

Ways to Think about the Economics

Positive vs. Normative

Economics includes BOTH "positive" statements and questions about "what is," about facts and "normative" statements and questions about "what should be," about ideals, morality, and justice.

- Positive question: What is the level of poverty in our country?
- Normative statement: How much effort should we put into reducing poverty?

Trick question: Is the following statement positive or normative? "The total share of federal taxes paid by the top 1 percent of households, by income, has risen from 14.2 percent in 1980 to 22.3 percent in 2009."

Four Essential Economic Activities

- Resource maintenance - preserving or improving the resources that contribute to the enhancement of well-being
- Production - the conversion of some of these resources into usable products, which may be either goods or services.
- Distribution - the sharing of products and resources among people
- Consumption - the process by which goods and services are, at last, put to final use by people.

Three Basic Economic Questions

The four basic activities lead to three essential normative questions about economics

- What should be produced, and what should be maintained?
- How should production and maintenance be accomplished?
- For whom should economic activity be undertaken?

Note: These are all normative questions!!

Classical Economics - The Production Function

Classical definitions of economics had a very simple equation to explain the create value within an economy. Land + Labor + Capital = Production of Goods and Services.

- Land = anything in nature
- Labor = human or animal work
- Capital = initially meant just financial capital or money, but now includes other types of capital: physical (roads, bridges, machines), social (relationships, trust), human (knowledge, skills, experience), natural capital (ecosystem services)

Fundamental to the study of economics is the changing relationship between these different factors of production. Study of this "system" was the initial focus of economic thinking.

Neoclassical Economics - Streamlined Models

The current mainstream of economic thinking took the ideas of classical economics and created formalized assumptions, equations, and graphs to derive "laws" that could predict behavior of the economy. Neoclassical thinking developed during the early 20th century when there was a push for a more "scientific" approach to government.

There are two primary actors within the neoclassical economy: households consume and seek to maximize utility; firms produce and seek to maximize profits. Relationships between households and firms occur through markets.

Contextual Economics - Social and Environmental Context

This encompasses a broad range of alternative views that argue for a more realistic approach to economic questions. Rather than just households and firms, contextual economics divides economic activity into three spheres of activity.

- Core sphere - focuses on households, families, and communities and includes non-wage work such as raising children, preparing meals, maintaining homes, caring for family members and leisure time.
- Business sphere - firms that produce goods and services for profitable sale and other forms of wealth.
- Public purpose sphere - government services and non-profit organizations focused on well-being

Individuals can participate in each of the spheres and all economic activity takes place within a social and environmental context. Society and the environment constrains and influences the economy and is impacted by the economic decision-making. You cannot study the economy without studying these interactions.