



# THE ECONOMY

An investor must know that a company in whose shares he is investing does not operate in isolation. It is part of a big ecosystem called an economy. It is imperative for investors to have investment literacy as well as knowledge of how an economy and economics work. Understanding basic economics is a good starting point for any investor because financial securities' prices and values are largely affected by the state of the economy in which they are issued.

## **What is an Economy**

Every day, through various communication platforms, there is news about the economy, but do we all understand what an economy is? An economy is an interactive system of production, distribution and consumption of resources, goods and services that addresses the basic economic problem of scarcity. It is discussed as one single entity, but the economy represents millions of purchasing, selling, lending and borrowing decisions made by individuals, companies, and governments. An economy is usually defined by geographical or political boundaries and relies on two key institutions which are the market and government.

## **What is Economics?**

We mentioned that every investor should understand basic economics, but what is economics? Economics is the study of production, distribution, and consumption or the study of choices in the presence of scarce resources. It is divided into two broad areas stated below:

- Microeconomics – this is the study of how individuals and companies make decisions to allocate scarce resources.
- Macroeconomics – this is the study of an economy as a whole.

Macroeconomics studies the influence of factors such as inflation, economic growth, unemployment, interest rates, and exchange rates on economic activity. The effects of these factors on business, consumer, and government economic decisions represent an intersection of micro and macroeconomics.

Four basic macroeconomic sectors of an economy are:

- Household (the consumers)
- Business (the producers)
- Government (the regulators and taxers)
- Foreign (non-domestic participants)

In our next article we shall focus on the four macroeconomic sectors of the economy.

**STAY SAFE! #Mask Up, #Maintain Social Distance, # Wash Hands, #Sanitise**

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