# BUSINESS AWARENESS
# PART-12

# Economics

## IMPORTANT CONCEPTS & TERMINOLOGIES

# What is Economics?

Economics is a branch of social science concerned with the production, distribution, and consumption of goods and services.

Types:

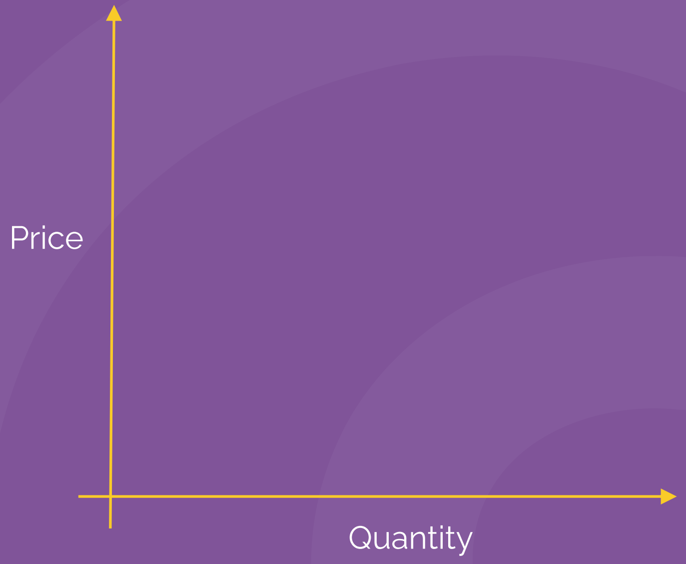
1. **Microeconomics**

2. **Macroeconomics**

# Demand & Demand curve

**Demand:**
The amount of a good or service consumers are willing and able to purchase during a given period of time.

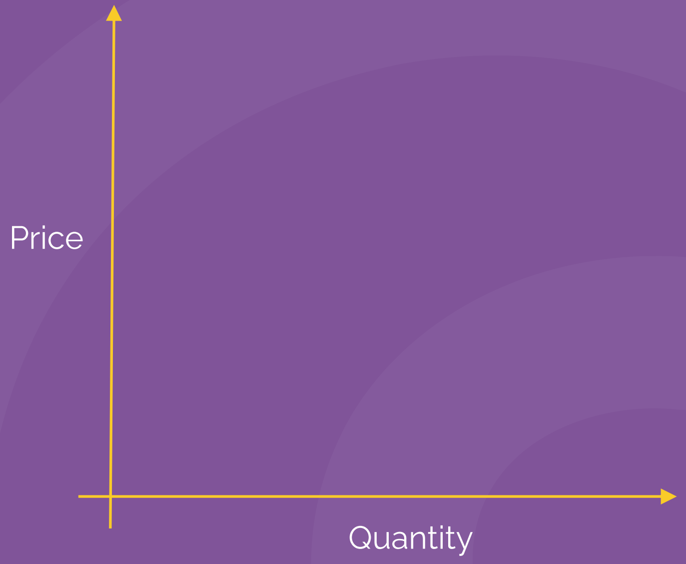
**Law of Demand:**
As the price of a given commodity increases, the quantity demanded decreases, all else being equal.



# Supply & Supply curve

**Supply:**
The amount of a good or service offered for sale during a given period of time.

**Law of Supply:**
As the price of a good or service increases, the quantity of goods or services that suppliers offer will increase, and vice versa.



# Market Equilibrium

# Important terms

**Normal Goods:**

A good is also a normal good if a decrease in income causes consumers to demand less of the good,

Ex. Clothes, appliances, etc.

**Inferior Goods:**

In the case of inferior goods, rising income causes consumers to demand less of the good, and falling income causes consumers to demand more of the good.

Ex. Shoe repair, 2$^{nd}$ hand mobile phones, etc.

# Important terms

**Complements:**

Goods are said to be complements if they are used in conjunction with each other.

