

ECONOMY AND ECONOMICS

The main issues of any economy are how to meet seemingly infinite human wants and needs, how to produce valuable commodities from the existing resources how to allocate them to foreign users.

The science of economics has two branches: *macroeconomics* and *microeconomics*.

MACROECONOMICS

Macroeconomics deals with issues relating to the economy as a whole. It examines economic facts in aggregate in totals for the whole country. It finding methods of reaching economic stability and prosperity, and fighting such negative phenomena as unemployment, inflation, and recession.

MICROECONOMICS

Microeconomics is related to the problems concerning single elements of a country's economy – business firms, households, markets, prices and products.

Economics as a science originated at the end of the 18th century, at the time of the Industrial Revolution. Adam Smith a Scottish economist and philosopher was the founder of the Classical Economic School. Smith's theory of the "Invisible Hand" became world famous. The Invisible Hand represented market mechanism – market forces of supply and demand.

Economic sectors are usually understood as large parts of the national economy working under specific conditions. *Industry* is a sector of an economy. It has branches, specialized areas, of economic activity e.g. food, automobiles etc.

Secondary industry is processing raw materials and manufacturing products in plants. *Services* are sometimes called the tertiary sphere.

Economic systems should be able to answer the following questions: WHAT does the economy produce? HOW are the goods produced and distributed? FOR WHOM are the commodities manufactured? There are four basic types of economies (Traditional economy, command economy, free market economy and mixed economy).

TRADITIONAL ECONOMY

It is the oldest economic system on the Earth, which still exists in primitive societies. People themselves made all the things necessary for their lives.

COMMAND ECONOMY

This system was typical of socialist countries. All economic decisions are made by the government.

FREE MARKET ECONOMY

The Invisible Hand represented by the market forces, the law of supply and demand. This law helps to determine automatically what to produce, how much and for whom.

MIXED ECONOMY

A mixed economy combines certain features of pure market and command economic system.

TRANSITION ECONOMY

Economies being transformed from a centrally planned system I to an open – marked economy.