

Economic Thought and its' revolution

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What is Economics

Economics is the study of scarcity and its implications for the use of resources, production of goods and services, growth of production and welfare over time, and a great variety of other complex issues of vital concern to society.



According to economic definition shown above is hard to understand, especially for students who are from other faculties. Therefore, the translation in simple way is needed

I will try to explain what is Economics in practical definition

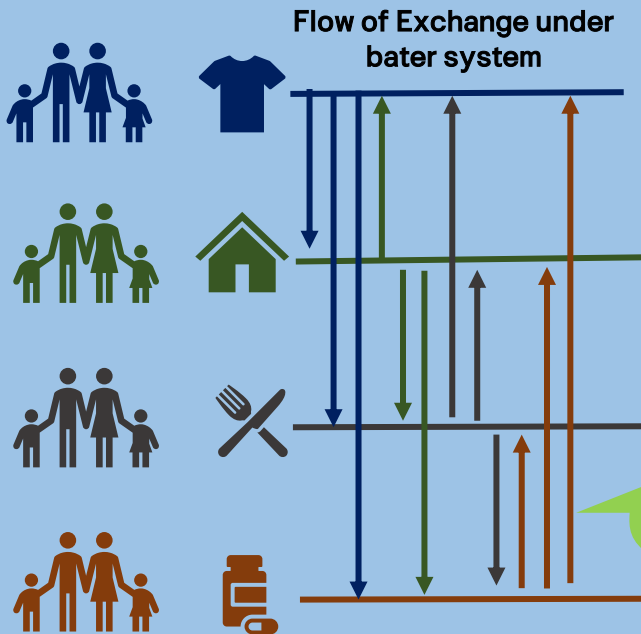
What is Economics : Practical Definition

Economics is used to explain what the economy/business was/is/and will be in order to find the way to solve the problem of business or economic issues or find opportunity for the growth

If they can produce all product they need, there is no need to exchange. Unfortunately, the most family in society could not produce them all.



In real situation, each family could not produce every product they need under **condition of the lack of resources (Including knowledge)**



Why money is in everywhere of any exchange It is the medium of Exchange

Barter System

It is the exchange system by using the product we have in order to exchange the other products we want. The core problems of this system were coincidence of wants and valuation.

Metal Coin

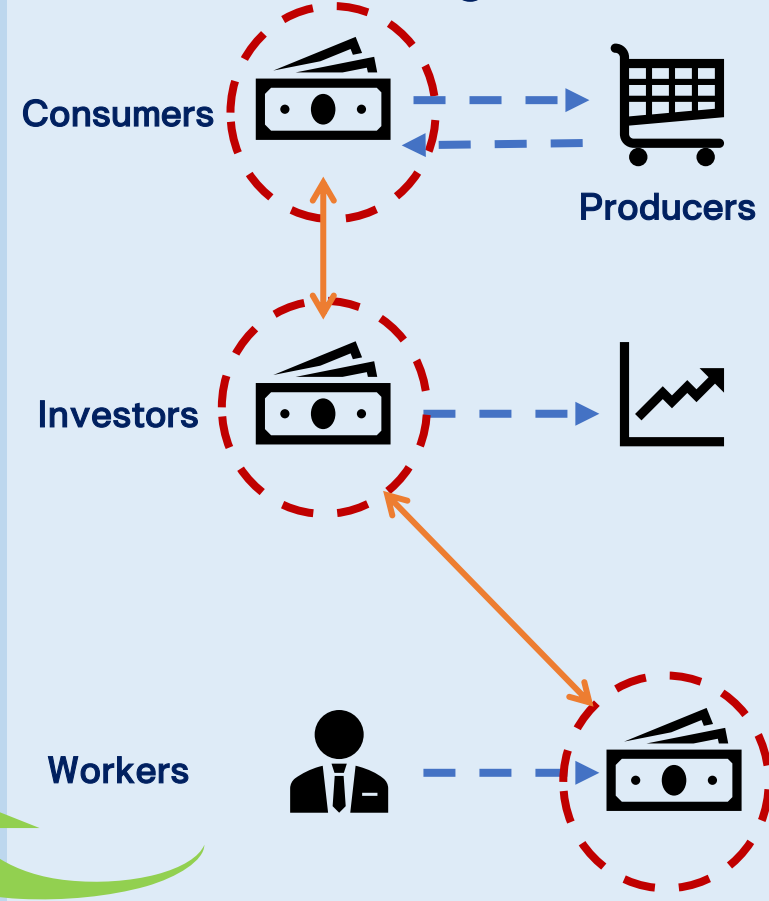
According to the problem of coincidence of wants and valuation. Economists had recommended to use precious metals which was accepted by most people in society as a medium to exchange between each other.

Paper Money

The gold standard was applied because money circulating in economic system is paper which has no intrinsic value relative to face value. Therefore, there must be precious metal being back up as a guarantee of the face value of those papers.

What is common business issue :

Exchange



Economics in simply definition.

