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Abbes



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كلية العلوم الاقتصادية، العلوم التجارية وعلوم التسيير
Faculty of Economics, Business and Management Sciences

Department: Financial Sciences and Accounting

Course Pack Titled :

Introduction to Economics

**Addressed to : 1st year students -Common Core-
First Semester**

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Syllabus

This course is designed for students studying economics by providing introduction to economic concepts and issues. Thus, it will introduce the student to the terminology and methodology of the economists and use the concepts and tools to explore a variety of topics that are of concern to economists and policymakers. Precisely, the behaviour of both individuals (as consumers of goods and services and, at the same time, as suppliers of factor of production such as labour and capital) and producers (who hire productive inputs to produce and supply goods and service) will be analysed. The course presents economists' views of what motivates individuals and how they respond to incentives, firms and their production decisions, markets for goods and services and productive inputs as well as government intervention in markets. By the end of the course, students would be able to read a newspaper and understand the basics of the economic debate and dilemma under discussion.

Syllabus-Basic Information

Name of the Course : Introduction to Economics			
Field	Economics, Business and Management Sciences	Branch	Common trunk
Major	-----	Level	First year of bachelor's degree
Semester	First	Year	2024 - 2025
Course Overview			
Course Name	Introduction to Economics	Learning Unit	Fundamental
Credit	06	Coefficient	03
Weekly Teaching Hr	4h30	Lecture (N° of hours per week)	03 h
TP	-----	TD (per week)	1h30

Specialized Information

Description of the Course	
Capabilities	The student needs to reflect and deduce logically to understand this subject.
Main Object	Enabling the student to grasp an introduction to economics and practice its core topics and important economic terms.
Learning Outcomes	- Understanding the science of economics, its subjects, and the terminology of economic issues, and its relationship with political economy and other sciences. - Defining the concept of the economic problem and methods to address it. - Understanding the factors of production and the most important economic activities. - Familiarizing oneself with economic agents and the economic enterprises. - Understanding the market and money. - Enabling the student to understand the problem of inflation and unemployment and the economic policies to address them.
Course Content	
Unit 1	Nature of economics.
Unit 2	Economic problem
Unit 3	Economic Systems
Unit 4	Economic Actors -Agents-.
Unit 5	Economic Enterprises.
Unit 6	Market and its Structures.
Unit 7	Demand, Supply and Price Determination
Unit 8	Economic activities.
Unit 9	Money and its Role
Unit 10	Major Economic Problems: Inflation, Unemployment.
Unit 11	Economic Policies
Unit 12	Trade Blocs

Introduction to Economics

Evaluation Scheme

The evaluation in %	Mark		The relative weight of the evaluation		
Exam	20 / 20		Lecture	60%	60%
TD Exam	-----	20	TD	40%	-----
Exposé	10				20%
Presence	06				12%
Participation	04				8%

References and Sources

1. Acemoglu, D. (2019). Economics. London: Global Edition -Pearson Education-.
2. Marshall, A. (2011). Principles of Economics. London: The Online Library of Liberty.
3. Robbins, L. (1945). An Essay on the Nature and Significance of Economics Science. London: MACMILLAN AND CO.
4. Samuelson, P. (2009). Economics. New York: y McGraw-Hill/Irwin.
5. SMITH, A. (1981). An Inquiry into the Nature and Causes of the Wealth of Nations. INDIANAPOLIS: Liberty Classic.

Teaching / Learning Methods

1. Assignments and homework ;
2. Solving economic problems and analyzing practical case ;
3. The student is required to prepare reading cards for scientific articles, a book, or a chapter from it within the course topics ;
4. Evaluation of interactive questions for students on the Moodle platform ;
5. Interaction on the Moodle platform ;
6. Creating a chat and forum on the Moodle platform for cooperative.

Introduction

Economics is a fascinating field that touches nearly every aspect of our daily lives. From the decisions we make as individuals and families to the policies that shape entire nations, economics helps us understand how resources are allocated, how markets function, and how societies can achieve growth and stability. At its core, economics is about choice—how we make decisions under conditions of scarcity, and how those decisions impact the world around us.

This document serves as an introduction to the fundamental concepts of economics, offering a comprehensive overview of its nature, principles, and applications. Whether you're a student just beginning to explore the subject or someone looking to deepen your understanding, this guide will walk you through the key ideas that define economics. From the basic economic problem of scarcity to the complexities of market structures, inflation, unemployment, and economic policies, each unit is designed to build your knowledge step by step.

As you delve into the material, you'll discover how economics is not just a theoretical discipline but a practical tool for analyzing real-world issues. It helps us understand why prices rise and fall, how governments can influence economic outcomes, and what drives the decisions of businesses and consumers. By the end of this journey, you'll have a clearer picture of how economic forces shape our world and how we can use this knowledge to make better decisions, both personally and collectively.

UNIT ONE : THE NATURE OF ECONOMICS

Structure

1. Objectives
2. Introduction
3. Definition of Economics
4. Subject matter of economics
5. Nature of economics
6. Relationship of economics to other sciences
7. Conclusion
8. Questions for discussion

Objectives

This unit would enable the student to:

1. Understanding the Definition of Economics ;
2. Distinguishing Between Microeconomics and Macroeconomics ;
3. Understanding the nature of Economics ;
4. Analyzing Positive vs. Normative Economics ;
5. Exploring the relation between Economics and other sciences.

Lecture N° 01

Introduction

Economics investigates how individuals make choices under conditions of scarcity. These could include individual, familial, corporate, or societal decisions. Through attentive examination, a person will recognize that scarcity is a fundamental part of existence. To enhance comprehension of the subject and identify a solution to the problem, it is essential to understand the nature of the economic issue being examined and the specific region or branch it pertains to. This chapter will address the definitions, nature, subject matter, and the relationship between economics and other sciences.

I. Definition of Economics

The discipline of economics emerged with the publishing of the influential book in 1776, "An Enquiry into the Nature and Causes of the Wealth of Nations," authored by Professor Adam Smith.

At that time, it was referred to as Political Economy, a term that remained in use until at least the mid-19th century. Since that time, economists have created tools and principles employing inductive and deductive reasoning. The 'Wealth of Nations' is an iconic book in the history of economic theory that separated economics from other social sciences.

The word '**Economics**' was derived from the Greek words '**Oikos**' (a house) and '**Nemein**' (to manage), which meant managing a household, using the limited money or resources a household has.

We will clarify several key terminology commonly used in economic theory.

I.1. Wealth definition (1776) - Adam Smith -

In his 1776 work "An Inquiry into the Nature and Causes of Wealth Nations," Adam Smith—who is considered the Father of Economics—explains how a nation makes money by utilizing its natural resources. (SMITH, 1981, p. 18)

- He defined economics as “a science which inquiries into the nature and causes of wealth of nations.”
- He highlighted that the focus of economics is the creation and expansion of wealth.

On examining the Adam Smith’s definition, we find that he has put emphasis on the following points: (Goud, 2023, p. 3)

- It takes into account only material goods exaggerated the emphasis on wealth.
- It inquires the caused behind creation of wealth.

However, the above definitions have been criticized on various grounds : (Dutta, 2006, p. 4)

- It viewed economics as a self-centered field of study.
- It had a very limited and constrained definition of wealth.
- It lowered man to a secondary position and placed all the emphasis on wealth.

I.2.Welfare definition (1890) - Alfred Marshall -

In 1890, in his famous book 'The Principles of Economics', Alfred Marshall stated that “Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of material requisites of wellbeing.” (Marshall, 2011, p. 6)

Introduction to Economics

- ✓ It is a study of wealth on the one hand, and human welfare based on wealth on the other.

Upon analyzing Marshall's definition, we observe that he emphasizes four key points: (Goud, 2023, p. 3)

- It is primarily the study of mankind.
- It is one side a study of wealth; and on other side the study of man.
- It takes into account ordinary business of life.
- It limits the scope to activities amenable to measurement in terms of money .

Yet, the previously mentioned definitions have faced criticism on many levels: (Goud, 2023, p. 4)

- Instead of being a human science, it viewed economics as a social science.
- It restricts the scope of economics to the study of persons living in organized communities only.

I.3. Scarcity definition (1932) - Lionel Robbins -

According to Lionel Robbins in his famous work ‘An Essay on the Nature and Significance of Economic Science’, he provides his classic definition : “Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.” (Robbins, 1945, p. 16)

He emphasized on ‘choice under scarcity’. In his own words “Economics is concerned with that aspect of behaviour which arises from the scarcity of means to achieve given ends.”

Upon examining Lionel Robbins's definition, we note that he highlights the next major points: (Dutta, 2006, p. 7)

- New concepts: Unlimited ends, scarce means and alternative uses of means.
- It emphasizes on choice - A study of human behaviour.
- It tried to bring the economic problem which forms the foundation of economics as social science.
- It takes into account all human activities.

However, these previous definitions received criticism on various counts. (Dutta, 2006, p. 4)

- It does not focus on many important economic issues of cyclical instability, unemployment, income determination and economic growth and development.
- It did not take into account the possibility of increase in resources over time.
- It has treated economics as science of scarcity only.

I.4. Growth definition (1948) – Paul Samuelson -

Paul Samuelson defines economics in his well-known textbook Economics, first published in 1948, as : “ the study of how men and society choose with or without the use of money to employ the scarce productive resources which have alternative uses, to produce various commodities over time and distribute them for consumption now and in future among various people and groups of society. It analysis the costs and benefits of improving pattern of resource allocation.” (Samuelson P. , 2009, p. 4).

- ✓ This definition introduced the dimension of growth under scare situation.

After analyzing Samuelson's definition, we observe that he underlines the following key points: (Goud, 2023, p. 5)

- The definition is not merely concerned with the allocation of given resources but also with the expansion of resources, tries to analyse how the expansion and growth of resources to be used to cope with increasing human wants.
- More dynamic approach.
- According to this definition resource allocation is a universal problem whether it is a better economy or an exchange economy.
- Definition is comprehensive in nature as it is both growth as well as future oriented.

I.5. Modern definition (2011) - A.C. Dhas -

According to Albert Christopher Dhas (Assistant Professor in Economics ; The American College Madurai, India), “Economics is the study of choice making by individuals, institutions, societies, nations and globe under conditions of scarcity and surplus towards maximizing benefits and satisfying their unlimited needs at present and future.” (Goud, 2023, p. 5)

- ✓ In short, the subject economics is defined as the “study of choices by all in maximizing production and consumption benefits with the given resources of scarce and surplus for present and future needs.”

Features of modern definition

- It takes into account all the earlier definitions- wealth, welfare, scarcity and growth.
- It covers both micro and macro aspects of economics.
- It considers both production and consumption activities.
- It emphasizes choice making dimension as crucial in economics.
- It aims at obtaining maximum benefits with given resources.
- It is suitable in conditions of both scarcity and surplus.

- It takes into account the present and future-time dimensions - Growth dimension
- and sustainable development.

II. Subject Matter of Economics

The subject matter of economics is divided into two categories—microeconomics and macroeconomics. (Acemoglu, 2019, p. 48)

Microeconomics: The term micro comes from the Greek word mikros, meaning little. Microeconomics is a subdivision of economics focused on the behavior of individual customers, firms, industries, commodities, and pricing mechanisms. It examines the impact of actions made by individuals and enterprises on the pricing of goods and services. The primary aim of microeconomics is to optimize utility while minimizing costs. It is also referred to as pricing theory. The primary limitation of microeconomics is its unrealistic presumption of full employment within an economy, as it focuses on specific segments rather than the entire economic system.

Macroeconomics: The term macro originates from the Greek word makros, signifying large. It is the branch of economics that examines the effects of choices on the entire or collective level of economic activities. Macroeconomics examines the aggregates of persons, enterprises, prices, and production outputs. In other words, it examines the economy in its entirety. It examines factors such as the overall employment rate, the general price index, and total savings and investment within the economy. The primary objectives of macroeconomics are full employment, economic growth, a favorable balance of payments, and price stability. The primary drawback of macroeconomics is its disregard for individual wellbeing within an economy, focusing solely on aggregate variables that may inadequately elucidate economic situations.

Table 1: Difference between Microeconomics and Macroeconomics

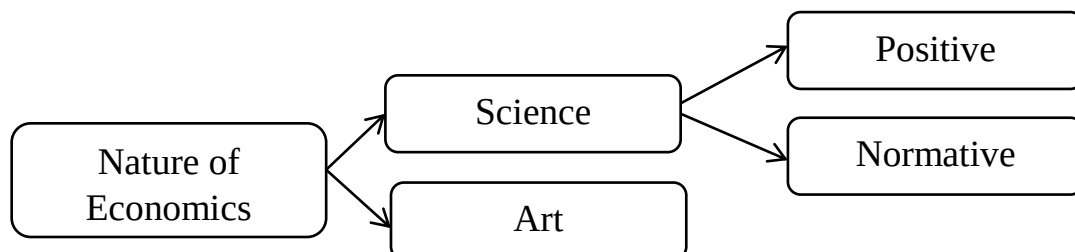
Microeconomics	Macroeconomics
It studies the particular segment of the economy (an individual, household, firm, or industry).	It deals with the economy as a whole; it studies aggregate units (national income, general price level, total consumption, etc). It deals with broad economic issues.
It deals with various issues like demand, supply, factor pricing, product pricing, economic welfare, production, consumption, and more.	It deals with various issues like national income, distribution, employment, general price level, money, and more.
It is known as ‘price theory’	It is known as ‘income and employment theory’
Microeconomics determine the price of a particular commodity along with the prices of complementary and the substitute goods.	Macroeconomics is helpful in maintaining the general price level.

Source : elaborated by the author

III.Nature of Economics

The objective of the study of nature of economics is to know whether economics is a Science or an Art or it is both sciences as well art. (Adejoke, 2020, p. 7)

- ✓ According to Samuelson, “Economics is the oldest of the Arts, the Newest of Science – Indeed the queen of all the Social Science”.



III.1. Economics as a Science:

The term Science originates from the Latin word 'Scientia.' It signifies "to know." To know a subject implies comprehending it and being capable of describing its causes and effects. Science has been defined in these terms- “Science is a systematic body of knowledge concerning the relationship between causes and effects of a particular phenomenon”. (Adejoke, 2020, p. 7)

According to **Poincare**, “Science is built-up of facts as a house is built of stones but an accumulation of facts is no more a science than a heap of stones is a house”. In other words, to build science, we must collect, classify and analyse the facts systematically. In economics also one collect classifies, and analyses economics facts systematically.

A. Economics as a Positive Science

- It is defined as a body of systematized knowledge concerning what **is**.
- It analyses and explains the casual relationship between variables.
- It explains people about how the economy of the country operates.
- It is alternatively known as pure economics or descriptive economics.
- It considers what’s actually occurring in the economy. It helps the policy makers to decide whether the proposed action, will be able to fulfill our objectives or not.
- It deals with things as they are.
- It explains their causes & effects.

B. Economics as a Normative Science

- It is defined as a body of systematized knowledge relating to the criteria of.
- what ought to be.

- It considers values and results in statements that state, ‘what should be the things. It incorporates subjective analyses and focuses on theoretical situations.
- It suggests how the economy ought to operate.

III.2. Economics as an Art

Whether economics is an art or not, is yet another controversial subject among the economists. The art is lays down a specific solution for specific problems. (Adejoke, 2020, p. 7)

According to J.N. **Keynes**: “An art is a system of rules for the attainment of given ends”.

Science teaches us to know or an Art teaches us to do.

IV. Relationship of Economics to Other Sciences

Economics is classified as a social science. This view makes economics an academic relative of political science, sociology, psychology, etc. All of these disciplines study the behaviour of human beings individually and in groups. Bellow is a brief review of the relation between economics and other related disciplines : (BrainKart, 2024)

a. Economics and Sociology:

Sociology is the scientific study of society. It seeks to uncover the principles and regulations governing society in its complete form. Sociology covers all facets of society. However, economics exclusively tackles the economic dimensions of a society. It examines human behavior concerning limited resources and infinite desires. For a sociology student, social institutions such as marriage, religion, political structures, and economic situations are all significant areas of study. In economics, our focus on them is limited to their impact on the economic life of a society.

b. Economics and Politics :

Economy and politics are strongly interconnected. The decisions made by political bodies have an influence on the economy of a nation, and how well the economy is doing is usually seen as a direct reflection of political policies and the success of the government in power.

c. Economics and History :

Economics and history are closely related. History is a record of the past events. In history, we survey economic, political and social conditions of the people in the past.

In economics, we make use of historical data to formulate economic laws. We make use of history in economics to study the material conditions of people in the past. There is a separate branch of economics known as 'Economic History'.

We may say economics is the fruit of history and history is the root of economics.

d. Economics and Ethics :

Ethics is a social science. It deals with moral questions. It discusses the rules that govern right conduct and morality. It deals with questions of right and wrong. It aims at promoting good life.

There is connection between economics and ethics. While economics, according to Marshall, aims at promoting material welfare, ethics aims at promoting moral welfare. When we discuss economic problems, often we consider ethical issues. The government introduced prohibition in many states for ethical reasons, though there was heavy loss of revenue to it.

e. Economics and psychology :

Psychology is the science of mind. It deals with all kinds of human behaviour. For example, we have child psychology, mob psychology, industrial

psychology and criminal psychology. But economics studies one aspect of human behaviour. It studies human behaviour with reference to unlimited wants and limited means. Of late, psychology has become important in analyzing economic problems. To deal with labour problems, we must understand industrial psychology. And a good businessman must understand the psychology of buyers whenever he wants to change the price of his good.

g.Economics, mathematics and statistics :

Among other sciences, economics is related to mathematics and statistics. Statistics is the science of averages. It is the science of counting. Many tables and diagrams used in economics are based on statistical analysis. Mathematical methods are largely used in modern economics. Now we have a new science called econometrics. It makes use of statistics and mathematics in economics.

Conclusion

Economics is a varied and dynamic discipline that examines the decisions of individuals and society in the allocation of limited resources. It includes not only the comprehension of wealth and production but also human behavior, society values, and the intricate relationships among diverse systems.

Questions for discussion :

1. Why is scarcity considered the central problem in economics, and how do different definitions of economics address this issue?
2. How might economics evolve in the future as new resources and technologies emerge, potentially altering the fundamental concepts of scarcity and choice?
3. Do the criticisms of early economic definitions, like those of Adam Smith and Alfred Marshall, still hold relevance in today's economic thought?
4. What is the significance of incorporating both microeconomic and macroeconomic perspectives in solving real-world economic problems?
5. How does modern economics, as defined by A.C. Dhas, reconcile the tension between scarcity and surplus in its study of choices?
6. Can economics be considered a purely objective science, or do subjective factors (values, morals, etc.) always play a role in economic analysis?

UNIT TWO : ECONOMIC PROBLEM

Structure

1. Objectives
2. Introduction
3. Definitions of the economic problem
4. Causes of the economic problem
5. Means of satisfaction
6. The three fundamental economic questions
7. Conclusion
8. Question for discussion

Objectives

This unit would enable the student to:

1. Grasp the Basic Economic Problem;
2. Understand the Concept of Scarcity;
3. Distinguish between needs and wants ;
4. Exploring the means of satisfaction ;
5. Identifying the importance of choice in economics ;
6. Understand the Key Economic Questions.

Introduction

The field of economics revolves around the concept of addressing the economic problem. This fundamental issue arises because humans have unlimited wants, but resources to fulfill those wants are limited. This chapter explores the intricacies of the economic problem, including its definition, causes, scarcity, resources, needs, goods, and the fundamental questions of economics.

I. Definitions of the Economic Problem

The basic economic problem, also known as the fundamental economic problem, refers to the scarcity of resources in relation to the unlimited wants and needs of individuals and societies. It is the central issue in economics and arises due to the imbalance between what people desire and the resources available to fulfill those desires.

- ✓ **Lionel Robbins:** In his work *An Essay on the Nature and Significance of Economic Science* (1932), Robbins defines the economic problem as a situation of scarcity where “human wants are unlimited, but resources available to satisfy these wants are limited.” (Robbins, 1945, p. 16)
- ✓ **Alfred Marshall:** Marshall emphasizes that the economic problem arises from the need to allocate resources effectively to satisfy human wants. (Marshall, 2011)
- ✓ **Paul Samuelson:** Samuelson addresses the economic problem by focusing on choice. He argues that economics revolves around “how people make choices when faced with scarcity” and how society decides “what to produce, how to produce, and for whom to produce.” (Samuelson P., 2009, p. 4)

Introduction to Economics

These definitions reveal a common understanding: scarcity of resources in relation to unlimited human wants necessitates choice, and that choice is central to economics.

2. Causes of the Economic Problem

The economic problem arises due to three main factors: (Samuelson P. A., 1948)

1. **Scarcity of Resources:** Limited availability of natural and human-made resources.
2. **Unlimited Wants:** Human desires for goods and services exceed what is available.
3. **Resource Allocation:** Resources have alternative uses, necessitating choices and trade-offs.

Figure 1 : The Basic Economic Problem



Source : <https://weekendtheme.com/basic-economic-problems/>

2.1.Scarcity

Scarcity, in economics, refers to the situation where resources are insufficient to meet all human wants. Lionel Robbins (1932) defined it as "the fundamental economic problem of having seemingly unlimited human needs in a world of limited resources", and we can find : (Robbins, 1945)

- ✓ **Absolute Scarcity:** When the resource is physically limited (e.g., fossil fuels).
- ✓ **Relative Scarcity:** When the resource is abundant but not distributed equitably (e.g., food distribution in developing countries).
- ✓ **Artificial Scarcity:** Created due to policy decisions or monopolistic control (e.g., price-fixing).

But when it comes to economics we are talking about « Relative scarcity », which means limited resources in compare on unlimited needs.

2.2.Resources

Resources are inputs used to produce goods and services to satisfy human needs. They are broadly classified into:

- ✓ **Natural Resources:** Land, water, minerals (e.g., forests, oil).
- ✓ **Human Resources:** Labor and entrepreneurship (e.g., skilled workers, CEOs).
- ✓ **Capital Resources:** Machinery, buildings, technology (e.g., factories, tools).

Resources are characterised as follow : (Samuelson P. , 2009, pp. 4-6)

- ✓ **Scarcity :** Economic resources are limited in supply relative to the demand for them. This scarcity forces societies to make decisions about how to allocate them efficiently.

- ✓ **Alternative Uses** : Resources can be utilized for various purposes. For example, land can be used for agriculture, housing, or industrial purposes. Choosing one use involves trade-offs and opportunity costs.
- ✓ **Productivity** : Economic resources are valued for their ability to contribute to production. For instance, skilled labor and advanced machinery enhance productivity, making them more valuable.
- ✓ **Mobility** : Some resources are mobile: Labor and capital can move from one location or industry to another ; Others are immobile: Land, for example, cannot be relocated.
- ✓ **Ownership** : Resources can be privately owned (e.g., farmland, factories) or publicly owned (e.g., national parks, public roads). Ownership impacts their usage and management.
- ✓ **Renewability** : Certain resources, such as forests or fisheries, can regenerate naturally if used responsibly. Renewable resources require careful management to avoid depletion.
- ✓ **Uneven Distribution** : Economic resources are not evenly distributed across the world. For example, some regions are rich in minerals, while others lack them. This uneven distribution influences global trade and economic development.
- ✓ **Interdependence** : Different resources often work together to produce goods and services. For example, labor relies on capital (machinery) and land to produce goods.

