

Afonso Vieira:

Economics demystified



Afonso Vieira:
Not Robinson
Crusoe

Economics is often regarded as the study of dry, boring and incomprehensible financial trends and complex market developments. However, in reality economics is the study of human activity. It is about men and women, their meanings and actions.

Consider Daniel Defoe's character Robinson Crusoe. His actions demonstrate the fundamentals of economic behavior that lead to the formation of a market economy.

■ THE CORE

Stranded on an island visited only by cannibals, Crusoe first evaluates the ends and means available to him and devises a method of acquiring or producing more food and water than he immediately needs, saving it so he can redirect his efforts toward achieving other necessities. He uses the time saved to build shelter, provide for his defense against savages and animals, and manufacture clothing. Then he invests time, hard-work, and creativity, to innovate and simplified the process of producing essentials and goes on to fabricate other comforts as time allows.

The five keys to the process of increasing his standard of living are:

- *Evaluation*
- *Production*
- *Saving*
- *Investment*
- *Innovation*

A market economy is

simply the result of the same concepts, but applied in a social context.

■ ECONOMIC GROWTH

The engine of economic growth is new technology, which arises from creative innovation and the investment of resources gained through savings. The first fisherman who thought of catching fish with a net was an innovator, and the net was his new technology. He had to save in order to acquire (invest) the time, energy, knowledge and resources to construct the net. Once he created the net and learned how to use it, he saved enormous amounts of productive energy by making each of his working hours more fruitful. He could not only provide fish for his family, but could trade his surplus for the products of his neighbours, therefore increasing his family wealth. Also, fish became less scarce because they required less labour to attain, and therefore his neighbors could afford to specialise in producing other necessities to trade with him for fish.

This example, although on a primitive scale, shows how efficiencies gained from one man's saving, investment, and innovation filter through the community and trigger economic growth and increased wealth.

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Desert Island:
Robinson Crusoe's actions demonstrate the fundamentals of economic behaviour

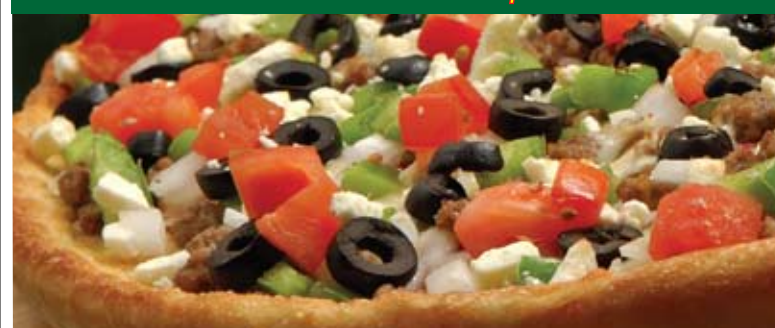


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