

INTRODUCTION

The Supreme Court of Canada recently handed down its decision regarding the unity issue in Canada. This has given rise to a new round of debate over the issue of the "Quebec question." Is this a purely political issue, or does it have economic implications? What will be the impact of Quebec's secession on the economy of Canada? Does the mere threat of separation pose a problem for the Canadian economy? These are important issues.

When the fourth edition of this book was being prepared, the deficit and the debt were major economic concerns. Now, the federal government's budget has shifted from a deficit to a surplus position. At the end of 1997, the value of the Canadian dollar, in terms of the U.S. dollar, was \$0.7222. By the end of August 1998, the value of the dollar had fallen to just over \$0.63. Some claim that this fall in value is good for the Canadian economy, while others say that it is a disaster. Can there be elements of truth in both views?

The government claims that not much can be done about the falling dollar because its decline is caused by external forces, that is, economic events in Russia and Asia. It seems as if we have been more successful in controlling inflation than in reducing unemployment. Youth unemployment is still high, and many graduates are experiencing considerable difficulty in finding suitable jobs. For many, job prospects are less than optimistic. Whereas inflation has virtually disappeared from the Canadian economy, the unemployment rate is still hovering above eight percent. Why is this so? Listen to the radio, watch television, or pick up a newspaper, and you are bound to see or hear some news relating to the economy. Indeed, economic events are all around us, reminding us of the importance of understanding economics.

There can be little doubt that economic issues occupy a key position in the political arena. Governments are frequently judged by their economic performances, and their chances of reelection are closely correlated with the effects of their economic policies. Clearly then, it is to our benefit to understand economics.

A knowledge of economics will help us to understand many of the issues which confront us daily.

THE SUBJECT MATTER OF ECONOMICS

Consumers, businesses, the various levels of government, and all types of other organizations are always making choices. These choices determine how society uses its resources. If people choose to purchase huge quantities of personal computers and microwave ovens, society's resources will be used to produce these items. If a government chooses to upgrade its highway system and to improve the education and health of its citizens, then resources will be allocated to roads and to education and health services. How do individuals, firms, governments, and other organizations make decisions about the use of society's resources? This question is at the heart of economics.

Economists concern themselves with the behaviour of human beings engaged in the activity of using scarce resources to satisfy their unlimited wants. As a science that studies human behaviour, economics belongs in the same category as social psychology, anthropology, sociology, and political science. For our purposes, let us adopt the following definition of economics:

Economics is the social science that studies how people cope with the ever-present problem of scarcity.

Learning Objective 1: formulate a definition of economics

Social science studies aspects of behaviour of human society.

Economics is the social science that studies how people use scarce resources to satisfy their unlimited wants.

Let us examine certain aspects of this definition. First, note that we have defined economics as a **social science**. This means that it deals with certain aspects of human behaviour within a social framework. Second, the resources with which we are con-

cerned are *scarce* or *limited*, and third, the wants that we seek to satisfy are unlimited. If society had an *unlimited* amount of all resources, and if human wants were limited, we would have a utopia, indeed. But let us return to reality. **Scarcity** of resources is a fact of life, and this is one of the facts with which society must cope.

Economics is the study of scarcity.

Learning Objective 2: discuss the subject matter of economics

SCARCITY AND CHOICE

Economics is concerned with the fact that the means or resources for satisfying human wants are limited. Most of us want more than what we currently have, and collectively, we want more than we can produce with our limited resources. The economist is interested in the use of these scarce resources in a manner that will result in the satisfaction of the most important wants. If resources were unlimited, there would be no need to use them economically. Not much practical point would exist, therefore, for studying economics. But economic problems arise out of the fact that resources are scarce or limited, while wants are unlimited. And the economist must try to find solutions for these problems. We could therefore, as an alternative, define economics as the study of how people cope with the ever-present problem of scarcity.

Economics is the study of choice.

Because resources are both desirable and scarce, we must choose how we will allocate them among various uses. We will always have to choose between one thing and another when we do not have the means to obtain both. If you won \$20 million in a lottery (good luck), and you wanted to buy a car and take a vacation in Europe, you could do both. You would not have to choose either one or the other. So too, if a society could produce all of the goods and services that each member wants, then the problem of choice would not exist. **Choice**, therefore, is a direct result of scarcity. Economics is the study of choice.



PROBLEM SOLVING 1-1

Is scarcity a problem for an enormously wealthy woman who can have anything that she wants?

THE IMPORTANCE OF ECONOMICS

Learning Objective 3: discuss the importance of economics

Why should we study economics? The study of economics is important for several reasons, some of which are discussed below.

Economics helps us to understand society.

UNDERSTANDING THE ECONOMY AND SOCIETY

Understanding the operation of our economic system enables us to improve its performance and helps us to deal with many of the problems that face our country. The economy is such an important part of society that it is impossible to understand society without a basic knowledge of economics. Our relationships with one another, our environment, the manner in which our collective wealth is distributed, and the types of work we do are all related to our economic system. Our lives are shaped by the myriad economic decisions that have been made by our ancestors and that are being made today by our contemporaries. A decision to build more war planes instead of spending more money on education and health will affect us not only today, but also for a long time in the future.