Examples of Economic Resources (Samuelson P. , 2009, p. 6)

- ✓ **Land**: Natural resources such as minerals, forests, and water.
- ✓ **Labor**: Human effort and skills.
- ✓ **Capital**: Machinery, tools, buildings.
- ✓ **Entrepreneurship**: Innovation and risk-taking to organize production.

2.3. Needs

In economics and psychology, needs are essential requirements for human survival and well-being. Unlike wants, which are desires that may be influenced by culture or personal preference, needs are fundamental for an individual's existence and quality of life.

According to Abraham Maslow, a renowned psychologist, needs drive human behavior and are critical to motivation. Needs range from basic survival elements, like food and water, to more complex social and psychological desires. (Maslow, 2000)

2.3.1.Key Definitions

- ✓ **Need:** A necessity essential for survival, such as food, shelter, and safety.
- ✓ **Want:** A desire that enhances comfort or satisfaction but is not essential for survival.

2.3.2.Characteristics of Needs

Needs have specific characteristics that differentiate them from wants: (Armstrong, 2020)

- ✓ **Universality :** Needs are universal, meaning all humans experience them regardless of their background. For example, everyone requires food, water, and shelter.
- ✓ **Limited in Nature :** Needs are finite and essential for human survival. Once a need is satisfied, it generally no longer motivates behavior until it becomes a concern again (e.g., hunger).
- ✓ **Non-negotiable :** Needs are essential for sustaining life. Without fulfilling basic needs like food and safety, a person's survival can be at risk.

- ✓ **Hierarchical** : Needs follow a specific order, with some needs being more fundamental than others. This hierarchy is famously illustrated by Maslow's Pyramid (explained below).
- ✓ **Dynamic and Evolving** : Needs can change over time due to personal growth, life stages, or social influences. For example, a child's need for safety may evolve into a need for social belonging during adolescence.

2.3.3.Maslow's Hierarchy of Needs

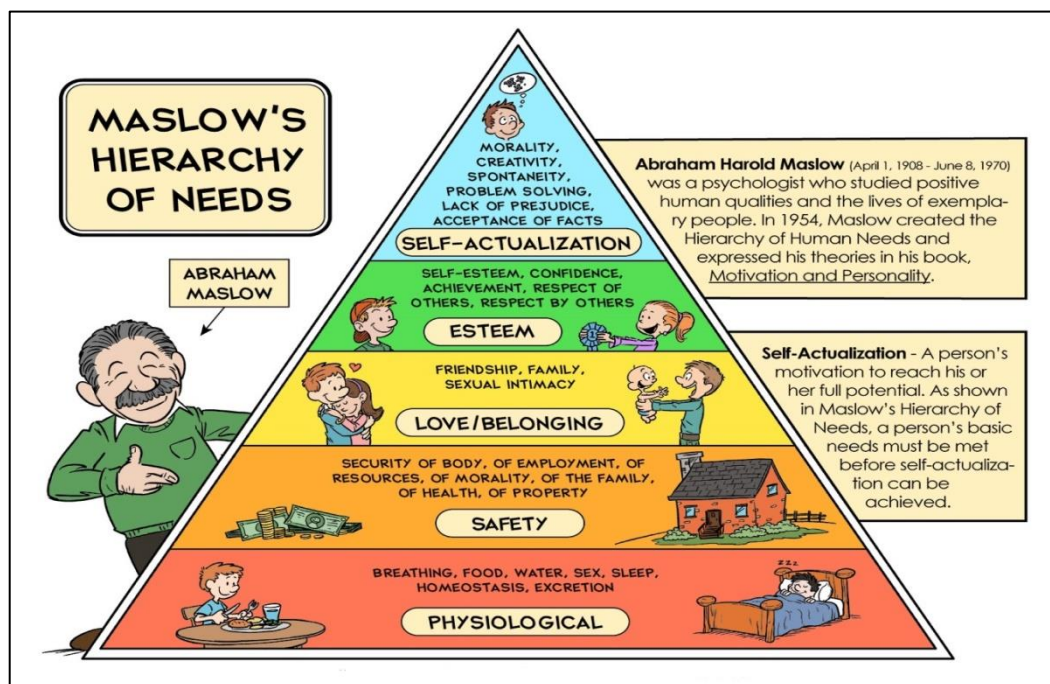
Abraham Maslow developed a theory known as Maslow's Hierarchy of Needs, which he introduced in his 1943 paper, A Theory of Human Motivation. This theory suggests that human needs are arranged in a hierarchy, typically visualized as a pyramid with five levels. According to Maslow, individuals must satisfy lower-level needs before they can attend to higher-level psychological and self-fulfillment needs. The Five Levels of Maslow's Pyramid are :

- a. **Physiological Needs (Basic Needs)** : These are the most fundamental needs required for survival, including food, water, shelter, air, and sleep (Example: A person needs to eat and drink to stay alive). (Maslow, 2000)
- b. **Safety Needs (Security and Protection)** : Once physiological needs are met, individuals seek safety and stability in their lives. This includes personal security, health, financial stability, and protection from harm (Example: A secure job, safe living environment, or health insurance). (Judge, 2023, p. 238)
- c. **Social Needs (Belongingness and Love)** : Humans have an inherent desire for social interactions, relationships, love, and a sense of belonging within groups, such as family, friends, and community (Example: Building friendships, joining social clubs, or being part of a family). (R.F, 1995, p. 397)
- d. **Esteem Needs (Respect and Recognition)**: These needs are related to self-esteem, respect, status, and recognition from others. Esteem needs are

divided into: Lower Esteem (Respect from others, fame, and attention) ; Higher Esteem (Self-respect, independence, and achievement) ; Example: Receiving awards, promotions, or compliments for one's achievements. (Deci, 2000, p. 68)

- e. **Self-Actualization Needs (Personal Growth and Fulfillment)** : this is the highest level in Maslow's hierarchy. It is about realizing one's full potential, pursuing personal growth, self-improvement, and achieving one's life goals (Example: Pursuing creative hobbies, achieving career aspirations, or engaging in lifelong learning). (Maslow, 2000)

Figure (2) : Maslow's pyramid of Needs



Source : <https://www.saasacademy.com/blog/hierarchy-of-entrepreneurial-needs>

2.4.Choice :

In economics, choice refers to the decision-making process that individuals, businesses, and governments go through when they have to allocate their limited resources among various competing alternatives. This principle is essential to economics as resources (including time, money, labor, and raw materials) are limited, yet human desires and need are nearly infinite. (Ian Worthington, 2005, p. 11)

2.4.1.Key Aspects of Choice in Economics (Ian Worthington, 2005)

- ✓ **Scarcity and Choice:** scarcity indicates a lack of resources to fulfill all human needs and necessities. This forces a choice. Due to scarcity, individuals must make decisions on the effective utilization of their limited resources. A customer with a fixed income must determine how to allocate their funds for food, clothing, entertainment, and other expenses.
- ✓ **Opportunity Cost:** every choice involves an **opportunity cost**, which is the value of the next best alternative that you give up when you make a decision, for example, if you choose to spend 1000 DA on a new shirt, the opportunity cost might be the dinner with friends that you can no longer afford. This concept emphasizes that by choosing one option, you forgo others.
- ✓ **Trade-offs:** When making choices, individuals and organizations often face **trade-offs**—the need to give up one thing to gain another ; For example, governments may face a trade-off between funding healthcare and investing in education. Businesses might choose between expanding their product line or focusing on improving existing products.
- ✓ **Rational Decision-Making:** In economics, it is often assumed that individuals and organizations make **rational choices**, meaning they aim to maximize their benefits or utility while minimizing their costs; For example, consumers are expected to choose products that offer them the most satisfaction (utility) given their budget constraints.

2.4.2.Importance of Choice in Economics (Ian Worthington, 2005)

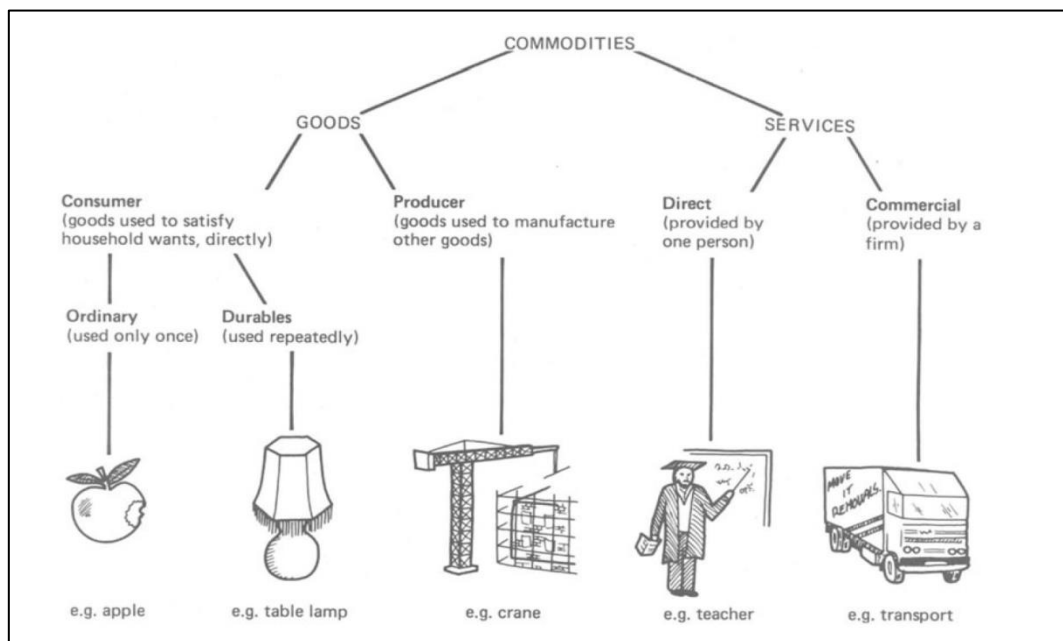
- ✓ **Resource Allocation:** Choice is central to the allocation of scarce resources in a way that maximizes overall well-being.
- ✓ **Economic Efficiency:** Making the right choices can lead to the efficient use of resources, thereby increasing the standard of living and economic growth.

- ✓ **Cost-Benefit Analysis:** Understanding choices helps individuals and organizations conduct cost-benefit analyses to make better decisions.

2.5.Means of Satisfaction (Means of Fulfillment)

In economics, the concept of means of satisfaction is tied to how individuals and societies use available resources to meet their needs and desires. Since human needs are diverse and resources are limited, the means of satisfaction are the different options available to achieve well-being and contentment ; The means of satisfaction can be broadly classified into two categories: **goods and services**.

Figure (3) : Types of Goods and Services



Source : (Karl E. Case, 2017)

2.4.1.Goods : are tangible items that satisfy human needs and wants. They are essential components of economic activity and are classified based on various characteristics. Here's a breakdown of the types of goods : (Karl E. Case, 2017, p. 62)

a. Consumer Goods : Consumer goods are goods that are bought and used by consumers for personal use or consumption. They are typically divided into the following subcategories:

- **Durable Goods** : goods that have a long lifespan and are used over a period of time. These goods typically endure for several years (Examples: Cars, refrigerators, furniture, appliances).
- **Non-durable Goods** : goods that are used up quickly and have a short lifespan, typically consumed in one use or a short period (Examples: Food, clothing, cleaning products, gasoline).
- **Convenience Goods** : goods that are purchased frequently with minimal effort (Examples: Packaged snacks, soft drinks, toothpaste).
- **Shopping Goods** : goods that consumers buy less frequently and tend to compare based on price, quality, and features (Examples: Clothing, electronics, furniture).

b. Capital Goods : are goods that are used to produce other goods and services. They are instrumental in the production process and are not consumed directly by the end user.

Or, capital good are used to make other goods or services. These include machinery, tools, buildings, and equipment (Examples: Factory machinery, industrial equipment, computers used in businesses).

c. Public Goods : are goods that are non-excludable and non-rivalrous, meaning that one person's use does not reduce availability for others.

d. Private Goods : are goods that are both excludable and rivalrous. Only those who pay for them can consume them, and consumption by one individual reduces availability for others.

Or we can say that private goods are bought and consumed by individuals, and their consumption reduces the availability to others (Examples: Clothing, food, personal electronics).

- e. **Economic Goods** : are goods that are scarce, meaning they are limited in supply and have an opportunity cost. These goods require resources (such as labor, capital, and raw materials) to produce, and they are sold in the market at a price. Economic goods are essential to understanding how markets operate and how resources are allocated.
- f. **Free Goods** : are goods that are abundant and available in such a quantity that no one needs to pay for them. These goods are not scarce and do not require resources to produce (or are available in sufficient quantities for everyone to use without any cost). They are generally not traded in markets because they do not have an opportunity cost in the same way as economic goods.

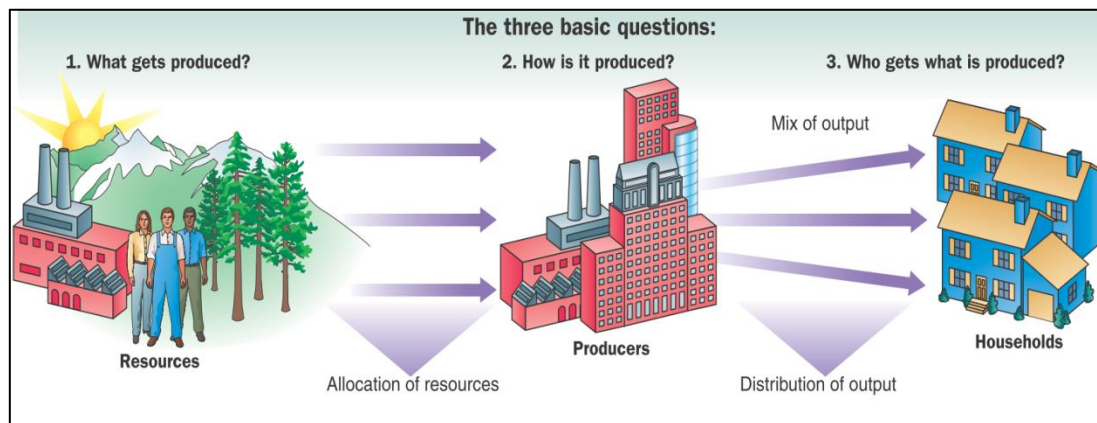
2.4.2.Services : refer to intangible activities or benefits that are produced and consumed simultaneously, without resulting in ownership of a physical product. Unlike goods, services cannot be stored, transported, or physically touched. They fulfill consumer needs or wants by providing experiences, expertise, or solutions. Here's examples of Services in Economics: (Samuelson P. &., 2010, p. 29)

- ✓ **Consumer Services**: Healthcare, education, entertainment, and personal services like hairdressing.
- ✓ **Business Services**: Accounting, consulting, legal assistance, and logistics.
- ✓ **Public Services**: Infrastructure, policing, and social welfare provided by governments.

3.The Three Fundamental Economic Questions

In economics, societies must choose the allocation of their finite resources to satisfy the infinite demands and needs of its populace. This results in the Three Fundamental Economic Questions that every economy, must address: (Karl E. Case, 2017, p. 57)

Figure (4) : The Three Economic Questions



Source : <https://www.haikudeck.com/economic-systems-uncategorized-presentation>

3.1. What to Produce? This question addresses the issue of determining which goods and services should be produced and in what quantities. Since resources are scarce, an economy must prioritize certain products over others, but we should take in consideration the following points :

- ✓ **Consumer Preferences:** What do people want to buy? Consumer demand often drives production decisions in market economies.
- ✓ **Resource Availability:** What resources (land, labor, capital) are available? The availability of resources can influence what can be efficiently produced.
- ✓ **Government Policies:** In some economies, especially planned ones, the government decides what to produce to meet social or political goals.

3.2. How to Produce? This question focuses on deciding the methods and technologies used in the production of goods and services. It addresses the most efficient way to use available resources. Usually, there are two techniques of production, Labour Intensive Techniques (LIT) and Capital Intensive Techniques (CIT). The former technique involves more use of labour, and the latter involves more use of machines ; And we should take in considerations the following aspects :

- ✓ **Technology:** What production techniques should be used? Should a company automate its processes, or rely on manual labor?
- ✓ **Cost of Production:** How can production costs be minimized? Companies and governments look for ways to reduce costs while maintaining quality.
- ✓ **Sustainability:** How can production be done in an environmentally friendly way? Increasingly, societies are considering the environmental impact of production methods.

3.3. For Whom to Produce? This question deals with the distribution of goods and services. It addresses who gets the goods and services produced, and how they are distributed among the members of society ; And we should consider :

- ✓ **Income Distribution:** Who can afford to buy these goods and services? In a market economy, distribution is often determined by purchasing power.
- ✓ **Equity vs. Efficiency:** Should goods be distributed based on need (equity) or based on who can pay the most (efficiency)? Different economic systems prioritize these aspects differently.
- ✓ **Government Intervention:** In many countries, governments intervene to provide public goods (like education, healthcare) to ensure everyone has access to essential services.

Conclusion

The economic problem is at the heart of economics because it deals with how to use limited resources to satisfy unlimited wants. It requires making choices that involve opportunity costs, trade-offs, and prioritization. Understanding this problem helps us analyze how individuals, businesses, and governments make decisions and how these decisions impact the overall economy.

Questions for discussion :

1. Why do you think scarcity is considered the core of economics? Can you think of any real-world examples where scarcity drives decision-making?
2. Compare and contrast the views of Lionel Robbins, Alfred Marshall, and Paul Samuelson on the economic problem.
3. Why does economics primarily focus on relative scarcity instead of absolute scarcity?
4. How does resource allocation help address the economic problem?
5. What are the three main categories of resources in economics, and provide an example for each.
6. Why is productivity considered a critical characteristic of resources in economics?
7. Who should have the power to decide "what to produce," "how to produce," and "for whom to produce" in an economy? Is it fair for governments, markets, or individuals to dominate these decisions?

UNIT THREE : ECONOMIC SYSTEMS

Structure

1. Objectives
2. Introduction
3. The concept of economic systems
4. Types of economic systems
 - ✓ Capitalism
 - ✓ Socialism
 - ✓ Mixed economy
 - ✓ Islamic system
5. Conclusion
6. Questions for discussion

Objectives

This unit would enable the student to:

1. Understand the Definition and Purpose of Economic Systems;
2. Explore Different Types of Economic Systems;
3. Make the difference between the characteristics of each system ;
4. Examine How Economic Systems Answer the Basic Economic Questions;
5. Analyze the Role of Government in Different Economic Systems;
6. Analyze the Role of Government in Different Economic Systems.

Introduction

Economic systems are essential to how societies function because they influence the distribution of income, the production of goods, and the allocation of resources. These systems establish the foundation for allocating scarce resources to meet human needs and desires in response to the universal issue of scarcity. In response to this issue, communities have evolved a variety of strategies throughout centuries, each of which reflects its own historical, cultural, and ideological background.

I. The Concept of Economic Systems

Economic system refers to the way in which a society organizes the production, distribution, and consumption of goods and services. It defines how economic resources, such as labor, capital, and land, are allocated and how decisions regarding production and pricing are made. There are various types of economic systems, including market economies, planned economies, and mixed economies, each with distinct mechanisms for economic decision-making. (Todaro, 2015, p. 36)

II.Types of Economic Systems

Economic systems can be broadly categorized into four types:

II.1.Capitalism

II.1.1.Definition :

- ✓ Capitalism is an economic system in which individuals own most economic resources and in which markets and prices serve as the dominant coordinating mechanism used to allocate those resources.

(McConnell & Flynn, 2021, p. 27)

- ✓ An economy in which private, profit-seeking companies undertake most production, and in which wage-earning employees do most of the work, is a capitalist economy. (Stanford, 2008, p. 34)

II.1.2. Characteristics of Capitalism : The key features of the market system are : (McConnell & Flynn, pp. 27-31)

- a. Private Property :** The right of private persons and firms to obtain, own, control, employ, dispose of, and bequeath land, capital, and other property.
- b. Freedom of enterprise :** ensures that entrepreneurs and private businesses are free to obtain and use economic resources to produce their choice of goods and services and to sell them in their chosen markets.
- c. Freedom of choice :** allows owners to employ or dispose of their property and money as they see fit. It also allows workers to try to enter any line of work for which they are qualified. Finally, it ensures that consumers are free to buy the goods and services that best satisfy their wants and that their budgets allow.
- d. Self-Interest :** simply means that each economic unit tries to achieve its own particular goal (Entrepreneurs by maximize profit or minimize loss ; Property owners by getting the highest price for the sale or rent of their resources ; Workers by maximize their utility (satisfaction) ; Consumers by obtaining products at the lowest possible price).
- e. Competition:** the presence of multiple producers in the market leads to competition, which is thought to drive innovation, improve quality, and lower prices.
- f. Markets and Prices :** goods and services are distributed through voluntary exchanges in open markets, where prices are determined by supply and demand.

- g. Specialization** : the use of the resources of an individual, a firm, a region, or a nation to concentrate production on one or a small number of goods and services.
- h. Active, but Limited, Government** : The government's role is typically confined to ensuring the protection of property rights and enforcing contracts, with minimal intervention in the economy.

II.1.3.Solution to the Economic Problem under Capitalism (Shikha, 2020)

In a capitalistic economy, resources are allocated through market mechanisms, with prices determined by demand and supply forces. The free price mechanism helps producers decide what to produce, with goods in high demand being produced in larger quantities. Factors of production, including technology, also influence production techniques. Rational producers aim to use cheaper techniques in the market. Factor earnings from employers determine spending capacity, helping producers identify consumers for whom goods could be produced in larger or smaller quantities. The price mechanism works well only if competition exists and the natural flow of demand and supply is not artificially disturbed.

