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FOREWORD

Economists have, of course, always recognized the dominant role that increasingly knowledge plays in economic processes but have, for the most part, found the whole subject of knowledge too slippery to handle.
E. Penrose, *The Theory of the Growth of the Firm*

This book was conceived and written to fit a particular topical sequence but primarily intended to be a helpful guide for students and everyone interested in learning economic concepts, economic theory, and methods used in analyzing economic phenomena and processes.

"Microeconomics. Theory and tests" covers the breadth of economics topics and provides the necessary depth to ensure manageable information for instructors and students. We strove to balance theory and application, as well as the amount of calculation and mathematical examples.

The book is meticulously structured into twelve key parts, covering a comprehensive range of topics in economics. These include an introduction to economics, human activity, various forms of exchange economies, money, demand and supply of goods, production activity and its significance, production costs, the market and competition, price and profit, the labor market and salary, and a detailed exploration of financial markets. At the end of every chapter, we provide a helpful self-check evaluation to allow students to assess their own proficiency and understanding, which can help them identify areas for improvement and reinforce their learning.

The authors, through this book, aim to provide readers with a comprehensive analysis of the economy and its concepts, providing a deep understanding of the subject matter through various conceptual developments, clarifications, and specific operational models. While the authors do not take an exhaustive approach to the economy, they offer a thorough exploration of key concepts that require general or contextualized clarifications. Those seeking a deeper understanding of the subject matter can explore further by consulting the specialized bibliography presented at the end of the book. With this book, readers

will have a clear picture of what areas to focus on, enabling them to delve deeper into issues that interest them.

In this book, students will discover a fresh and innovative approach to learning microeconomics. It serves as a comprehensive guide to the fundamental principles of the subject, designed to help students across the globe understand and appreciate the value of microeconomic tools and concepts in analyzing market processes within their economic environment. Additionally, it provides a broader perspective on issues of trade and competitiveness, highlighting the relevance of microeconomic theory beyond the domestic scene and its applicability to international arenas. With this resource, students can gain a deeper understanding of the intricate workings of market processes and become better equipped to navigate the complex economic landscape.

The authors believe that immersing oneself in the theory and completing the tests will aid in comprehending the perspectives of different currents and schools of economic thought, solidifying concepts, and mastering the techniques of analyzing economic phenomena and processes.

Authors

CHAPTER 1.

Introduction to Economics

At every level, society must choose how to use its resources. Families must decide to spend money on a new car or a fancy vacation[1]. Towns must spend more on police and fire protection or the school system. Nations must decide whether to devote more funds to national defense or to protect the environment. In most cases, there isn't enough budget to do everything. But furthermore, looking at the latest *"problems"* like pandemics and economic wars means more about how humans react when facing scarcity[2].

1.1. The Genesis and Role of Economic Sciences in Society

The concept of political economy originates in the thinking of Aristotle, and semantically it comes from the Greek words *OIKOS* = house, household; *NOMOS* = norm, law; *POLIS* = fortress, city.

Economic thinking has gone through five distinct periods, namely:

1. The first period stretches from Aristotle's approaches to Adam Smith (late eighteenth century), a period in which economic thought was slow but which laid the foundation for economics as an autonomous discipline. The essential

[1] Greenlaw, S. A., Shapiro, D., Richardson, C., Sonenshine, R., Keenan, D., MacDonald, D., ... & Moledina, A. (2017). *Principles of Microeconomics 2e. for AP® Courses*. Rice University, available online at https://d3bxy9euw4e147.cloudfront.net/oscms-prodcms/media/documents/Microeconomics2 e-OP.pdf, accessed December 2022.

[2] Scarcity, also known as paucity, is an economics term used to refer to a gap between availability of limited resources and the theoretical needs of people for such resources. As a result, entities are forced to decide how best to allocate a scarce resource in an efficient manner so that most of the needs and wants can be met.

representative is Adam Smith[3] (1723-1790) with his work *"The Wealth of Nations"*, published in 1776 (through which the foundations of classical political economy were laid. Another representative is Francois Quesnay[4] (1694-1774), with the work entitled *"Economic Table"* (considered the first scientific work of a macroeconomic nature).

2. The second period, from the end of the XVIIIth century to 1870, is dominated by the English classical school represented by David Ricardo (1772–1823) with the work *"Principles of political economy and taxation"*, published in 1817 and Thomas Robert Malthus (1766–1834) with works on the relationship between economy and population. Also, the French economist Jean Baptiste Say 5 (1767–1832) was imposed during this period.

3. The third period stretches from 1870 to the first great global economic recession in 1930, when the German school was established, with contributions to the theory of value and distribution. The representatives are Vilfredo Federico Damaso Pareto (1848–1923), and Alfred Marshall (1842–1924). This period was dominated by three economics schools: the Vienna School, the School of Lausanne, and the Cambridge School. The founders of the Classical English School were guided by what Alfred Marshall called the system of economic freedom.

