

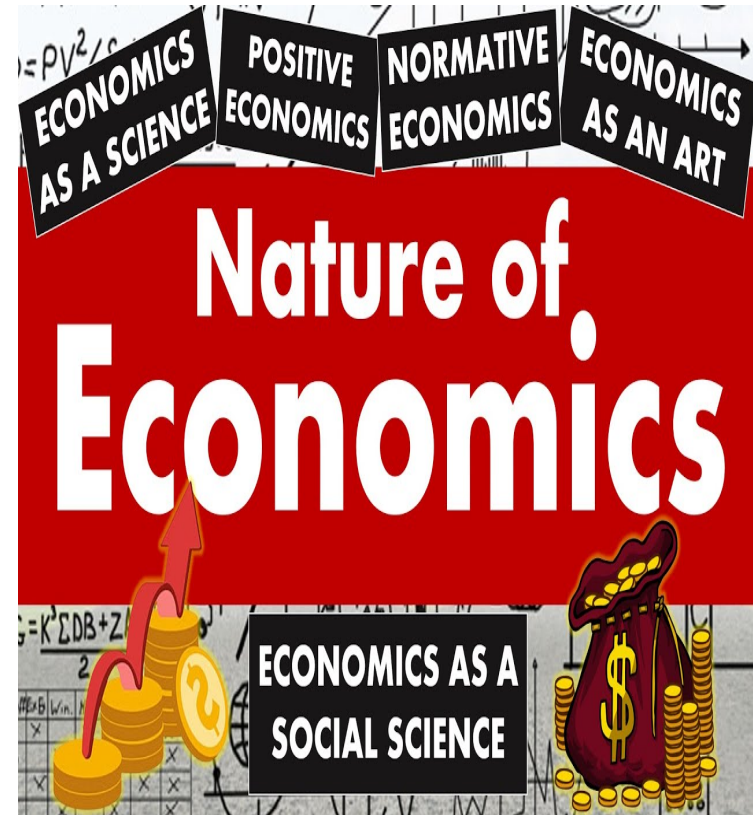


B.A. 1St Year Micro Economics

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Chapter 1 Nature & Scope of Economics

- Definition, Nature & Scope of Economics
- Introduction
- Definition of Economics
- Nature of Economics
- Methods of Economics
- Economic Assumptions
- Economic Laws