II.2.Socialism

II.2.1.Definition

- ✓ A method of organizing an economy in which property resources are publicly owned and government uses central economic planning to direct and coordinate economic activities. (McConnell & Flynn, p. 26)
- ✓ Socialism is an economic system where production and distribution decisions are imposed by the government. In a socialist system, citizens depend on the state for many of their basic needs (healthcare, food, child care assistance, etc.). (Cook, 2022, p. 6)

II.2.2.Characteristics : Some of the principles of socialism include: (GAHATRAJ, 2021)

- a. Public Ownership:** This is the core tenet of socialism. In a socialist economy, the means of production and distribution are owned, controlled and regulated by the public, either through the state or through cooperatives. The basic motive is not to use the means of production for profit, but rather for the interest of social welfare.
- b. Economic Planning:** Unlike in a capitalist economy, a socialist economy is not driven by the laws of supply and demand. Instead, all economic activities- production, distribution, exchange and consumption are planned and coordinated by a central planning authority, which is usually the government. A socialist economy relies on the central planning authority for distribution of wealth, instead of relying on market forces.
- c. Egalitarian Society:** Socialism rose as an opposition to the economic inequality brought about by early capitalism. As such, it aims for an egalitarian society where there are no classes. Ideally, all the people within a socialist economy should have economic equality.
- d. Provision of Basic Needs:** In a socialist economy, the basic needs – food, shelter, clothing, education, health and employment are provided by the government without any discrimination. This is one of the greatest advantages of socialism. Provision of basic needs by the government can, however, result in the masses thinking that they cannot survive without the government, creating a perfect environment for the rise of authoritarian governments.
- e. No Competition:** Typically, when you want to buy a car, you are spoilt for choice. There are different brands and different models with varying features and prices. It's up to you to choose one the best one for you. The same applies for many other products. In a socialist economy, there is no competition in the market since the state is the sole entrepreneur. The

state only focuses on provision of necessities, which results in limited consumer choice.

- f. **Social Welfare:** Another major reason behind the rise of socialism was to protect the working class from exploitation. Under socialist systems, there is no exploitation. The state takes care of the working class through employment protection, minimum wages and trade union recognition rights.

II.2.3. Solution to Economic Problem under Socialism (Shikha, 2020)

Under socialistic economy, the government plays an important role in decision making. The government undertakes to plan, control and regulate all the major economic activities to solve the basic economic problems. All the major economic policies are formulated and implemented by the Central Planning Authority.

The central planning authority determines the production of goods and services based on available resources and the country's priorities. The state's main objectives are growth, equality, and price stability. Fiscal policies like taxation, expenditure, public debt, and deficit financing are implemented to achieve these goals. The central planning authority also selects production methods, whether labor-intensive or capital-intensive, considering social and economic conditions. In a socialistic economy, governments aim to achieve social justice by owning all economic resources and regulating wages based on work efficiency. Income earned determines aggregate demand, helping the government assess demand from different income groups.

II.3. Mixed Economy

II.3.1. Definition

Mixed economy is that economy in which both government and private individuals exercise economic control and operate side by side. It is a golden

mixture of capitalism and socialism. Under this system there is freedom of economic activities and government interferences for the social welfare. (Boston, 2021, p. 6)

II.3.2.Characteristics : the main Features of Mixed Economy are : (Singh, 2022)

- a. Co-existence of Private and Public Sector:** Under this system there is co-existence of public and private sectors. In public sector, industries like defence, power, energy, basic industries etc., are set up. On the other hand, in private sector all the consumer goods industries, agriculture, small-scale industries are developed. The government encourages both the sectors to develop simultaneously.
- b. Personal Freedom:** Under mixed economy, there is full freedom of choice of occupation, although consumer does not get complete liberty but at the same time government can regulate prices in public interest through public distribution system.
- c. Private Property is allowed:** In mixed economy, private property is allowed. However, here it must be remembered that there must be equal distribution of wealth and income. It must be ensured that the profit and property may not concentrate in a few pockets.
- d. Economic Planning:** In a mixed economy, government always tries to promote economic development of the country. For this purpose, economic planning is adopted. Thus, economic planning is very essential under this system.
- e. Price Mechanism and Controlled Price:** Under this system, price mechanism and regulated price operate simultaneously. In consumer goods industries price mechanism is generally followed. However, at the time of big shortages or during national emergencies prices are controlled and public distribution system has to be made effective.

- f. Profit Motive and Social Welfare:** In mixed economy system, there are both profit motive like capitalism and social welfare as in socialist economy.
- g. Check on Economic Inequalities:** In this system, government takes several measures to reduce the gap between rich and poor through progressive taxation on income and wealth. The subsidies are given to the poor people and also job opportunities are provided to them. Other steps like concessions, old age pension, free medical facilities and free education are also taken to improve the standard of poor people. Hence, all these help to reduce economic inequalities.
- h. Control of Monopoly Power:** Under this system, government takes huge initiatives to control monopoly practices among the private entrepreneurs through effective legislative measures. Besides, government can also take over these services in the public interest.

II.3.3. Solution to The Problem in a Mixed Economy (Shikha, 2020)

This system solves economic problems using free price mechanisms and controlled price mechanisms (economic planning). The private sector can produce goods based on demand and market prices, while the government can control production through monetary or fiscal policies. The public sector uses controlled price mechanisms, such as economic planning, to determine the goods and services to be produced.

Private sector production techniques are determined by factors like price and technology availability, while public sector production techniques are determined by central planning authorities.

II.4. Islamic System

Islamic economics is the knowledge and application of injunctions and rules of the Shari'ah that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah and the society. (Zaman, 2010, p. 49)

II.4.1. Principles of Islamic System

The key principles upon which the Islamic economic system is built are: (Mawdudi's, 2020, p. 27)

- A. Parameters of private ownership :** Islam prioritizes personal freedom, allowing personal ownership of property without distinction between production, consumer goods, or income. It focuses on fair or foul means of wealth and income.
- B. Economic Justice :** seeks to achieve justice in the distribution of wealth and resources, ensuring that wealth does not accumulate in the hands of a few.
- C. Economic Freedom within Shariah Limits :** Individuals are free to engage in economic activities and own property, but this freedom is constrained by Shariah laws.
- D. Work and Production :** Work is a legitimate means of earning a living, and individuals are encouraged to engage in productive activities that benefit themselves and society.
- E. Public Welfare (Maslaha) :** aims to achieve public welfare by promoting activities that benefit society as a whole.
- F. Social Solidarity (Takaful) :** emphasizes solidarity among community members, encouraging individuals to support the welfare of others.
- G. Prohibition of Riba (Interest) :** Riba, or interest, is strictly prohibited in Islam because it exploits the borrower and exacerbates economic inequality.

H. Ethical Responsibility in Financial Transactions : stresses the importance of honesty, integrity, and fairness in all economic dealings.

I. Private and Public Ownership : recognizes private ownership of property but also emphasizes the welfare of society and the common good.

II.4.2. Solution to The Problem in Islamic Economy (Shikha, 2020)

Islamic economics does not recognize this problem as defined by Western thought. Instead, the economic problem in Islam arises not from the scarcity of resources but from their misdistribution. God Almighty created the earth and determined its bounties, which are sufficient for everyone who walks upon it throughout their life. In other words, the economic problem arises when people abandon following the path of these provisions as commanded by God. The only solution is to return to the correct Islamic approach.

Conclusion

Economic systems play a crucial role in resource allocation, with market economies prioritizing individual choice and competition, command economies focusing on centralized control, and mixed economies balancing economic freedom with social welfare. The effectiveness of any economic system depends on its ability to adapt to changing conditions and meet societal needs and values.

Questions for discussion :

1. Which economic system-capitalism, socialism, or mixed-do you think is best for reducing income inequality? Why?
2. How does the role of government in a mixed economy help solve economic problems?
3. What are the main advantages and disadvantages of capitalism compared to socialism?
4. How does Islamic economics differ from capitalism in terms of wealth distribution?
5. In your opinion, does central planning (like in socialism) or market competition (like in capitalism) better meet the needs of society?
6. How do mixed economies balance the benefits of free markets and government control?
7. Do you think government should play a bigger role in regulating the economy to ensure fairness? Why or why not?
8. What are the key factors that determine how resources are allocated in a capitalist economy?
9. How do you think Islamic economics addresses poverty and wealth inequality differently than other systems?
10. Which economic system do you think is best suited for handling environmental challenges and why?

UNIT FOUR : ECONOMIC ACTORS -AGENTS-

Structure

1. Objectives
2. Introduction
3. Definition of an economic actor
4. Types of economic actors
 - ✓ Households
 - ✓ Firms –Businesses-
 - ✓ Government
 - ✓ Financial institutions
 - ✓ The foreign sector
5. Circular flow model
6. Conclusion
7. Questions for discussion

Objectives

This unit would enable the student to:

1. Understand the Definition of Economic Agents;
2. Identify the Different Types of Economic Agents;
3. Analyze the Objectives and Goals of Each Economic Agent;
4. Examine the Interactions Between Economic Agents;
5. Understand the circular flow model.

Lecture N° 04

Introduction

Economic actors are the core participants in any economy, each playing specific roles in the production, distribution, and consumption of goods and services. This chapter will delve into the functions, objectives, and interactions of the primary economic actors—households, firms, government, and the foreign sector.

I. Definition of An Economic Actor

According to the International Encyclopedia of the Social & Behavioral Sciences, 2001, an 'Economic Actor' is defined as "a human being whose behavior in economic contexts is influenced by cognitive limitations, self-interest, and foresight. These actors exhibit bounded rationality, opportunism, and the ability to anticipate future risks in organizational settings ;

Or ;

An economic actor refers to an individual or organization involved in economic activities, such as production, consumption, and exchange of goods and services, within an economy. Economic actors include households, firms, government entities, and foreign participants, each contributing to the flow of resources and wealth within the economic system. (Samuelson P. &., 2010, pp. 3-5)

II. Types of Economic Actors

Economic agents, are categorized based on their roles and activities within the economy. Below are the main types of economic actors and their roles:

1. Households

Households are foundational economic actors, serving as both providers of production factors and consumers of goods and services. They influence the economy through labor, consumption, savings, and investments. (Nasrudin, 2024)

1.1.Roles and Contributions : households contribute by : (Samuelson P. &., 2010, p. 47)

- ✓ **Consumption:** Their purchasing power drives demand, which influences business outputs and economic stability.
- ✓ **Supply of Factors of Production:** Households provide labor (as employees), capital (as investors), and even entrepreneurship (when they start businesses).
- ✓ **Savings and Investment:** Their decisions on savings influence financial markets. For instance, a household depositing money in a savings account allows banks to lend to firms.

1.2.Challenges : although households contribute by differents points, they face challenges sometimes, such us : (Nasrudin, 2024)

- ✓ **Inequality:** Disparities in income limit the purchasing power of low-income households, stifling broader economic growth.
- ✓ **Economic Shocks:** Inflation and unemployment disproportionately affect household stability, as seen in global recessions.

2. Firms -Businesses-

Firms are the productive agents in an economy, transforming inputs into goods and services to fulfill consumer needs. They are primarily motivated by profit maximization, which drives their decisions regarding production, pricing, and investment. (Samuelson P. &., 2010, p. 50)

2.1.Key Functions : firms play a key role in economic, and we can summarise this role in the following points : (Samuelson P. &, 2010, p. 52)

- ✓ **Production Process:** Firms organize factors of production—land, labor, capital, and entrepreneurship—to produce goods and services. They choose the most cost-effective methods of production, aiming to minimize costs and maximize output.
- ✓ **Employment Creation:** Firms are significant drivers of employment, and they set wages based on the productivity of labor, market competition, and economic conditions.
- ✓ **Investment in Innovation:** To stay competitive, firms invest in research, technology, and innovation. This investment leads to new products, improved productivity, and economic growth.
- ✓ **Market Creation:** They expand economic opportunities by introducing new goods and services, stimulating demand.

2.2.Challenges : we can state the following (Nasrudin, 2024)

- ✓ **Globalization:** Competition from international players threatens smaller businesses.
- ✓ **Technological Disruption:** Automation and digital transformation require adaptation in workforce skills

3. Government

The government acts as both a consumer and producer within the economy. It collects taxes, provides public goods, and regulates economic activity to promote stability and growth. (William J. Baumol, 2016, p. 132)

3.1.Primary Roles : governments have multiple roles, including the maintenance of law and order, provision of public goods, economic regulation, and redistribution of income. (Samuelson P. &, 2010, p. 55)

- ✓ **Regulation:** Governments establish legal frameworks, enforcing contracts and regulations to maintain market competition, protect property rights, and prevent monopolies.
- ✓ **Provision of Public Goods:** Public goods, such as defense, infrastructure, and education, are provided by the government because they are non-excludable and non-rivalrous, meaning consumption by one person does not reduce availability for others.
- ✓ **Income Redistribution:** Through taxation and welfare programs, the government seeks to reduce income inequality and provide a safety net for vulnerable populations.

3.2.Challenges : as followed : (Nasrudin, 2024)

- ✓ **Budget Deficits:** Excessive borrowing can lead to unsustainable debt levels, hindering long-term growth.
- ✓ **Corruption:** Mismanagement of resources undermines trust and efficiency in governance.

4. Financial Institutions as Economic Actors

Financial institutions play a pivotal role in economic systems by facilitating the flow of capital and credit throughout the economy. These institutions, which include banks, investment firms, insurance companies, and pension funds, provide essential services that support business activity and household financial needs. (Mishkin, 2021)

4.1.Roles and Contributions:

- ✓ **Capital Allocation:** Financial institutions channel savings from households into productive investments, helping businesses expand and innovate (Mishkin, 2021, p. 102)
- ✓ **Liquidity:** By offering loans and credit, these institutions provide businesses and consumers with the necessary liquidity to maintain

operations or consumption levels. Banks, for example, help smooth out fluctuations in income and expenditures by offering short-term financing. (Mishkin, 2021, p. 115)

- ✓ **Monetary Policy Implementation:** Central banks, such as the Federal Reserve or European Central Bank, influence money supply and interest rates to stabilize national economies. They act as intermediaries between the government and the banking system. (Samuelson P. &, 2010, p. 243)

4.2.Challenges: (Mishkin, 2021, p. 128)

- ✓ **Systemic Risk:** Financial institutions, especially banks, are vulnerable to crises that can ripple through the economy. The 2008 financial crisis, for instance, demonstrated how the collapse of large institutions can lead to widespread economic instability.
- ✓ **Regulatory Oversight:** A balance must be maintained between fostering financial innovation and ensuring that institutions do not take excessive risks that could lead to a systemic collapse.

5.The Foreign Sector

The foreign sector represents the international dimension of an economy. It encompasses trade, capital flows, and international finance. This sector enables countries to specialize in the production of goods for which they have a comparative advantage. (Rudiger Dornbusch, 2014, p. 218)

5.1.Roles and Contributions (Mishkin, 2021, p. 153)

- ✓ **International Trade and Investment:** Foreign countries and multinational corporations participate in cross-border trade, facilitating the flow of goods, services, and capital between nations. For example, trade agreements like NAFTA or the EU's single market encourage international exchange.

- ✓ **Technology and Knowledge Transfer:** Multinational corporations contribute to the global diffusion of technology and knowledge, enabling less-developed nations to access innovations that boost their industrial capacity .
- ✓ **Monetary Flow and Exchange Rates:** Foreign financial institutions and investors influence exchange rates, capital flows, and international monetary systems. The exchange rates set by international markets impact trade balances and overall economic performance across countries.

5.2.Challenges: (Mishkin, 2021, p. 157)

- ✓ **Political and Economic Instability:** Political crises or trade disputes can create risks for foreign investors and disrupt global trade and investment flow.
- ✓ **Currency Fluctuations:** Changes in exchange rates can lead to price instability, affecting the cost of imported goods and services, as well as the competitiveness of a country's exports.

III. Circular Flow Model

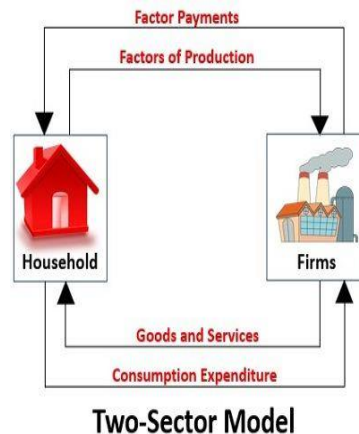
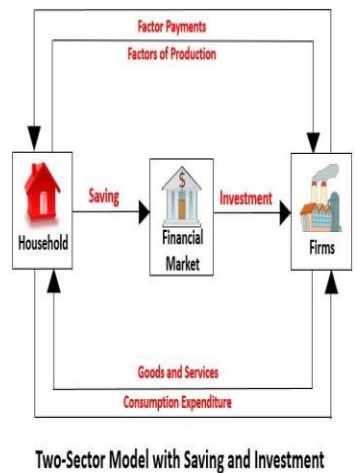
The circular flow of economic activity is a model that depicts the continuous movement of goods, services, resources, and money between different economic actors—households, firms, financial institutions, government, and the foreign sector. This flow is central to understanding the dynamics of any economy.

1.Types of the flow : there are two types of flow within the model :
(enotesworld)

- ✓ **Real Flow:** It is the mobilization of resources and commodities in the economy. For example, factors of production, goods and services.
- ✓ **Money flow:** It depicts the movement of money between households and firms. For example, factor payments and consumption expenditure.

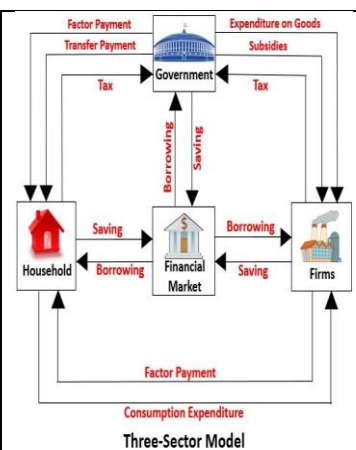
2.Models of Circular Flow Diagrams : The following are different versions of the circular flow model, which are explained below: (Ansari, 2024)

Table (2) : Models of Circular Flow Diagrams

Two-Sector Model without Saving and Investment	
The simplest representation of circular flow of income. In this simple circular flow model, only two sectors are considered, i.e., households and firms. This economy will be considered as a free market closed economy, it assumed that no savings are made in the economy. It means that the households spend their entire income on the purchase of goods and services and every firm spends all the receipts from the sale of goods and services to make factor payments.	 Two-Sector Model
Two-Sector Model with Saving and Investment	
Households save a part of their income for the future, firms borrow money from outside to finance their expansion plans. All of these savings and borrowings happening in the economy are channelised through the financial market. Therefore, in a two-sector economy, the savings made by households accumulated in the financial market are used by the firms for investment purposes.	 Two-Sector Model with Saving and Investment
Three-Sector Model	

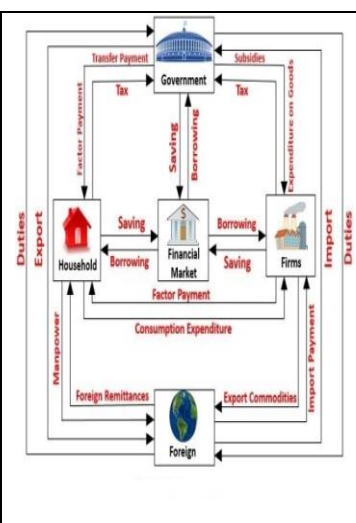
Introduction to Economics

Is the expanded circular flow model. In this model, three sectors of economy are considered, i.e., households, firms and the government. This economy will be considered as a mixed closed economy because of the absence of the foreign sector. The leakages are the savings and taxes while the injections are the investment and government spending.



Four-Sector Model

Is the fullest representation of the circular flow of income. In this model, four sectors of economy are considered, i.e., households, firms and the government and the foreign sector. This economy will be considered as a mixed open economy. The leakages are the savings and taxes and imports while the injections are the investment and government spending and exports.



Source : elaborated by the author

Conclusion

Economic actors –agents- are fundamental to the functioning of any economy, their interactions in markets shape the allocation of resources, determine the distribution of income, and drive economic growth. By examining these agents' behavior, economists gain insights into market dynamics, economic cycles, and the overall health of the economy.

Questions for discussion :

1. What distinguishes economic actors (households, firms, governments, and the foreign sector) in their contributions to the circular flow of the economy?
2. How do economic actors adapt their behaviors during periods of economic instability, such as a financial crisis or recession?
3. Can the roles of different economic actors overlap, and what are the implications of such overlaps (e.g., governments acting as entrepreneurs)?
4. Should there be limits to how much influence the foreign sector or multinational corporations can have on domestic economies? Why or why not?
5. In developing economies, what can governments do to empower households and small firms to become more effective economic actors?
6. How can understanding the behavior of economic actors help policymakers address long-term challenges like climate change and inequality?
7. How do the behaviors of economic actors differ in developed versus developing economies, and what lessons can they learn from each other?

UNIT FIVE: ECONOMIC ENTERPRISES

Structure

1. Objectives
2. Introduction
3. Definition of enterprise
4. Dimensions of enterprises
5. Classification of enterprises
 - ✓ Based on the sector of activity
 - ✓ Based on the legal status
 - ✓ Based on capital ownership
 - ✓ Based on size
6. Conclusion
7. Questions for discussion

Objectives

This unit would enable the student to:

1. Understand the Concept of Economic Enterprises;
2. Identify the Different Types of Economic Enterprises;
3. Analyze the Objectives of Economic Enterprises;
4. Study the Different Forms of Business Ownership.

Introduction

The economic enterprise has occupied, and continues to occupy, a significant space in the writings and works of many economists, regardless of their ideological orientations, whether from the East or the West, considering it the core nucleus of the economic activity of society.

I. Definition of Enterprise

I.1. Origin of Enterprises

An enterprise is a structure created by a person called “entrepreneur” from a business idea and the means mobilized for this idea to be transformed to a business opportunity. (JEFF-ASTEINS, 2019, p. 6)

However, an idea and a business opportunity are insufficient to give birth to an enterprise. The enterprise is a result of three basic elements:

- ✓ A collective or individual actor called entrepreneur ;
- ✓ A business idea that can be concretized into a project ;
- ✓ The means to realize this project .

I.2. Definition of Enterprise

Enterprises are economic entities that produce goods and services destined to satisfy human wants and needs; directly or indirectly. (JEFF-ASTEINS, p. 8)

For example : Sonatrach, Naftal, Sonelgaz, Cosider, ATMobilis, Djezzy, Air Algérie, Enafor et ENTP, Cevital, Ooredooetc, are enterprises that we solicit their services on daily bases to satisfy our needs.

For us to understand these entities and its different dimensions, it is important to present some definitions of the enterprise before highlighting its different dimensions.

According to several authors, there is no exhaustive definition of the enterprise because of the multiplicity of their legal form. In this perspective, three definitions can be retained : (JEFF-ASTEINS, p. 9)

1. An enterprise is a legally autonomous economic entity independently organized for the implementation of set of factors of production and distribution of goods and services in the market.
2. An enterprise is a financial independent unit that buys goods and sells to customers in order to make profit.

This definition corresponds to commercial enterprises whose objective is the buying of goods and services to resale to the state without transforming or changing its form.

3. An enterprise is a financial independent economic unit that combines factors of production to produce goods and services destined to be sold in the market for the purpose of making profit. (Samuelson P. &., 2010, p. 118)

This definition corresponds to industrial enterprises that combine factors of production, transforms or change them into finished or semifinished products intended for consumption.