Ex. Amazon Kindle & ebooks, smartphones & back covers, sugar and tea, etc.

**Substitutes:**

Goods are substitutes if one good can be used in the place of the other.

Ex. Activa & Jupiter, Tea & Coffee, Coke & Pepsi.

# GDP and GNP

**Gross Domestic Product (GDP)** is defined as the value of the final goods and services produced within a country's border by citizens and non-citizens.

**Gross National Product (GNP)** measures the value of goods and services produced by only a country's citizens but both domestically and abroad.

GDP is the most commonly used by global economies to determine the size of an economy.

# Expenditure Method (GDP)

Private consumption

+

Private investment

+

Government spending

+

Net exports
(total exports – total imports)

# GDP in Purchasing Power Parity

1 T-Shirt in India

Same T-Shirt in USA

PPP exchange rate

# Important terms

**Inflation:**

Inflation is a market situation in which the price of goods and services increases consistently over a period of time.

So inflation reduces the value of money hence too much money chases too few goods.

**Consumer Price Index (CPI):**

Consumer Price Index (CPI) is a price index that represents the average price of a basket of goods over time.

CPI calculates the average price paid by the consumer to the shopkeepers.

# Important terms

**Wholesale Price Index (WPI):**

Wholesale Price Index (WPI) is an indicator of price changes in the wholesale market.

WPI calculates the price paid by the manufacturers and wholesalers in the market.

**Stagflation:**

Stagflation is a period of rising inflation but falling output and rising unemployment.

# Unemployment & its types

Unemployment occurs when a person who is actively searching for employment is unable to find work.

**Types:**

## 1. Frictional unemployment:

The Frictional Unemployment also called as **Search Unemployment**, refers to the time lag when an individual is searching for a new job or students who just got out of school and are looking for a job.

# Unemployment & its types

## 2. Structural unemployment:

People who are laid off because of technology advances or other structural changes in production.

**Examples:** Many typists are laid off because of greater computer capabilities.

American steel, auto and electronics workers have become structurally unemployed due to foreign competition and American companies locating abroad.

# Unemployment & its types

## 3. Cyclical unemployment:

People who are laid off temporarily due to a decline in the demand for their product.

**Example:**

During recessions fewer cars are bought causing automobile workers to be laid off until demand picks back up.

# Unemployment & its types

## 4. Seasonal unemployment:

People who are out of work during the off season.

**Example:** In the agricultural sector where the demand for workers is more during harvesting than is required in other months in a year.

## 5. Disguised unemployment:

# Important Deficits

## 1. Fiscal Deficit

Fiscal Deficit is the difference between the total income of the government (total taxes and non-debt capital receipts) and its total expenditure.

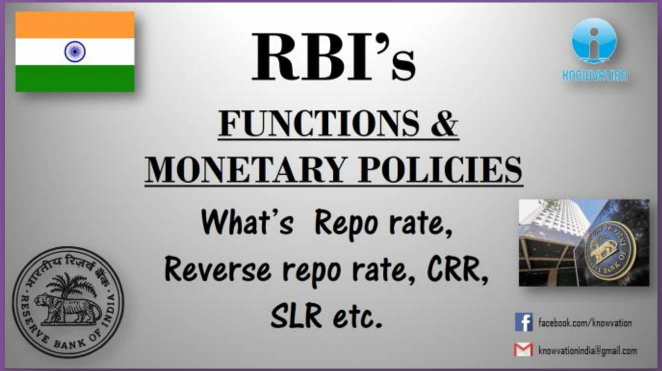
## 2. Current Account Deficit

Current Account Deficit or CAD is the shortfall between the money flowing in on exports, and the money flowing out on imports.

# Assignments!

1. What are direct and indirect taxes? Examples of each.

2. RBI Monetary Policy, Repo Rate, Reverse-repo Rate, etc. – Watch the video below:



# Thanks a lot for watching!

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