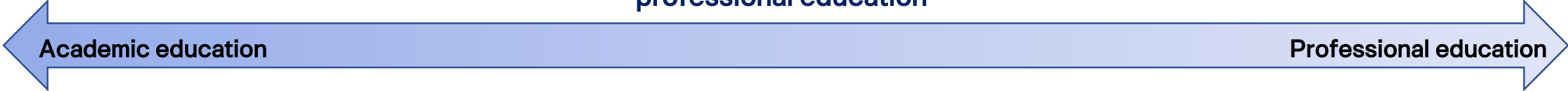
Economics is the study of how we choose to use **limited resources** to obtain the maximum satisfaction of **unlimited human wants**.

Role	Objective	Constraint (Limited Resource)
Consumers	Maximize utility (Satisfaction)	Budget (Income)
Producers	Maximize Profit	Cost
Invertors	Maximize Return	Money Capital
Workers	Maximize Wage	Working Hour

Why is important to study Economics

Economics is an academic education, which could not be used what we learn directly to the real life unlike the professional education such as doctors, nurses, accountants, engineers, etc.

For university students, the faculty they study could be divided into 2 groups that are academic education and professional education



- Education that mainly focus the theoretical principles of each particularly field, such as mathematics, sciences, economics
- There are few job positions in the market
- Career growth depends on ability and analytical skills

- Education with a clear purpose of pursuing a career such as Medicine (Doctor), Accounting (Accountant or Auditor), Law (Judge, Prosecutor, Lawyer), Engineering (Engineer)
- What they are going to do in their career is they same as what they studied in the university.
- Career growth mainly depends on working experience

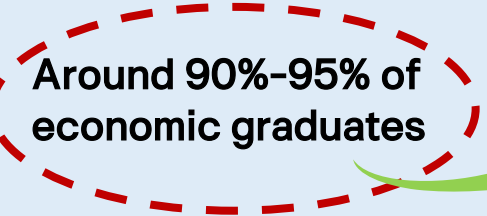
To be exact for economic student, what job are they going to work for after graduation

Working in the jobs that what they learned in university can be used directly such as lecturers, researchers, and some position of government officer (BOT, NESDC, and FPO)



Only 5%-10% of economic graduates

Working in other private or public jobs which need to apply the economic theory to the real business situation



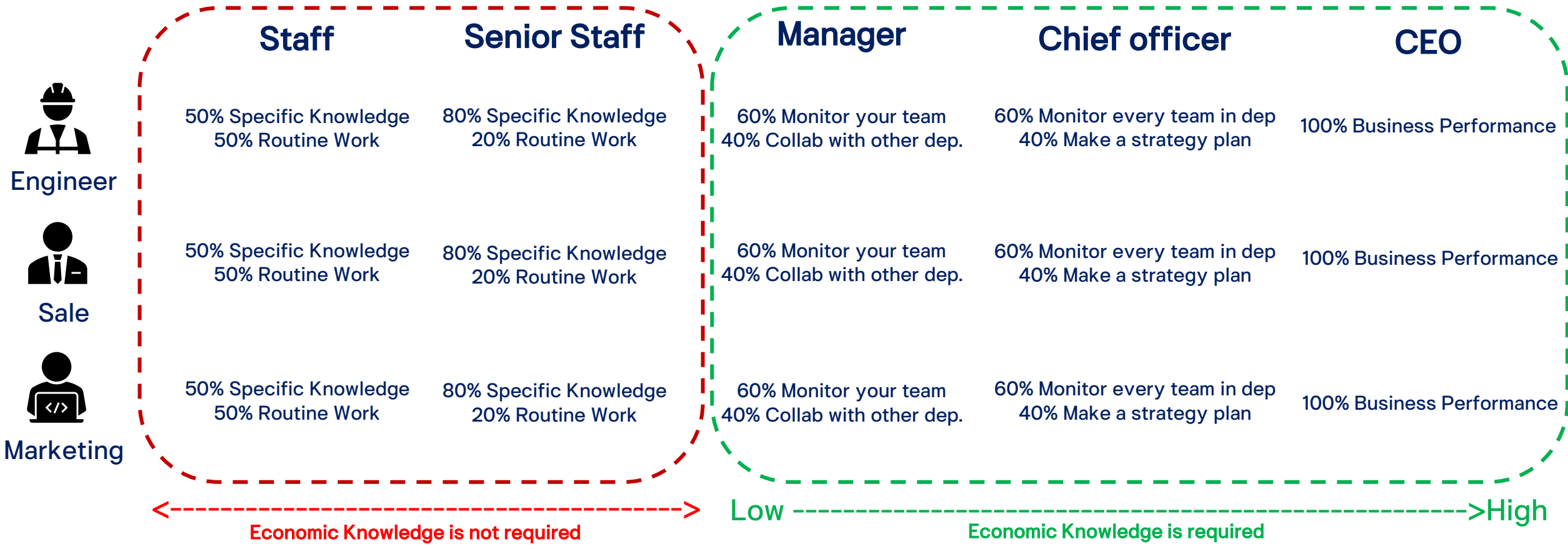
Around 90%-95% of economic graduates

Even most economics students work in positions that do not use economic theory directly, but those jobs are the positions which is required an application of economic theory to the real business situation