II. Dimensions of Enterprises

Enterprises are the first economic agents in the measure where, there are units of production, centers for decision and information, units of creation of wealth, units of distribution wealth created and a political system. (JEFF-ASTEINS, pp. 10-11)

II.1.The Enterprise as a production unit

The enterprise is an economic agent whose essential function is to produce and distribute goods and services destined to be sold in the market to realize

profit. In order to highlight on this point, we shall answer the following two questions:

A.What do enterprises produce?

Primarily, enterprises produce goods (stockable material products) and services (non stockable material products). These products are of different order, types, and commands.

B.What do enterprises need in order to produce?

To produce, enterprises need to employ factors of production :

- **Capital:** like financial capital, production tools (machines, buildings) ;
- **Know-how :** of an enterprise which are immaterial goods.
- **Circular consumption (intermediary consumption) :** This are goods and services destroyed, transformed or incorporated in the final product.

C. Do enterprises hold the monopoly in the production of goods and services?

Enterprises do not hold the monopoly of the production of goods and services. This is because households produce their own consumption goods and the state and administrations equally produce non marketable goods and services for free or sold at an inferior price relative to the cost of production.

II.2.The enterprise as a unit of creation of wealth.

During the production process, the enterprise creates wealth called value added. Value added materializes the total wealth created by an enterprise in the production process. It equally materializes the contribution of enterprises in the economic development of the country.

II.3.The enterprise as a unit of distribution of wealth created

The Value Added created by an enterprise is distributed between all those who contribute directly or indirectly in the realization of the enterprise' activities and objectives, including : Employees who receive salaries ; Shareholders who receive dividends ; Lenders who receive interest ; The state who receives taxes ; And the enterprise itself who receives auto-financing.

II.4.The enterprise as a center of decision and information

The production of goods and services by means of factors of production is done based on the of transformation process adopted by the enterprise. The process can be defined as the set of element which transforms the factors of production into goods and services. These elements are: the decisions and information.

A.The enterprise as a center of decision:

The enterprise is however the center of decision in the measure where she takes the following decisions: **Strategic decision** (These are choices which engage the future of the enterprise in the long run) ; **Tactical decision** (These decisions contribute to the realization of the strategic decision) ; **The current or operational decision** (They concern the day-to-day operations of the enterprise).

B. The enterprise as a center of information

The enterprise is also a center of information in the sense that; it is information that gives birth to decision. Information is data which can be communicated, conveyed or stored by a signal or a collection of signals resulting from a determined register. Decision making requires an important amount of information. Decision-making in enterprise requires a sum of information whose sources may be external or internal to the enterprise.

III. Classification of Enterprises

The business universe is diversified and consists of different categories ranging from small craft enterprises to multinational enterprises or large international groups. To make comparisons, a classification of these enterprises is necessary. For this reason, certain criteria have been retained: Sector of activity ; Legal status; Capital Ownership and The size.

III.1. Based on the Sector of activity

It constitutes the set of enterprises having the same principal activity. Traditionally, we distinguish three (03) main sectors of activities based on this criterion: (Media, 2010, p. 12)

Table (3) : Classification of Enterprises Based on the Sector of activity

Type	Meaning
The primary sector	These are enterprises which are concerned with the extraction of raw materials provided by nature, i.e. enterprises which are primarily engaged in agriculture, livestock, fishing and forest exploitation.
Secondary or industrial sector	These are enterprises whose main activity is the production and transformation of raw materials into finished products.
Tertiary sector	These are mainly commercial or distribution enterprises. These are enterprises which are concerned with the rendering of services to individuals.

Source : Elaborated by the author based on (Media, 2010)

III.2. Based on the legal status

It consists here to classify enterprises according to their origin of capital or type of ownership. In this perspective, we will distinguish private sector enterprises, public sector enterprises, parastatals and enterprises of the social economy sector. (Emporia State University, 2020)

Table (4) : Classification of Enterprises Based on the legal status

Type	Meaning
Sole proprietorship	Where the legal entity's personality blends with the personality of the capital owner who establishes this entity, we find productive, commercial, service institutions, etc., and usually, their number of workers is low.
Company of People	It is considered an extension of the sole proprietorship and is an association between two or more people, provided that the number of partners does not exceed twenty individuals. They share profits and losses and are further divided into general partnerships, limited partnerships, and silent partnerships.
Joint-stock companies (corporations)	It consists of a group of individuals who contribute shares to the company's capital, and the shareholder bears the loss equivalent to the value of the share, while the returns are in the form of distributed profits. The legislator also stipulated that the number of partners should not be less than 7 individuals,

	and the company's capital should not be less than 5 million DZD in the case of a public offering of shares, and not less than 1 million DZD if the company opts for a closed establishment.
Limited liability companies (SARL, EURL)	These are companies established by one person or several people, with the number of partners not exceeding 20 individuals. They do not bear losses beyond the shares they have contributed, and their capital must not be less than 100,000 DZD, divided into shares with a nominal value of at least 1,000 DZD.

Source : Elaborated by the author based on (Emporia State University, 2020)

III.3. Based on Capital Ownership

Enterprises are divided according to capital ownership into : Private, Public and Mixed enterprises. (DOBRIN, 2015, p. 50)

Table (5) : Classification of Enterprises Based on Capital Ownership

Type	Meaning
Private Enterprise	it is the one whose ownership is transferred to one person or several people, such as individual enterprises or partnerships, and each type of these institutions is governed by a specific legal framework that defines its management methods and procedures.
Public Enterprise	These are enterprises whose capital belongs to the public sector, as they are considered state institutions by nationalization or

	establishment. Their management is carried out by a person or persons chosen by the supervising authority. They are further divided into institutions affiliated with ministries and others affiliated with local communities.
Mixed Enterprise	These are enterprises whose ownership is shared between the state and individuals, but their organization is subject to several regulations, legislations, and special provisions.

Source : Elaborated by the author based on (DOBRIN, 2015)

III.4. Based on the Size

This classification distinguishes very small, small, medium and large enterprises. The criteria used for this classification are:

- The number of workers employed ;
- The financial criteria (capital, turn over, value added) ;
- The qualitative criteria (sector of activity, the quality of workers, managers and shareholders, the capital structure).

Generally, the number of workers employed is the most used criteria. However, the classification most often combines two criteria. This criterion varies from one country to another and from one institution to another in the same country.

In Algeria, we distinguish between large enterprises and SMEs. For SMEs, they include very small enterprises (VSEs), small enterprises (SEs), and medium-sized enterprises (MEs). (Nabil, 2022)

Table (6) : Classification of Enterprises Based on the Size

Type	Meaning
Very Small Enterprises (VSE)	it has no more than 9 employees, with a turnover of less than 20 million DZD, while its total annual budget is less than 10 million DZD.
Small-sized Enterprises(SE)	The number of its employees is between 10 and 49, its turnover is less than 200 million DZD, and its total annual budget is less than 100 million DZD.
Medium-sized Enterprises (MEs)	The number of its workers does not exceed 250, its turnover is less than 2 billion DZD, and its total annual budget does not exceed 500 million DZD.
Large enterprises (LEs)	The number of its workers exceeds 250, its turnover exceeds 2 billion DZD, and its total annual budget is over 500 million DZD.

Source : Elaborated by the author based on (Nabil, 2022)

Conclusion

From the above, the economic enterprise is considered the core and the main axis around which any economy revolves. It works through its various functions to achieve multiple economic and social goals. The micro-enterprise is one type of economic enterprises that has recently garnered significant attention from many countries, both developed and developing. This is due to the characteristics and advantages of this type of enterprise, which have led it to achieve tangible results, proving its ability to address the main economic problems facing different economies, and to a greater extent than large enterprises.

Questions for discussion :

1. What is the role of economic enterprises in society, and why are they considered the "core nucleus" of economic activity?
2. How do economic enterprises contribute to the satisfaction of human needs? Provide examples from the text or real life.
3. What are the three basic elements required to establish an enterprise? Can an enterprise exist without one of these elements? Why or why not?
4. How does an enterprise function as a production unit? What factors of production are essential for its operations?
5. What role do decision-making and information play in the functioning of an enterprise? How are strategic, tactical, and operational decisions different?
6. Do you think profit should be the primary goal of an enterprise? What other objectives should enterprises consider?
7. What challenges do small and medium-sized enterprises (SMEs) face in comparison to large enterprises? How can these challenges be addressed?
8. Research a successful SME in your country. What factors have contributed to its success, and how does it compare to larger enterprises?

UNIT SIX : THE MARKET AND ITS STRUCTURES

Structure

1. Objectives
2. Introduction
3. Meaning and definition of market
4. Characteristics of a market
5. Market structure
 - ✓ Characteristics of market structure
 - ✓ Factors that determine market structure
6. Classification of market
7. Conclusion
8. Questions for discussion

Objectives

This unit would enable the student to:

1. Understand the Concept of a Market;
2. Identify the Types of Markets;
3. Understand Market Structures and Their Characteristics;
4. Analyze Barriers to Entry in Different Market Structures.

Introduction

Markets are the distinctive institution of a free economy, as they are the place where buyers connect with sellers ; Individuals such as consumers, workers, savers, and money employees demand goods, services, and money ; The worker offers his services for a certain wage that enables him to purchase consumable goods or savings bonds; The contractor uses hired labor and the capital he owns or borrows to produce goods or provide services offered to consumers.

I. Meaning and Definition of Market

The word market comes from the latin word "marcatus", which means merchandise or trade or a place where business is conducted.

Word "market" has been widely and variedly used to mean: **(Rubinfeld, 2018, p. 29)**

- ✓ A place or a building where commodities are bought and sold, e.g., super market;
- ✓ Potential buyers and sellers of a product, e.g., wheat market and cotton market;
- ✓ Potential buyers and sellers of a country or region, e.g., Algerian market and African market;
- ✓ Organization which provides facilities for exchange of commodities.

The word market in the economic sense carries a broad meaning. Some of the definitions of market are given as follows: **(Eva Goodwin, 2019)**

- A. A market is the sphere within which price determining forces operate.
- B. A market is the area within which the forces of demand and supply converge to establish a single price.

- C. The term market means not a particular market place in which things are bought and sold but the whole of any region in which buyers and sellers are in such a free intercourse with one another that the prices of the same goods tend to equality, easily and quickly.

II .Characteristics of a market

For a market to exist, certain conditions must be satisfied. These conditions should be both necessary and sufficient. They may also be termed as the components of a market. (Sanga, 2021, p. 4)

1. Existence of buyers and sellers of the commodity.
2. The establishment of contact between the buyers and sellers. Distance is of no consideration if buyers and sellers could contact each other through the available communication system like telephone, agents, letter correspondence and Internet.
3. Buyers and sellers deal with the same commodity or variety. Since the market in economics is identified on the basis of the commodity, similarity of the product is very essential.
4. There should be a price for the commodity bought and sold in the market.

III. Market Structure

Market structure refers to the nature and degree of competition in the market for goods and services. The structures of market both for goods market and service (factor) market are determined by the nature of competition prevailing in a particular market. (GeeksforGeeks, 2024)

III.1.Characteristics of Market Structure

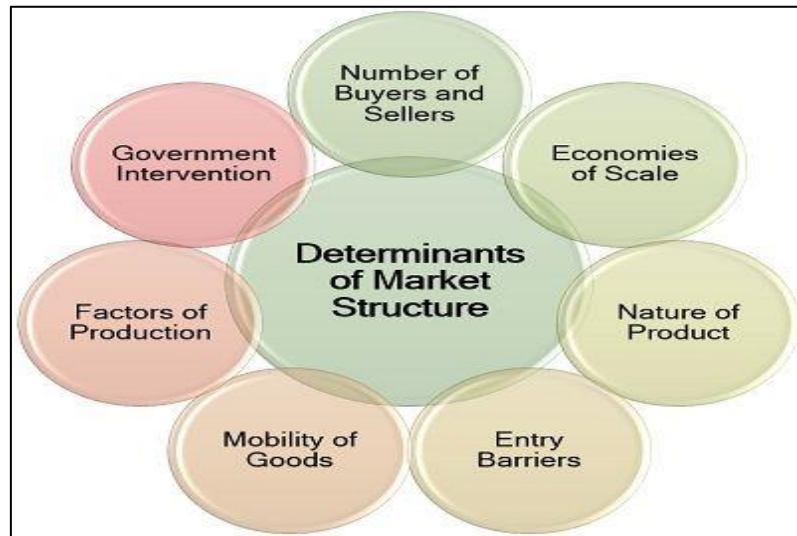
Characteristics of the market structure, which together determine the conduct and performance of the market, are : (**GeeksforGeeks, 2024**)

- A. **Number and Nature of Sellers:** The market structures are influenced by the number and nature of sellers in the market. They range from large number of sellers in perfect competition to a single seller in pure monopoly, to two sellers in duopoly, to a few sellers in oligopoly, and to many sellers of differentiated products.
- B. **Number and Nature of Buyers:** The market structures are also influenced by the number and nature of buyers in the market. If there is a single buyer in the market (monopoly market). There may be two buyers who act jointly in the market (duopsony market) ; They may also be a few organised buyers of a product (oligopsony market).
- C. **Nature of Product:** It is the nature of product that determines the market structure. If there is product differentiation, products are close substitutes and the market is characterised by monopolistic competition. On the other hand, in case of no product differentiation, the market is characterised by perfect competition. And if a product is completely different from other products, it has no close substitutes and there is pure monopoly in the market.
- D. **Entry and Exit Conditions:** The conditions for entry and exit of firms in a market depend upon profitability or loss in a particular market. Profits in a market will attract the entry of new firms and losses lead to the exit of weak firms from the market.

III.2. Factors That Determine Market Structure

Some of the major factors which determines the market structure of an industry are as follows: (**The Investors Book, 2021**)

Figure (5) : Factors That Determine Market Structure



Source : <https://theinvestorsbook.com/market-structure.html>

- A. **Number of Sellers:** The number of firms selling a particular product on the market, determines the level of competition.
- B. **Number of Buyers:** Buyers decide the demand for a particular product. A monopsony market has multiple sellers and a single buyer who influences the price of the product.
- C. **Economies of Scale:** The size of the firm or the level of production contributes to a market structure. If the output is done on such a large scale that it fulfils the market demand solely, it may create a monopoly market.
- D. **Nature of Product:** The product features determines the type of market structure to which it belongs. If the products offered by different sellers are homogeneous, it lies in a perfect competition market. If it is unique and has no other substitute, it creates a monopoly in the market.
- E. **Entry Barriers:** The profitability of a product invites the sellers to enter such markets. The market runs on the rule 'survival of the fittest' where weak firms exit and strong ones survive. There are some public utility service markets which run on monopoly by the government like post offices, railways, water supply, etc.

- F. **The mobility of Goods:** Easy transportation of goods from production place to the market ensures uniform prices by different sellers.
- G. **Government Intervention:** Some markets are indirectly controlled by the government. The government either imposes heavy taxes or makes the business license mandatory to restrict the entry of firms.

IV. Classification of Markets

Markets classified into three main categories according to Area, time, and competition. Each category has subdivisions as we will see.

IV.1. Market according to Area : Based on the extent of the market for any product, markets can be classified into local regional, national and international markets. (Sanga, 2021, p. 4)

- A. **Local Market :** A local market for a product exists when buyers and sellers of commodity carry on business in a particular locality or village or area where the demand and supply conditions are influenced by local conditions only.
- B. **National Market :** When commodities are demanded and supplied throughout the country.
- C. **Regional Market :** Commodities that are demanded and supplied over a region.
- D. **Global Market :** When demand and supply conditions are influenced at the global level.

IV.2. Market according to time : Marshall classified market based on the time element. The major divisions are very short period, short period and long period. (Sanga, 2021, p. 5)

- A. **Very Short Period :** refers to the type of competitive market in which the supply of commodities cannot be changed at all. So in a very short

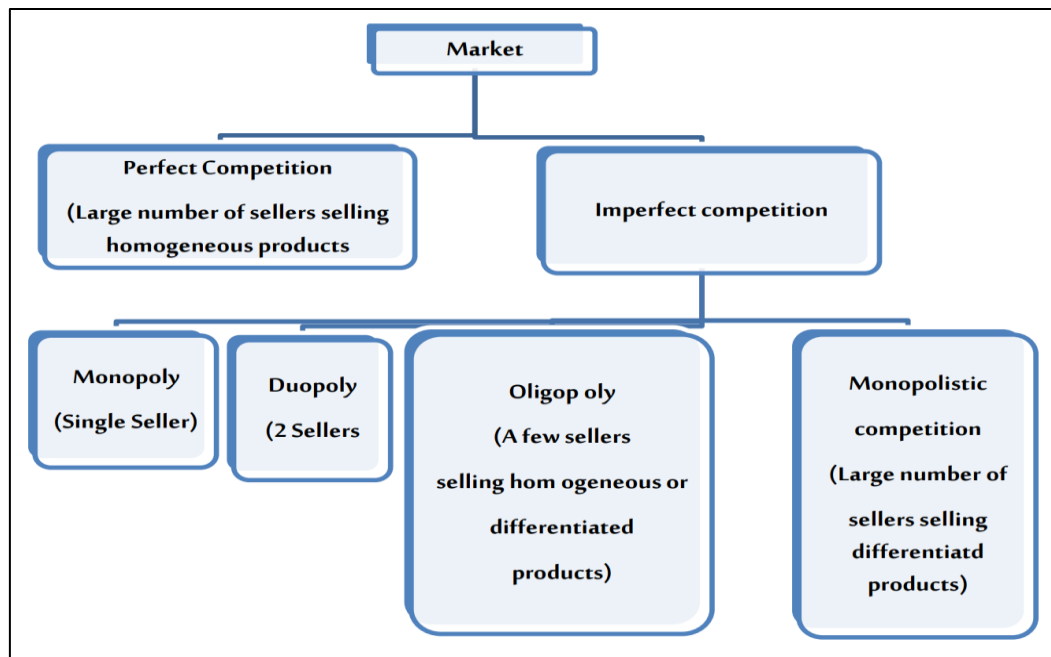
period, the market supply is perfectly inelastic. The price of the commodity depends on the demand for the product alone.

B. Short-period : refers to that period in which supply can be adjusted to a limited extent by varying the variable factors alone. The short period supply curve is relatively elastic. The short period price is determined by the interaction of the short-run supply and demand curves.

C. Long Period : is the time period during which the supply conditions are fully able to meet the new demand conditions. In the long run, all (both fixed as well as variable) factors are variable. Thus the supply curve in the long run is perfectly elastic. Therefore, it is the demand that influences price in the long period.

VI.3. Market according to competition : These markets are classified according to the number of sellers in the market and the nature of the commodity. The classification of market according to competition is as follows : (Sanga, 2021, p. 6)

Figure (6) : Market according to competition



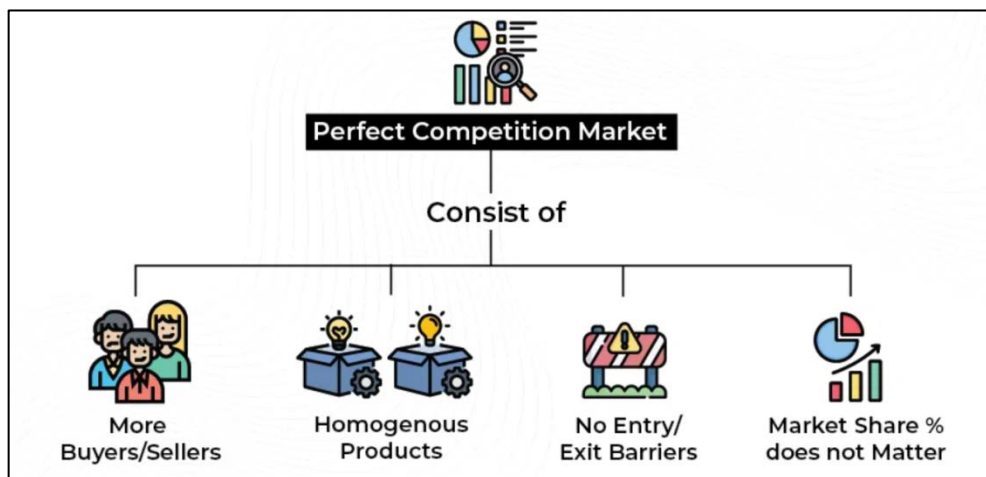
VI.3.1. Perfect Competition

Perfect competition is a market situation where there are infinite numbers of sellers that no one is big enough to have any appreciable influence over market price.

A. Features and Conditions of perfect competition

A perfectly competitive market has a number of unique features that set it apart from other market structures. The more important features of a perfectly competitive market include the following: (Irvine, 2016, p. 192)

Figure (7) : Features and Conditions of perfect competition



- ✓ **Large number of buyers and sellers:** A large number of buyers and sellers exists in a perfectly competitive market, ensuring that no individual buyer or seller can affect the price. The price is dictated by market factors, specifically the demand for and supply of the goods. The market will exhibit a uniform price.
- ✓ **Homogeneous Product :** Perfectly competitive firms produce homogeneous products which are perfect substitutes of one another. Customers do not differentiate at all amongst the products of different firms in terms of quality, features or brand.

- ✓ **Free entry and Free exit:** Entry is free, and any firm can enter the industry. Exit is equally easy, if firms find it difficult to cover their costs or earn a normal profit. Firms, on the other hand, can easily exit the industry with no costly overhead barriers to exit if they are faced with a situation where they cannot cover their costs or earn a normal profit.
- ✓ **Equality of market share :** in perfect competition, all producing firms have an equal market share. This is because firms can't make excessive profits by manipulating the price to their advantage, nor can they reduce or increase the price without significant effects on their survival in the marketplace.
- ✓ **Perfect Information:** Buyers and sellers have easy and instant access to all the information about prices, costs, and market conditions.
- ✓ **Absence of Government or artificial restrictions or collusions:** There are no government controls or restrictions on supply, pricing etc. There is also no collusion among buyers or sellers. The price in the perfectly competitive market is free to change in response to changes in demand and supply conditions.

B. Advantages of Perfect Competition

The perfect competition market has several advantages and can be followed as a benchmark for a country, below are the advantages of perfect competition: (Triani, 2020, p. 6)

- ✓ **Price Stability and Efficiency:** prices are determined by market forces of supply and demand, without any individual firm or buyer influencing the market price.
- ✓ **Consumer Welfare:** With many firms producing identical or homogeneous products, consumers have access to a wide range of options at competitive prices.

- ✓ **Incentives for Innovation and Efficiency:** firms are constantly seeking ways to reduce costs and improve product quality to gain a competitive edge. The absence of barriers to entry and exit allows new firms with innovative ideas to enter the market easily.
- ✓ **Economic Freedom and Entrepreneurship:** perfect competition provides equal opportunities for entrepreneurs and small businesses to enter and compete in the market. Low barriers to entry enable new firms to introduce innovative products or services, respond to changing consumer preferences, and challenge established firms.

