

3-**The scope of economics:**

Economics is main part of the human knowledge. It is a social science concerns in studying the human behavior and how people get their means of living. It studies the decisions which determining the production , exchange and distribution and consumption ,and the relationship between these processes.

4- The Nature of economics ;

Economics is a positive rather than normative science . It doesn't ask what should be done but what can be done.

5- The Relationship between Economics and other sciences;

As a main branch of knowledge , Economics has strong relationships with most of sciences like statistics, accounting ,management, Law , history, geography, politics, mathematics and sociology. Never the less , economics has weak relationships with sciences like physics , chemistry and geology .

6- Parts of economics ; Economics or the economic theory can broadly be divided into two main parts;

a/ **Micro-economics** : Microeconomics (from Greek prefix mikro-meaning "small") is a branch of economics that studies the behavior of individuals and firms in making decisions regarding the allocation of limited resources.[1] Typically, it applies to markets where goods or services are bought and sold. Microeconomics examines how these decisions and behaviors affect the supply and demand for goods and services, which determines prices, and how prices, in turn, determine the quantity supplied and quantity demanded of goods and services.[2][3]

This is in contrast to macroeconomics, which involves the "sum total of economic activity, dealing with the issues of growth, inflation, and unemployment." [2] Microeconomics also deals with the effects of national economic policies (such as changing taxation levels) on the aforementioned aspects of the economy. [4] Particularly in the wake of the Lucas critique, much of modern macroeconomic theory has been built upon 'microfoundations'—i.e. based upon basic assumptions about micro-level behavior.

One goal of microeconomics is to analyze the market mechanisms that establish relative prices among goods and services and allocate limited resources among alternative uses. Microeconomics also analyzes market failure, where markets fail to produce efficient results, and describes the theoretical conditions needed for perfect competition. Significant fields of study in microeconomics include general equilibrium, markets under asymmetric information, choice under uncertainty and economic applications of game theory. Also considered is the elasticity of products within the market system.

b/ Macro-economic ; which focuses on the aggregate relation between the parts of the economy, the balance of payments , the level of employment , the rate of inflation ,the foreign trade, the public financeetc .

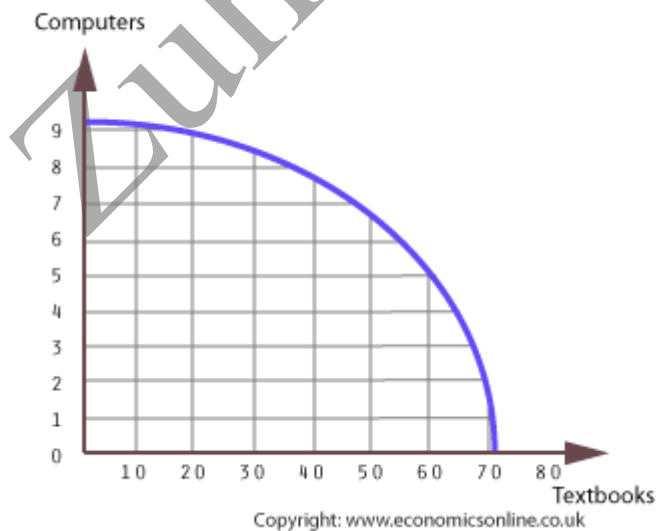
An opportunity cost will usually arise whenever an economic agent chooses between alternative ways of allocating scarce resources. The opportunity cost of such a decision is the value of the next best alternative use of scarce resources. Opportunity cost can be illustrated by using production possibility frontiers (PPFs) which provide a simple, yet powerful tool to illustrate the effects of making an economic choice.

A *PPF* shows all the possible combinations of two goods, or two options available at one point in time.

Production possibilities

Mythica, which is a hypothetical economy, produces only two goods - textbooks and computers. When it uses all of its resources, it can produce five million computers and fifty five million textbooks. In fact, it can produce all the following combinations of computers and books.

