ECONOMICS
(the best subject)

PRESENTED BY
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Program

Prescribed Book: Economics for SA students – Philip Mohr, Louis Fourie and associates.

Module guide: Refer p 9/259.

Facilitation sessions.

Additional reading.

Own research.

Continuous thinking and learning.
What is economics?

Economic glasses
The Interdependence between the major sectors, markets and flows in the mixed economy.

Learning Unit 1

Introduction

Economics: science of household management

- Unlimited wants, limited means: scarcity
- Scarcity necessitates choice
- Every choice entails opportunity cost

Opportunity cost
- best alternative forgone
  - examples
Micro vs Macro

**Microeconomics:**
- focus on detail
- microscope
  - examples

**Macroeconomics:**
- deals with whole economy
  - examples

Macroeconomic theory

Simplification, abstraction, model

**Purposes**
- explanation
- prediction
- policy
Macroeconomic policy

Objectives

– economic growth
– full employment/low unemployment
– price stability/low inflation
– balance of payments stability/external stability
– equitable/socially acceptable distribution of income

Macroeconomic policy

• Instruments
  – monetary policy
  – fiscal policy
  – other policies
Major flows in the economy

Production → income → spending/expenditure

Production, income and spending
**Production:**
- factors of production
  - natural resources (land)
  - labour
  - capital
  - entrepreneurship

**Income:**
- Flipside of production
- Reward of the factors of production
  - rent (natural resources)
  - wages and salaries (labour)
  - interest (capital)
  - profit (entrepreneurship)
**Major flows in the economy**

*Spending*: expenditure by all sectors of the economy
- consumption expenditure by households (C)
- investment (capital) expenditure by firms (I)
- government spending (G)
- exports (X) minus imports (Z)

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*The different components of production, income and spending*

- Natural resources, labour, capital, entrepreneurship
- Production
- Spending
- Income
- Rent
- Wages and salaries
- Interest
- Profit
- Households (C)
- Firms (I)
- Government (G)
- Foreign sector (X – Z)
Households

Circular flows

Goods market and factor market

Circular flow of goods and services

The circular flow of goods and services
The circular flow of income and spending (opposite direction to goods and services)
Circular flows

**Injections into (or additions to) circular flow of income and spending**
- investment spending/capital formation
- government spending on goods and services
- exports

**Withdrawals or leakages from the circular flow**
- saving
- taxes
- imports

Note that capital goods (capital as factor of production) are tangible

Investment refers to purchase of capital goods
The government in the circular flow of production, income and spending

Financial Sector
The main elements of the circular flow of income and spending

Things to watch out for

**Fallacy of composition**
- whole is more than the sum of the parts
- what is true for single part not necessarily true for the whole

- examples
Things to watch out for

*Do not confuse correlation with causation*
- examples

*Do not confuse levels with rates of change*
- examples

Putting all together

Summary