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**BBA 2nd Semester Sec-(B)**

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| SUBJECT | **Micro Economics** |
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**Summary Chap# (01)**

**Ten Principles of economics**

The first chapter of micro economics book (by N. Gregory Mankiw) deals with the first basic important principle of micro economics, in this chapter the basic ten principles of micro economics are:

1. PEOPLE FACE TRADEOFFS
2. THE COST OF SOMETHING IS WHAT YOU GIVE UP TO GET IT
3. RATIONAL PEOPLE THINK AT THE MARGIN
4. PEOPLE RESPOND TO INCENTIVES
5. TRADE CAN MAKE EVERYONE BETTER OFF
6. MARKETS ARE USUALLY A GOOD WAY TO ORGANIZE ECONOMIC ACTIVITY
7. GOVERNMENTS CAN SOMETIMESIMPROVE MARKET OUTCOMES
8. A COUNTRY’S STANDARD OF LIVING DEPENDS ON ITS ABILITY TO
9. PRODUCE GOODS AND SERVICES
10. PRICES RISE WHEN THE GOVERNMENT PRINTS TOO MUCH MONEY
11. SOCIETY FACES A SHORT-RUN TRADEOFF BETWEEN INFLATION AND UNEMPLOYMENT

Now let’s summarize each and every principle

1. **PEOPLE FACE TRADEOFFS**

PEOPLE FACE TRADEOFFS means nothing is free in this universe, in order to trade off one must give something in order to get another thing, being a member of living society we must accept this universal fact that we need things to survive that can be anything as (food, cloth, shelter etc.) all these are gained by giving something owned by oneself, it can be explained thoroughly through this example

**EXAMPLE:**Best example can be considered of TIME & MONEY, If one does work 7 days a week 12 hour he earns money, he can be trade these 12 hours playing sports and doing something else.

1. THE COST OF SOMETHING IS WHAT YOU GIVE UP TO GET IT
People do tradeoff in order to get something now getting something for which you let something is opportunity cost , people compare opportunity cost for what they achieve and it is usually measured in terms of the other good achieved.

**EXAMPLE**the cost of eating lunch outside in a restaurant and home are same, If I eat at home the opportunity cost for it will be eating thoroughly and healthy food.

1. RATIONAL PEOPLE THINK AT THE MARGIN

It means is that people make decisions by calculating the marginal benefits and marginal costs of a decision so if the marginal benefits surpass the marginal costs, they take the action.
**Example**
people pay more for a diamond than that of water, The reason is since water is plentiful, the marginal benefit is small. Since diamonds are rare, the marginal benefit is large

1. PEOPLE RESPOND TO INCENTIVES

Incentives something that persuades a person to act. And Changes to costs or benefitts alters the behaviour of the people

**Example**:

1. If fashionable cloth items are sold at higher prices than people will start wearing plain cloth or make those plain cloths fashionable through less cost.
**5. TRADE CAN MAKE EVERYONE BETTER OFF**TRADE CAN MAKE EVERYONE BETTER OFF means trade will help in both hands trading for example Pakistan and Afghanistan trade for goods which results in helping and ending needs of each other as one cannot make everything itself
2. **MARKETS ARE USUALLY A GOOD WAY TO ORGANIZE ECONOMIC ACTIVITY**

A market economy is an economic system where prices are determined and resources areallocated through the decentralized decisions of many firms and households. *Firm*, any producer of a good or service. Invisible hand.
Everyone, by acting selfishly, does their part in maximizing the welfare of society as a whole. Because prices measure the marginal benefit to consumers, and the marginal cost to firms. The net benefit is maximized. Then governments can disrupt the invisible hand with excessive taxation or regulation.

**Ch:2 Thinking like an economist**

Economics is like a science because economics is based on scientific methods and economists develop a theory after scientific analysis. They collect necessary data and analyse them to verify their theory thus therefore economics is like a science. is a social science, i.e. an academic field that attempts to explain how society works and how individuals interact. Moreover, economics is the study of decision making by individuals, societies and, specifically, how this decision making determines what we purchase, what we produce, how it affects prices and other economic variables.

**The economists use assumption :**The assumptions of economists are made to better understand consumer and business behaviour when making economic decisions.

* Some economists assume that people make rational decisions when purchasing or investing in the economy.
* Conversely, behavioural economists assume that people are emotional and can get distracted, thus influencing their decisions.
* Critics argue that assumptions in any economic model are often unrealistic

. The economists make assumptions to make the world simpler and easier to understand.

The economic model should not describe the reality exactly because models are built with assumptions and assumptions are not guaranteed to be 100 percent right they are built to make our world easier that is why we use them .

**Two subfields of economics.**

**Micro economic**: Looking at individual firms and households to analyse how they affect individuals or company.

**Macroeconomics**: Looking at the economy as a whole.

**Positive and normative statement:**

A positive statement is a fact with no opinion but normative statement is a statement with a clear opinion.

The economists sometimes offer conflicting advice to policy makers because economists don’t always agree with one another and thus may give different advice to policymakers. There are two major reasons why economists may disagree, about whether or not a positive statement is correct and economists may have different values from one another.