VI.3.2. Imperfect Competition

Imperfect competition is a market structure in which sellers or buyers have market power over prices, which prevents the market from operating under perfect competition, and commonly exists when a market structure is in the form of monopolies, duopolies, oligopolies, monopolistic competition or monopsony (very rare). (Garcia, 2023, pp. 1-2)

A. Monopoly : A monopoly is a firm that is the only seller of a good or service in a market. In other words, a monopoly is the sole producer of a commodity that has no close substitutes ; The charecteristics of Monopoly are :

- ✓ Single Seller ;
- ✓ No close Substitutes ;
- ✓ The monopolist has control over the supply so as to increase the price ;
- ✓ There is no freedom to other producers to enter the market ;
- ✓ there is no difference between a firm and an industry.

B. Monopolistic Competition : A type of market structure where many companies are present in an industry, and they produce similar but

differentiated products ; The characteristics of Monopolistic Competition are :

- ✓ Many Sellers ;
- ✓ Product Differentiation ;
- ✓ Easy Entry and Exit ;
- ✓ Non-Price Competition ;
- ✓ Limited Price Control ;
- ✓ Imperfect Information.

C. Oligopoly : It is a form of imperfect competition where there will be only a few

sellers producing either homogenous or differentiated products ; The characteristics of Oligopoly are :

- ✓ interdependence in decision – making;
- ✓ High Barriers to Entry and Exit ;
- ✓ Product Differentiation ;
- ✓ a small number of large firms dominating the market.

D. Duopoly : is a form of oligopoly, where only two companies dominate the market ; Its characteristics are :

- ✓ Market consists of two producers ;
- ✓ Producers have a high strategic dependence ;
- ✓ Chances of collusive behavior are high ;
- ✓ The level of competition may be fierce ;
- ✓ Entry barriers are high.

E. Monopsony : Is a market condition in which there is only one buyer, the monopsonist ; And its characteristics are :

- ✓ There is only one buyer ;
- ✓ Low Bargain Power for Sellers ;
- ✓ Market Inefficiencies ;

- ✓ Limited Innovation.

The table below summarizes the characteristics of the market.

Table (7) : Summary of Market Structure

Market Structure	Number of Companies	Price	Barriers to Entry	Product Differentiation
Perfect Competition	Many	Price Takers	Low	Standardized product
Monopoly	One	Price Maker	High	No close substitutes
Monopolistic Competition	Many	Competitive - Brand Loyalty	Low	Products are differentiated
Oligopoly	Few	Avoid Price Competition - Price Leadership	High	Advertising - Everything But Price

Source : <https://www.higherrockeducation.org/glossary-of-terms/market-structure>

Conclusion

Markets are the fundamental mechanism through which economic activity is organized, enabling the exchange of goods, services, and resources between buyers and sellers. The structure of a market, shaped by factors such as the number of participants, product differentiation, and barriers to entry, determines the level of competition and efficiency within it. From perfect competition, where numerous small firms operate with no control over prices, to monopolies, where a single firm dominates, each market structure has distinct characteristics and implications for pricing, innovation, and consumer welfare.

Questions for discussion :

1. What is the origin of the word "market," and how is it defined in an economic context?
2. What are the essential conditions required for a market to exist?
3. What factors determine the structure of a market?
4. How do the number and nature of sellers and buyers influence market structure?
5. How are markets classified based on area, time, and competition?
6. What distinguishes a local market from a global market?
7. What role does government intervention play in shaping market structures?
8. How do different market structures influence innovation and consumer welfare?
9. In your opinion, which market structure is most effective for promoting economic growth, and why?
10. Can you provide examples of real-world markets that align with the structures discussed in the text (e.g., perfect competition, monopoly, oligopoly)?
11. How might advancements in technology and communication impact the classification and functioning of markets in the future?

UNIT SEVEN : DEMAND, SUPPLY AND PRICE DETERMINATION

Structure

1. Objectives
2. Introduction
3. Part One : Demand, Supply and Equilibrium
 - ✓ Demand and law of demand
 - ✓ Supply and the law of supply
 - ✓ Equilibrium
4. Part Two : Price Determination in Different Markets
 - ✓ Meaning of price determination
 - ✓ Price determination in different markets
5. Conclusion
6. Questions for discussion

Objectives

This unit would enable the student to:

1. Understand the Concept of Demand;
2. Understand the Concept of Supply;
3. Understand Market Equilibrium;
4. Understand the Concept of Price Determination.

Introduction

Price is dependent on the interaction between demand and supply components of a market. Demand and supply represent the willingness of consumers and producers to engage in buying and selling. An exchange of a product takes place when buyers and sellers can agree upon a price.

Part One : Demand, Supply and Equilibrium

Demand, Supply, and Equilibrium are fundamental concepts in economics that explain how markets function. They describe the relationship between the quantity of goods or services that producers are willing to sell and the quantity that consumers are willing to buy.

I.Demand and the Law of Demand

I.1.Demand versus Quantity Demanded

A. Demand : refers to different possible quantities of a commodity that the consumer is ready to buy at a given price and at a given time. In Economics, demand refers to effective demand, which implies three things: Desire ; Means to purchase and willingness to use those means for that purchase. (Alaseindre, 2016, p. 25)

B. The quantity demanded : is the total amount of goods and services that consumers need or want and are willing to pay for over a given time. (Karl E. Case, p. 50)

I.2. Determinants of Demand

There are many determinants of demand, but the top five determinants of demand are as follows: (Mishra, 2021, p. 7)

1. **Product cost:** Demand of the product changes as per the change in the price of the commodity. People deciding to buy a product remain constant only if all the factors related to it remain unchanged.
2. **The income of the consumers:** When the income increases, the number of goods demanded also increases. Likewise, if the income decreases, the demand also decreases.
3. **Costs of related goods and services:** For a complimentary product, an increase in the cost of one commodity will decrease the demand for a complimentary product. Similarly, an increase in the rate of one commodity will generate the demand for a substitute product to increase.
4. **Consumer expectation:** High expectation of income or expectation in the increase in price of a good also leads to an increase in demand. Similarly, low expectation of income or low pricing of goods will decrease the demand.
5. **Buyers in the market:** If the number of buyers for a commodity are more or less, then there will be a shift in demand.

1.3.Types of Demand

Few important different types of demand are as follows: (Rani, 2020, p. 2)

1. **Price demand:** It refers to various types of quantities of goods or services that a customer will buy at a quoted price and given time, considering the other things remain constant.
2. **Income demand:** It refers to various types of quantities of goods or services that a customer will buy at different stages of income, considering the other things remain constant.
3. **Cross demand:** This means that the product's demand does not depend on its own cost but depends on the cost of the other related commodities.
4. **Direct demand:** When goods or services satisfy an individual's wants directly, it is known as direct demand.

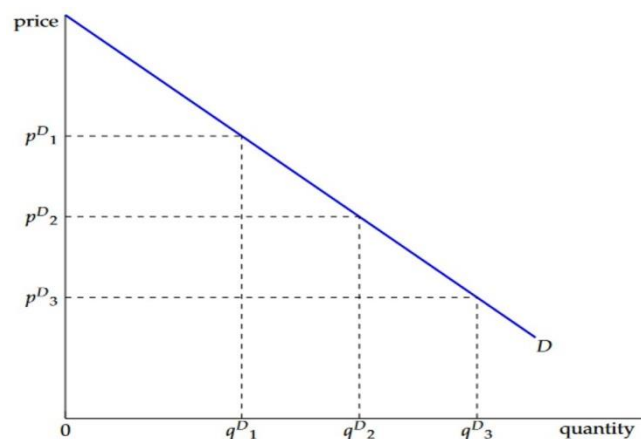
5. **Derived demand or Indirect demand:** The goods or services demanded or needed for manufacturing the goods and satisfying the consumer indirectly is known as derived demand.
6. **Joint demand:** To produce a product there are many things that are related to each other, for example, to produce bread, we need services like an oven, fuel, flour mill, and more. So, the demand for other additional things to produce a product is known as joint demand.
7. **Composite demand:** A composite demand can be described when goods and services are utilised for more than one cause.

I.4.The Law of Demand

The law of demand is interpreted as " the inverse relationship between price and quantity demanded, keeping other factors constant". (Alaseindre, p. 26)

It states that the higher the price, the lower the quantity demanded; and the lower the price, the higher the quantity demanded. Naturally, consumers are willing and able to buy less as the price rises. This results in a downward sloping demand curve (a graph that shows the relationship between the price of a good or service and the quantity demanded within a specified time frame, with price on the vertical axis and quantity on the horizontal axis).

Figure (8) : The Demand Curve



Source: (Alaseindre, 2016, p. 26)

Movements along the demand curve are therefore caused by changes in price.

II. Supply and the Law of Supply

II.1. Supply versus Quantity Supplied

A. Supply : is the quantity of the commodity that a seller offers for sale at a given price at a given time. The definition includes the following three things: the quantity of a commodity offered for sale by a seller ; The price of the commodity given in the market at which the seller is willing to sell that quantity of the commodity, and the time period during which the seller is willing to sell that quantity of the commodity. (Rice, 2016, p. 46)

B. Quantity Supplied : The specific quantity of a particular good or service that producers are willing and able to offer for sale at a specific price within a given period. (Rice, p. 46)

II.2. Determinants of Supply

The factors on which the supply of a commodity depends are known as the determinants of demand. These are: (Vallabhaneni, 2020, pp. 46-47)

1. **Price of the Commodity :** It is the main and the most important determinant of demand. When the price of the commodity is high, the producers or suppliers are willing to sell more commodities.
2. **Firm Goals :** an organization may have various goals such as profit maximization, sales maximization, employment maximization, etc ; Where the firm's objective is the maximization of profit, it will sell more goods when profits are high and less quantity of goods when the profits are low.
3. **Price of Inputs or Factors :** the price of inputs or the factors of production such as land, labor, capital, and entrepreneurship also determine the supply of the goods. When the price of inputs is low the cost of production is also low.

4. **Technology** : when a firm uses new technology it saves the inputs and also reduces the cost of production. Thus, firms produce more and supply more goods.
5. **Government Policy** : the taxation policies and the subsidies given by the government also impact the supply of goods.
6. **Expectations** : when the producers or suppliers expect that the price shall increase in future they hoard the goods so that they can sell them at higher prices later. This will result in a decrease in the supply of goods.
7. **Prices of other Commodities** : when the price of complementary goods increases their supply also increases. Thus, this results in the increase in the supply of commodity also and vice-versa.
8. **Number of Firms** : when the number of firms in the market increase the supply of goods also increases and vice-versa.

II.3.Types of Supply

Few important different types of supply are as follows: (Team, 2021)

1. **Short-term supply** : explains that the ability of a purchaser to buy goods is constrained by the available supplies. Buyers cannot purchase beyond the supplied products.
2. **Long-term supply** : explains the factor of time availability whenever the demand changes – meaning, the availability of time gives the supplier a leeway to adjust to a sudden shift in demand.
3. **Joint supply** : explains the consequential supply. For example, lamb production affects meat and wool supply. In case farmers reduce farming lambs, meat and wool supply will go down, too. Similarly, an increase will result in the opposite effect.
4. **Market supply** : explains the overall willingness and ability of all suppliers to supply the market a particular product on a day-to-day basis.

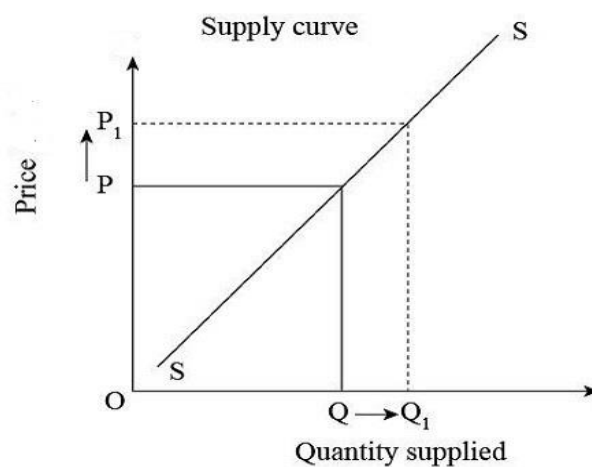
5. **Composite supply** : is used to explain the supply of products that serves more than one purpose.

II.4.The Law of Supply

The Law of Supply represents the positive relationship between the quantity of a good offered and its price. (Piper, 2014, p. 49)

It depicts the producer behavior at the time of changes in the prices of goods and services. When the price of a good rises, the supplier increases the supply in order to earn a profit because of higher prices. This results in a upward sloping supply curve (a graphic representation of the relationship between price and quantity supplied of a certain good or service, with price on the vertical axis and quantity on the horizontal axis).

Figure (9) : The Supply Curve



Source: (Piper, 2014, p. 49)

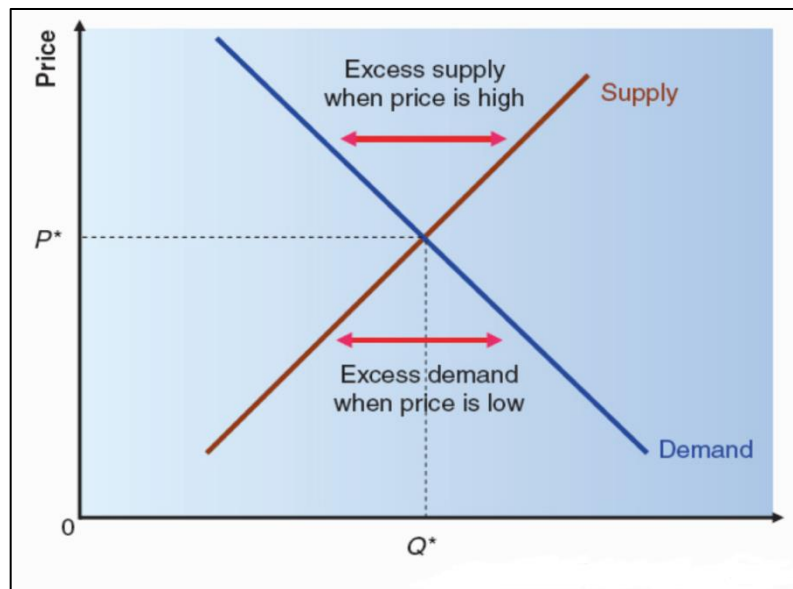
Movements along the supply curve are therefore caused by changes in price.

III. Equilibrium

Equilibrium occurs when the quantity of a commodity demanded in the market per unit of time is exactly equal to the quantity of the commodity supplied to the market over the same time period. Geometrically,

equilibrium occurs at the intersection of the market demand curve and the market supply curve. The price and quantity at which equilibrium exists are known respectively as the equilibrium price and equilibrium quantity. (Mandel, 2018, p. 37)

Figure (10) : The Equilibrium



Source: (Mandel, 2018, p. 38)

III.1.Types of Equilibrium

There are several types of market equilibrium, each describing different conditions under which supply and demand balance. Here are the main types: (Remesh, 2022)

- A. Static Equilibrium :** a situation where supply and demand are balanced at a specific point in time, with no tendency for change, also prices and quantities remain constant unless external factors disrupt the balance.
- B. Dynamic Equilibrium :** a situation where supply and demand are balanced over time, but the equilibrium point may shift due to changing conditions. Prices and quantities adjust over time in response to factors like technological advancements, consumer preferences, or resource availability.

- C. Partial Equilibrium :** a situation where equilibrium is analyzed in a specific market or sector, assuming that other markets remain unchanged. It focuses on a single market while ignoring interactions with other markets.
- D. General Equilibrium :** a situation where all markets in an economy are in equilibrium simultaneously, considering the interdependence of markets. It takes into account how changes in one market affect others.
- E. Stable Equilibrium :** a situation where the market returns to equilibrium after a disturbance.
- F. Unstable Equilibrium :** a situation where the market does not return to equilibrium after a disturbance, leading to further divergence.
- G. Short-Run Equilibrium :** a temporary equilibrium where supply is fixed or limited, and prices adjust to balance demand. And in this case producers cannot immediately adjust production levels, so prices fluctuate more significantly.
- H. Long-Run Equilibrium :** a situation where all factors of production are variable, and the market reaches a stable balance over time. But producers can adjust supply fully, and prices stabilize at a level where economic profits are zero (in perfect competition).
- I. Nash Equilibrium (in Game Theory) :** a situation in which no player in a market can benefit by changing their strategy unilaterally, given the strategies of others.

III.2.Factors affecting Equilibrium

Market equilibrium is influenced by various factors that can shift the supply curve, the demand curve, or both. These changes disrupt the balance between supply and demand, leading to a new equilibrium price and quantity. Here are the 5 key factors affecting market equilibrium: (Remesh, 2022)

- A. Excess Demand :** Excess demand occurs when demand exceeds supply, causing upward pressure on prices. As price increases, demand decreases, and supply increases until market equilibrium is reached.
- B. Excess Supply :** Excess supply occurs when supply exceeds demand, causing downward pressure on prices. As demand increases, supply decreases until a new equilibrium point is established.
- C. Changes in both Demand and Supply :** Market equilibrium is influenced by simultaneous changes in demand and supply, with increased quantities leading to higher prices and decreased quantities resulting in lower prices.
- D. Competitive Factors :** Competitive factors, including new firms entering or exiting, impact market equilibrium. Increased competition leads to lower prices and higher quantities, while reduced competition results in higher prices and lower quantities.
- E. Strategic Factors :** Strategic factors like pricing, product differentiation, and marketing influence market equilibrium by influencing production decisions and consumer behavior. Lowering prices can increase market share, affecting other firms' adjustments.

Lecture N° 08

Part Two : Price Determination in Different Markets

Price determination is one of the most critical elements in economic theory. It defines how firms set prices for goods and services, depending on the level of competition they face within various market structures.

I. Meaning of Price Determination

I.1.Meaning of Price

When a seller sells a commodity, he exchanges it for money. The buyer pays money to the seller in exchange of goods and services. The amount of money which a buyer pays for one unit of a good or service to the seller, is called the price of the good or service. (Asmundson, 2013)

Normally, the main aim of the seller is to earn profit. Profit is the difference between total revenue and total cost. Total revenue means total money receipts of the producer from the sale of given volume of output. Total cost means total expenditure incurred by a seller in the production of that output.

I.2.Price Determination

Price determination refers to the process of establishing the market price of a good or service based on the interplay of demand and supply forces. It involves various economic principles, including cost of production, competition, market demand, and consumer behavior. (Dutta S. , 2006)

I.3.Factors Influencing Price Determination

Understanding the factors influencing price determination is essential for comprehending market behaviors. These factors shape how prices are set and adjusted in response to market dynamics. (Monga, 2020)

- A. Demand and Supply** : the core pillars of price determination are demand and supply. Higher demand with limited supply usually increases prices, while an oversupply with low demand decreases them.
- B. Market Structure** : different market types, perfect competition, monopoly, monopolistic competition, and oligopoly—have unique price-setting mechanisms.
- C. Cost of Production** : the cost of production includes raw materials, labor, and overheads. Higher costs often lead to higher prices.
- D. Government Policies** : taxes, subsidies, and regulations can directly impact pricing and influence market dynamics.
- E. Consumer Perception** : the value consumers place on a product or service also plays a role in determining its price.

II. Price Determination in Different Markets (Dutta, 2020)

II.1. Price Determination in Perfect Competition

The price in a perfectly competitive market is set at the intersection of the market demand and supply curves. Since firms cannot charge above the market price, they must focus on minimizing production costs to maximize profits. For each firm, the price remains constant for all units sold. The profit-maximizing condition for firms in perfect competition is when: **MR=MC**

Since the marginal revenue (MR) equals the market price (P), firms maximize profit by producing at the output level where: **P=MC**

II.2. Price Determination in Monopoly

A monopolist sets the profit-maximizing output where $MR = MC$. However, unlike perfect competition, the marginal revenue curve lies below the demand curve, as the firm must lower the price for all units sold when it increases output. The monopolist determines the output where marginal cost

equals marginal revenue and sets the price from the demand curve at that output level.

II.3.Price Determination in Monopolistic Competition

Firms in monopolistic competition face a downward-sloping demand curve, giving them some control over prices. They maximize profits by setting output where $MR = MC$ and charging the price corresponding to that quantity on the demand curve. However, since new firms can enter the market, economic profits tend to zero in the long run.

II.4.Price Determination in Oligopoly

In oligopolistic markets, pricing strategies are significantly influenced by the interdependence among a few dominant firms. Each firm's pricing decisions are strategically crafted based on the anticipated responses of its competitors, making price determination highly complex compared to other market structures. Oligopoly pricing is characterized by price rigidity—firms avoid frequent price changes to prevent price wars and maintain market stability.

Conclusion

The interaction between demand and supply is central to price determination in markets. The laws of demand and supply illustrate how prices and quantities adjust to reach equilibrium, influenced by factors like consumer preferences, production costs, and government policies. Price determination varies across market structures, from price-taking firms in perfect competition to price-setting monopolists and strategically interdependent oligopolists. Understanding these principles helps policymakers, businesses, and consumers navigate market dynamics, ensuring efficient resource allocation and informed decision-making. Ultimately, demand, supply, and price determination are key to understanding how markets function and shape economic outcomes.

Questions for discussion :

1. How do factors such as consumer income, prices of related goods, consumer expectations, and the number of buyers influence the demand for a product?
2. Similarly, how do factors like production costs, technology, government policies, and the number of firms affect the supply of a product?
3. What happens to equilibrium price and quantity when there is an increase or decrease in demand or supply?
4. How do excess demand and excess supply disrupt market equilibrium, and what mechanisms help restore balance?
5. How do external factors like technological advancements or government interventions (e.g., taxes or subsidies) impact equilibrium in the short run and long run?
6. How does price determination differ in perfect competition, monopoly, monopolistic competition, and oligopoly?
7. In perfect competition, why are firms considered price-takers, and how do they maximize profits?
8. In a monopoly, how does the absence of competition allow the firm to set prices, and what are the implications for consumers?
9. How do firms in oligopolistic markets strategically set prices while considering the actions of competitors?

UNIT EIGHT : ECONOMIC ACTIVITIES

Structure

1. Objectives
2. Introduction
3. Production
4. Factors of production
5. Consumption
6. Investment
7. Saving
8. Income distribution
9. Conclusion
10. Questions for discussion

Objectives

This unit would enable the student to:

1. Understand the Nature and Importance of Economic Activities;
2. Understand the Core Elements of Production ;
3. Analyze the Role of Producers in Economic Activities;
4. Examine the Role of Consumers in Economic Activities;
5. Understand the Concept of Price Determination.

Introduction

Economic activities of a nation play a major role in its overall development. They refer to the range of actions and transactions within an economy involving the production, distribution, and consumption of goods and services. It encompasses all the economic interactions and behaviours that contribute to a society's overall well-being and prosperity.

I. Production

I.1. Definition

Production is defined as transformation of inputs into output. The resources used in production are called inputs and the goods and services produced are called output. (Jughaiman, 2017)

The goal of production is to satisfy our wants. These goods and services produced can be sold in markets or can be provided by the government to public at nominal charge. Therefore Production is defined as creation of utility.