Why is important to study Economics

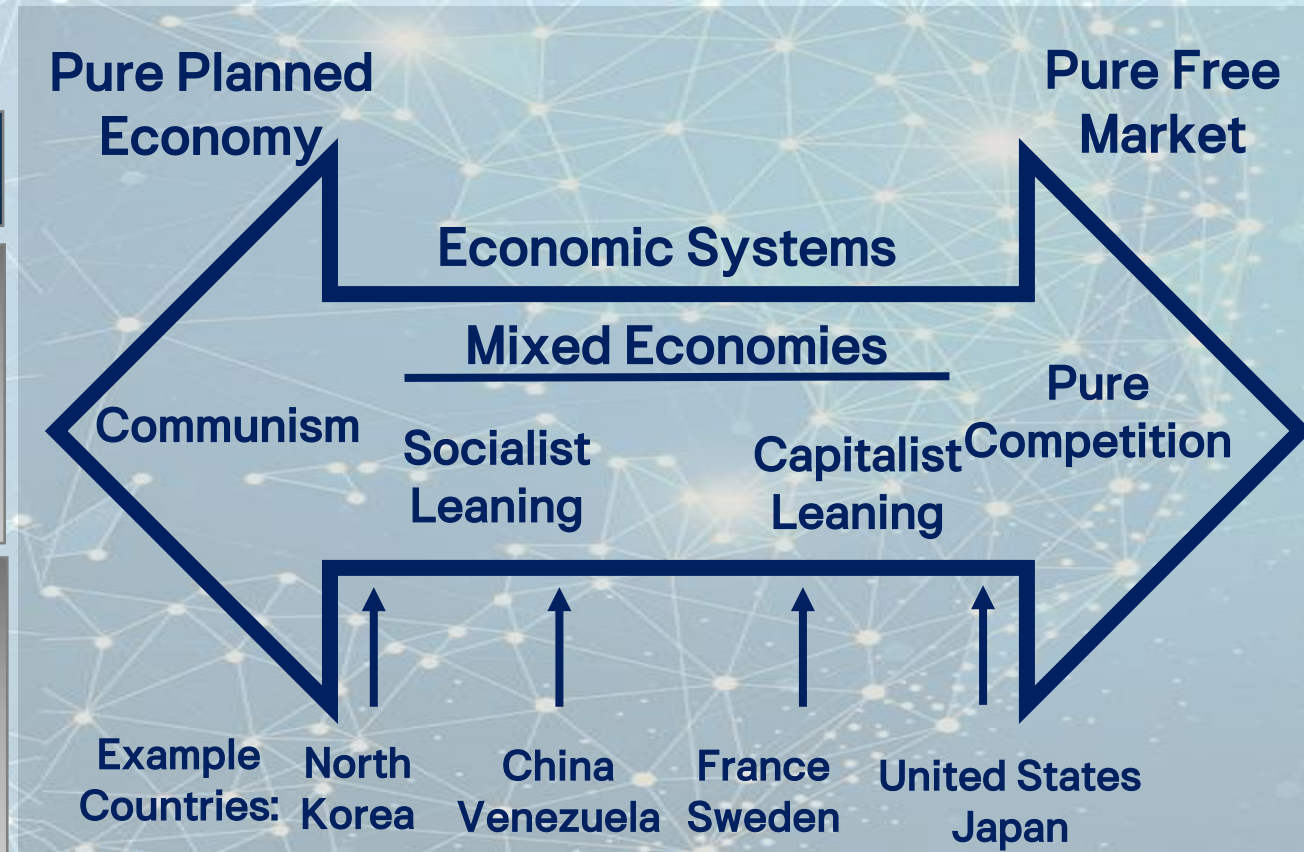
Everyone must work after graduation to find the money for living and take care of their family. As mentioned before, more than 95% of new graduates work in private companies, where the goal of them is to maximize profit. So, in terms of real life working, we have to collaborate with people from different educational backgrounds, but we all having the same a common goal is to drive the company to get more revenue growth to take more profit and get closer to companies' objective .



