University of Teramo
Master in "Food Science and Technology"

Basic concepts of economics and management

Emilio Chiodo

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The economic activity

Economic activity

- Economics studies the aspects of society that relate to the production, exchange and consumption of goods and services.
  - Economic activity = linked to the needs/means dichotomy ➔ search for the ratio between unlimited needs and limited means (resources) to be produced.
  - Economic process = choosing the most convenient option among possible uses of alternative goods.
- Two types of actions:
  - Production of goods to expand scarce resources.
  - Consumption of goods to satisfy needs.

What is economics?

- Economics is the science that studies how societies **use scarce resources** to produce **useful goods** and how these goods are **distributed** among different individuals.
- **If** all individuals in a given society were able to perfectly satisfy their needs and the available goods were not limited, there would be **no need to coordinate resources**; the **market** would not be necessary, **policies** would be completely neutral on individual choices, and there would be no different distributions of wealth.
- What would prices be like?
- ... In such a world, all resources would be **freely accessible**; all product **prices** would be **zero**.

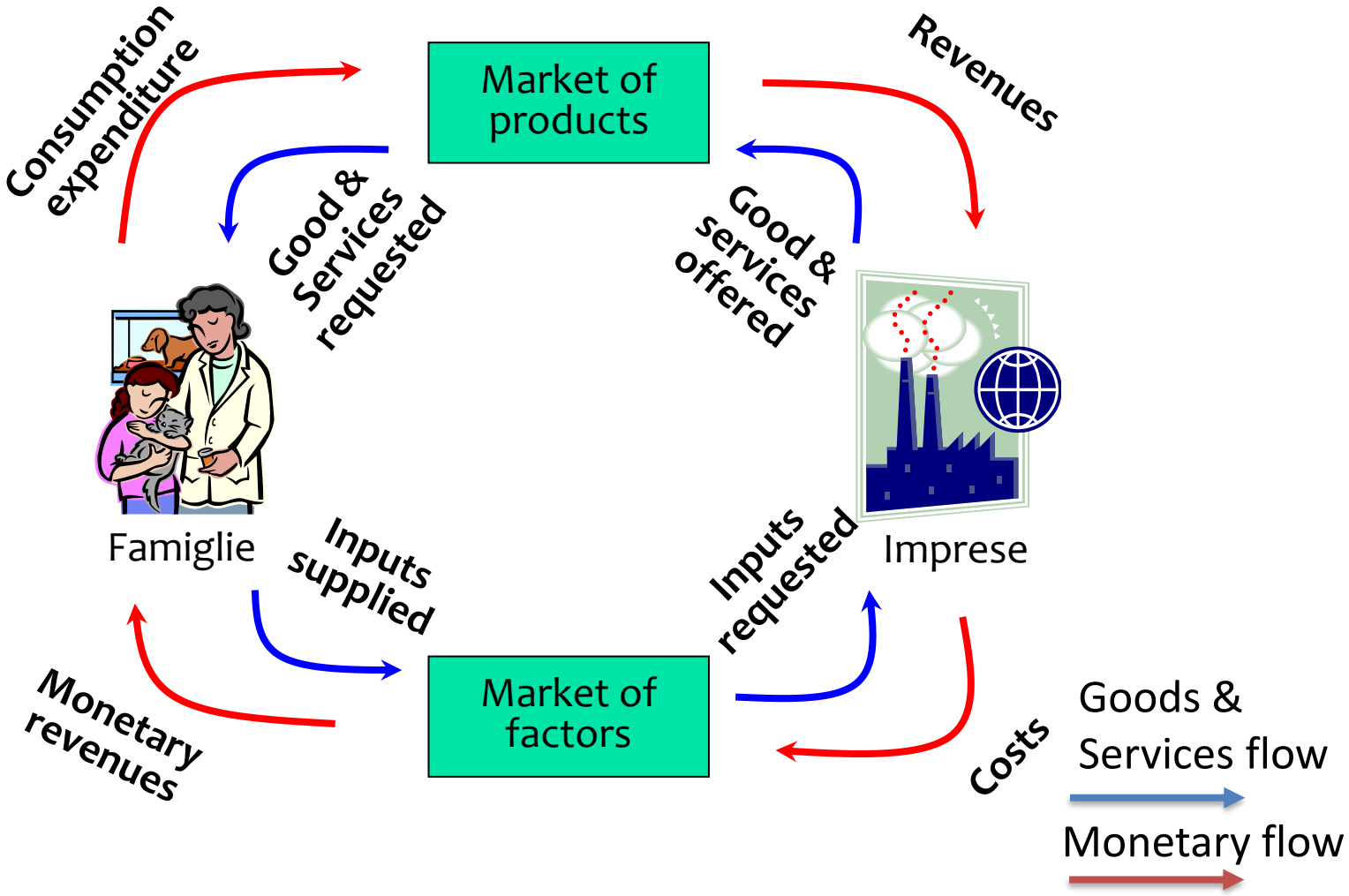
Micro & Macroeconomics

- **Microeconomics** is the branch of the economic theory that studies the behaviour of individual economic agents, such as businesses or households, and the overall results of individual actions.
- **Macroeconomics** deals with how the **system** works as a whole, i.e. the so-called "**aggregate**" economic variables, such as the level and growth rate of national product, interest rates, unemployment and inflation, which depend in some way on the "sum" of microeconomic variables, i.e. global microeconomic behaviours.

The three problems of economic organisation

- **What to produce?** A society must determine how much of each good or service to produce and when to produce it. The answer to this question involves a choice that can be considered as a sacrifice resulting from the renunciation of a given alternative.
- **How to produce?** A society must determine who is responsible for production, what resources to use for production and what production techniques to use
- **For whom to produce?** A society must establish mechanisms for identifying the recipients of economic goods and the criteria for their distribution.
- In order to answer these questions, **a society must allocate its limited resources.**

The economic system



The market model

- Let's analyse a simple market model
  - A **market** is a **mechanism** that allows buyers and sellers **to interact** in order to **determine the price and quantity** of a good or service.
- In an economic system based on the market, everything has a **price**; it means that every good and service has a value measured in terms of **money**.
  - The planned economy, on the other hand...
- In a market, prices represent the **terms** on which individuals and businesses **voluntarily** exchange goods and services.