Production activities involve making of goods and services. People who make and sell these goods and services are known as producers. The producers combine the factors like land, labour, capital and entrepreneurship along with raw materials in order to transform them into various goods and services. Land, **labour, capital** and **entrepreneurship** are called the factors of production. The producers try to produce maximum amount of goods and services by using various combination of factors of production.

I.2. Factors of Production

Anything that helps in production is the factor of production. These are the various factors by mean any resource is transformed into a more useful

commodity or service. They are the inputs for the process of production, and the starting point of the production process. (Grant, 2020, p. 7)

Figure (11) : Factors of Production



I.2.1.Land as a factor of production (Semin, 2019)

A. Definition of Land

Land is a broad term that includes all the natural resources that can be found on land, such as oil, gold, wood, water, and vegetation. Natural resources can be divided into renewable and non-renewable resources.

- ✓ **Renewable resources** are resources that can be replenished, such as water, vegetation, wind energy, and solar energy.
- ✓ **Non-renewable resources** consist of resources that can be depleted in supply, such as oil, coal, and natural gas.

All resources, whether it is renewable or non-renewable, can be used as inputs in production in order to produce a good or service. The income that comes from using land and its natural resources is referred to as **rent**.

Besides using its natural resources, land can also be utilized for various purposes, such as agriculture, residential housing, or commercial buildings. However, land differs from the other factors of production because some natural resources are limited in quantity, so its supply cannot be increased with demand.

B. Characteristics of Land

- ✓ **Fixed Supply:** The quantity of land is limited and cannot be increased (except through reclamation or discovery of new resources).
- ✓ **Location-Specific:** The value and productivity of land depend on its location (e.g., fertile soil in river valleys, oil reserves in the Middle East).
- ✓ **Immobile:** Land cannot be moved from one place to another (e.g., a coal mine is fixed in its location).
- ✓ **Heterogeneous:** Land varies in quality and utility (e.g., fertile vs. barren land, mineral-rich vs. mineral-poor land).

C. Types of Land Resources

- ✓ **Agricultural Land:** Used for farming, livestock, and forestry (Examples: Wheat fields, cattle ranches, timber forests).
- ✓ **Mineral Resources:** Used for extracting minerals and fuels (Examples: Oil, coal, gold, iron ore).
- ✓ **Water Resources:** Used for irrigation, drinking, and industrial purposes (Examples: Rivers, lakes, groundwater).
- ✓ **Urban Land:** Used for housing, commercial, and industrial activities (Examples: Residential areas, office buildings, factories).

D. Role of Land in Production

- ✓ **Source of Raw Materials:** Land provides the raw materials needed for production (e.g., crops for food, oil for energy).
- ✓ **Space for Production:** Land offers physical space for factories, farms, and infrastructure.
- ✓ **Natural Ecosystems:** Land supports ecosystems that provide essential services (e.g., pollination, water purification).
- ✓ **Foundation for Economic Activities:** All economic activities (agriculture, manufacturing, services) depend on land in some way.

I.2.2.Labor as a Factor of Production

A. Definition of labor

Refers to the effort that individuals exert when they produce a good or service. For example, an artist producing a painting or an author writing a book. Labor itself includes all types of labor performed for an economic reward, such as mental and physical exertion. The value of labor also depends on human capital, which is determined by the individual's skills, training, education, and productivity.

Productivity is measured by the amount of output someone can produce in each hour of work. The income that comes from labor is referred to as **wages**.

B. Characteristics of Labor

- ✓ **Human Effort:** Labor is inseparable from the person providing it (e.g., a worker cannot separate themselves from their skills or effort).
- ✓ **Variable Quality:** The productivity of labor depends on factors like education, skills, training, and health (often referred to as **human capital**).
- ✓ **Mobile:** Labor can move between jobs, industries, or geographic regions in search of better opportunities.
- ✓ **Perishable:** Labor cannot be stored; if a worker does not work today, that day's labor is lost forever.
- ✓ **Time-Bound:** Labor is tied to the availability of workers (e.g., working hours, retirement).

C. Types of Labor

- ✓ **Skilled Labor:** Requires specialized training, education, or expertise (Examples: Doctors, engineers, software developers).
- ✓ **Unskilled Labor:** Requires little to no specialized training (Examples: Construction workers, factory workers, cleaners).

- ✓ **Semi-Skilled Labor:** Requires some training but not highly specialized skills (Examples: Truck drivers, receptionists, machine operators).
- ✓ **Intellectual Labor:** Involves mental effort and creativity (Examples: Researchers, writers, artists).

D. Role of Labor in Production

- ✓ **Transformation of Resources:** Labor transforms raw materials into finished goods (e.g., workers assembling cars in a factory).
- ✓ **Service Provision:** Labor provides services directly to consumers (e.g., teachers educating students, doctors treating patients).
- ✓ **Innovation and Creativity:** Skilled and intellectual labor drives innovation, leading to new products, services, and technologies.
- ✓ **Economic Growth:** A productive labor force is essential for economic development and increasing a country's GDP.

I.2.3.Capital as a Factor of Production

A. Definition of Capital

Refers to the man-made resources used in the production of goods and services.

It includes physical assets like machinery, tools, buildings, and infrastructure, as well as financial assets like money used to purchase physical capital.

Capital is a **produced means of production**, meaning it is created by humans to enhance productivity. The income that comes from capital is referred to as **interest**.

B. Characteristics of Capital

- ✓ **Man-Made:** Capital is not naturally occurring; it is created through human effort and investment.

- ✓ **Durable:** Capital goods are long-lasting and used repeatedly in production (e.g., machinery, buildings).
- ✓ **Productive:** Capital enhances the efficiency and output of labor and land.
- ✓ **Depreciates Over Time:** Capital goods wear out or become obsolete and need to be replaced or upgraded.
- ✓ **Mobile:** Capital can be moved or reallocated to different uses (e.g., machinery can be repurposed).

C. Types of Capital

- ✓ **Physical Capital:** Tangible assets used in production (Examples: Machinery, tools, factories, vehicles, computers).
- ✓ **Financial Capital:** Money or funds used to purchase physical capital or invest in production (Examples: Loans, stocks, bonds).
- ✓ **Human Capital:** The skills, knowledge, and experience of workers (often considered a separate factor but closely linked to capital). Examples: Education, training, expertise.
- ✓ **Social Capital:** Networks, relationships, and institutions that facilitate production and economic activity (Examples: Trust, partnerships, business networks).

D. Role of Capital in Production

- ✓ **Enhances Productivity:** Capital goods like machinery and technology enable workers to produce more in less time.
- ✓ **Facilitates Specialization:** Capital allows for the division of labor and specialization, increasing efficiency.
- ✓ **Supports Innovation:** Investment in capital drives technological advancements and innovation.
- ✓ **Improves Quality:** Advanced machinery and tools improve the quality of goods and services.

- ✓ **Enables Large-Scale Production:** Capital-intensive industries (e.g., manufacturing, energy) rely on heavy machinery and infrastructure.

I.2.4. Entrepreneurship as a Factor of Production

A. Definition of Entrepreneurship

Entrepreneurship as a factor of production is a combination of the other three factors. Entrepreneurs use land, labor, and capital in order to produce a good or service for consumers. (Ratten, 2023)

Entrepreneurship is involved with establishing innovative ideas and putting that into action by planning and organizing production. Entrepreneurs are important because they are the ones taking the risk of the business and identifying potential opportunities. The income that entrepreneurs earn is called **profit**.

B. Characteristics of Entrepreneurship

- ✓ **Risk-Taking:** Entrepreneurs bear the risk of failure in pursuit of profit.
- ✓ **Innovation:** Entrepreneurs introduce new products, services, or methods of production.
- ✓ **Decision-Making:** Entrepreneurs make strategic decisions about what to produce, how to produce, and for whom.
- ✓ **Vision and Leadership:** Entrepreneurs have a vision for their business and inspire others to work toward that vision.
- ✓ **Adaptability:** Entrepreneurs must adapt to changing market conditions and consumer preferences.

C. Role of Entrepreneurship in Production

- ✓ **Combining Factors of Production:** Entrepreneurs bring together land, labor, and capital to produce goods and services.
- ✓ **Driving Innovation:** Entrepreneurs develop new technologies, products, and business models.

- ✓ **Creating Jobs:** Entrepreneurs establish businesses that provide employment opportunities.
- ✓ **Meeting Consumer Needs:** Entrepreneurs identify and fulfill unmet consumer demands.
- ✓ **Economic Growth:** Entrepreneurship drives economic development by increasing productivity and competitiveness.

D. Types of Entrepreneurs (Ratten, 2023)

- ✓ **Small Business Entrepreneurs:** Individuals who start and run small businesses (e.g., local shops, restaurants).
- ✓ **Scalable Startup Entrepreneurs:** Entrepreneurs who aim to grow their businesses rapidly (e.g., tech startups).
- ✓ **Social Entrepreneurs:** Individuals who create businesses to address social or environmental issues.
- ✓ **Corporate Entrepreneurs:** Employees within large companies who drive innovation and new ventures.

Below, is a summary of the factors of production, its characteristics, examples and rewards in a clear and concise table format:

Table (8) : Factors of Production

Factor		Characteristics	Examples		Rewards
	Labour	Physical + Mental Input		Workforce	Wages
	Land	Land + Extracted Resources		Farm + Crops	Rent
	Capital	Fixed + Working Capital		Machinery	Interest
	Entrepreneurship	Organisation of Factors		Manager	Profit

Source : <https://www.ezyeducation.co.uk/ezyeconomicsdetails/ezylexicon-economic-glossary/14-factors-of-production.html>

II. Consumption

Refers to the use of goods and services by individuals or households to fulfill their needs and desires.

It is the end goal of all economic activities, as goods and services are produced and distributed to be consumed. (INTRODUCTORY ECONOMICS, 2020)

II.1. Importance of Consumption

Modern economists give a lot of importance to the level of consumption in the economy because it characterizes the economic system the country currently operates in. (Team, 2021)

- ✓ **The beginning of all economic activity :** Consumption initiates human economic activity, as individuals act to satisfy their desires, leading to consumption and the fulfillment of human wants.
- ✓ **End of economic activities :** If, for example, a person desires a sandwich, they will take the effort to make the sandwich. Once it is made, the food is consumed, resulting in the end of an economic activity.
- ✓ **Consumption drives production :** According to economist Adam Smith, “Consumption is the sole purpose of all production.” It means that the production of goods and services is dependent on the level of consumption.
- ✓ **Economic theories :** Consumption theory has influenced economists to develop theories like the Law of Demand, Consumer Surplus, and the Law of Diminishing Marginal Utility, highlighting individual behavior's impact on economic output.
- ✓ **Government theories :** Consumption habits aid the government in formulating theories, determining minimum wage and tax rates, making decisions on commodity production, and providing insight into the saving to spending ratio in the economy.

- ✓ **Income and employment theory :** Keynesian economics, a theory by John Maynard Keynes, emphasizes the role of consumption in income and employment. If consumption doesn't increase demand, production falls, leading to unemployment. This theory suggests that consumption influences an economy's income and output.

II.2.Types of Consumption (Team, 2021)

- ✓ **Direct Consumption:** Using goods and services directly to satisfy needs (e.g., eating food, wearing clothes).
- ✓ **Indirect Consumption:** Using goods and services to produce other goods (e.g., using machinery to manufacture products).
- ✓ **Durable Goods Consumption:** Long-lasting items (e.g., cars, appliances, furniture).
- ✓ **Non-Durable Goods Consumption:** Short-lived items (e.g., food, clothing, fuel).
- ✓ **Services Consumption:** Intangible activities (e.g., healthcare, education, entertainment).

II.3.Factors Influencing Consumption (Team, 2021)

- ✓ **Income:** Higher income generally leads to higher consumption.
- ✓ **Preferences and Tastes:** Consumer choices depend on personal preferences and cultural influences.
- ✓ **Prices of Goods and Services:** Lower prices often increase consumption, while higher prices reduce it.
- ✓ **Availability of Credit:** Access to loans or credit can boost consumption.
- ✓ **Government Policies:** Taxes, subsidies, and regulations can influence consumption patterns.
- ✓ **Demographics:** Age, family size, and lifestyle affect consumption behavior.

Lecture N° 10

III. Investment

Is the act of committing resources—such as money, time, or effort—into assets, projects, or ventures with the expectation of achieving a financial return or other benefits in the future. It involves forgoing immediate consumption in favor of creating potential gains, such as income, profit, or increased value over time. (INTRODUCTORY ECONOMICS, 2020)

III.1. Types of Investment (Brahmi, 2020)

III.1.1. Based on Asset Class

- A. Physical Assets:** Investments in tangible assets that have intrinsic value. Like real estate (residential, commercial, land), precious metals (gold, silver), commodities (oil, agricultural products).
- B. Financial Assets:** Investments in financial instruments that represent ownership or debt. Like stocks (equity shares of companies), bonds (government or corporate debt), mutual funds and ETFs (pooled investments), and derivatives (options, futures).
- C. Intangible Assets:** Investments in non-physical assets that derive their value from intellectual or legal rights. Like patents, trademarks, copyrights, software, technology, and R&D.

III.1.2. Based on Time Horizon

- A. Short-Term Investments:** Investments intended to generate returns within a short period (less than 3 years). Examples: Savings accounts ; Money market funds and treasury bills.
- B. Long-Term Investments:** Investments held for an extended period (more than 3 years) to achieve significant growth or income. Examples: stocks and real estate.

III.1.3. Based on Ownership

- A. Direct Investments:** Investments where the investor owns the asset directly (Examples: Buying a house/Purchasing stocks directly).
- B. Indirect Investments:** Investments made through intermediaries or pooled funds (Examples: Mutual funds/Exchange-traded funds (ETFs)/ Real estate investment trusts (REITs)).

III.1.4. Based on Geographic Location

- A. Domestic Investments:** Investments made within the investor's home country (Examples: Local real estate / Domestic stocks and bonds).
- B. International Investments:** Investments made in foreign markets (Examples: Foreign stocks / Global mutual funds / Overseas real estate).

III.2. Investment Determinants

Are the key factors that influence the level and direction of investment in an economy. These factors can be economic, social, political, or psychological, and they affect decisions made by individuals, businesses, and governments.

III.2.1. Economic Factors

- ✓ **Interest Rates:** Lower interest rates reduce borrowing costs, making it cheaper for businesses and individuals to invest. Higher interest rates discourage investment by increasing the cost of borrowing.
- ✓ **Economic Growth:** A growing economy with high consumer demand encourages businesses to invest in expansion. Slow growth or recession reduces investment due to lower demand and uncertainty.
- ✓ **Inflation:** Moderate inflation can encourage investment by increasing future revenue expectations. High or unpredictable inflation discourages investment due to uncertainty about costs and returns.

- ✓ **Profit Expectations:** Higher expected profits motivate businesses to invest in new projects or expansion. Low profit expectations lead to reduced investment.

III.2.2. Government Policies

- ✓ **Tax Incentives:** Tax breaks or subsidies for investment (e.g., depreciation allowances, R&D credits) encourage businesses to invest.
- ✓ **Regulations:** Favorable regulations (e.g., ease of doing business) promote investment, while excessive regulations can deter it.
- ✓ **Infrastructure Development:** Government investment in infrastructure (e.g., roads, ports, energy) creates a conducive environment for private investment.
- ✓ **Political Stability:** Stable governments and policies reduce uncertainty, encouraging long-term investment.

III.2.3. Global Factors

- ✓ **Foreign Direct Investment (FDI):** Attracting FDI depends on factors like political stability, market size, and labor costs.
- ✓ **Exchange Rates:** A weaker domestic currency can boost exports, encouraging investment in export-oriented industries.
- ✓ **Global Demand:** High global demand for goods and services encourages businesses to invest in production capacity.

III.3. Investment Tools

Are the specific financial products or assets that investors use to allocate their capital with the goal of generating returns.

These are the actual assets or securities in which investors can invest their money. (Brahmi, 2020)

- ✓ **Stocks:** Shares of ownership in a company.

- ✓ **Bonds:** Debt instruments issued by governments or corporations.
- ✓ **Mutual Funds:** Pooled investments managed by professionals.
- ✓ **Exchange-Traded Funds (ETFs):** Funds traded on stock exchanges, tracking indices or sectors.
- ✓ **Derivatives:** Financial contracts derived from underlying assets (e.g., options, futures).
- ✓ **Real Estate:** Physical property or real estate investment trusts (REITs).

IV.Saving

Is the act of setting aside a portion of income or resources for future use rather than spending it immediately. (Charba, 2024)

It involves delaying current consumption to meet future needs or goals.

IV.1.Importance of Saving (Charba, 2024)

- ✓ **Financial Security:** Savings provide a safety net for emergencies (e.g., medical expenses, job loss).
- ✓ **Achieving Goals:** Savings help individuals achieve long-term goals like buying a house, funding education, or retirement.
- ✓ **Economic Stability:** High levels of savings contribute to economic stability by providing funds for investment and reducing reliance on debt.
- ✓ **Wealth Accumulation:** Savings can be invested to generate additional income and build wealth over time.

IV.2.Types of Saving (Charba, 2024)

- ✓ **Personal Savings:** Individuals set aside money from their income for future needs.
- ✓ **Corporate Savings:** Businesses retain a portion of profits for future investments or contingencies.
- ✓ **Government Savings:** Governments save through budget surpluses, which can be used for future spending or debt reduction.

- ✓ **National Savings:** The total savings of a country, including personal, corporate, and government savings.

IV.3.Factors Influencing Saving (Charba, 2024)

- ✓ **Income Levels:** Higher incomes generally lead to higher savings.
- ✓ **Interest Rates:** Higher interest rates encourage saving by offering better returns.
- ✓ **Economic Conditions:** During recessions, individuals may save more due to uncertainty.
- ✓ **Cultural Factors:** Cultural attitudes toward saving and spending vary across societies.
- ✓ **Government Policies:** Tax incentives or retirement savings programs can encourage saving.

V.Income Distribution

Describes how income is shared among individuals or households in a country. (Stewart*, 2000)

It highlights the disparities between high-income and low-income groups.

V.1.Importance of Income Distribution

- ✓ **Economic Inequality:** Income distribution reveals the gap between the rich and the poor.
- ✓ **Social Stability:** High inequality can lead to social unrest and political instability.
- ✓ **Poverty Reduction:** Understanding income distribution helps design policies to reduce poverty.
- ✓ **Economic Growth:** Equitable income distribution can promote sustainable economic growth by increasing consumer spending and reducing social tensions.

V.2.Types of Income Distribution

- ✓ **Equal Distribution:** Every individual or household earns the same income (theoretical ideal).
- ✓ **Unequal Distribution:** Income is concentrated among a small percentage of the population.
- ✓ **Functional Distribution:** How income is distributed among factors of production (e.g., wages for labor, profits for capital).

Conclusion

We've explored the core economic concepts production, consumption, saving, investment, and income distribution and their interconnected roles in driving economic growth and stability. Understanding these principles helps us make informed decisions, address inequality, and build a more prosperous future. By balancing these elements, individuals, businesses, and governments can foster sustainable development and improve quality of life.

Questions for discussion:

1. How do the four factors of production (land, labor, capital, entrepreneurship) interact in your local economy?
2. What role does technology play in modern production processes, and how does it impact labor?
3. How does the quality of labor impact a country's economic development?
4. What are the challenges faced by laborers in your local economy?
5. How does the quality of labor impact a country's economic development?
6. What are the challenges faced by laborers in your local economy?
7. How does the quality of labor impact a country's economic development?
8. What are the challenges faced by laborers in your local economy?
9. How does the quality of labor impact a country's economic development?
10. What are the challenges faced by laborers in your local economy?

UNIT NINE : MONEY AND ITS ROLE

Structure

1. Objectives
2. Introduction
3. Barter system
4. Money and its functions
5. Functions of money
6. Forms of money
7. Role of money in the economy
8. Conclusion
9. Questions for discussion

Objectives

This unit would enable the student to:

1. Understand the Functions of Money;
2. Understand the Functions of Money;
3. Examine the Different Forms of Money;
4. Understand the Role of Money in economy.

Lecture N° 11

Introduction

When you think of money, you likely think of cash and coins that you use to purchase goods and services. In economics, the word money is used a little more broadly. Money can be anything that is widely accepted as payment for goods and services. Historically, seashells, gemstones, animal parts and dozens of other items have served as money.

I.Barter System

I.1. Definition

In the past when people were living in small societies and there was not much development as you see today, they were helping each other through barter system to mutually benefit one another.

Barter system means exchange of one kind of goods and services for another kind of goods and services. There was no involvement of money in barter system. (Marandi, 2021)

When one good is exchanged for another good without use of money, we call it trade through barter system.

I.2. Demerits of Barter System

The demerits of barter system are as follows : (Marandi, 2021)

- ✓ **The lack of double coincidence of wants:** it means that if one wants to exchange some good with another person then the latter must also be willing to exchange his good with the first person.
- ✓ **Lack of division of goods:** Certain goods are not physically divisible into small
- ✓ pieces.
- ✓ **Lack of common unit of measurement :** because of lack of divisibility of goods under barter system, it was difficult to equate the values of different goods which were traded.

- ✓ Another problem of barter system is that a person must store a large volume of his own good in order to exchange for his/her desired goods with others on day to day basis.
- ✓ Finally, a major problem of barter system is that, a good loses its original quality and value if it is stored for a long period.

II. Money and its Functions

II.1. Definition

There are different definitions of money from various perspectives: (Vats, 2021)

- ✓ **Legal Definition** : money is defined in purely legal terms that is "what the law states it to be."
- ✓ **Functional Definition**: the functional definition of money includes in it all those things that perform the functions of money and excludes all others.
- ✓ **Narrow Definition of Money -also known as M1-**: This definition focuses on the most liquid forms of money that are directly used in transactions (**Currency**: Physical coins and banknotes in circulation ; **Demand deposits**: Money in checking accounts that can be quickly accessed and used for payments ; **Other liquid assets**: Some definitions include travelers' checks and other highly liquid financial instruments).
- ✓ **Broad Definition of Money -also known as M2, M3-**: This definition includes both liquid forms of money and assets that are slightly less liquid but can still be converted into cash or used for transactions (**M1**: Currency, demand deposits, and travelers' checks ; **M2**: Includes all of M1 plus savings accounts, time deposits (like certificates of deposit), and other near-money assets ; **M3**: Includes M2 plus large time deposits, institutional money market funds, and other less liquid assets).