Economic Systems

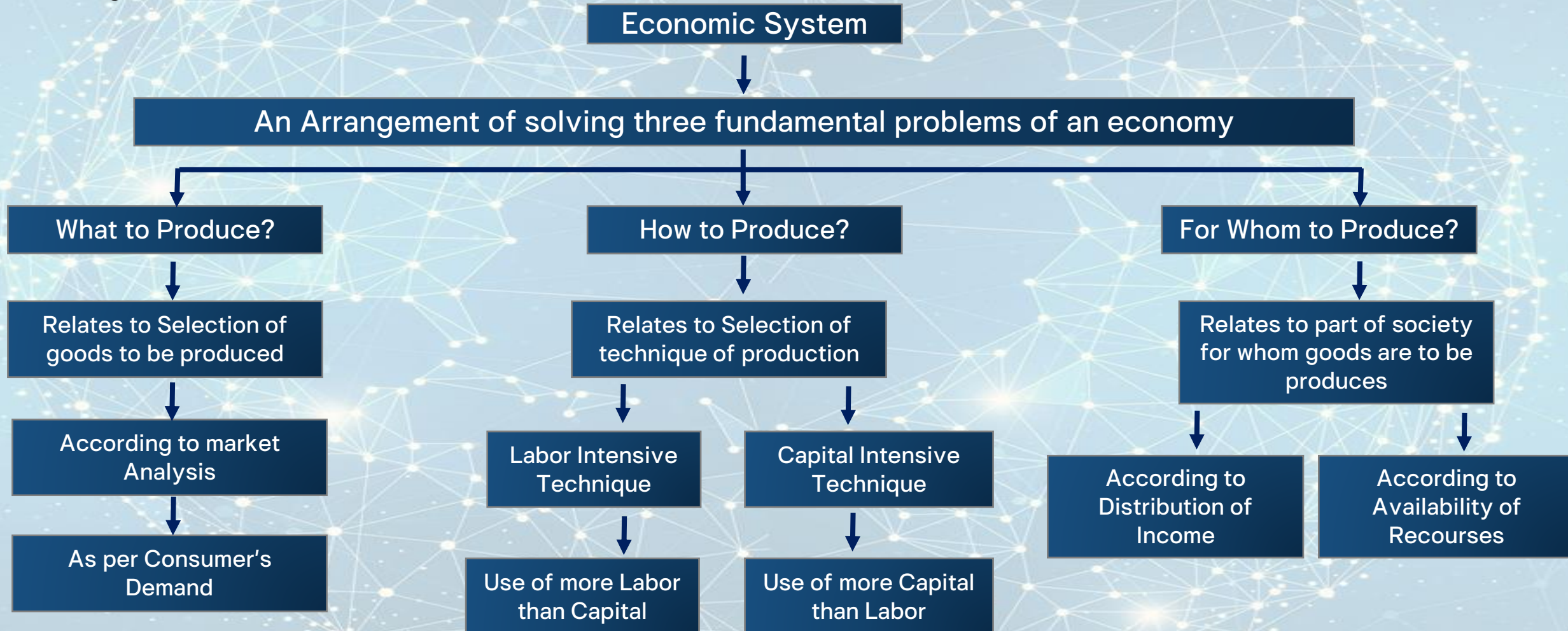
Economic System is a system of production, resource allocation and distribution of goods and services within a society or a given geographic area. It includes the combination of the various institutions, agencies, entities, decision-making processes and patterns of consumption that comprise the economic structure of a given community

		Ownership of Means of Production	
		Social Ownership	Private Ownership
Allocation Mechanism	Planning	Socialist Planned Economy	Dirigisme / "Command Capitalism"
	Market	Market Socialism	Market Capitalism



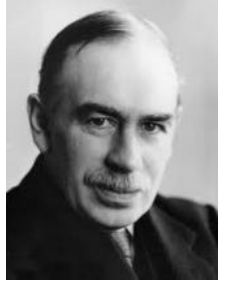
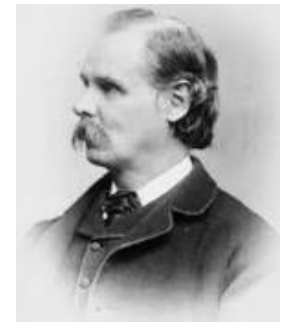
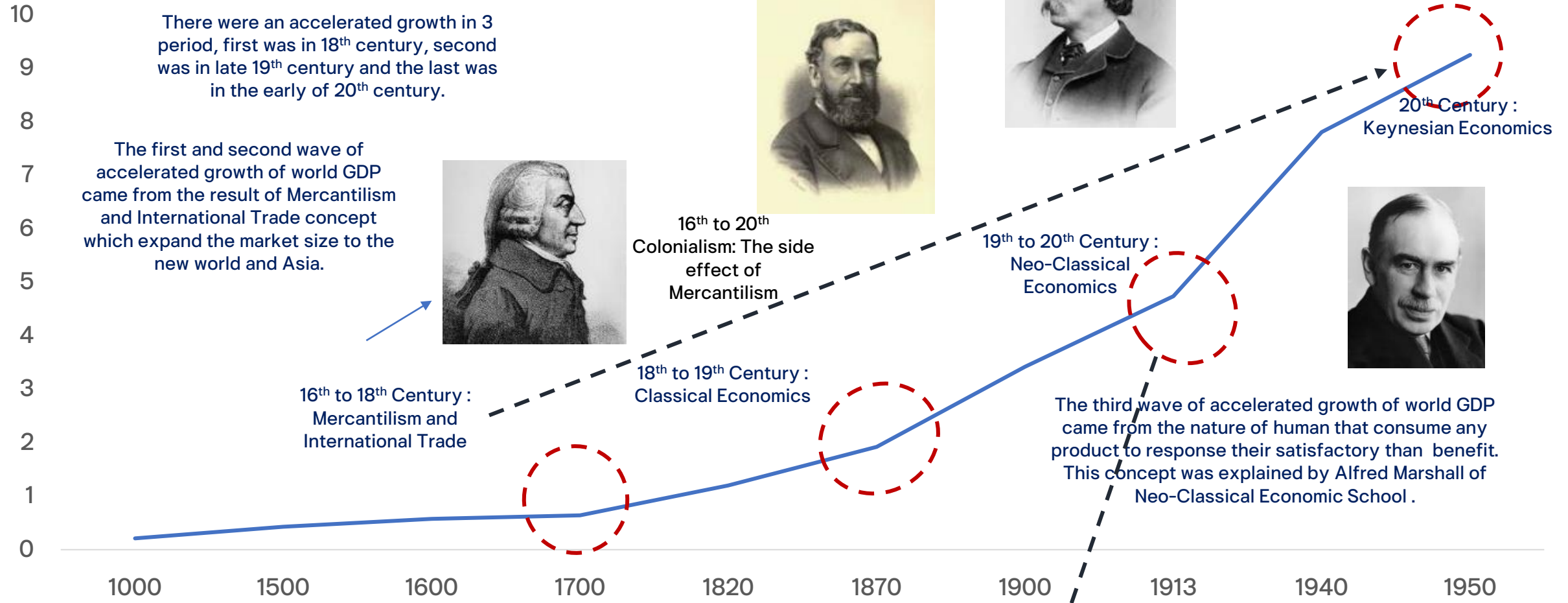
Economic Problems

