What is economics?

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Economics is a broad field. Economists hold positions in business, government and academia. Photo by: Rawpixel/Getty Images

All humans have wants and needs. All humans make choices every day. These are among the topics that interest economists.

Economics is the study of the production, distribution and consumption of wealth in human society. However, this perspective is only one among many different definitions. Economics is also the study of people (as consumers) making choices about which **goods** and **services** to buy.

Indiana University says that economics is a social science that studies human behavior. It has a unique method for analyzing and predicting individual behavior. The field also studies the effects of institutions such as firms and governments, clubs and even religions.

Definition Of Economics: The Study Of Resource Use

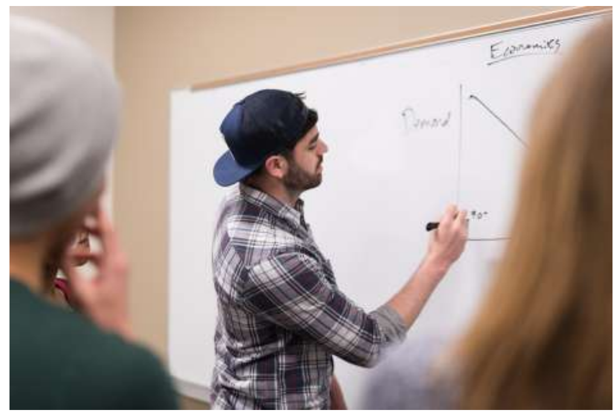
Economics is the study of choices. Some believe that economics is driven purely by money or capital, such as owned property or investments. However, choice is much more expansive. If the study of economics is the study of how people choose to use their **resources**, it requires looking at all possible resources. Money is just one of these.

In practice, resources can encompass everything from time to knowledge and property to tools. In response, economics helps illustrate how people interact within **markets** to realize their varied goals. In economics, a market does not have to be a physical place. It is understood as any situation that allows buyers and sellers to exchange any type of goods, services and information.

Beyond defining what these resources are, the concept of **scarcity** is also an important consideration. Resources — no matter how broad the category — are limited. This is the source of tension in the choices people and society make: Their decisions are a result of the constant tug of war between unlimited wants and desires and limited resources.

Many people break down the study of economics into two broad categories: **microeconomics** and **macroeconomics**.

Microeconomics



The Dictionary of Economics defines microeconomics as "the study of economics at the level of individual consumers, groups of consumers, or firms." Microeconomics is the analysis of the decisions made by individuals and groups. It also observes the factors that affect those decisions, and how those decisions affect others.

The prefix "micro-" means small. Not surprisingly, microeconomics is the study of small economic units. Microeconomics deals with economic decisions made at a low, or micro, level. From this standpoint, microeconomics is sometimes considered the starting point for the study of macroeconomics. That's because microeconomics takes a more bottom-up approach to analyzing and understanding the economy.

The field of microeconomics is concerned with:

Consumer decision-making and maximizing the **utility**, or usefulness, of that decision

Firm production and profit maximization

Individual market equilibrium

Effects of government regulation on individual markets

Externalities and other market side effects

Microeconomics concerns itself with the behavior of individual markets. Some examples would be the markets for oranges, cable television, or skilled workers. Microeconomics generally does not cover overall markets for produce, electronics, or the entire workforce.

Microeconomics is essential for local governance, business, personal finance, or research of stocks and other investments.

Macroeconomics

In contrast to microeconomics, macroeconomics considers similar questions, but at a larger scale. The study of macroeconomics deals with the sum total of the decisions made by individuals in a society or nation such as, "How does a change in interest rates influence national savings?" It looks at the way nations divide up resources such as labor, land and capital.

Macroeconomics can be thought of as the big-picture version of economics. Rather than analyzing individual markets, macroeconomics focuses on aggregate, or overall, production and consumption in an economy. Topics that macroeconomists study include:

Effects of taxes, such as income and sales taxes, on output and prices

Causes of economic upswings and downturns

Effects of monetary and fiscal policy on economic health, such as how governments manage their own currency

Effects of and process for determining interest rates

Causes for the pace of economic growth

To study economics at this level, researchers must be able to combine different goods and services produced in a way that shows their relative contributions to aggregate output. This is generally done using the concept of the gross domestic product (GDP). That is where goods and services are weighted by their market prices.

What Do Economists Do?

Economists do many things, such as:

Conduct research

Monitor economic trends

Collect and analyze data

Study, develop or apply economic theory

Economists hold positions in business, government and universities. An economist's focus may be on a particular topic, like inflation or interest rates. Or her approach might be broader. Using their understanding of economic relationships, economists might be employed to advise businesses, nonprofits, labor unions or government agencies. Many economists are involved in the practical application of economic policy. This could include a focus on several areas, from finance to labor or energy to health care.

Some economists are primarily theoreticians. They may spend a majority of their days deep in mathematical models. They develop new economic theories and discover new economic relationships. Others may devote their time equally to research and teaching. Some hold positions as professors to mentor the next generation of economists and economic thinkers.

So perhaps when it comes to economists, a more fitting question might be: What don't economists do?

Quiz

1. Which section from the article BEST explains that economics is interested in the tension between what people want and what is available to them?

   (A) "Definition Of Economics: The Study Of Resource Use"

   (B) "Microeconomics"

   (C) "Macroeconomics"

   (D) "What Do Economists Do?"

2. Which piece of evidence from the article BEST explains the concept of scarcity?

   (A) It has a unique method for analyzing and predicting individual behavior.

   (B) Resources — no matter how broad the category — are limited.

   (C) It looks at the way nations divide up resources such as labor, land and capital.

   (D) That is where goods and services are weighted by their market prices.

3. How are the sections organized overall to help develop understanding?

   (A) by field; to help readers understand the different tasks economists undertake

   (B) by problem and solution; to highlight how different economic fields tackle problems

   (C) by key idea; to provide specific information about various aspects of economics

   (D) by compare and contrast; to demonstrate the key differences between economic fields

4. Out of the following, what is the MOST likely reason the author includes the section "What Do Economists Do?"

   (A) to convince the student reader to take economics in college and pursue it as a career

   (B) to highlight that most economists spend more time studying than analyzing money

   (C) to provide evidence that microeconomics and macroeconomics are very similar in practice

   (D) to support the idea that economists are involved with many parts of society in different ways