Introduction to Economics

**Economics** is the study of how we make choices in the face of scarcity. **Scarcity** means that we want more goods, services and resources than are available. To have scarce resources means to have only a limited amount of resources. Limited or scarce resources include labour and capital. Since resources are scarce, we must make choices about what we can have and what we have to give up to have the things we want.

Labour can refer to workers or work that the workers perform. The work that a worker performs, labour, can be split into multiple tasks which can be performed by many different workers. This principle is known as **division of labour**.

Division of labour allows for **specialization, expertise** and **economies of scale**. Specialization means to allow workers to focus on part of the production in which they have an advantage. Workers also develop expertise. In other words, they learn more about the tasks that they perform. Firms can take advantage of economies of scale because fixed costs can be spread across a larger output than what was previously possible. All of these are benefits of division of labour.

Economics is divided into **Microeconomics** and **Macroeconomics**. Microeconomics deals with the behaviours of individual economic agents such as households, workers and firms. Macroeconomics deals with the economy as a whole (i.e. municipal, provincial, national or international), looking at things such as unemployment, gross domestic product and economic growth.

In Microeconomics, we study the theory of consumer behavior and the theory of the firm. In Macroeconomics, we study the standard of living, unemployment and inflation. Macroeconomic policies include **fiscal policies** and **monetary policies**. A fiscal policy is one that involves government spending and taxes. A monetary policy, on the other hand, is one that involves the central bank authority. In Canada, fiscal policies are planned and implemented by the Government of Canada and monetary policies are
planned and implemented by the Bank of Canada. All of these will be explained in detail later.

Economists use economic theories and models to understand the world. It is important to understand that economic theories and models are simplified versions of reality that make various assumptions and omissions about the world. All economic theories and models have some limitations. A good theory or a well-designed model can simplify the complexities of the real world just enough that it is easy to understand but still complex enough that key issues we wish to study are properly captured.

There are many ways to organize an economy. In a traditional economy, traditions dictate who does what jobs. A farmer family grows crops and a fishing family catches fish, both consuming what they produce. In a command economy, the central authority dictates who does what jobs. The central authority tells people what to produce and what to consume. In a market economy, individual economic agents such as households and firms can decide who does what. Households and firms can produce and consume whatever they want. Their economic decisions are determined by market forces.

Globalization is the expanding of cultural, political and economic connections between people around the world. This movement makes it easier for people, money, goods and services to move across borders. Innovations such as information technology, containerization and energy-efficient shipping vessels have made international trade cheaper. Free trade agreements between countries have also contributed to lower costs of international trade.
Practice Problems

1. What is NOT a benefit of division of labour?
   a) Workers can use their natural talents to their advantage
   b) Workers can become experts in their own production processes
   c) Workers can produce more
   d) Workers can provide labour at a lower rate

2. Which of the following does NOT contribute to globalization?
   a) Countries protect their trade positions by increasing tariffs on foreign imports
   b) Technological advances allow for decreased communications costs
   c) Containerization makes international shipping inexpensive
   d) Countries ratify new free trade agreements

3. What is NOT studied in Microeconomics?
   a) Consumer behaviour
   b) Firm pricing
   c) Economic growth
   d) Firm behavior

4. Which of the following makes monetary policies in Canada?
   a) Bank of Canada
   b) Royal Bank of Canada
   c) Department of Finance
   d) Government of Canada

5. Which of the following economic organization has a central authority that dictates who does what in an economy?
   a) Traditional economy
   b) Command economy
   c) Market economy
   d) Smith economy

6. Which of the following describes a good economic model?
   a) Easy enough to understand but complex enough to capture key issues to be studied
   b) Every aspect of the economy is represented in the model
   c) Easiest to understand without consideration for key issues
   d) The more complex the better

7. What kind of economy does Canada have?
   a) Command economy
   b) Market economy
   c) Smith economy
8. Which of the following makes fiscal policies in Canada?
   a) Government of Canada
   b) Bank of Canada
   c) Royal Bank of Canada
   d) Toronto Stock Exchange

9. What does economies of scale mean?
   a) Firms can spread the fixed costs across many goods and services
   b) Economies have mass so they need a scale to measure its mass
   c) The mass of an economy is determined by the sum of mass for every individual
   d) Economies are large

10. What is meant by scarcity?
    a) Finite
    b) Unlimited
    c) Vast
    d) Numerous

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Answers

1. D
2. A
3. C
4. A
5. B
6. A
7. B
8. A
9. A
10. A