Economic systems as a type of social system must confront and solve the three fundamental economic problems consisting of What, How, and for Whom



Revolution in Economic Theory

Unit: USD trn



— World GDP

 Est. 1945	 Est. 1839	 Est. 1854	 Est. 1921
 Est. 1848	 Est. 1837	 Est. 1910	

Mercantilism and its important theory

Mercantilism dominated Europe from the 16th to the 18th century. After the 15th century voyages of Christopher Columbus and other explorers opened up new opportunities for trade with the New World and Asia, newly-powerful monarchies wanted a more powerful military state to boost their status. Mercantilism was a political movement and an economic theory that advocated the use of the state's military power to ensure that local markets and supply sources were protected, spawning protectionism.



Mercantile theorists held that international trade could not benefit all countries at the same time. Money and precious metals were the only source of riches in their view, and limited resources must be allocated between countries, therefore tariffs should be used to encourage exports, which bring money into the country, and discourage imports which send it abroad. In other words, a positive balance of trade ought to be maintained through a surplus of exports, often backed by military might. Despite the prevalence of the model, the term mercantilism was not coined until 1763, by Victor de Riqueti, marquis de Mirabeau (1715–1789), and popularized by Adam Smith in 1776, who vigorously opposed it.

Wrap up of Mercantilism and the overlap of Mercantilism and Classical Economic Concept.

- ❑ A nation's wealth depends on accumulated treasure
- ❑ Gold and silver are the currency of trade.
- ❑ Theory says you should have a trade surplus.
 - ❑ Maximize exports through subsidies
 - ❑ Minimize imports through tariffs and quotas
- ❑ The most influence concept of Mercantilism era which had been introduced to explain the trade theory in Classical Economic concept called "The Theory of Absolute Advantage".
- ❑ The Theory of Absolute Advantage could be used as a base idea to explain current real situation of this phase "Put the right on the right job".



Neoclassical Economics

Before we are going to learn important theory of Neoclassical Economics, which I will use to apply the theory to explain about business matter. I would like to introduce a very important concept relating the revolution in medium of exchange. In a barter transaction, one valuable good is exchanged for another of approximately equivalent value. William Stanley Jevons described how a widely accepted medium allows each barter exchange to be split into many difficulties of barter. A medium of exchange is deemed to eliminate all those difficulties.

Want of coincidence

A barter exchange requires each party to a transaction to have something the other desires. A medium of exchange removes that requirement, allowing an individual to sell and buy from various parties via an **intermediary instrument**.

Want of a measure of value

If all exchanges go 'through' an intermediate medium, such as money, then goods can be priced in terms of that one medium. The medium of exchange allows the relative values of items in the marketplace to be set and adjusted with ease. This is a dimension of the modern fiat money system referred to as a "unit of account"

Want of means of subdivision

A medium of exchange is able to be subdivided into small enough units to approximate the value of any good or service.

Transactions over time

A barter transaction typically happens on the spot or over a short period of time. Money, on the other hand, also functions as a store of value, until what is wanted becomes available.



Fiat Money (Paper Money)

Fiat currencies function as money with "no intrinsic value" but rather exchange values which facilitate a measurable value of exchange. The most important and essential function of a medium of exchange is to be widely acceptable and have relatively stable purchasing power (real value). The following characteristics are essential:

- 1.Constant utility
- 2.Low cost of preservation
- 3.Transportability
- 4.Divisibility
- 5.High market value in relation to volume and weight
- 6.Recognizability
- 7.Resistance to counterfeiting



This paper money can be used to in Thailand.



This paper money can be used to in Laos



This paper money can be used to in Venezuela.

Why these papers can be used as a medium of exchange ?

Because people in that country trust it or accept it for doing any transaction under the number shown on its surface.

Why people in each country trust the domestic currency.

We have to look back that paper money has no intrinsic value relative to face value. It has a precious metal for being back up as a guarantee of the face value. So, people they do not believe in such those papers, but they trust in valuable assets which are behind.