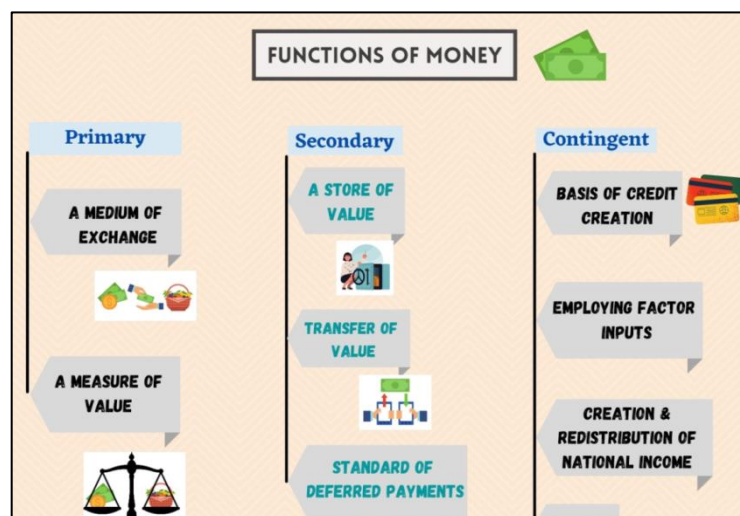
II.2.Characteristics or Qualities of Money

- ✓ **Acceptability** : in terms of a form of currency being accepted within society, money must be accepted by everyone in the economy. This acceptance is for the purpose of the exchange of money for goods and services.
- ✓ **Divisibility** : this relates to money being easily divided into smaller denominations for transactional purposes. It is necessary therefore for money to be easily broken down for different types of transactions. For example a \$10 note can be broken up into two \$5 notes or ten (10) \$1 notes.
- ✓ **Durability** : this simply refers to the physical wear and use of money over a period of time. If money is easily destroyed or damaged it is likely that it is fraudulent and therefore cannot be trusted.
- ✓ **Limited supply** : in order for money to retain its worth, it must be limited in supply. The more money in circulation the less it is valued by the economy.
- ✓ **Portability** : it is necessary for money to be easily transported so that people can carry it around with them easily. This also allows for the ease of transaction so that money can be transferred from one place to another.
- ✓ **Uniformity** : depending on the different types of currency that are available, money within that specific currency must look the same. This also allows for money to be counted and measured accurately.

II.3.Functions of Money

The functions of money can be known from its definitions. They are given below : (SIKLAR, 2019, p. 101)

Figure (12) : Functions of Money



Source: <https://upscplanner.com/functions-of-money/>

II.3.1.Primary Functions

- A. Medium of Exchange :** this means that people can buy or sell goods and services with the help of money. Money is received by the seller who sells the good. Money is paid by the buyer who buys the good from the seller.
- B. Measure of Value :** another fundamental function of money is that it serves as unit of account or common measure of value. The value of a good is determined by multiplying its price with quantity sold in the market. Since the price is expressed in monetary units, the value of a good is also expressed in monetary term.

II.3.2.Secondary Functions

- A. Store of Value :** Money acts as a store of value as a medium of exchange, allowing individuals to pay for goods or services. This purchasing power stores the value of the good, and as a seller, the value of the good is returned through money, ensuring the exchange of goods.
- B. Standard of Deferred Payments :** money is a convenient method for deferred payments, making it the standard for current or future payments. This convenience has led to the popularity of lending and borrowing

transactions, contributing significantly to the formation of financial institutions.

C. Transfer of Value : mutility extends to value transfer, enabling purchase of goods both domestically and internationally, contributing to market stability and liquidity, and forming essential functions of money markets.

II.3.3.Contingent Functions

Besides, the primary and secondary functions of money, Prof. Kinley lays stress on the contingent functions of money.

A. Distribution of national income: money helps in optimum distribution of national income among different factors of production by generating factor incomes like rent, interest, wage and profit.

B. Basis of credit creation: credit creation by commercial banks is not possible without money. Money as a store of value has encouraged savings by people in the form of demand deposits in the banks which are used by the commercial banks to create credit.

C. Increases productivity of assets: money increases the productivity of capital as it is the most liquid asset and can be put to alternative uses. Due to liquidity of money, capital can be easily transferred from less productive uses to more productive uses.

II.4.Forms of Money

There are many forms of money. Following are the main forms of money :
(Peter, 2013, p. 2)

II.4.1.Metallic Money: the money made of any metal such as gold, silver...etc, is called metallic money. It exists in the form of coins. Metallic money has the following two types:

A. Full Bodied Coins: When the face value of the coin is equal to the value of metal contained in the coin, the coin is called a full bodied coin. The gold and silver coins of old times are examples of full bodied coins.

B. Token Money: When the face value of a coin is greater than the value of the metal it contains, it is called token money. In our country, all the coins are token money.

II.4.2.Paper Money: Paper money refers to notes of different value made of paper which is issued by the central bank or government of the country. The paper money can be classified into following types:

A. Representative Money: Representative money is backed by equal metallic reserves, allowing holders of bank notes to convert it into gold or silver on demand.

B. Convertible Money: The government issues notes that can be converted into gold and silver, but only a proportion of the gold reserves are fully backed by gold.

C. Inconvertible Money/fiat Money: A pocket-sized currency with a higher face value than paper, such as the 100 da note, is generally accepted as legal money due to its government declaration as a medium of exchange.

II.4.3.Bank Money: This is the most modern form of money this money is also called credit. It only consists of the following:

A. Cheques: A cheque is an unconditional order by the client on his bank to pay a certain sum of money to him or to any other party.

B. Bills of Exchange: A bill of exchange is an order by the drawer to the drawee to pay a sum of money to the drawer or to any other party.

C. Draft: Draft is a cheque drawn by a bank on its own branch or the branches of another bank requesting it to pay on demand a specific amount to a person named on it.

II.4.4. Standard Money: Standard money is that in which the value of goods as well as all other forms of money are measured.

II.4.5. Near Money: A type of money which can easily be converted into money. It included deposits, government bonds, printed bonds etc.

II.4.6. Fiduciary Money: Fiduciary money depends for its value on the confidence that it will be generally accepted as a medium of exchange. Unlike fiat money, it is not declared legal tender by the government, which means people are not required by law to accept it as a means of payment.

II.4.7. Commodity money: Commodity money is a commodity that has intrinsic value and is used as a medium of exchange. Salt, animal, gems, beads, gold, silver etc. are examples of commodity money.

II.5. Role of Money in the Economy

Money plays a pivotal role in the functioning of modern economies. It serves as the lifeblood of economic activity, facilitating transactions, enabling savings and investment, and influencing overall economic stability. (SAVITA, 2016)

- ✓ **Reduces Transaction Costs:** By providing a common medium, money reduces the time and effort required to complete transactions, thereby lowering transaction costs.
- ✓ **Simplifies Accounting:** Businesses use money as a unit of account to keep track of revenues, costs, profits, and losses, facilitating financial planning and analysis.
- ✓ **Wealth Preservation:** Money allows individuals and businesses to save and store wealth for future use. It retains value over time, enabling deferred consumption and investment.

- ✓ **Liquidity:** Money is the most liquid asset, meaning it can be easily converted into other forms of assets or used for transactions without significant loss of value.
- ✓ **Facilitates Borrowing and Lending:** Money enables the creation of credit and debt markets. It allows for the deferment of payments, making it possible to borrow and lend, which is essential for investment and economic growth.
- ✓ **Contracts and Agreements:** Money serves as a standard for future payments in contracts, loans, and other financial agreements, providing a reliable basis for economic planning.
- ✓ **Income and Wealth Inequality:** The distribution of money and access to financial services can significantly impact income and wealth inequality. Policies aimed at financial inclusion and equitable distribution of resources are essential for social stability.
- ✓ **Access to Financial Services:** Access to money and financial services (banking, credit, insurance) enables individuals and businesses to invest, grow, and manage risks, contributing to overall economic development.
- ✓ **Exchange Rates:** Money plays a crucial role in international trade by determining exchange rates. Stable and predictable exchange rates facilitate cross-border trade and investment.
- ✓ **Foreign Reserves:** Countries hold foreign currencies as reserves to stabilize their own currency and ensure smooth international transactions.
- ✓ **Gross Domestic Product (GDP):** Money is used to measure the total economic output of a country. GDP, expressed in monetary terms, is a key indicator of economic health.
- ✓ **Consumer Price Index (CPI):** Money is used to track changes in the price level of a basket of consumer goods and services, providing insights into inflation and purchasing power.

- ✓ **Capital Formation:** Money is essential for capital formation, enabling savings to be channeled into investments in infrastructure, technology, and human capital.
- ✓ **Stock and Bond Markets:** Money facilitates the functioning of financial markets, where stocks, bonds, and other securities are traded. These markets provide liquidity and enable risk-sharing.
- ✓ **Economic Stability:** Proper management of money supply and monetary policy contributes to economic stability, reducing the risk of recessions and financial crises.
- ✓ **Public Confidence:** Trust in the monetary system and the value of money is crucial for public confidence and social stability. Hyperinflation or deflation can erode trust and lead to social unrest.

Conclusion

Money is an indispensable component of modern economies, influencing virtually every aspect of economic activity. Its roles as a medium of exchange, unit of account, store of value, and standard of deferred payment are fundamental to the smooth functioning of markets and the overall economy. Understanding the role of money helps policymakers, businesses, and individuals make informed decisions that promote economic stability and growth.

Questions for discussion :

1. Why is money considered a more efficient medium of exchange compared to the barter system?
2. How does money's role as a store of value impact individual savings and investment decisions?
3. What are the advantages and disadvantages of fiat money compared to commodity money?
4. How do exchange rates affect international trade and economic relationships between countries?
5. Why is it important for countries to maintain foreign currency reserves?
6. How does access to money and financial services impact income and wealth inequality?
7. What policies can be implemented to ensure financial inclusion for all?
8. How does money influence consumer behavior and spending habits?
9. What are the psychological effects of money on individuals and societies?
10. How has the evolution of money (from barter to digital currencies) shaped human civilization?
11. What would happen to the economy if money suddenly lost its value?
12. How would society function if money were no longer the primary medium of exchange?

UNIT TEN : MAJOR ECONOMIC PROBLEMS

Structure

1. Objectives
2. Introduction
3. Inflation
4. Unemployment
5. Philips Curve
6. Conclusion
7. Questions for discussion

Objectives

This unit would enable the student to:

1. Understand the Concept of Inflation;
2. Explore the Causes and Consequences of Inflation;
3. Examine the Concept of Unemployment;
4. Study the Relationship Between Inflation and Unemployment ;
5. Understand the Phillips Curve.

Introduction

Inflation and unemployment are two of the most significant economic challenges that governments and policymakers face. They are often interrelated and can have profound impacts on a country's economic stability and growth.

I. Inflation

Inflation is a fundamental economic concept that holds immense importance for anyone interested in understanding the dynamics of a modern economy.

I.1. Definition of Inflation

Inflation is defined as a general increase in the price of goods and services across the economy, or, in other words, a general decrease in the value of money. Conversely, deflation is a general decrease in the price of goods and services across the economy, or a general increase in the value of money. (Tah, 2021)

I.2. Classification of inflation

Inflation can be classified based on various criteria, including its cause, speed...etc. Here are some common classifications:

I.2.1. Classification of inflation on the basis of speed (magnitude)

On the basis of speed, inflation can be classified as: (Tah, 2021)

- A. Creeping Inflation:** It is the mildest form of inflation and the one that is generally regarded as conducive for economic growth/aggregate output. This is because it keeps the economy away from stagnation. On average, prices rise by less than 3% per cent annually.
- B. Walking Inflation:** Walking inflation occurs when the price rise becomes more marked as compared to creeping inflation. Under walking inflation,

prices rise by more than 3% but less than 10% annually. This kind of inflation should be taken seriously as it can result into running or galloping inflation.

C. Running Inflation: Under running inflation, the prices increase at a still faster rate. The price rise may be above 10 % but less than 20% per annum.

D. Galloping or Hyper-Inflation: Under the galloping inflation, the prices rise every month by a rate that is above 50% and there is no upper limit to the price level rise. Keynes considers this type of inflation as the true inflation.

I.2.2. Classification of inflation according to causes

On the basis of cause, inflation can be classified as : (Malinvaud, 2000, p. 988)

A. Demand-Pull Inflation: this type of inflation results when the four macroeconomic sectors (household, business, government, and foreign) collectively try to purchase more output than the economy is capable of producing. They compete to purchase the limited amounts of goods and services and this bids up prices causing inflation. This excessive demand, also referred to as “too much money chasing too few goods”, usually occurs in an expanding economy.

B. Cost-Push Inflation: is caused by exogenous nonpolicy factors such as oil crises, terrorist shocks, and weather-related events. This inflation, also referred to as “commodity inflation,” results in an overall decline in national output productivity.

C. Structural inflation: is embedded in institutional rigidities faced by a country, such that a complete change in institutional structures would be needed in order to address inflation. According to the structuralists, this type of inflation is common in developing countries.

D. Imported inflation : This is a type of inflation experienced through importation of goods and services from countries already experiencing inflation. Sometimes it is simply a result of importing in highly priced goods.

I.3. Effects of inflation

Inflation negatively impacts various sectors, prompting individuals to protect income value, making maintaining relative price stability a crucial economic policy objective. (Tah, 2021)

- ✓ Inflation affects the purchasing power of money, i.e. it reduces the quantity of goods that can be purchased with a given amount of money. The higher the inflation rate, the faster one's purchasing power is eroded.
- ✓ Inflation distorts incentives to save. Under inflationary conditions, one's purchasing power is eroded over time and this encourages consumption rather than savings.
- ✓ Inflation also affects investment decisions as it adds greater uncertainty to the future and this complicates business planning.
- ✓ Economic agents protect themselves from inflation by demanding higher interest rates, avoiding long-term commitments, holding short-term assets, and avoiding fixed-income investments.
- ✓ Wage earners seek larger wage settlements, especially during rising inflation, with trade unions insisting on cost of living clauses. Wage indexation has an inflationary bias, potentially leading to wage-price spirals.
- ✓ Inflation can cause uneven distribution of income and wealth, as prices change at different rates. Resource owners in higher-priced goods receive more real income, while those in lower-priced goods receive less. This results in a redistribution of wealth and income.
- ✓ Social, economic and political disorders.

- ✓ Failure to achieve macroeconomic goals

I.4. Policy measures to control inflation

Controlling inflation is a key objective for governments and central banks to ensure economic stability and sustainable growth. Various policy measures can be employed to manage inflation, depending on its cause and severity. These measures can be as the following table shows : (Tah, 2021)

Table (9) : Policy measures to control inflation

Type of inflation	Policy measures to control it
Demand-Pull Inflation	• Restrictive monetary policy should be used to reduce money in circulation. Policies such as increasing the bank rate, moral suasion, increase of the legal reserve requirement. • Restrictive fiscal Policy: Government can reduce its expenditure such as reducing on the wage bill and increase spending on other productive sectors. Government can also impose higher direct taxes (causing a fall in disposable income) • Adoption of price such as fixing prices of goods and services.
Cost Push Inflation	• Supply-side policies; The long-term solution to cost-push inflation could be better supply-side policies which help to increase productivity and shift the AS curve to the right. • Reduction of Value Added Taxes/ Provision of subsidies to key sectors to reduce the production costs. Subsidies can however be costly on the government and difficult to implement. • Intervention in the foreign exchange market to strengthen the exchange rate to reduce the cost of imported inputs.
Structural inflation	• Government can incentivise private investment for example through tax holidays to increase the level of investment. • Improve sectors that are failing for example the agricultural sector by setting up irrigation schemes, storage systems, electricity and other relevant support. • Improvement of infrastructure.

Imported inflation	• Import restrictions especially on imports from countries with inflation for as long as there are other available alternatives. • Subsidization of imports. • Import substitution strategy.
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Source : elaborated by the author based on (Tah, 2021)

II.Unemployment

Unemployment is one of the most critical economic issues faced by societies worldwide. It represents a situation where individuals who are willing and able to work cannot find employment.

II.1.Definition of Unemployment

Unemployment occurs when a person who is actively searching for employment is unable to find work. It is typically measured as a percentage of the labor force (the sum of employed and unemployed individuals). (Aissa, 2018)

Labor Force = Employed + Unemployed individuals.

Unemployment Rate = (Number of Unemployed / Labor Force) × 100.

II.2.Types of Unemployment

Unemployment can be categorized into several types based on its causes, the following table shows those types : (Aissa, 2018)

Table (10) : Types of Unemployment

Type	Causes
Frictional Unemployment	• Occurs when workers are temporarily between jobs. • It is a natural part of the job search process. • Example: A recent graduate looking for their first job or someone relocating to a new city.
Structural Unemployment	• Arises due to a mismatch between the skills workers possess and the skills demanded by employers. • Often caused by technological changes, globalization, or shifts in the economy. • Example: Automation replacing factory workers.
Cyclical Unemployment	• Linked to the business cycle. It rises during economic recessions and falls during periods of

	growth. • Example: Layoffs during a recession due to reduced consumer demand.
Seasonal Unemployment	• Occurs due to seasonal variations in demand for labor. • Example: Agricultural workers or holiday retail workers.
Technological Unemployment	• Caused by the adoption of new technologies that replace human labor. • Example: Self-checkout machines reducing the need for cashiers.

Source : elaborated by the author based on (Aissa, 2018)

II.3.Causes of Unemployment

Unemployment is influenced by a variety of factors, including: (Aissa, 2018)

- ✓ **Economic Factors:** Recessions, inflation, or deflation.
- ✓ **Technological Changes:** Automation and artificial intelligence.
- ✓ **Globalization:** Outsourcing of jobs to other countries.
- ✓ **Government Policies:** Minimum wage laws, labor regulations, or trade policies.
- ✓ **Demographic Changes:** Population growth or aging workforce.
- ✓ **Education and Skills Gap:** Lack of alignment between education systems and labor market needs.

II.4.Consequences of Unemployment

Unemployment has far-reaching effects on individuals, society, and the economy: (Aissa, 2018)

A. Economic Consequences

- ✓ Reduced GDP and economic growth.
- ✓ Loss of income for individuals and families.
- ✓ Increased government spending on unemployment benefits and social programs.

B. Social Consequences

- ✓ Poverty and inequality.

- ✓ Increased crime rates and social unrest.
- ✓ Strain on mental health (e.g., depression, anxiety).

C. Psychological Consequences

- ✓ Loss of self-esteem and confidence.
- ✓ Feelings of helplessness and stress.

II.5.Policies to Address Unemployment

Governments and policymakers use various strategies to combat unemployment: (Aissa, 2018)

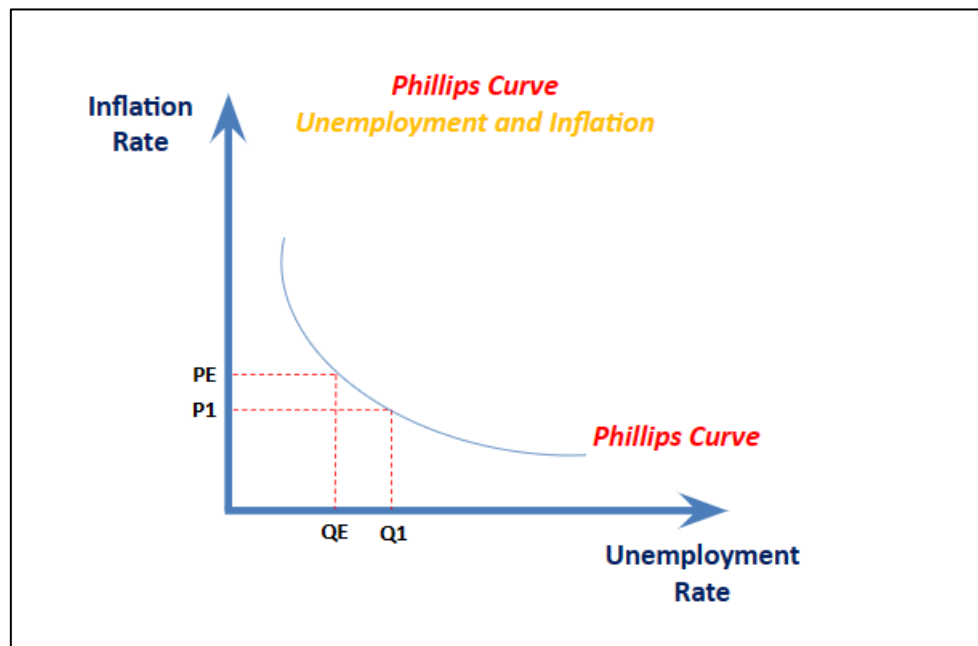
- A. Monetary Policy :** Central banks adjust interest rates to stimulate or cool the economy (Example: Lowering interest rates to encourage borrowing and investment).
- B. Fiscal Policy :** Government spending and taxation policies to influence economic activity (Example: Infrastructure projects to create jobs).
- C. Education and Training Programs :** Upskilling and reskilling workers to match labor market demands (Example: Vocational training programs).
- D. Labor Market Reforms :** Reducing barriers to employment, such as rigid labor laws (Example: Flexible work arrangements).
- E. Support for Innovation and Entrepreneurship :** Encouraging startups and small businesses to create jobs (Example: Tax incentives for new businesses).
- F. Social Safety Nets :** Unemployment benefits and welfare programs to support those without jobs (Example: Unemployment insurance).

III.The Phillips Curve

The relationship between inflation and unemployment is one of the most studied and debated topics in economics. It is central to understanding macroeconomic policy and the trade-offs policymakers face. The primary framework used to analyze this relationship is the **Phillips Curve** (Phillips, an economist observed an inverse relationship between wage inflation and unemployment in the UK), it means : When unemployment is low, inflation

tends to be high ; When unemployment is high, inflation tends to be low. (Palley, 211)

Figure (13) : The Phillips Curve



Explanation:

- ✓ **Low Unemployment:** When unemployment is low, the labor market is tight, and workers have more bargaining power to demand higher wages. Firms, in turn, pass these higher labor costs on to consumers in the form of higher prices, leading to inflation.
- ✓ **High Unemployment:** When unemployment is high, there is less pressure on wages, and firms have less incentive to raise prices, resulting in lower inflation.

Conclusion

Inflation and unemployment are key economic indicators that are intricately linked, as demonstrated by concepts like the Phillips Curve. Policymakers aim to strike a balance between these two factors to promote stable economic growth, but trade-offs are often unavoidable.

Questions for discussion :

1. What is the relationship between inflation and unemployment? Can they ever truly be considered separate issues, or are they always interconnected?
2. How does the Phillips Curve illustrate the trade-off between inflation and unemployment, and why has it been a subject of debate among economists, particularly in recent decades?
3. How do different types of inflation (demand-pull vs. cost-push) impact unemployment rates in the short and long term?
4. To what extent can central banks control inflation without triggering higher unemployment? Are there situations where this trade-off becomes more or less pronounced?
5. Can high inflation ever be a good thing for an economy? In what circumstances might policymakers allow inflation to rise despite the potential risks to unemployment?
6. What impact does globalization have on the relationship between inflation and unemployment, particularly in the context of developing vs. developed economies?
7. Given the rise of automation and AI, do you think we will see a shift in the traditional relationship between inflation and unemployment in the future? Why or why not?