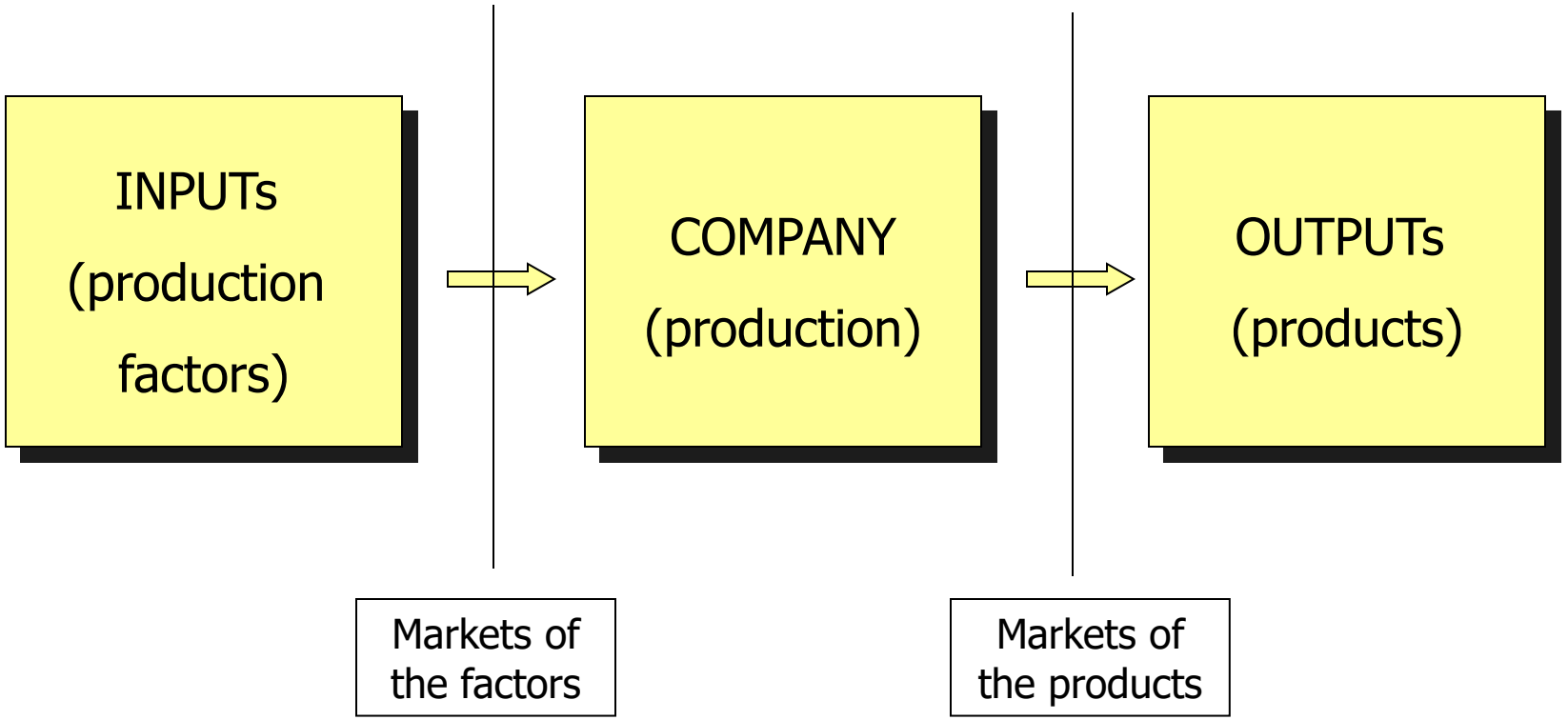
The market model

- **Market**: a system of institutions and infrastructures through which buyers and sellers come into contact in order to exchange goods or services.
- It is a mechanism through which prices determine the decisions of economic agents on the allocation of resources:
  - Households' decisions on the consumption of goods.
  - Companies' decisions on what and how to produce.
  - Individuals' decisions on how much and for whom to work.

The company in the economic theory

- A company is an economic organisation that produces goods and services.
- Production consists of transforming goods and services purchased on the market (inputs) into other goods and services sold on the market (outputs).

The company in the economic theory



The company in the economic theory

Some key terms:

- **Costs:** value of inputs used in a period in the transformation process (quantity of factors at the relative unit purchase price)
- **Revenues:** value of outputs produced in a period (volume of products at the relative unit sales prices)
- **Profit:** difference between revenues and costs in a period (**loss** if this difference is negative)

The company in the economic theory

- In a capitalistic company, the ownership of the company (property) is attributed to those who provide *risk capital* or *equity capital* (the **shareholders**)
  - Repayment is not fixed (except upon termination of the business itself)
  - Its remuneration depends on the results of the business
- Two prerogatives are associated with ownership:
  - Control of the company's resources
  - The right to the residual (profit) of the business

The business operations

The business operations system

- The life of a company is realised through a sequence of operations and activities, carried out by different company entities and in various ways, coordinated with each other and aimed at the company's objectives

⇨ Functional areas approach

