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PART- I

Chapter 1

INTRODUCTION TO ECONOMICS

1.1 Meanings of Economics

The word 'economics' is derived from a Greek word "Oikonomos", which means 'Household Management'. In the beginning, the subject of economics was related to the efforts of an individual household management in which man tried to fulfill unlimited wants with limited resources. Human material welfare is always the basic motive for these efforts.

By nature, a person is surrounded by many different kinds of wishes. Some wishes are those which are necessary for human existence such as; food, shelter and clothing. These basic needs are called necessities. Some wishes are not necessary for living but essential for an easy life. In economics, we call them 'comforts'. For example, television, telephone, refrigerator, air conditioners, one's own conveyance.

All resources are scarce in the sense that they are not enough to satisfy all human wants. Individuals need to make choices in order to get maximum satisfaction with limited resources. In short, we can say that the basic economic problem faced by human beings is, "unlimited wants and limited resources".

Because resources are scarce, choices have to be made. Individuals have to choose the most important wants and leave behind the less important ones. Individuals have to seek many ways to achieve the highest level of satisfaction by fulfilling maximum wants with limited available resources. The study of this human behavior in ordinary business of life is called 'economics'. Economics has two branches.

(1) Micro-economics

Micro-economics is concerned with the small individual parts of the economy. It deals with the study of the behaviour of buyers and sellers in the market for particular goods or services. For example, a study of consumer behaviour, price determination of one good, analysis of one firm, etc.

(2) Macro-economics

Macro-economics is the study of economic system as a whole instead of small units. It develops relationship between major economic aggregates and averages. For example, it considers income of a country instead of an individual, unemployment of a country instead of an individual, etc.

The study of economics plays a significant role in today's modern age. Economic growth and development can be achieved by following theories and golden rules of this subject.

1.2 Definition of Economics

The subject of economics is very old. At different times, economists defined it differently on the basis of individual observations under different economic situations or circumstances. Different definitions of economics as defined by different economists are given below.

1.3 Definition of Adam Smith

Adam Smith is called the founder of economics. According to him, **“Economics is a science of wealth”**. He wrote a book in 1776 named, **“An Enquiry into the Nature and Causes of Wealth of Nations”**. In his book, Adam Smith explained economics as:

“A study of wealth concerning with the production, consumption, distribution and exchange of wealth in the human society”.

(1) Production of wealth

Wealth is produced with the combined efforts of four factors of production which are, land, labour, capital and organization. It is called production of wealth.

(2) Consumption of wealth

It is that part of wealth which we spend on necessities of life.

(3) Distribution of wealth

Wealth is distributed among four factors of production in the form of rent, wages, interest and profits. Rent is paid for land, wages for labour, interest to capital and profits to organization.

(4) Exchange of wealth

It means an exchange of wealth from one hand to another. When factors of production engaged themselves in an economic activity, individually or collectively, the consumption of one becomes income of another. Thus, wealth moves among individuals pursuing their own self-interests.

Adam Smith considered ‘economics’ as a study of wealth. He stressed that people un-intentionally contribute towards national income, while satisfying their own personal desires. Therefore, people benefit others at the time of meeting their own wants and needs thus creating wealth of nations.

Many other economists also termed economics as a science of wealth. Among them, J.B. Say, N.W. Senior, and J.S. Mill are the most important. All these economists belong to the classical school of thought, which regards wealth as a center point of all economic human activities.

Taking positively, wealth assists human beings to satisfy a number of desires and wants. Wealth does not include gold and silver alone but all sorts of goods and services, which are needed for increasing the volume of production.

1.4 Definition of Alfred Marshall

Alfred Marshall introduced neoclassical economics, so, he is considered to be the founder of neo-classical school of thought. He re-vitalized economics by terming it a study of material welfare. He changed the concept of economics from dismal science to a science of material welfare. This was his great success. He wrote the book on “Principles of Economics” in 1890. According to him,

“Economics is the study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well being.”

According to Marshall, economics studies those efforts which enable human beings to live a happy life. Marshall stated that economics on the one end, is a study of wealth, and on the other end, it is a part of a study of man. It does not only deal with wealth but also explains how to achieve material welfare with the help of wealth.