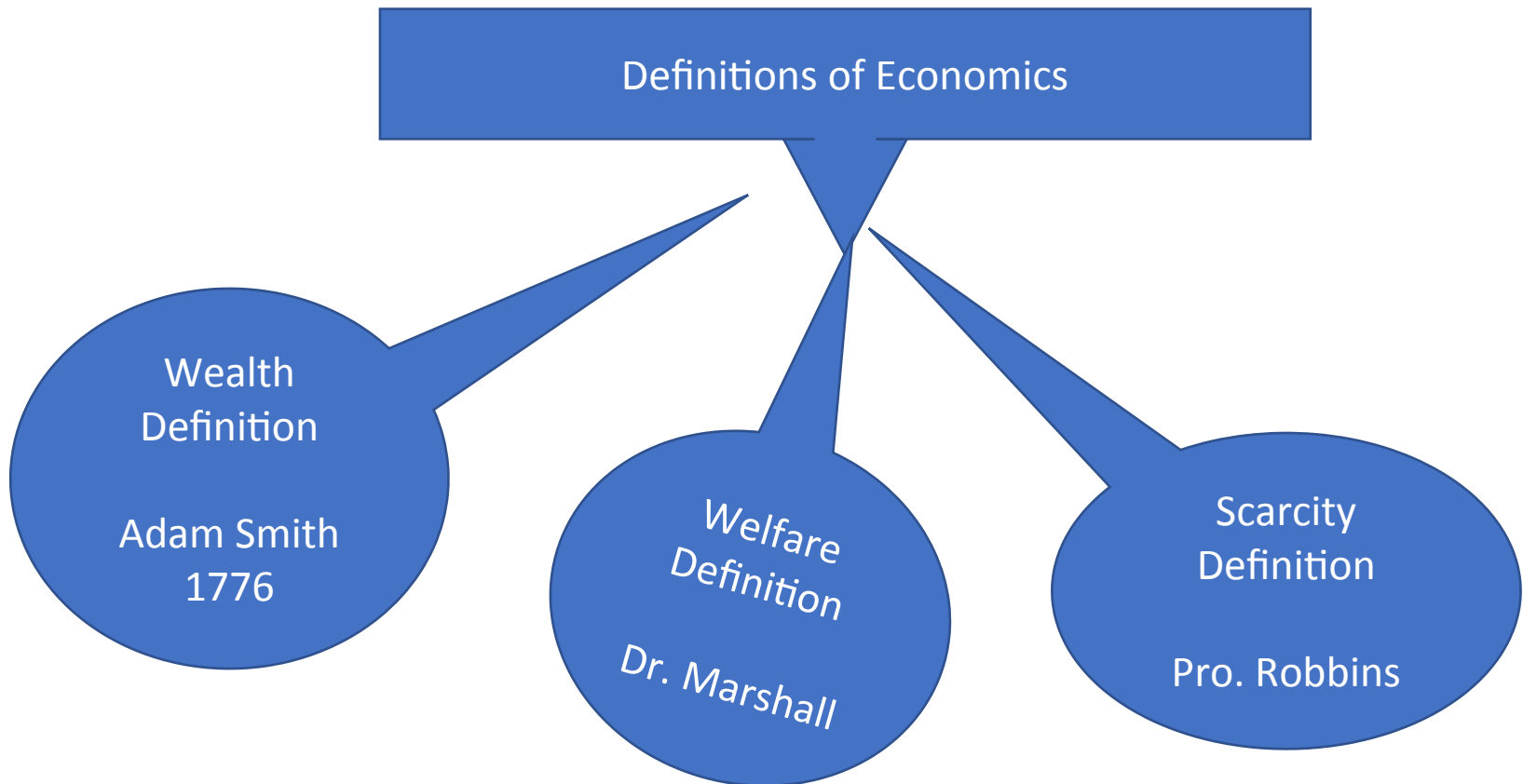


Introduction

- As a discipline, Economics is about two hundred(200) years old.
- Father of Economics Adam Smith
- "The Nature and Causes of Wealth of Nations". 1776
- Old name: Political Economy; new name Economic Science

Definitions of Economics

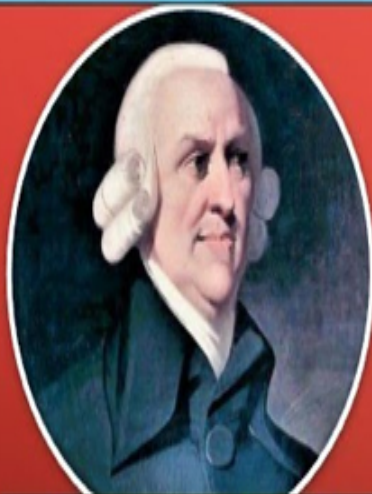
- Definitions of Economics



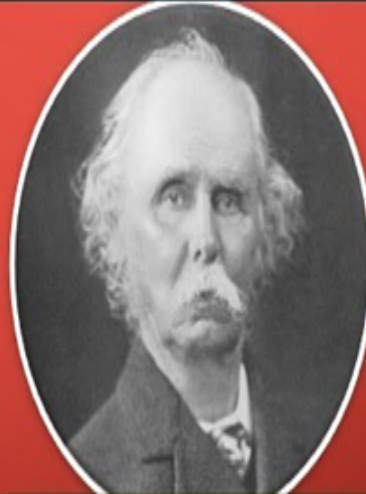
Definitions of Economics

Definition of Economics

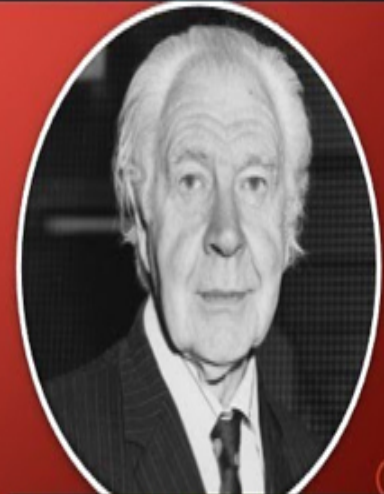
**Wealth
Definition**



**Welfare
Definition**



**Scarcity
Definition**



10K Views

1. Economics as a Science of Wealth (Adam Smith)

- Adam Smith, who is known as father of Economics, defined economics as **'An enquiry into the nature and causes of the wealth of nations'**.
- Besides Adam Smith, other classical economists such as Ricardo, J.B. Say, Walker, John Mill, etc who regarded economics as a Science of Wealth.



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- According to Adam Smith, **" economics is the study of factors which determine the wealth of a country and its growth."**
- **According to him,"** the great object of Political Economy of every country is to increase the riches and power of the country."
- According to Ricardo, **" the principal problem of Economics is to determine the laws which regulate the distribution of the produce of the earth among the various agents of production."**

Evaluation of Wealth definition of Economics

1. An improvement objective of the science of Economics is to probe into how a nation wriggles wealth from niggardly nature and how this wealth is distributed among various contests of wealth. Classical economists, by emphasising on the production of wealth and it's distribution, made a valuable contribution to the science of Economics.



