



Economics is a Social Science Concerned with the Production

Edward James*

Department of Economics, University of Alberta, Canada

Editorial

Economics is a social science concerned with the production, distribution, and consumption of goods and services. It studies how individuals, businesses, governments, and nations make choices about how to allocate resources. Economics focuses on the actions of human beings, based on assumptions that humans act with rational behavior, seeking the most optimal level of benefit or utility. The building blocks of economics are the studies of labor and trade. Since there are many possible applications of human labor and many different ways to acquire resources, it is the task of economics to determine which methods yield the best results.

One of the earliest recorded economic thinkers was the 8th-century B.C. Greek farmer/poet Hesiod, who wrote that labor, materials, and time needed to be allocated efficiently to overcome scarcity. But the founding of modern Western economics occurred much later, generally credited to the publication of Scottish philosopher Adam Smith's 1776 book, *An Inquiry Into the Nature and Causes of the Wealth of Nations*.¹

The principle (and problem) of economics is that human beings have unlimited wants and occupy a world of limited means. For this reason, the concepts of efficiency and productivity are held paramount by economists. Increased productivity and a more efficient use of resources, they argue, could lead to a higher standard of living.

Despite this view, economics has been pejoratively known as the "dismal science," a term coined by Scottish historian Thomas Carlyle in 1849.² He used it to criticize the liberal views on race and social equality of contemporary economists like John Stuart Mill, though some commentators suggest Carlyle was actually describing the gloomy predictions by Thomas Robert Malthus that population growth would always outstrip the food supply.

Types of Economics

The study of economics is generally broken down into two disciplines.

Microeconomics focuses on how individual consumers and firms make decisions; these individual decision making units can be a single person, a household, a business/organization, or a government agency. Analyzing certain aspects of human behavior, microeconomics tries to explain how they respond to changes in price and why they

demand what they do at particular price levels. Microeconomics tries to explain how and why different goods are valued differently, how individuals make financial decisions, and how individuals best trade, coordinate, and cooperate with one another. Microeconomics' topics range from the dynamics of supply and demand to the efficiency and costs associated with producing goods and services; they also include how labor is divided and allocated; how business firms are organized and function; and how people approach uncertainty, risk, and strategic game theory.

Macroeconomics studies an overall economy on both a national and international level, using highly aggregated economic data and variables to model the economy. Its focus can include a distinct geographical region, a country, a continent, or even the whole world. Its primary areas of study are recurrent economic cycles and broad economic growth and development. Topics studied include foreign trade, government fiscal and monetary policy, unemployment rates, the level of inflation and interest rates, the growth of total production output as reflected by changes in the Gross Domestic Product (GDP), and business cycles that result in expansions, booms, recessions, and depressions.

Micro- and macroeconomics are intertwined. Aggregate macroeconomic phenomena are obviously and literally just the sum total of microeconomic phenomena. However these two branches of economics use very different theories, models, and research methods, which sometimes appear to conflict with each other. Integrating the microeconomics foundations into macroeconomic theory and research is a major area of study in itself for many economists.

Schools of Economic Theory

There are many competing, conflicting, or sometimes complementary theories and schools of thought within economics.

Economists employ many different methods of research from logical deduction to pure data mining. Economic theory often progresses through deductive processes, including mathematical logic, where the implications of specific human activities are considered in a "means-ends" framework. This type of economics deduces, for example, that it is more efficient for individuals or companies to specialize in specific types of labor and then trade for their other needs or wants, rather than trying to produce everything they need or want on their own. It also demonstrates trade is most efficient when coordinated through a medium of exchange, or money. Economic laws deduced in this way tend to be very general and not give specific results: they can say profits incentivize new competitors to enter a market, but not necessarily how many will do so. Still, they do provide key insights for understanding the behavior of financial markets, governments, economies—and human decisions behind these entities.