The better our understanding of our economy and our society, the better the control that we are likely to have over our destiny. It has been suggested that our grandparents could have avoided the economic catastrophe of the Great Depression of the 1930s if they had had a more thorough understanding of the economic forces at work.

Economics helps us to understand world affairs.

UNDERSTANDING WORLD AFFAIRS

Rapid changes are occurring in the world. Just pick up a newspaper or turn on the radio or television and you will get an idea of the many important changes that are taking place. The Soviet Union no longer exists, the unification of Germany is a reality, there is continuing tension in the Middle East, and the face of Europe has been transformed. The European Community has moved toward a relatively high level of economic integration, and here in Canada, the possible separation of Quebec from the Canadian federation remains an issue of considerable debate and uneasiness. These issues all have economic causes or economic consequences; therefore, an understanding of economics will enhance our understanding of these and other world affairs.

Economics helps us to be informed citizens.

BEING AN INFORMED CITIZEN

As consumers, it is important for us to know how to spend our income so that we can derive maximum satisfaction from our purchases. It is also important for us to use our labour services and other resources wisely. Not only should people be wise consumers, but as citizens in a democracy, they must be able to visualize and evaluate the consequences of different courses of action in order to determine which ones are most likely to lead to improvements in economic and social well-being.

During the federal election of 1988, the dominant issue was the Canada-U.S. free trade agreement — clearly an economic issue. During the 1993 campaign, the issues were NAFTA, unemployment, and the deficit. What should be done about unemployment? What policies should be adopted to deal with the huge deficit? Should Canada pursue a policy of protectionism as a means of supporting its domestic industries? Can subsidies to farmers be justified on economic grounds? In an election, citizens are frequently asked to vote for a party on the basis of its political platform, which, to a significant degree, contains issues and intended policies that are essentially economic in nature. A knowledge of economics allows us to replace emotional judgment with reasoned analysis in the decision-making process.

Economics helps us to think logically.

THINKING LOGICALLY

One of the most important reasons for studying economics is that it develops a particular way of thinking and making decisions. Good decision-making requires a careful evaluation of the benefits (advantages) and costs (disadvantages) associated with the decision or the choice that we make. Actually, economic analysis is, to a large extent, an exercise in logic and thus helps to sharpen our common sense.

Economics gives personal satisfaction.

GETTING PERSONAL SATISFACTION

There may be a more personal, selfish reason for studying economics. Because the study of economics can be intellectually exciting and stimulating, it yields great personal satisfaction. If you happen to become a great economist, you could end up being the president or chief executive officer of a corporation, or an economic consultant to one of our levels of government, with an annual salary in the six-figure range. In the 1940s, economists worked mainly on the campuses of universities. Today, professional economists work in practically every aspect of business and government.



PROBLEM SOLVING 1-2

Economics does not teach one how to earn a living, so it does not have much practical value. Do you agree?

QUESTIONS FOR REVIEW AND DISCUSSION

1. Why do individuals, firms, and governments have to make choices? (L.O. 2)
2. Is there any relationship between choices and resource use? (L.O. 2)
3. Economics is the study of scarcity and choice. Do you consider this to be an adequate definition of economics? (L.O. 1)
4. Explain to one of your friends who is not taking economics why economics is important. (L.O. 3)
5. How can economics help you to become a better informed citizen? (L.O. 3)
6. What opportunities exist for economics graduates? (L.O. 4)
7. In what sense is economics a science? In what ways are economists different from physicists as scientists? (L.O. 5, 6)
8. What are the fundamental elements in scientific inquiry? (L.O. 5)
9. What is an economic model? Why do economists find it useful to construct models? (L.O. 6)
10. What is the difference between positive economics and normative economics? Do you agree with the statement that normative propositions have no place in scientific economics? Give reasons for your opinion. (L.O. 7)
11. Economists disagree over normative economics, but not over positive economics. Is this statement true or false? Explain. (L.O. 8)
12. Give an example of the post hoc, ergo propter hoc fallacy. (L.O. 9)
13. Give an example of an economic policy. Give reasons why such a policy might be put into effect. (L.O. 9)
14. State what the differences are between the following pairs of concepts: (L.O. 9)
 - (a) stocks and flows;
 - (b) endogenous variable and exogenous variable;
 - (c) correlation and causation.
15. What is the difference between microeconomics and macroeconomics? Why should we study both microeconomics and macroeconomics? (L.O. 10)

PROBLEMS AND EXERCISES

3. Categorize each of the following as either positive or normative statements. (L.O. 7)
 - (a) An increase in price will reduce the quantity purchased.
 - (b) The price of gasoline should be stabilized at its current level.
 - (c) Economics is so important that it ought to be compulsory for every secondary school, college or university student.