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- 2. One of the main Problems which most of the developing countries face is the problem of economic backwardness. The problems of poverty, unemployment, underemployment, etc. Which these Nations face can be tackled only when production of wealth is expanded and its distribution made more equitable.



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- As a matter of fact, credit goes to Adam Smith and David Ricardo for having addressed themselves to the important problems of economic growth and increase in the production of wealth.

2. Welfare Economics (Dr. Marshall)

- Marshall pointed out that, the promotion of human welfare is the ultimate aim of economics and wealth is only a secondary thing; it is merely a tool towards the achievement of that ultimate aim.
- He defined economics as, "*Political Economy or 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*



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- with the attainment and with the use of the material requisites of well being."
- According to Marshall, Economics is a study of man and not exclusively of wealth. This does not mean that wealth is not studied at all in economics. All the men's actions regarding how they earn wealth and how they spend it are studied in economics.



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In fact, Marshall said, " It is on the one side a study of wealth and on the other and more important side a part of the study of the man."

ii) There are various aspects of human life - religious, political, etc. Economics studies a particular aspect of human life. It is concerned with the study of mankind in the ordinary business of life, i e., it enquires how men get their incomes and how they use them



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- iii) The primary aim of economics is the promotion of material welfare. The totality of human welfare is not the subject matter of Economics. It is only material welfare, which is important according to Marshall.
- Pigou defines economics as, " The range of our enquiry becomes restricted to that part of social welfare which can be brought directly into relationship with measuring rod of money."

Evaluation of Marshall 's definition.

- i) It is not correct to say that Economics is concerned only with material things and welfare related to it. In actual life, we enquire into the prices of not only material things but also into the prices of immaterial services such as services of singers, actors, dancers etc. Robbins thus asserted that it is wrong to ignore the sum paid for the immaterial services. Moreover, it is very difficult to segregate material welfare from other types of welfare



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- ii) The concept of welfare is not fixed and definite one. It differs from country to country and from time to time. It is a subjective entity and varies from person to person. Therefore, according to Robbins, it is very difficult to say objectively which things would lead to welfare and which would not.

3. Economics as a Science of Scarcity (Leonel Robbins)

- According to Robbins, Scarcity is the foundation of Economics. Nature has not provided us enough resources to fulfill all our needs. Therefore we have to choose for which wants or needs the resources are to be utilised. The way in which priorities are allocated , or the way in which the choice between the satisfaction of want A and want B is made is the essence of Economics.



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Robbins defines economics as, " the science which studies human behaviour as a relationship between ends and means which have alternative uses."

Impacts from the Robbins definition:

Economics is a Science. According to Robbins, economics is not a mere social science, it is a human science. Because it explains a cause and effect relationship between two economic phenomenon.



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- Unlimited wants: The basic fact of economic life is that ends are unlimited., Man's wants are infinite.we have to choose among them.
- Different intensities of wants that we are able to make a choice among them.
- Scarce Means: Another important element which gives rise to economic problems is that means or resources which are capable of satisfying the wants are limited



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- Alternative uses of means: Resources are capable of alternative uses.
- Economics only indicates the ways with which given ends or wants can be achieved with minimum possible resources.

Evaluation/ Criticism of Robbins definition

- Many economists feel that it is not justified on the part of Robbins to rob economics of its social welfare character. They contented that the true scope and objectives of economics is a study of human welfare.
- Robbins has made economics neutral between ends. It has been argued by many economists that if economics has to play a positive role in promoting social welfare and economic growth, it will have to leave it's neutrality between ends.



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- Robbins has kept macroeconomics outside the scope of economics. He basically concentrate on microeconomics.
- Robbins definition does not cover the theory of economic growth and development also.
- Robbins totally ignored the underdeveloped countries problem of unemployment.

Nature of Economics

- Economics as a Science and as an Art
- (a) whether Economics is a Science?
- The term science stands for a systematised body of knowledge, which traces the relationship between cause and effect. Scientific phenomenon also features the following....
- i) There should be objectivity. The phenomenon should be capable of easy measurement



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- ii) It should have its own methodological apparatus.
- iii) It should have ability to forecast.

Whether Economics is an Art?

- According to Keynes, " An art is a system of rules for the attainment of a given end."
- Practice of knowledge.
- It is completely different from Science.
- A science teaches us to know and art teaches us to do.
- Science may study the cause and effect of a phenomenon.
- Art shows solutions to the various problems..

