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214en01

# WHAT IS ECONOMICS

Economics as a subject has assumed great importance in the field of social science. In our day to day life we use a lot of economic concepts such as goods, market, demand, supply, price, inflation, banking, tax, lending, borrowing, rate of interest etc. Similarly, we take economic decisions related to the distribution of our income to purchase various goods, making a budget to do some work, taking up a job to earn, withdrawing money from bank etc. We also observe and get information on the economic situation of our society or country foreign country and the world.



## OBJECTIVES

After completing this lesson, you will be able to:

- *know the meaning of economics;*
- *explain the important branches of economics;*
- *distinguish between positive and normative economics;*

## 1.1 MEANING OF ECONOMICS

Economics is a vast subject. So it is not easy to give a precise definition or meaning of economics as its scope and the area it covers are very large. Ever since, it emerged as a separate branch of study in social science, various scholars and authors have tried to give its meaning and objectives. It should be noted that with development of time and civilization the definition of economics has undergone modification and change. Let us focus the major ideas involving the meaning of economics below:

- (i) Many scholars and authors in the late eighteenth and early nineteenth century believed that economics is the **science of wealth**. These scholars are called the classical thinkers. They viewed that economics deals with the phenomenon of



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wealth which includes nature and causes of wealth, creation of wealth by individuals and nations etc.

- (ii) The problem with wealth definition was that it did not talk about people who had no wealth. Having wealth and not having wealth divided the society into rich and “not rich” or poor. So many scholars in the early nineteenth century thought that economics should address the issue of “welfare of the society” and not just wealth. Accordingly economics was seen as **science of welfare**. Welfare is both quantitative and qualitative in nature. Consumption of goods and services, increase in per capita income etc are quantitative aspects of welfare. Living in peace, enjoying leisure, acquiring knowledge etc are qualitative aspects of welfare. As science of welfare, economics was said to be concerned with the quantitative welfare only because it can be measured in terms of money.
- (iii) The welfare definition of economics explained only the material aspects of welfare. But people want both material goods and non-material services. Since resources available with every individual or society are scarce, people try to achieve their goals by alternative use of these resources which they do by making appropriate choice. So economics was treated as **science of scarcity and choice**. As science of scarcity and choice, economics studies human behavior as relationship between ends and means which are scarce and have alternative uses.

Here “ends” imply “wants”. “Scarce Means” imply “limited resources”. According to the scarcity definition, limited resources can be used alternatively. Take the example of production of two goods – Cloth and Wheat. We cannot produce unlimited amount of cloth and wheat with limited amount of resources. The resources have to be divided to produce these goods. Let demand for one of the goods say wheat increases so it has to be produced in larger quantity for which we need more resources. But given that, resources are limited, we can produce more wheat only by withdrawing some resources from the production of cloth and putting them in production of wheat. As a result, cloth production will fall and wheat production will increase. In this example, we have two alternatives –

- (i) Keep producing the same amount of cloth and wheat.
- (ii) Produce more wheat due to increase in its demand thereby decreasing some amount of cloth.

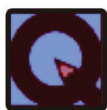
Since the economy wants more wheat, the study of economics tells us how this problem can be solved with limited resources.

- (iv) In the twentieth century the objective of achieving growth and development of the entire economy gained momentum. Role of the government in economic growth and development became increasingly important. So economics, no longer,

remained limited to individual decision making and use of resources only. Its scope has been expanded to include production and consumption of commodities overtime so that the economy achieves growth and development.

So economics is treated as the **science of growth and development**. In fact, it is true that now a days people talk about well being of individual and the whole nation. It is understood that for an individual to be able to satisfy his/her wants, it is necessary that the whole economy must grow and find proper mechanism to distribute the benefits of growth among the individual citizens. So performance of the economy is very important in terms of use of its resources and production and distribution of goods and services. The economy must allocate its resources among various alternative activities, ensure the efficient use and find ways as to how they would grow for future development of the economy. On this basis, many economies in the world have performed well. For example the USA, European countries, Japan, etc. are called developed economies because they have achieved higher level of income for their citizens. Our Indian economy is a developing economy because many of its citizens are still poor. A study of economics tells us the state of our economy and guides us to achieve higher level of growth and development.

- (v) Economists of late twentieth century have also started talking about welfare of future generation and protection of natural environment. Hence economics is also treated as **science of Sustainable Development**. To achieve higher level of growth and development, economies around the world have been exploiting natural resources and polluting the environment. Consumption of goods and services have even resulted in lots of wastages. Note that some resources like minerals, mineral oil, forests are depleting fast because of their rising consumption by present generation. So future generation may be left with little or no resources. It is our moral duty to use the available scarce resources judiciously, efficiently and ensure welfare of our future generation.



### INTEXT QUESTIONS 1.1

1. “Economics is a science of wealth”. What does this imply?
2. Which aspect of welfare does economics deal as the science of welfare?

## 1.2 BRANCHES OF ECONOMICS

The study of Economics is divided into two distinct branches. They are

- (i) Micro Economics
- (ii) Macro Economics



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**Notes****1.2.1 Micro Economics**

The word “micro” means very small. So micro economics implies study of economics at a very small level. What does this exactly mean? In a society comprising of many individuals collectively every single individual makes just a small part. So the economic decisions taken by a single individual become the subject matter of micro economics. What are the economic decisions an individual takes? We can cite some examples in this regard.

