money they purchase more normal goods.
 - (b) Economics is boring.
 - (c) The Labour Party has irresponsible policies on equality.
 - (d) The government should do more to make exams easier.

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Extension 1

Some key terms which are really important in economics

<https://www.tutor2u.net/economics/reference/nature-of-economics-introductory-concepts>

Extension 2: Read the information and answer the questions (you may need to do your own research as well)

http://www.economicsonline.co.uk/Competitive_markets/What_is_economics.html

<https://www.britannica.com/topic/economics/Methodological-considerations-in-contemporary-economics>

1. What is a Social Science?
2. What is an Economic Model?
3. Why do Economists use Models?
4. What does *ceteris paribus* mean?
5. Why is it difficult for Economists to conduct scientific experiments?
6. What is the difference between a positive and a normative statement?
7. Give 3 words or phrases which might suggest a normative statement
8. Give 3 words or phrases which might suggest a positive statement
9. Give an example of where a value judgement may be made in Economics