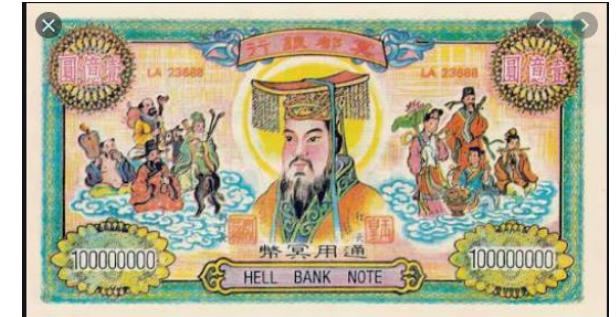
Face Value of THB 1,000 BAHT

The reason why Thai people believe it having real value of THB 1,000 because Thai people believe BOT issuing the money under the Money Printing Rule.



Face Value of SGD 10,000

Singapore people accept above money as a medium of exchange with the value of SDG 10,000. Also, the Money Printing Rule has been applied for printing the money.



Face Value of 100,000,000

No one trust this paper and never to accept as a medium of exchange. No rule for printing it.

Responsible agency for printing a money

BOT : Bank of Thailand



MAS : Monetary Authority of Singapore



Every printing company



The Money Printing Rule

Assume that we have only precious metal (Gold) used to be a back up for printing money

Responsible agency for printing a money in Thailand



Thailand has gold as an international reserve with value of THB 1 mln



Thailand prints out the money of THB 1 mln.

Every baht basis of paper money is backed up by gold



Thailand has gold as an international reserve with value of THB 1 mln



Thailand prints out the money of THB 2 mln.

Only half of paper money is fully backed up by gold



What about another paper money of THB 1 mln ? **Thailand has no back-up guarantee asset anymore, you can not exchange your THB to gold. Therefore, if you want to live in other countries after that rich man migration. All of you will start your life in your new country with no money 555.**

The Money Printing Rule with international trade

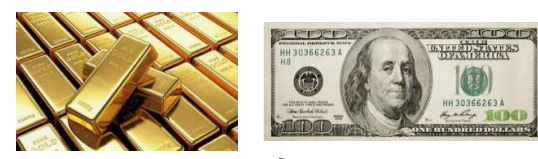
Do we want to sell our product to foreign? Yes, we do.



Responsible agency for printing a money

USA want to import rice from Thailand by offering price in dollar basis.

USD can't be used as a medium of exchange in Thailand. However, USD is a global acceptable asset which has strong value enough to be one asset in country's international reserve.



Print out more paper money



The Money Printing Rule with international trade

Do we want to sell our product to foreign? Yes, we do.



The strong man and beautiful woman, they both want to buy rice from Thailand by using their domestic currency.



However, Thailand would not agree with this offer and want them to convert their currency to USD



USD can't be used as a medium of exchange in Thailand. However, in USD is a global acceptable asset which has value enough to be an international reserve.



Print out more paper money



The Money Printing Rule (With international trade)

Assume that we have precious metal (Gold) and another currency used to be a back up for printing money

Thailand's International Reserve



Gold with value of THB 1 mln



USD with value of THB 1 mln

Printed out money



Money supply of THB 2 mln.



Every baht basis of paper money is backed up by gold and USD



Thailand's International Reserve



Gold with value of THB 1 mln



USD with value of THB 1 mln

Printed out money



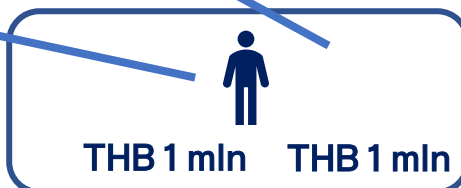
Money supply of THB 4 mln.



Only half of paper money is fully backed up by gold and USD



The rich man want to migrate to oversea . He needs to exchange THB to global acceptable asset



The rest of Thai people can not conduct with international transaction e.g., travel aboard, buying product from other countries. After all gold and dollar were exchanged by the rich man.

How to bridge theory to realistic.



After learning about money printing rule. Now we will apply that theory to explain the causes of the great economic crisis in Venezuela, where has experienced with one of the greatest economic crises which severely affected people's well-being. If you are listening the news or read articles about the causes of the economic crisis that occurred in Venezuela. Most of them always mentions the facts or pointing to the government failure, but they don't address the issue of violating one simple rule, money printing rule, which is the source of this economic crisis. So, I will open a video representing about the Venezuela crisis and the impact of this crisis to the people's well-being.

Your question. What was the core problem in Venezuela during the great economic crisis and explain that why had Venezuela faced with such crisis.

Application of money printing rule to explain economic crisis in Venezuela



VENEZUELA CRISIS

What about economic crisis in Laos and Sri Lanka.



Sri Lanka and Laos has faced a great economic crisis. Can we use the theory we have just learned to understand the causes and explain how did these economic crises happen?

<https://www.youtube.com/watch?v=DX9cLIB96ec>

<https://www.youtube.com/watch?v=IznUgmKRCn8>



How to bridge theory to realistic (Neoclassical Economics)

In economic theory, there is a guideline for businesses on strategies to increase their total business revenue by focusing on price sensitivity of products. By theory, it is suggested that for high price sensitivity product, business should reduce the price for getting higher revenue. On the other hand, for low price sensitivity product, business should increase the price for getting higher revenue.

