

FOREWORD

What is economics?

Most people think that economics is what we hear about in the media: the study of interest rates, unemployment, gross domestic product (GDP), budget deficits, trade balances, the Dow Jones, gasoline prices, and so on. That is not quite correct: though these items make up “the economy”, they are not “economics”, at least not in the sense we adopt in this book.

As far as this textbook is concerned, we shall take the view that *Economics is born of scarcity*; i.e., of the fact that not everyone can enjoy everything they want all of the time. We all face scarcity: our income is limited, our time is limited, and natural resources are limited.

The result of this scarcity is that we must make choices. A limited personal income means we most likely cannot purchase everything we would like: **choosing something means giving up something else**. Consumers must choose what to buy, given their budget, and company managers must choose what products to sell and at what price. These individuals thus become stakeholders in the business activity and choose the course of action that seems best for them at the time. (Note that we are not implying that every business decision is a wise one or that consumers always buy what is best for them.)

We shall see in detail over the course of the book how these **individual decisions end up shaping the economy** by determining various economic quantities like commodity prices, wage rates, as well as more “macro” characteristics like interest and exchange rates, or more financial variables like stock indices, although we leave it to other economics textbooks to teach you about the more macroeconomic and financial aspects of the economy.

Recap

- “The economy” and “economics” are two different things.
- Scarcity is the root of economics.
- Scarcity means we must make choices: choosing something means giving up something else.
- Individual choices together shape the economy.

Who this book is for

The manual is written for business students. Throughout our extensive sampling of existing textbooks, we found university textbooks to be too abstract for business students who do not wish to pursue studies in economics and business textbooks to be ill-adapted to first-year undergraduates. This textbook is primarily geared towards students of undergraduate business programs, but also presents deep insights into “the economic way of thinking” to graduate business students who are taking their first economics course.

Book structure

The textbook serves three purposes. The main one is to make the reader familiar with the economic way of thinking. In its simplest form, this amounts to understanding how economic agents choose between two options. It rarely gets more complicated than that, conceptually, but embedding such decisions in various economic environments allows one to better understand the foundations of our economies. Simply put, the economic way of thinking consists in applying common sense to economic situations.

The other two objectives are more pragmatic in nature. The textbook reflects this structure and is divided into two parts. The first part, consisting of Chapters 1 through 6, relates to how markets operate and goes in depth into how individual decisions shape markets. These chapters cover topics such as gains from trade, markets from the point of view of consumers and from the point of view of firms, whether in a competitive or a monopolistic setting. If you will, this part teaches the minimum we wished every citizen would know about economics.

Building upon that knowledge, the second part is geared towards managers. Whether or not you become a manager yourself, your career is likely to lead you to interact with managers or to see things from a manager’s perspective. In other words, while the first part is aimed at teaching you what any educated citizen should know, the second is specifically geared towards businesspeople. Accordingly, Chapters 7 through 12 cover topics such as pricing strategies, dealing with competitors in strategic situations, dealing with uncertainty and handling (sometimes asymmetric) information.

A few words of advice

Lastly, we conclude this foreword with some words of reassurance. A surprising number of people have the preconceived notion that economics is a difficult subject. If you are such a person, the following is for you: economics in general, and this textbook in particular, rest on **the application of common sense arguments**. Because you already have common sense (enough to have made it this far in your schooling), this course should not be “hard”.

As long as you learn your definitions and do not let yourself intimidated by the technical – and sometimes inaccurate – terminology historical conventions have passed onto us, you should be able to do well simply by sticking to what makes sense. If you ever feel like you are falling behind in your understanding of the material, come back to this section and read it again. Happy reading!

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