THE SCIENCE OF ECONOMICS

Economics is the social science that analyzes the production, distribution, and consumption of goods and services. Current economic models emerged from the broader field of political economy in the late 19th century. A primary stimulus for the development of modern economics was the desire to use an empirical approach more akin to the physical sciences.

Economics aims to explain how economies work and how economic agents interact. Economic analysis is applied throughout society, in business, finance and government, but also in crime, education, the family, health, law, politics, religion, social institutions, war, and science. The expanding domain of economics in the social sciences has been described as economic imperialism.

Common distinctions are drawn between various dimensions of economics. The primary textbook distinction is between microeconomics, which examines the behaviour of basic elements in the economy, including individual markets and agents (such as consumers and firms, buyers and sellers), and macroeconomics, which addresses issues affecting an entire economy, including unemployment, inflation, economic growth, and monetary and fiscal policy.

Microeconomics, like macroeconomics, is a fundamental method for analyzing the economy as a system. It treats households and firms interacting through individual markets as irreducible elements of the economy, given scarcity and government regulation. A market might be for a product, say fresh corn, or the services of a factor of production, say bricklaying. The theory considers aggregates of quantity demanded by buyers and quantity supplied by sellers at each possible price per unit. It weaves these together to describe how the market may reach equilibrium as to price and quantity or respond to market changes over time.

Such analysis includes the theory of supply and demand. It also examines market structures, such as perfect competition and monopoly for implications as to behaviour and economic efficiency. Analysis of change in a single market often proceeds from the simplifying assumption that relations in other markets remain unchanged, that is, partial-equilibrium analysis. General-equilibrium theory allows for changes in different markets and aggregates across all markets, including their movements and interactions toward equilibrium

In microeconomics, production is the conversion of inputs into outputs. It is an economic process that uses inputs to create a commodity for exchange or direct use. Production is a flow and thus a rate of output per period of time. Distinctions include such production alternatives as for consumption (food, haircuts, etc.) vs. investment goods (new tractors, buildings, roads, etc.), public goods (national defence, small-pox vaccinations, etc.) or private goods (new computers, bananas, etc.).

Opportunity cost refers to the economic cost of production: the value of the next best opportunity foregone. Choices must be made between desirable yet mutually exclusive actions. It has been described as expressing "the basic relationship between scarcity and choice”. The opportunity cost of an activity is an element in ensuring that scarce resources are used efficiently, such that the cost is weighed against the value of that activity in deciding on more or less of it. Opportunity costs are not restricted to monetary or financial costs but could be measured by the real cost of output forgone, leisure, or anything else that provides the alternative benefit (utility).