UNIT ELEVEN : ECONOMIC POLICIES

Structure

1. Objectives
2. Introduction
3. Part One : Economic Policies
 - ✓ Definition
 - ✓ Objectives of economic policies -the magic square of Kaldor-
4. Part two: Types of Economic Policy
 - ✓ Monetary policy
 - ✓ Fiscal policy
 - ✓ Trade policy
5. Conclusion
6. Questions for discussion

Objectives

This unit would enable the student to:

1. Understand the Concept of Economic Policies;
2. Analyze the Objectives of Economic Policies;
3. Understand the Types of Economic Policies;
4. Examine the Tools Used in Monetary, Fiscal and Trade Policy.

Lecture N° 13

Introduction

Economic policies are crucial for nations to navigate growth, stability, and development, influencing economic activity, addressing challenges, and achieving societal goals. Economic policies shape lives, impact individuals, businesses, and communities, and are critical for national prosperity and global stability in an interconnected world.

Part One : Economic Policies

I. Definition

When discussing economic policies, several influential economists and scholars have contributed to the understanding and development of the field. Below are some key authors whose ideas have shaped economic policy:

- ✓ **Paul Samuelson** : "Economic policy is the application of economic principles and theories to guide decisions on resource allocation, production, and distribution, with the aim of improving societal welfare."
(Samuelson P. A., 1948)
- ✓ **Adam Smith** : "Economic policy, in its essence, is about creating the conditions under which the invisible hand of the market can operate efficiently, ensuring prosperity through free trade and competition."
(SMITH, 1981)

As a **general definition**: "Economic policies refer to the set of actions and decisions made by a government or central authority aimed at managing and influencing a nation's economic activities. These actions can include taxation, government spending, regulation, and the management of the money supply".

II. Objectives of Economic Policies –The Magic Square of Kaldor-

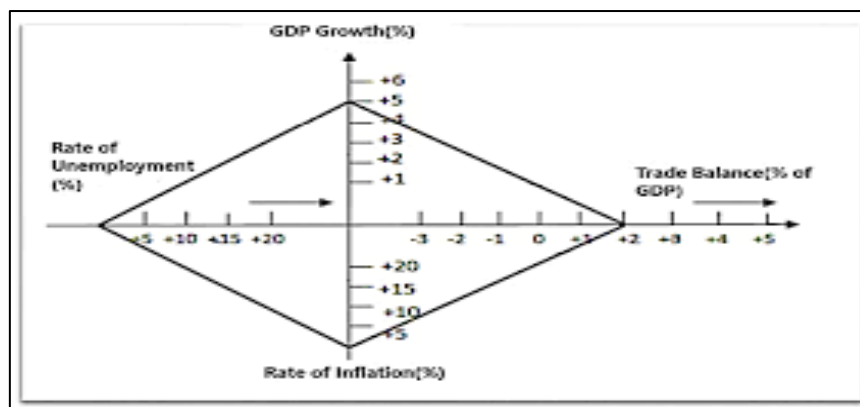
The objectives of economic policies can vary depending on the specific goals of a government or central bank, but they generally focus on managing and improving the economic well-being of a country. Generally, these policies

aim to achieve four specific economic objectives referred to as The Magic Square of Kaldor. (Medrano, 2013)

The Magic Square of Kaldor is a conceptual framework developed by economist Nicholas Kaldor in the mid-20th century. It outlines the interconnections between four critical macroeconomic variables : **economic growth, employment, balance of payments, and inflation**. These variables are essential for assessing an economy's performance, and Kaldor's framework provides a tool for policymakers to balance these objectives, aiming to achieve economic stability and sustainable prosperity.

The Magic Square of Kaldor is usually depicted as a matrix with the following four key objectives placed in the corners:

Figure (14) : The Magic Square of Kaldor



Source : Marwa Samir Hegazy, Evaluating the Effectiveness of Monetary Policy on the Variables of the Magic Square of Kaldor in Egypt

A. Achieving the highest level of economic growth: high rates of economic growth are measured by the rate of growth in GDP. According to Kaldor, the rate of economic growth must be 6%. Monetary policy has a significant impact on economic growth through its direct impact on the rate of interest, then on investment decisions and levels, and then on operation.

B. Full Employment : this is measured by the percentage of unemployment in the total working population. According to Kaldor, the unemployment rate must be zero percent.

C. Stabilization of the overall level of prices: measured by inflation, according to Kaldor, inflation is better at zero, which is consistent with Milton Friedman's view that a low level of inflation, with the goal of full operation, requires an average GDP growth of 5% to 6% per year.

D. Balance of payments: the percentage balance of payments for GDP is measured by the percentage balance of the balance of payments, and according to Kaldor, it would be preferable for the balance of payments to be in surplus of up to 2%.

Part two: Types of Economic Policy

There are various types of economic policies, each aimed at achieving specific objectives like promoting growth, reducing inflation, managing unemployment, and ensuring financial stability. The main types of economic policies are:

I. Monetary Policy

Monetary policy is an economic policy that manages the size and growth rate of the money supply in an economy. It is a powerful tool to regulate macroeconomic variables such as inflation and unemployment. The central bank or a similar regulatory organization is responsible for formulating these policies. (Idris, 2021)

I.1.Types of Monetary Policy

Monetary policies are seen as either expansionary or contractionary depending on the level of growth or stagnation within the economy. (Idris, 2021)

A. Contractionary : A contractionary policy increases interest rates and limits the outstanding money supply to slow growth and decrease inflation, where the prices of goods and services in an economy rise and reduce the purchasing power of money.

B. Expansionary: During times of slowdown or a recession, an expansionary policy grows economic activity. By lowering interest rates, saving becomes less attractive, and consumer spending and borrowing increase.

I.2.Tools of Monetary Policy

Central banks use various tools to implement monetary policies. The widely utilized policy tools include: (Idris, 2021)

A. Interest Rates adjustment : a central bank can alter interest rates by altering the discount rate, which is the interest rate charged to banks for short-term loans. An increase in the discount rate increases the cost of borrowing for banks, leading to increased interest rates and a decrease in the money supply.

B. Change reserve requirements : Central banks usually set up the minimum amount of reserves that must be held by a commercial bank. By changing the required amount, the central bank can influence the money supply in the economy.

C. Open market operations : the central bank can either purchase or sell securities issued by the government to affect the money supply.

II.Fiscal Policy

Fiscal policy refers to the use of government spending and tax policies to influence economic conditions, especially macroeconomic conditions. These include aggregate demand for goods and services, employment, inflation, and economic growth. (Adel, 2018)

II.1.Types of Fiscal Policy

A. Expansionary : An expansionary fiscal policy involves governments increasing their monetary contributions to the economy, generating goods and services, increasing employment opportunities, and boosting personal and governmental profits.

B. Contractionary : is a fiscal strategy used to control inflation and economic growth during a booming economy, preventing potential risks.

C. Neutral : indicates a balanced economy, with government expenditure funded by taxes on individuals, companies, or sectors, without affecting the country's economic condition.

II.2.Tools of Fiscal Policy

The two main tools of fiscal policy are taxes and spending. (Adel, 2018)

A. Government Spending (Expenditure) : refers to the money the government spends on goods, services, and infrastructure projects. It can be divided into two categories: current spending (These are expenditures on day-to-day government operations, such as public sector wages, healthcare, and education ; And capital spending (This includes spending on infrastructure projects like roads, bridges, schools, hospitals, and other long-term investments that contribute to economic development.

B. Taxation : taxation is the primary source of government revenue and a key tool for influencing economic behavior and redistributing income.

III.Trade Policy

refers to the set of rules, regulations, and strategies that a government uses to manage its international trade relationships. Here are the main elements of trade policy: (Hamad, 2023)

A. Tariffs : is a tax imposed on imported goods and services. Tariffs raise the price of imported goods, making them less competitive compared to domestic products.

B. Quotas : is a limit on the quantity of a specific product that can be imported or exported during a certain time period.

C. Non-Tariff Barriers (NTBs) : are regulatory or procedural barriers to trade that do not involve tariffs. NTBs can include import licensing, environmental standards, sanitary regulations, and custom procedures.

D. Exchange Rate Policy : involves the management of a country's currency value relative to others, influencing the price of exports and imports.

E. Trade Agreements and Treaties : are formal agreements between countries that establish the rules and regulations governing their trade relations.

F. Trade Liberalization : involves reducing or eliminating restrictions on international trade, such as tariffs, quotas, and subsidies, to allow for the free flow of goods and services.

G. Import Licensing : requires importers to obtain permission before bringing certain products into the country.

Conclusion

Economic policies are essential tools that governments use to influence economic outcomes such as growth, employment, inflation, and trade. Through fiscal, monetary, and trade policies, policymakers aim to stabilize the economy, promote growth, and address challenges like unemployment or inflation.

Questions for discussion :

1. How can fiscal policy be used to combat a recession, and what potential risks does it carry?
2. What is the role of central banks in shaping a country's monetary policy, and how can they manage inflation?
3. How do trade policies, such as tariffs and quotas, affect international trade and domestic industries?
4. What are the main challenges policymakers face when balancing the goals of low unemployment and low inflation?
5. How does the coordination between fiscal and monetary policies impact a country's economic stability?
6. Can expansionary fiscal policies lead to long-term economic growth, or do they just create temporary relief?
7. How can a government ensure that its economic policies are inclusive and benefit all sectors of society?

UNIT TWELVE : TRADE BLOCS

Structure

1. Objectives
2. Introduction
3. Definition of trade blocs
4. Causes of trade blocs formation
5. The effects of trade blocs
6. Types of trade blocs
7. Examples of trade blocs
8. Conclusion
9. Questions for discussion

Objectives

This unit would enable the student to:

1. Understand the meaning and concept of Trade Blocs
2. Understand the causes of Trade Block Formation
3. Know about the effects of Trade Blocs
4. Understand the types of Trade blocs.

Introduction

Trade blocs are formal agreements between countries to reduce or eliminate trade barriers among themselves, while often maintaining barriers against non-member countries. These blocs are a significant feature of the global economic landscape, influencing trade flows, economic policies, and international relations.

I. Definition

A trade block can be defined as a 'preferential trade agreement' (PTA) between a subset of countries, designed to significantly reduce or remove trade barriers within member countries. When a trade bloc comprises neighbouring or geographically close countries, it is referred to as a 'regional trade (or integration) agreement'. It is sometimes also referred to as a 'natural' trade bloc to underline that the preferential trade is between countries that have presumably low transport costs or trade intensively with one another. The two principal characteristics of a trade block are: (Elkafri, 2013)

- ✓ It implies a reduction or elimination of barriers to trade.
- ✓ This trade liberalization is discriminatory, in the sense that it applies only to the member countries of the trade block, outside countries being discriminated against in their trade relations with trade block members.

II. Causes of Trade Bloc Formation

Several reasons explain the recent emergence of trade blocs. The so-called "old regionalism" was motivated by : (Elkafri, 2013)

- A. **Economic Benefits** : like boost trade by reducing tariffs and barriers ; Create larger markets for economies of scale ; And attract foreign investment and improve competitiveness.

- B. **Political and Strategic Reasons** : strengthen political alliances and regional stability ; Increase collective bargaining power in global trade ; And promote peace through economic interdependence.
- C. **Social and Cultural Factors** : foster cooperation among countries with shared cultural or historical ties ; Enable labor mobility for better opportunities and addressing shortages.
- D. **Globalization and Technology** : stay competitive in a globalized economy ; Leverage technological advancements for easier trade coordination.
- E. **Addressing Global Challenges** : respond collectively to economic crises, pandemics, or environmental issues ; Promote sustainable development and regional resilience.
- F. **Domestic Development** : encourage economic reforms and modernization ; Create jobs, reduce poverty, and improve living standards.

III.The Effects of Trade Blocs

Trade blocs have significant impacts on member countries. These effects can be both positive and negative, depending on the structure of the bloc, the level of integration, and the policies implemented : (Elkafri, 2013)

A. Positive Effects

- ✓ **Increased Trade:** Reduced tariffs and trade barriers lead to higher trade volumes among member countries (trade creation).
- ✓ **Economic Growth:** Access to larger markets and economies of scale boost production, investment, and GDP growth.
- ✓ **Job Creation:** Increased trade and investment often lead to job opportunities in export-oriented industries.
- ✓ **Consumer Benefits:** Lower prices and greater variety of goods and services due to increased competition.

- ✓ **Attracting Foreign Direct Investment (FDI):** Trade blocs make member countries more attractive to foreign investors seeking access to larger markets.
- ✓ **Political and Social Cooperation:** Closer economic ties often lead to stronger political relationships and cultural exchanges.

B. Negative Effects

- ✓ **Trade Diversion:** Trade may shift from more efficient non-member countries to less efficient member countries due to preferential tariffs.
- ✓ **Loss of Deeper Sovereignty:** integration (e.g., in economic unions) may require member countries to cede control over certain policies.
- ✓ **Inequality:** Benefits may not be evenly distributed, leading to disparities between richer and poorer member countries.
- ✓ **Dependency:** Over-reliance on trade within the bloc can make member countries vulnerable to economic shocks within the region.

I.V.Types of Trade Blocs

Trade blocs can be categorized based on the level of economic integration they achieve: (Elkafri, 2013)

- A. **Preferential Trade Area (PTA):** The most basic form, where member countries reduce tariffs on certain goods traded among themselves.
- B. **Free Trade Area (FTA):** Members eliminate tariffs among themselves but maintain their own external tariffs against non-members. Example: NAFTA (now USMCA).
- C. **Customs Union:** A step beyond FTA, where members not only eliminate internal tariffs but also adopt a common external tariff against non-members. Example: Mercosur.
- D. **Common Market:** Extends the customs union by allowing free movement of labor and capital among member countries. Example: European Single Market.

- E. **Economic Union:** The most integrated form, involving a common market with harmonized economic policies, including monetary and fiscal policies. Example: European Union (EU).

V.Major Trade Blocs (Elkafri, 2013)

V.1. North American Free Trade Agreement (NAFTA)

The North American Free Trade Agreement (NAFTA) was a landmark trade agreement signed by **Canada, Mexico, and the United States** in 1994. It aimed to eliminate trade barriers, promote economic integration, and boost economic growth across North America. In 2020, NAFTA was replaced by the **United States-Mexico-Canada Agreement (USMCA)**, which modernized and updated the original agreement.

V.1.1.Objectives of NAFTA

- ✓ **Eliminate Tariffs:** Remove tariffs on most goods traded between the three countries.
- ✓ **Increase Market Access:** Provide businesses with access to a larger North American market.
- ✓ **Promote Investment:** Encourage cross-border investment by creating a stable and predictable trade environment.
- ✓ **Enhance Competitiveness:** Strengthen the competitiveness of North American industries in the global market.

V.1.2.Effects of NAFTA

NAFTA had profound effects on the economies of the United States, Canada, and Mexico. While it brought significant benefits, it also faced criticism for its negative impacts.

A. Positive Effects

- ✓ **Increased Trade** : where trade increased between the three countries more than tripled, from 290 billion in 1993 to over 1.1 trillion by 2016 ; And Mexico's exports to the U.S. grew significantly, particularly in industries like automotive, electronics, and agriculture.
- ✓ **Economic Growth** : where NAFTA contributed to economic growth in all three countries, particularly in Mexico, where exports surged ; And Mexico saw a boost in foreign investment and industrial development.
- ✓ **Integrated Supply Chains**: Industries like automotive and manufacturing developed highly integrated supply chains across North America.
- ✓ **Consumer Benefits**: resulted by lower prices and greater variety of goods due to reduced tariffs and increased competition.
- ✓ **Job Creation**: Some sectors, especially export-oriented industries, experienced job growth.

B. Negative Effects

- ✓ **Job Losses**: certain industries, particularly U.S. manufacturing, faced job losses due to competition from lower-cost Mexican labor.
- ✓ **Wage Stagnation**: competition from lower-wage Mexican workers suppressed wage growth in some U.S. industries..
- ✓ **Trade Imbalances**: the U.S. trade deficit with Mexico grew, as imports from Mexico outpaced exports.
- ✓ **Inequality**: While NAFTA boosted overall economic growth, its benefits were unevenly distributed, exacerbating inequality in some regions.

V.2. Association of Southeast Asian Nations (ASEAN)

The Association of Southeast Asian Nations (ASEAN) is a regional intergovernmental organization comprising **10 member states** in Southeast Asia (Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar, Cambodia). Established on **August 8, 1967**, its primary goals are to promote economic growth, regional stability, and cultural development among its members. ASEAN has become one of the most influential regional blocs in the world, fostering cooperation in political, economic, and social spheres.

V.2.1.Objectives of ASEAN

- ✓ **Economic Integration:** Promote free trade, investment, and economic cooperation through initiatives like the ASEAN Economic Community (AEC).
- ✓ **Political and Security Cooperation:** Maintain regional peace and stability through dialogue and conflict resolution.
- ✓ **Social and Cultural Development:** Enhance cultural exchange, education, and social progress among member states.
- ✓ **Regional Resilience:** Address shared challenges such as climate change, pandemics, and natural disasters.

V.2.2.Effects of ASEAN

The Association of Southeast Asian Nations (ASEAN) has had significant and far-reaching effects on its member countries, below is a detailed analysis of ASEAN's impacts:

A. Positive Effects

- ✓ **Economic Growth:** Boosted trade, investment, and GDP growth across member countries ; Created jobs and integrated regional supply chains, especially in manufacturing and services.

- ✓ **Regional Stability:** Promoted peace and conflict resolution through dialogue and cooperation ; Managed disputes like those in the South China Sea.
- ✓ **Cultural Exchange:** Enhanced cultural understanding and cooperation through festivals, education programs, and exchanges.
- ✓ **Global Influence:** Established ASEAN as a major economic and geopolitical player ; Attracted investment and partnerships from global powers like the U.S., China, and the EU.
- ✓ **Environmental Cooperation:** Launched initiatives to address climate change, deforestation, and pollution ; Promoted sustainable development goals.

B. Negative Effects

- ✓ **Economic Disparities:** Significant income gaps between richer (e.g., Singapore) and poorer (e.g., Cambodia) members ; Uneven distribution of economic benefits.
- ✓ **Dependency on External Markets:** Heavy reliance on exports to external markets makes ASEAN vulnerable to global economic shifts.
- ✓ **Slow Decision-Making:** Consensus-based approach often leads to delays in addressing critical issues.
- ✓ **Environmental Degradation:** Rapid industrialization and urbanization have caused deforestation, pollution, and climate vulnerability.
- ✓ **Geopolitical Challenges:** Limited ability to address internal conflicts or human rights violations due to the non-interference principle.

V.3.European Union (EU)

The European Union (EU) is a political and economic union of 27 member states located primarily in Europe. Established by the Maastricht Treaty in 1993, the EU has grown into one of the most influential regional organizations in the

world. It operates as a single market, allowing the free movement of goods, services, capital, and people, and has its own currency, the euro, used by 20 member states.

V.3.1.Objectives of the EU

1. **Economic Integration:** Create a single market to boost trade, investment, and economic growth.
2. **Political Cooperation:** Promote peace, stability, and democratic governance among member states.
3. **Social Progress:** Enhance social cohesion, protect human rights, and improve living standards.
4. **Environmental Sustainability:** Address climate change and promote sustainable development.
5. **Global Influence:** Strengthen Europe's role in global affairs through collective action.

V.3.2.Effects of the European Union (EU)

A. Positive Effects

- ✓ **Economic Growth and Integration:** Created the **world's largest single market**, boosting trade, investment, and GDP growth ; Eliminated tariffs and reduced trade barriers among member states.
- ✓ **Peace and Stability:** Transformed Europe from a war-torn region to a zone of peace and cooperation ; Promoted democratic governance and the rule of law.
- ✓ **Consumer Benefits:** Lower prices, greater variety of goods, and higher standards of living due to increased competition and efficiency.
- ✓ **Social Progress:** Improved workers' rights, gender equality, and social inclusion through EU policies and funding programs.

- ✓ **Environmental Leadership:** Set ambitious climate goals, such as the **European Green Deal**, aiming for carbon neutrality by 2050 ; Promoted renewable energy and sustainable development.
- ✓ **Global Influence:** Played a key role in international diplomacy, trade negotiations, and development aid ; Strengthened Europe's voice in global affairs.
- ✓ **Free Movement:** The **Schengen Area** allows passport-free travel across most of Europe, fostering cultural exchange and tourism.
- ✓ **Innovation and Research:** Funded cutting-edge research and innovation through programs like **Horizon Europe**.

B. Negative Effects

- ✓ **Sovereignty Concerns:** Member states must cede some control over national policies, leading to debates about loss of sovereignty.
- ✓ **Economic Disparities:** Wealthier countries (e.g., Germany, France) benefit more than poorer ones (e.g., Bulgaria, Romania), leading to regional inequalities.
- ✓ **Bureaucracy and Complexity:** The EU's decision-making process is often seen as slow and overly bureaucratic.
- ✓ **Migration Challenges:** Struggled to manage migration flows, leading to political tensions between member states.
- ✓ **Brexit:** The UK's decision to leave the EU in 2020 highlighted divisions and raised questions about the EU's future.
- ✓ **Democratic Deficit:** Critics argue that EU institutions lack transparency and accountability, leading to a disconnect with citizens.
- ✓ **Agricultural Issues:** The **Common Agricultural Policy (CAP)** has been criticized for favoring large farms and causing environmental harm.

Question for discussion

1. What are the main objectives of trade blocs, and how do they differ from other forms of international trade agreements?
2. How do trade blocs promote economic integration among member countries?
3. What are the key differences between a free trade area, customs union, common market, and economic union?
4. Which type of trade bloc is most effective in promoting economic growth, and why?
5. How do trade blocs increase trade among member countries, and what are the potential downsides, such as trade diversion?
6. What role do trade blocs play in attracting foreign direct investment (FDI) to member countries?
7. How do trade blocs impact small and developing economies compared to larger, more developed ones?
8. What are the main challenges trade blocs face, such as economic disparities, loss of sovereignty, and bureaucratic inefficiencies?
9. How do trade blocs address issues like environmental sustainability and labor rights?
10. What are the risks of over-reliance on trade within a bloc, and how can member countries mitigate them?

Conclusion

Economics is more than just a subject, it is a lens through which we can better understand the world around us. From the individual choices we make every day to the global policies that shape nations, economics provides the tools to analyze how resources are allocated, how markets function, and how societies can achieve growth, stability, and prosperity. Throughout this document, we've explored the foundational concepts of economics, from the basic economic problem of scarcity to the intricate workings of market structures, inflation, unemployment, and economic policies.

What becomes clear is that economics is not just about numbers or abstract theories; it is about people, their behaviors, and the systems that govern their interactions. It helps us understand the trade-offs we face, the incentives that drive decisions, and the consequences of those decisions on both a micro and macro level. Whether it's a household deciding how to budget its income, a business determining its production levels, or a government crafting policies to stabilize the economy, economics plays a central role in shaping outcomes.

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