The study of how individuals, households, and societies choose to use their scarce resources efficiently in order to satisfy their diverse wants. By definition, economics is a social or behavioral science because it studies human behavior just like other social sciences, but it emphasizes the need to make wise choices in order to use scarce resources in an efficient way to satisfy diverse wants.

Resources are the factors of production, the inputs, and managerial skills that are required to produce goods and services. These are land, labor, capital, and entrepreneurial skill. The factors of production are scarce because of the limitless wants of economic agents and the competing uses to which the resources can be committed. Scarcity is therefore a relative concept, meaning that economic resources are scarce relative to limitless wants and the competing demands for available resources.

Scarcity necessitates choices and costs. Individuals, firms, and societies must then choose the way and manner in which they want to use scarce resources in order to avoid waste and inefficiency. Whenever a choice is made, there is a corresponding cost—the sacrificed alternative, otherwise known as the opportunity cost.

Economists have determined that incremental (additional or marginal) cost-benefit analysis is the underlying principle that rational humans will use to make choices. Humans will evaluate the marginal cost against the marginal benefit when making choices, and they will act on the weights of benefit and cost.

Intuitively, humans will prefer the benefits to costs, but by acting on such a preference, the use of aggregate societal resources will not be equitably distributed. There will be overallocation and underallocation of resources, which is an inefficient outcome. Therefore, societal resources must be allocated to attain equilibrium of marginal social cost and marginal social benefit, the precondition for efficient allocation. By doing so, a society will be producing what it wants at the least possible cost.

Economics has diverse fields but two broad categories. The field of economics includes industrial organization (the structure and performance of industries and firms); economic development (the study of, inter alia, poverty, education, health, and income distribution); international economics (economics in trade, finance, and development); labor economics (the factors affecting wage rate and employment); econometrics; public economics (government in the economy); welfare (normative) economics; and law and economics.

The two broad categories of economics are microeconomics and macroeconomics. Microeconomics is the study of individuals, households, and firms, while macroeconomics studies the aggregate economy and aggregate variables, such as national income, national saving, the general price level, and the national employment rate.

Economics seeks to deal with normative and positive issues. Normative issues are based on value judgment (good or bad), with little or no empirical justification for the conclusions reached. Positive
economics is probative and uses theory to justify conclusions. Econometrics incorporates the methodology of economics. The major goals of economics are to attain efficiency, equity, growth, and price stability. For more information, see Boyes and Melvin (2002), Case and Fair (2003), Mankiw (2006), McConnell and Brue (2008), Perkins, Radlet, and Lindauer (2006), Pugel (2007), Salvatore (2002, 2006), and Schiller (2006) in the bibliography.

See also
Cost-Benefit Analysis (CBA) (economics), Econometrics, Growth, International Economics, Stabilization

APA
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MLA

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MLA