Important features of the definition are given below:

- (1) Economics is the study of daily activities of mankind.
- (2) Economics deals with the making of material goods either individually or collectively. It ignores non-material things.
- (3) Economics is linked with only those economic activities, which generate material requisites of well-being.
- (4) Economics studies the wealth of nations only because it helps to gain human welfare.

Economics is the study of human behaviour that helps to gain wealth. It also helps individuals to explore different ways and means to achieve a highest level of standard of living. This positive concept of economics increased the value of economics. Moreover, Marshall called economics a social science. It does not study the behaviour of an isolated individual but the actions of persons living in a society as a whole.

Although Marshall presented a comprehensive and purposeful definition of economics but the concept of ‘Attainment of wealth for the sake of material welfare’ limited the scope and nature of economics. The critics soon raised voice against the use of vague term of ‘welfare’. As a result, a better definition of economics came forward by Professor Lionel Robbins.

1.5 Definition of Professor Robbins

Lionel Robbins wrote the book named, “The Nature and Significance of Economic Science” in 1932. According to him,

“Economics is the science which studies human behaviour as a relationship between multiple ends and scarce means which have alternative uses”.

In the definition, 'multiple ends' refers to unlimited wants and 'scarce means' refers to 'limited resources'.

Important features of Robbins's definition are as follows.

- (1) Human efforts to fulfill unlimited wants with limited resources.
- (2) Economic problem arises because resources are scarce.
- (3) Problem of choice arises because resources have alternative uses.

Robbins extended the scope of economics by using words like, 'unlimited wants' and 'scarce resources'. His definition of economics is true for all times. Basically, economic problem is the outcome of scarcity of resources. Human beings are faced with the problem of meeting unlimited wants with limited available resources. Had there been abundance of resources for satisfaction of all desires, there might have not been any economic problem, nor should be subject of economics have come in to existence.

Moreover, resources are not only scarce but they have alternative uses. The economic problem is to choose between the best resources available to get maximum human welfare. This view marked the boundaries of the economics in the line of production as what, where, how and for whom to be produced.

Definition of economics given by Robbins is superior to the earlier definitions of economics because it is comprehensive and closest to the realities of life. It has broadened the subject matter of economics by introducing the idea of multiplicity of wants and scarcity of means.

Exercise

Q.1 Each question has four possible answers. Tick (✓) the letter that corresponds to the best answer.

1. Definition of Marshall is related to:
(a) Non-material things. (b) Scarcity of means.
(c) Acquiring of wealth. (d) Material welfare.
2. The most clear and comprehensive definition of economics is given by:
(a) Adam Smith. (b) Alfred Marshall.
(c) Robbins. (d) A.C. Pigou.
3. Economics refers to those goods which are:
(a) Limited. (b) Scarce.
(c) Have prices. (d) a, b, and c.
4. The book by Adam Smith was published in the year:
(a) 1870. (b) 1890.
(c) 1776. (d) 1876.

5. Economic resources include:
 - (a) Land.
 - (b) Labour.
 - (c) Capital.
 - (d) a, b, and c

Q.2 Complete the following statements by filling in the missing words or phrases:

1. Economic problem arises because resources are _____.
2. Robbins criticized the definition given by _____.
3. According to Robbins means have _____ uses.
4. The founder of economics was _____.
5. The classical school of thought regarded economics as the study of _____.

Q.3 Match the statement in column A with column B. Choose the correct answer from column B and write in column C.

A	B	C
Scarcity is	The study of an individual or a firm	
Material welfare	The study of economic aggregates as a whole	
Micro economics deals with	The study of human behaviour	
Macro economics deals with	Less than required	
Social science deals with	Measurement is not possible	

Q.4 Answer the following questions in three sentences.

1. What does economics mean?
2. Write the definition of Alfred Marshall.
3. Write the definition of Adam Smith.
4. What is the difference between Micro and Macro Economics?
5. What does 'material welfare' mean?

Q.5 Answer the following questions in detail.

1. "Economics is a study of wealth". Which economist said this? Explain the statement also.
2. Explain in detail the definition of economics given by Alfred Marshall.
3. Explain the definition of economics given by Lionel Robbins.
4. Explain the meaning of economics in detail.