

Lecture 02: Economic Agents: Types and Roles

1- Economic Agents Definition

An **economic agent** is an entity that engages in economic activity. This activity can be buying, selling, or producing goods and services and influencing **capital markets**. There are four main types of economic agents: **households** or **individuals**, **businesses**, **governments**, and **central banks**. Each type of economic agent has different objectives. For example, individuals may seek to maximize their utility while firms may seek to maximize their profits.

Economic agents impact the economy in various ways. They may impact supply and demand, which in turn can impact prices. They can also impact **economic growth** and development by investing in human capital or starting new businesses.

2- Economic Agents Objectives

There are different types of economic agents with differing objectives. Some of these objectives include:

- *Households or individuals*: The objective of households is to maximize their utility, which means they seek to consume goods and services that will give them the most satisfaction.
- *Businesses*: The objective of businesses is to maximize their profits. This maximization means they seek to produce and sell goods and services at the highest price possible while incurring the lowest costs.
- *Governments*: The objective of governments is to provide public goods and services. It is also to stabilize the economy, promote economic growth, and promote the general welfare of citizens.

- *Central Banks*: the objective of the central bank is to manage the country's money supply and interest rates. They also seek to promote economic stability.

3- Types of Economic Agents and their Functions

Each type fulfils a different purpose and role in economy. There are several differences between the four Economic Agents.

- **Households and Individuals as Economic Agents**

Households and individuals are the most basic economic agents. They are defined as a group of people who are living under the same roof who share common resources. The household or individual is responsible for **consumption**; meaning they purchase goods and services to satisfy their needs and wants. They impact the economy by influencing both **demand** and **supply**. Their demand for goods and services affects prices, and their labour supply affects **production**.

- **Businesses as Economic Agents**

Businesses or 'firms' are another type of economic agents. They are defined as an organization that produces goods and services to sell them to make a **profit**. The business agent is responsible for production. This responsibility for the profit means they combine **labor, capital** and land to create goods and services. Businesses impact economy by influencing both demand and supply. Their demand of inputs affects prices, and their supply of goods and services affects production.

- **Governments and Central Banks as Economic Agents**

Governments are yet another type of economic agents. They are responsible of providing public good and services and regulating businesses. They are also responsible for stabilization, which means they use **fiscal and monetary policy** to maintain economic stability. Governments impact the economy by influencing both demand and supply. Their demand for **taxes** and regulations affect prices, and their supply of public goods and services affects production.

Central banks are the final type of economic agents. They are financial institutions that manage a country's money supply and **interest rates**. They also serve as lenders of last resort. Central banks impact the economy by influencing both demand and supply. Their money supply management and interest rates affect prices, and their lending prices affect production.

ECONOMIC AGENTS: HOW THEY INTERACT WITH EACH OTHER

Circular flow of income in a 4-sector economy

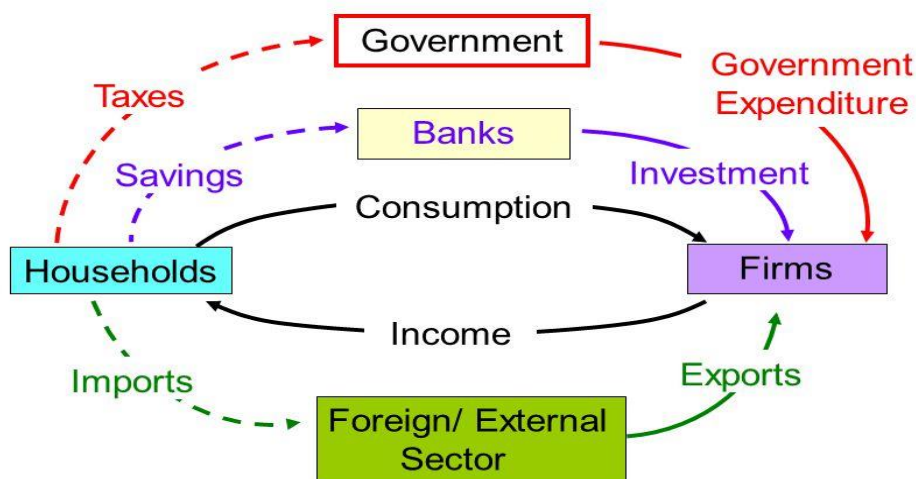


Figure 01: The Interaction between the Different Economic Agents

Activity:

Define the words written in bold and translate them into Arabic.