Economics as Positive Science and Normative Science

- Positive Science: a body of systematised knowledge concerning what it is.
- Normative Science: a body of systematised knowledge relating to criteria of what ought to be, and concerned with the ideal as disingushed from the actual.

Basic Economic Problems: The Problem of Choice

- Every economic society, whether rich or poor, ancient or modern, faces the basic problems of allocation of its resources which are scarce in relation to its unlimited wants.
- Optimal allocation of productive resources (like time, labour, land, capital, etc.) is the main economic Problem.



The Basic Economic Problems are.....

1. Allocation of Resources
2. Exploitation of resources by whom and how
3. The problem of Distribution



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1. Allocation of Resources: what goods and services are to be produced and in what quantities. This involves the organisation of a system for the production activity. It means that the concerned society has to devise methods and an institutional framework in order to mobilise and exploit resources in the desired direction. It seeks optimal use of the resources.



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- 2. Exploitation of resources by whom and how: How to produce is a technical problem and who will produce is the problem of organisation, management and ownership of the means of production. The relevant decision in this regard are governed by the institutional framework and the ideology of the particular economic society.



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- Another related problem in the exploitation of resources is "where to produce". It is fundamentally the problem of localisation, concentration and dispersal of industrial activity .
- An economic system also provides the necessary guidelines in determining "where to produce".

3. The problem of Distribution

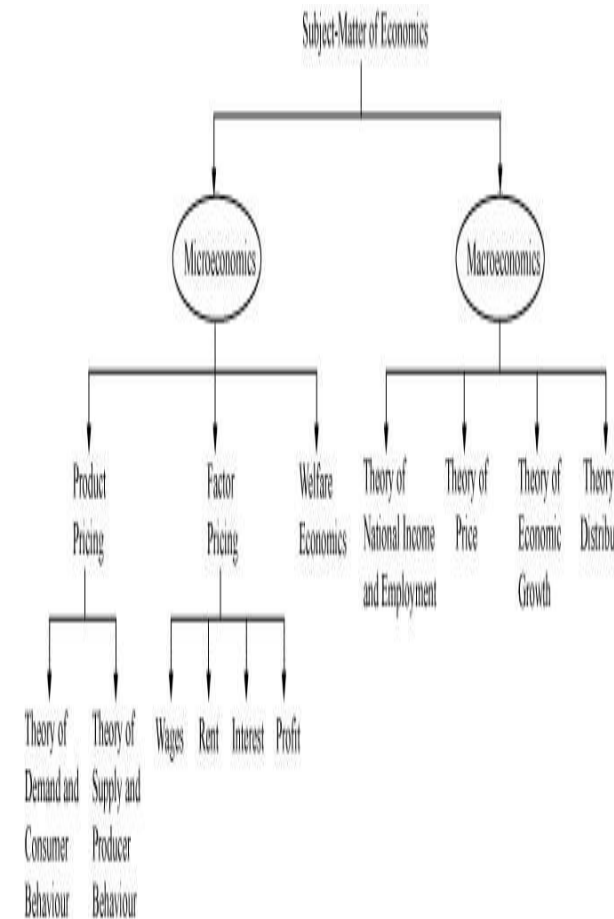
- On ideological grounds, distribution must be just and fair. An economic system charts its course of arrangements within its broad framework for the functional as well as personal distribution of the national income.

Subject-matter of Economics

- The subject-matter of Economics is divided into two parts..

1. Micro Economics -small and

1. Macro Economics - large



Micro Economics....

- Micro Economics is the study of the economic actions of individuals.
- In micro economic theory we are concerned with specific economic units and a detailed consideration of the behaviour of these units.
- In micro economics we take the total quantity of resources as given and try to explain how these resources are allocated to the production of various goods.

Micro Economics covers....

- i. Consumers behaviour
- ii. Study of firms
- iii. Product pricing
- iv. Factor pricing
- v. Location of an industry
- vi. Economic conditions and welfare of a section of people

Macro Economics

- It is concerned with the behaviour of the whole Economic system in totality.
- .
- It studies the relationship between broad economic aggregates such as total production, total employment, total unemployment, and overall prices, the rate of change in prices, the rate of economic growth, the rate of saving and investment etc.

Macro Economics deals with....

- i. National income and output,
- ii. General price level
- iii. Balance of trade and balance of payments
- iv. External value of money
- v. Saving and investment
- vi. Shares of wages and profits in national income



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- vii. Employment and economic growth
- viii. Fluctuations in the level of economic activities - trade cycle
- ix. The financial and fiscal systems of an economy.
- Macro Economics studies the economy as a whole through the inter- dependence of four markets.....
- 1) Commodity market, 2) Labour market 3) Bond market 4) Money Market

Thank you