- Identifies operational subsystems based on the homogeneity of operations from a technical point of view and from the common skills and knowledge required to the operators.

⇨ Processes approach

- Aggregates the company’s operations based on the homogeneity of the purposes and not on technical characteristics.

The business operations

Functional areas approach

- Characteristic operational functions
  - Are directly aimed at pursuing the objectives of company management
  - ⇨ Research and Development (R&D)
  - ⇨ Sales/Marketing
  - ⇨ Production/Purchasing
- Auxiliary (or integrative, or support) functions
  - Are instrumental to the characteristic functions (but with the role of company governance)
  - ⇨ Finance = acquisition and management of financial resources
  - ⇨ Organisation = acquisition, structuring and management of human resources
  - ⇨ Administration and information systems = acquisition and management of information
  - ⇨ Planning and control = definition of objectives and control of results

The organisation

The **organisational structure** concerns:

- The **bodies** into which the work is divided (e.g. offices, departments, divisions, etc.)
- The **functions** assigned to the bodies (e.g. directive, executive, advisory, etc.)
- The **relationships** between the bodies (hierarchical, functional, etc.)

1. *Formal model of division and coordination of work*
2. *The bodies do not coincide with the persons*

The organisation

The organisational chart:

- Document aimed at representing the organisational structure
- Graph consisting of boxes and lines, which allows you to identify:
  - The bodies between which the work is divided
  - The relationships between these bodies: vertical or hierarchical relationships, functional dependency relationships
  - The vertical (number of levels), horizontal (extent of control) or reticular development of the structure

1. We can identify *line* or *staff* bodies

Functional organisational chart (example)