COMPUTERS (m)	TEXTBOOKS (m)
0	70
1	69
2	68
3	65
4	60
5	55
6	48
7	39
8	24
9	0

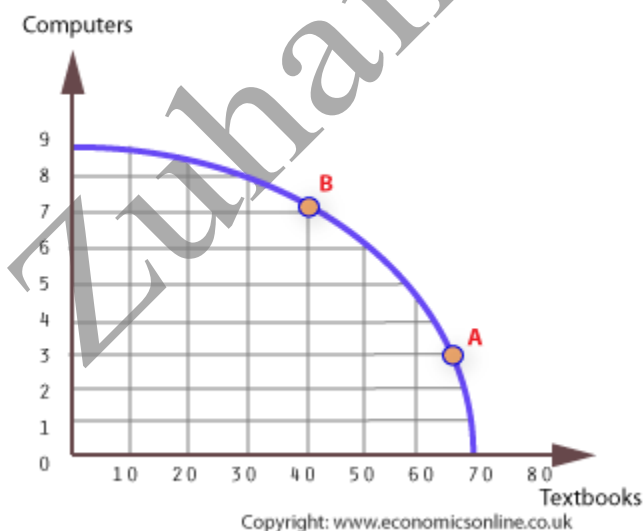


These combinations can also be shown graphically, the result being a production possibility frontier. The production possibility frontier (PPF) for computers and textbooks is shown here.

Interpreting PPFs

Firstly, we can describe the opportunity cost to *Mythica* of producing a given output of computers or textbooks. For example, If *Mythica* produces 3m computers; the opportunity cost is 5m textbooks. This is the difference between the maximum output of textbooks that can be produced if no computers are produced (which is 70m) and the number of textbooks that can be produced if 3m computers are produced (which is 65m). Similarly, the opportunity cost of producing 7m computers is 31m textbooks - which is $70 - 39$.

PPFs can also illustrate the opportunity cost of a change in the quantity produced of one good. For example, suppose *Mythica* currently produces 3 million computers and 65m textbooks. We can calculate the opportunity cost to *Mythica* if it decides to increase production from 3 million computers to 7 million, shown on the PPF as a movement from point A to point B. and textbooks is shown here.



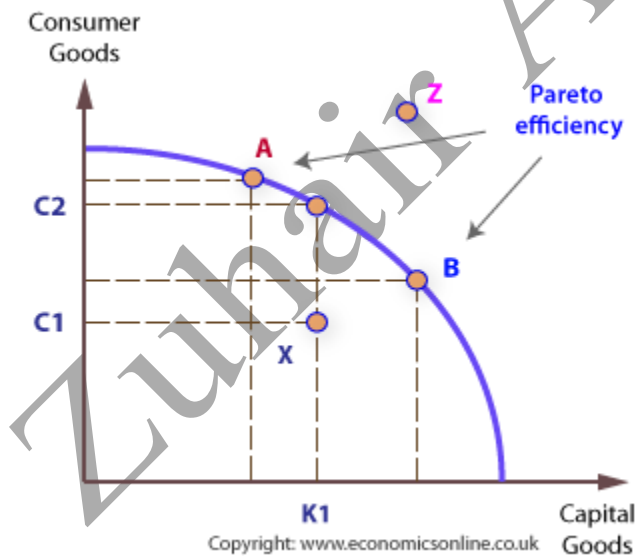
The result is a loss of output of 26 million textbooks (from 65 to 39m). Hence, the opportunity cost to *Mythica* of this decision can

be expressed as 26m textbooks. In fact, this is the same as comparing the *static* opportunity cost of producing 3m computers (5m textbooks) and 7m computers (31m textbooks).

Pareto efficiency

Any point on a PPF, such as points 'A' and 'B', is said to be efficient and indicates that an economy's scarce resources are being fully employed. This is also called *Pareto efficiency*, after Italian economist Vilfredo Pareto. Any point inside the PPF, such as point 'X' is said to be inefficient because output could be greater from the economy's existing resources.

Any point outside the PPF, such as point 'Z', is impossible with the economy's current scarce resources, but it may be an objective for the future. Pareto efficiency can be looked at in another way - when the only way to make someone better off is to make someone else worse off. In other words, Pareto efficiency means an economy is operating at its full potential, and no more output can be produced from its existing resources.



Pareto efficiency is unlikely to be achieved in the real world because of various *rigidities* and *imperfections*. For example, it is unlikely that all resources can be fully employed at any given point in time because some workers may be in the process of training, or in the process of searching for a new job. While searching for

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