Chapter 1. Introduction to Economics

1.1 Introduction to the Study of Economics

1.1.1  Economics is Important and Interesting!

The Economics of agriculture is important and interesting! Food and agricultural markets are in the news and on social media every day. Numerous fascinating and complex issues are the subject of this course: food prices, food safety, diet and nutrition, agricultural policy, globalization, obesity, use of antibiotics and hormones in meat production, hog confinement, and many more. As we work through the course material this semester, please find examples of the economics of food and agriculture in the news. You can earn extra credit by writing a report on a topic that is related to our course material!

1.1.2  Scarcity

Economics can be defined as, “the study of choice.” The concept of **scarcity** is the foundation of economics. Scarcity reflects the human condition: fixed resources and unlimited wants, needs, and desires.

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\text{Scarcity} = \text{Unlimited wants and needs and fixed resources.}
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Since we have unlimited desires, and only a fixed amount of resources available to meet those desires, we can’t have everything that we want. Thus, scarcity forces us to choose: we can’t have everything. Since scarcity forces us to choose, and economics is the study of choice, scarcity is the fundamental concept of all economics. If there were no scarcity, there would be no need to choose between alternatives, and no economics!

1.1.3  Microeconomics and Macroeconomics

The subject of economics is divided into two major categories: microeconomics and macroeconomics.

**Microeconomics** = The study of individual decision-making units, such as firms and households.

**Macroeconomics** = The study of economy-wide aggregates, such as inflation, unemployment, economic growth, and international trade.
This course studies microeconomics, the investigation of firm and household decision making. Our basic assumption is that firms desire to maximize profits, and households seek to maximize utility, or satisfaction.

1.1.4 Economic Models and Theories

The real world is enormously complex. Think of how complicated your daily life is: just waking up and getting ready for class has a huge number of possible complications! Since our world is complicated, we must simplify the real world to understand it. A Model is a simplified representation of the world, not intended to be realistic.

Model = A theoretical construct, or representation of a system using symbols, such as a flow chart, schematic, or equation.

We frequently use models in sciences such as chemistry and physics. Think of the model of an atom, with the atomic particles: neutron, proton, and electrons. No one has ever seen an atom, but there is significant evidence for this model. It is easy to be critical of economic models, since we are more familiar with economic events. When we simplify supply and demand into a model, we can think of many oversimplifications and limitations of the theory… the real world is complicated. However, this is how all science works: we must simplify the complex real world in order to understand it.

1.1.4.1 The Scientific Method

Our economic models are built and used following the Scientific Method.

Scientific Method = A body of techniques for investigating phenomena, acquiring new knowledge, or correcting and integrating previous knowledge.

The major characteristic of the scientific method is to use measurable evidence to support or detract from a given model or theory. Following this method, economists will keep a theory as long as evidence backs it up. If the evidence does not support the model, the theory will be modified or replaced. Science, or knowledge, advances in this imperfect manner. To repeat, “We have to simplify the real world in order to understand it.”
1.1.5 Positive Economics and Normative Economics

As social scientists, economists seek to be unbiased and objective in their study of the world. Economists have developed two terms to separate factual statements from value judgments, or opinions.

**Positive Economics** = Statements that include only factual information, with no value judgments.

**Normative Economics** = Statements that include value judgments, or opinions. “What ought to be.”

In our study of food and agriculture, we will strive to purge our analysis and understanding from opinions and value judgments. Our background and experience can make this challenging. For example, a corn producer might say, “The price of corn is higher, which is a good thing.” But, the buyer of the corn, a feedlot operator, might see things differently. All price changes have winners and losers, so economists try to avoid describing price movements in terms of “good” or “bad.”