[3] Adam Smith (Scottish philosopher) is an important figure in the history of economic thinking. Known primarily for a single work - An Inquiry into the Nature and Causes of the Wealth of Nations (1776) (The Wealth of Nations). Research on the nature and its causes), the first comprehensive system of political economy - he is more correctly regarded as a social philosopher whose economic writings constitute only the cornerstone of a general vision of political and social evolution. Suppose his mastery is viewed about his previous lectures on moral philosophy and government, as well as to the allusions in The Theory of Moral Feelings (1759) to a work he hoped to write about "the general principles of law and government and the various revolutions they went through in the different ages and periods of society". In that case, the Wealth of Nations can be seen as a treatise on economics and a partial exposition of a much larger scheme of historical evolution. More information about Adam Smith is available at https://www.britannica.com/biogra phy/Adam-Smith, accessed September 2022.

[4] François Quesnay was a French economist and physician at the physiology school. He is known for publishing the "Tableau économique" (Economic Table) in 1758, which laid the foundation for the ideas of the physiocrats. This was perhaps the first work to attempt to describe the functioning of the economy in an analytical way, and as such can be regarded as one of the first important contributions to economic thinking. Le Despotism de la Chine, written in 1767, describes Chinese politics and society and its own political support for enlightened despotism. More information about François Quesnay is available at https://en.wikipedia.org/wiki /Fran%C3%A7oisQuesnay, accessed September 2022.

The Vienna School, although the marginalist theory of the value developed by it was not imposed from the very beginning, had a wide range of spread. The promoters of the theory of marginal utility were constituted in two currents: one called the Psychological School or the Vienna School and another known as neo marginalism or the School of Mathematics.

The School of Lausanne, whose main contribution lies in formulating the theory of general equilibrium, defined the general interdependence of goods, products, and markets, factors of production. It should be noted that the one of balance is added to the notion of interdependence. During this period, Leon Walras (1834–1910), a French mathematical economist, stood out. He formulated the marginal theory of value (independent of William Stanley Jevons and Carl Menger) and pioneered the development of the theory of general equilibrium. Walras is known for his book *"Éléments d'économie politique pure" (1874)*, a work that contributed significantly to the mathematics of economics through the concept of general equilibrium. The definition of the role of the entrepreneur found in it was also taken up and amplified by Joseph Schumpeter.

The Cambridge School evolved around Alfred Marshall toward elaborating the theory of partial equilibrium.

The critical school and the Marxism. Like any current of economic thought, Marxism is established on two levels: as an ideological doctrine and as a practical policy. Marxism considered that there are three phases in the evolution of mankind: the primary one, in which the collective consciousness absorbs man; the second, in which, thanks to the discovery of the self and the division of labor, man individualizes himself; the third – communism.

4. The fourth period from 1930 to 1970 is marked by Keynes J. M.[5] (1883–1946) with his work *"The General Theory of the Use of Labor, Interest and Money"*, published in 1936, which lays the foundations for conducting and elaborates a static macroeconomic model.

[5] John Maynard Keynes was an English economist whose ideas fundamentally changed the theory and practice of macroeconomics and the economic policies of governments. Initially trained in mathematics, he built and greatly refined previous work on the causes of business cycles. One of the most influential economists of the 20th century, he produced writings that underlie the school of thought known as keynesian economics and its various offshoots. His ideas, reformulated as New Keynesianism, are fundamental to the mainstream macroeconomics.

5. The fifth period – after 1970 (the 8th decade of the XX century) until now- is when several currents coexist and face: radicals; socialists; Keynesists; neokeynesists.

1.1.1. Place of Economics in the General System of Sciences

Economic science is a component of the social sciences, which, together with the system of natural sciences (comprising living natural sciences and inanimate natural sciences), comprise the general system of sciences (Table no. 1.1.).

Table 1.1. General System of Sciences

<table>
<tr><th>Inanimate (formal) natural sciences</th><th colspan="2">Animate (living) natural sciences</th><th>Social Sciences (Its object of study can be both the individual and the society)</th></tr>
<tr><td rowspan="2">Among the subjects that are considered formal sciences are logic, mathematics, statistics, computer systems, etc.</td><td>physical sciences</td><td>biological sciences</td><td rowspan="2">sociology, economics, psychology, archaeology, communication, history, geography, linguistics, political science, etc.</td></tr>
<tr><td>chemistry, physics, astronomy, and geology, etc.</td><td>botany, zoology, veterinary, anatomy, ecology, genetics, etc.</td></tr>
</table>

(Source: Ştefan & Dogaru, 2012)

The place of economics in the general system of sciences is a topic of philosophical and intellectual discussion that touches on the classification and relationship of different fields of knowledge. While there is no universally agreed-upon framework for the hierarchy of sciences, economics is commonly positioned as a social science and holds a unique place within the broader system of knowledge.

The general system of sciences can be thought of as a hierarchy that encompasses various disciplines, each with its own methods, principles, and subject matter. The traditional hierarchy often places natural sciences like physics, chemistry, and biology at the foundational level due to their focus on understanding the physical world through empirical observation and experimentation. These natural sciences are often considered "hard" or "exact" sciences due to their strong reliance on mathematical modeling and rigorous testing.