Economic Wording

A good's **price elasticity of demand** is a measure of how sensitive the quantity demanded is to its price. When the price rises, quantity demanded falls for almost any good, but it falls more for some than for others. The price elasticity gives the percentage change in quantity demanded when there is a one percent increase in price, holding everything else constant



Business Wording

What is price sensitivity?

Price sensitivity is a measurement of how much the price of goods and services affects customers' willingness to buy them.



Price Elasticity of Demand (Price Sensitivity)

Price sensitivity is a measurement of how much the price of goods and services affects customers' willingness to buy them.

High Price Sensitivity means a one percent price rises (or drops) leads more than one percent decline (or increase) in quantity demanded. (According law of demand, price and quantity demanded has negative relationship). Characteristics of high price sensitivity products are as follows:

- 1) High price : For expensive products, every percent of the price reduction calculating in amount of money, it can save your money a lot. For example, laptops price of 40,000 Baht. 10% reduction could reduce the price by 4,000 Baht.
- 2) Not important for living : The not necessary goods such as a new car, new home, fashion cloths. If the price increases, consumers can easily delay their buying or decide not to buy.
- 3) Substitutes products : The more substitutes available, the higher the elasticity is likely to be, as people can easily switch from one good to another if an even minor price change is made.

Price Elasticity of Demand (Price Sensitivity)

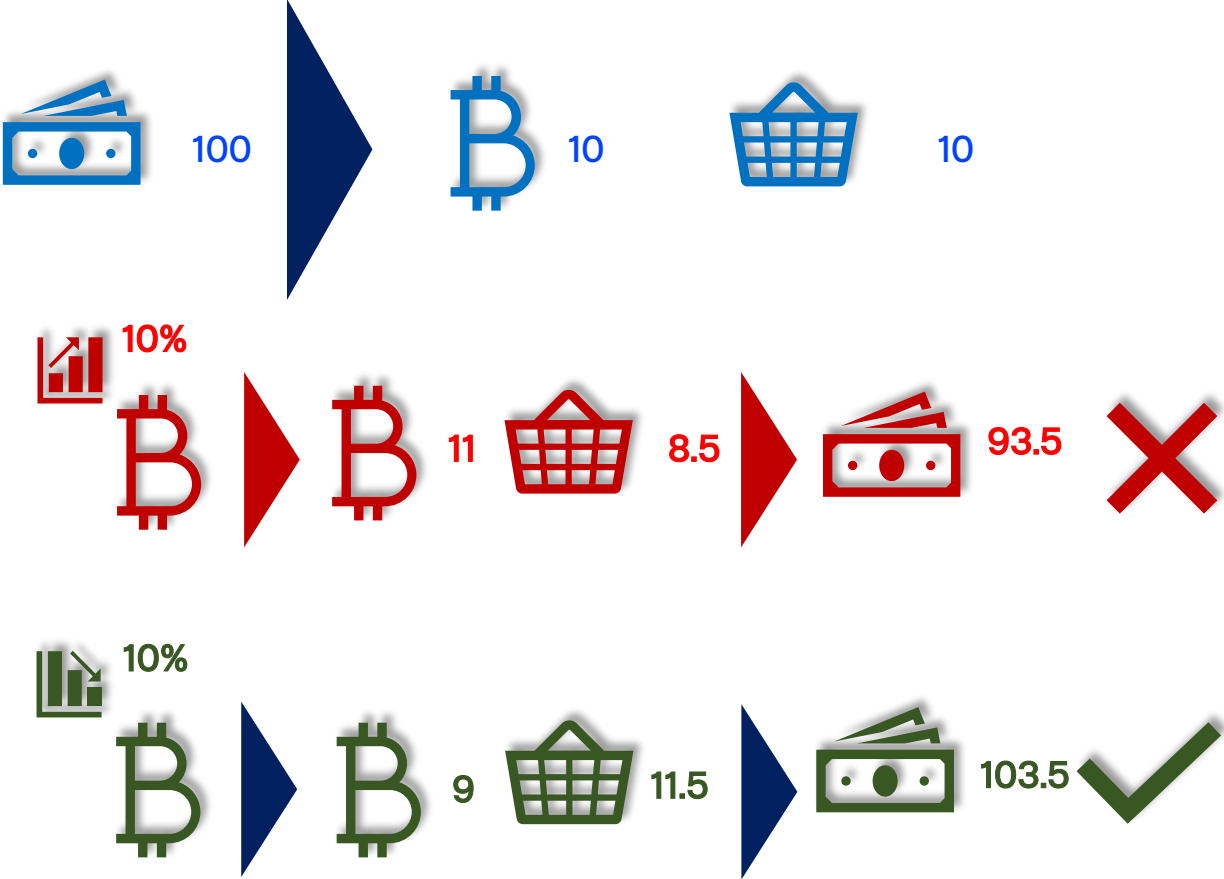
Low Price Sensitivity means a one percent price rises (or drops) leads less than one percent decline (or increase) in quantity demanded. (According law of demand, price and quantity demanded has negative relationship). Characteristics of low-price sensitivity products are as follows:

- 1) Low price : For cheap products such as a small bottle of coke. If it's price increases from 10 Baht to 12 Baht. Most of consumer would no care on that 2 Baht even though, the price increases by 20%.
- 2) A Necessity for living : The more necessary a good is, the lower the elasticity, as people will attempt to buy it no matter the price, such as the case of insulin for those who need it.
- 3) Little to no substitutes : The most common goods with no substitutes demand are energy products, which all producers sell fuel oil at the same price (or no significant difference) and electric utilities, which is operated in monopoly market.

