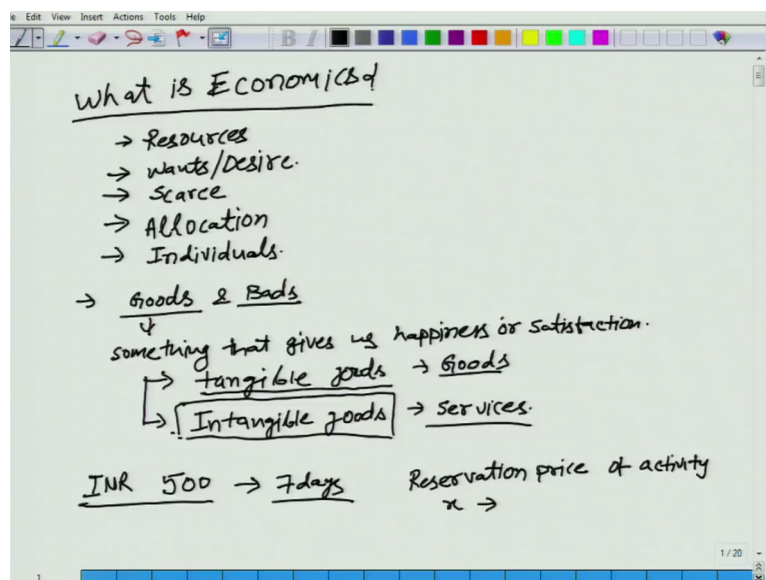


An Introduction to Microeconomics
Prof. Vimal Kumar
Department of Economic Sciences
Indian Institute of Technology, Kanpur

Lecture – 01
What is Economics?

Welcome to NPTEL course on microeconomics. I am Dr. Vimal Kumar, assistant professor at IIT Kanpur. I am going to teach you microeconomics. So, before we start talking about microeconomics let us learn about what is economics.

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Economics has several definitions the basic definition, that you would find in most of the textbook is, that economics is the study of allocation of scarce resources to satisfy individual wants or desire. So, let us look at the keyword let me repeat the definition again; the economics is study of allocation of scarce resources to satisfy individual needs individual wants not needs.

So, let us look at the key words in this definition. The first key word that we will pay attention to is resources. The second key word we will look at is wants or desire. The third key word we are going to look at is scarce, what do we mean by scarcity or scarce resources? The 4th key word we will look at is allocation. And fifth we are going to spend some time on individuals also what do I mean by individuals? So, see when we are going to learn what is economics; we have to familiarize ourselves with the language that economists use the

German that is prevalent in economics language. So, to talk about resources I am going to first describe, what we call goods and bads.

So, a good is something that gives us pleasure that gives us satisfaction, something that gives us happiness or satisfaction. So, think about what are the things that gives you satisfaction or happiness, it can be anything, it can be a pen that I am using to write here, it can be LCD screen it can be sweets, it can be a television program, or it can be the time that you spend with your family, it can be anything as long as that thing gives you some sort of satisfaction or happiness we will call that thing in economics a good ok.

And of course, the opposite of good is bad; bad is something that gives you dissatisfaction that makes you unhappy. So, like what would be the bad in think about it you can think one example that readily comes into my mind is these days pollution, it makes you unhappy. So, clean air is a good, while polluted air is a bad clean air gives you happiness it gives you satisfaction, while pollution gives you unhappiness it leads to some sort of dissatisfaction in you. So, pollution is of course, a bad.

Now, if you have paid attention what that the term that different things that I described as good, you will find there very tangible kind of goods like tv, refrigerator or sweets, but I also said that the time that you spend with your family member that is also a good, it is or the happiness that you get derive by spending time with your family member that is also a good. So, when we are talking about good we are talking about 2 different sort of things; tangible goods or and intangible goods.

So, a different definitions sometime use tangible goods in some time they are represented by goods. And intangible goods we use a specific term for intangible goods and that is services. So, a service is intangible product that is used to satisfy your need, or that is services is intangible product that gives you happiness. So, that distinction sometimes we make, but we are very sloppy about it sometime we use goods for tangible as well as intangible things, but sometimes we say goods only for tangible goods and services for intangible goods.

So, keep it in your mind context will make it clear that what is the meaning of goods in that particular context. Now you may say, how can we quantify these intangible goods. So, let us do a thought experiment to learn about quantification of intangible good, because remember in economics we try to quantify not try to we have to quantify almost everything. So, let us

look at it how we have tried to quantify even intangible things in economics. Let us say that you are travelling in a train you bought your ticket.

But unfortunately, when that is, ticket examiner comes and asks you to produce your ticket. You see that the ticket is not on you, you do not have that ticket. Now it is says that he is going to fine you, because you do not have ticket you are travelling in that train without having proper document or proper ticket, he is going to fine you and the amount of fine, let us say just for discussions sake is somewhere it is 500 rupees.

Now, if you say that sorry, I do not have this sort of money and he says then in that case you will have to go to jail for 7 days. So, these are the 2 options available to you either you pay 500 rupees or you go to a jail for 7 days what would you do probably, probably you would say I would pay 500 rupees and you would avoid going to jail, but let us continue this thing as a thought experiment.

Let us say suppose, he says it instead of fine finding you for 500 rupees he says it is 501 rupees and the second option is that you go to jail for the 7 days. You may still opt for paying that fine. So, keep on increasing keep on increasing this fine in small increments, by one rupee keep on increasing probably there will be a some level where you would say that you would rather go to the jail then paying this exorbitant amount of fine. So, it means there will be a particular level where you would be indifferent between going to jail or paying this particular fine.

So, that I would say as an economist that that is the value that you attached to go into the jail for 7 days. Let us say for example, that you stopped that at 50 thousand rupees you figured out that you would rather go to the jail than paying this 50000, then I would say that the value of going to jail for 7 days is 50,000 rupees for you, but remember this 50,000 is not a hard and fast rule.

It is not like everyone would say that 50,000 is that level where you would shift from you would change your decision from paying the fine to going to jail. Different people will have different level it depends how much money you have, how much you value your; how much you value how much you disvalue go in to jail for example, a person who is very who is a frequent visitor of jail would probably say I would rather go to the jail than paying this fine

So, that is how we try to quantify we try to quantify everything in economics and that we will see. So now, let me say that let me define a term reservation price of activity x . What is reservation price of activity x ? The price at which you would be indifferent between opting for x or not opting for x . So, let us say we are talking about x and here x is going to jail. So, then 50,000 rupees is the reservation price at this level you are indifferent between these 2 things.