- (a) In order to satisfy various wants an individual buys good and services. To buy goods and services the individual has to pay some price from his limited amount of income. So the individual has to make a decision with regard to quantity of the good to be purchased at given price. He/she has to also decide the combination of different goods to buy given his/her income so that he/she can get maximum satisfaction as a buyer.
- (b) An individual also sells goods and services as a seller. Here he has to take decision regarding the quantity of good to be supplied at a given price so that he/she can earn some profit.
- (c) All of us pay price to buy a good? How does this price get determined in the market? Micro economics provides answer to this question.
- (d) In order to produce a good an individual producer has to take decision as to how to combine the various factors of production so that maximum output can be produced at minimum cost.

All these are some important areas of study under micro economics.

**1.2.2 Macro Economics**

The word macro means very large. In comparison to an individual, the society or the country or economy as a whole is very large. So the economic decisions taken at the level of the economy as whole are subject matter of macro economics. Take the example of the economic decisions taken by the government. We all know that the government represents the whole country, not just any individual. So the decisions taken by the government are meant for solving the problems of the whole society. For example government makes policies with respect to collection of taxes, expenditure on public goods and welfare activities etc. which affect the whole economy. “How do such policies work” is the subject matter of macro economics.

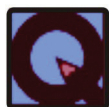
In micro economics we study the behavior of an individual as a buyer and seller. As buyer the individual spends money on goods and services which is called his/her consumption expenditure. If we add consumption expenditure of all individuals then we get idea of aggregate consumption expenditure of the whole society. Similarly aggregating incomes of individuals becomes total income of the country or national income. So study of these

aggregates such as national income, total consumption expenditure of the country etc. comes under macro economics.

Another example of macroeconomic issue is the study of inflation or price rise.

Inflation or price rise does not affect an individual only, but it affects the whole economy. So knowing its causes and effects as well as controlling it, come under the study of macro economics.

Similarly, problem of unemployment, economic growth and development etc. concern with the whole population of the nation and hence are covered under the study of macro economics.

**Notes****INTEXT QUESTION 1.2**

Write whether the following statements are True or False

- (i) Inflation is studied under micro economics.
- (ii) Determination of price of a good is a problem under macro economics.
- (iii) Macro economics deals with the issue of employment and unemployment.
- (iv) Micro economic deals with individual decision making with respect to buying a good.

**1.3 POSITIVE VS NORMATIVE ECONOMICS**

The study of economics involves both positive and normative aspects in terms of understanding the events taking place around us, taking decisions, prescribing rules and regulations and implementing policies to solve economic problems. Positive economics talks about “What is” where as normative economics talks about “What ought to be” or “what should be”. Positive economics talks about the things happening or might happen in the economic world. Normative economics gives value judgments about things and tells us to “What should have happened”. Consider the following statements.

- (i) India’s population have crossed 100 crore mark. India is the second largest populated country in the world.
- (ii) India should not allow its population to grow so fast. It must control its population.

Statement (i) describes a phenomenon which is happening. This is a positive statement. Statement (ii) gives a value judgment on India’s population. This is a normative statement.

Now consider another set of statements given below.



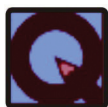
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- (iii) Workers will work hard if they are given more wages.
- (iv) Factories should increase the wage rate of workers to provide justice for hard work.

Statement (iii) is a positive statement. It tells about a certain fact. Statement (iv) is normative in nature because it tells about the right thing which if takes place will do good to society.

Economic decision making by individuals or government or business firms involves both positive and normative aspects of the things.

For example as given by statements (i) and (ii) because India's population is growing fast and posing problems, the government is doing its best to control the population growth through effective family planning and other measures. Similarly, based on statement (iii) and (iv), government has implemented minimum wage laws so that workers get justice.



### INTEXT QUESTIONS 1.3

1. Identify the following statements as positive or normative.
  - (i) India has a large number of poor people.
  - (ii) The government should spend more on education.
  - (iii) Poor people are suffering due to price rise of essential commodities.
  - (iv) Bank has increased its interest rate.
  - (v) People should be encouraged to save in post offices and commercial banks.



### WHAT YOU HAVE LEARNT

- Economics as a subject matter of social science has been treated as a science of –
  - (a) Wealth, (b) Welfare, (c) Scarcity and Choice (d) Growth and Development and (e) Sustainable Development.
- Micro Economics and Macro Economics are two important branches of Economics.
- Micro economics deals with the economic decision making by individuals and institutions.
- Macro Economics deals with economic aggregates at the level of the whole economy.

- Economic facts and figures are called Positive Economics.
- Normative Economics deals with “What ought to be”.



### TERMINAL EXERCISE

1. Economics is science of scarcity and choice. Explain.
2. How does wealth definition of economics differ from welfare definition of economics?
3. Differentiate between micro and macro economics?
4. Distinguish between Positive and Normative economics by giving examples?



### ANSWERS TO INTEXT QUESTIONS

#### Intext Questions 1.1

1. As science of wealth economics explains the nature and causes of wealth, creation of wealth by individuals and nations etc.
2. Quantitative aspect of welfare.

#### Intext Questions 1.2

- (i) False,           (ii) False,           (iii) True,           (iv) True.

#### Intext Questions 1.3

- (i) Positive,                   (ii) Normative,                   (iii) Positive,  
(iv) Positive,                   (v) Normative.



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