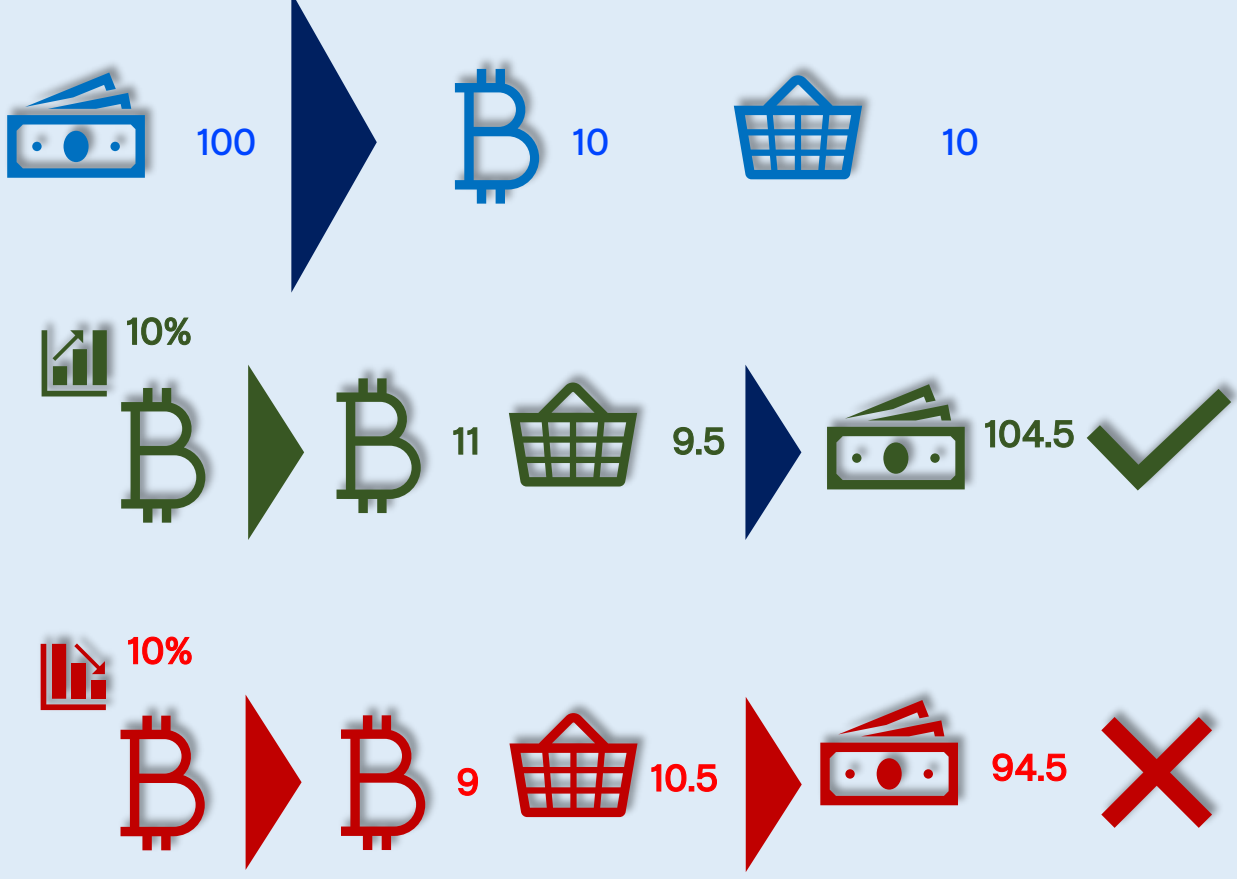
How to apply theory to real business strategy with reasonable

Price strategy for increase company's revenue

High Price Sensitive Product (%change of unit sold higher than %change of product price)



Low Price Sensitive Product (%change of unit sold Lower than %change of product price)



Exercises

Refer to theory we have learned. If we need to apply it for explaining the current situation by using theory of price sensitivity. Can you describe these situations?

1. Why do department stores always reduce products' prices at the end of the year?
2. Although price reduction strategies for high price sensitive product can increase a company's total revenue, is it a good idea to follow this strategy?
3. According to the theory, for low-price sensitivity product. A business should increase its product prices to gain more revenue. Is it possible in practice?
4. Let's criticize the case of the Chanel handbag. It's a very expensive product which should be a high price-sensitivity product and should reduce the price to gain more revenue. Why does the channel increase its product price every year? Is it a good strategy?

Q & A

Thank you