

Economics Class-11

Chapter-1

Basic Concepts in Economics



Introduction

Basically, there are two types of Sciences.


- Natural Science - A science whose laws are universally acceptable and validity can be tested in laboratory under controlled conditions.

Eg. mathematics, Physics, Chemistry

- Social Science - Also called as abstract or behavioural science as it is related to study of some or the other aspect of human behaviour.

Eg. Psychology, Sociology

Meaning of Economics

- Economics is a social science.
 - The term Economics originates from the Greek word, “Oikonomia” means management of the household.
 - It is referred to as Queen of Social Sciences by Paul Samuelson.
 - It deals with economic aspect of human behaviour.
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Economics nature with respect to some popular definitions:

Kautilya's views on Economics:

Kautilya says Artha means wealth and Shastra means Science. So, Arthashastra is a science of acquiring and managing wealth.

Key Points of Kautilya's views:

- Crucial role of state or government
- Focus on creation of wealth as the means to ensure welfare of the state.
- Need for efficient administrative machinery for good governance.
- Compilation of political ideas into Arthashastra.

Adam Smith's Wealth-Oriented Definition of Economics

- Adam Smith, a Classical Economist is also regarded as Father of Economics, has given wealth oriented definition of Economics.
- He is most famous for his 1776 piece of work, “An Inquiry into the nature and Causes of Nations”.
- He defines economics as a science of wealth.
- Key Points of Adam Smith's definition:
- Laissez faire i.e. non-intervention of the government
- Capital and wealth accumulation
- Nature's law in economic affairs
- Division of labour as an aspect of growth theory.

Prof. Alfred Marshall's Welfare-Oriented definition of Economics

The welfare-oriented definition of the Neo classical economist prof. Alfred Marshall in the book of "Principles of Economics states that " Economics is study of mankind in the ordinary business of life. It examines that part of individual and social action, which is close connected with the attainment and use of material requisites of well-being".

Key-points of Marshall's definition:

- Study of an ordinary man
- Economics is a behavioural science.
- Study of material welfare
- Economics is not simply a study of wealth.

Lionel Robbin's Scarcity-oriented definition:

Robbins in his book “ An essay on the Nature and Significance of Economic Science” published in 1932 states the scarcity-oriented definition of Economics which is as follows:

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

Key-points of Robbin's definition:

1. Wants (ends) are unlimited.
2. Means are comparatively limited
3. Wants are gradable on the basis of priority.
4. Means have alternative uses.

Branches of Economics:


- Sir Ragnar Frisch invented the terms Micro Economics and Macro Economics.
- These terms are derived from the Greek words 'Mikros' and 'Makros' respectively.

Micro Economics:

Kenneth Boulding defines the term Micro Economics as follows:

“Micro Economics is the study of particular firms, particular households, individual prices, wages, incomes, individual industries, particular commodities”.

Basic concepts of Micro Economics

- Want
 - Goods and Services
 - Utility
 - Value
 - Wealth
 - Personal Income
 - Personal Disposable Income (PDI)
 - Economic Activity
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1. Want :

Want refers to a need. In economic language, want means feeling of lack of satisfaction.

Human wants to be grown has two reasons as follows:

- Desire for better living due to inventions and innovations.
- Rise in population.

Characteristics of wants:

- Wants are unlimited
 - Wants are recurring
 - Wants differ with age
 - Wants differ with gender
 - Wants differ due to preferences
 - Wants differ with seasons
 - Wants differ due to culture
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Classification of wants:

- **Economic and Non-economic wants:**

1. Wants in which monetary transaction is involved. For eg, food, machines etc.
2. Non-Economic Wants: These are the wants in which there is no monetary transaction involved. For eg, air, sunshine etc.

- **Individual Wants and Collective Wants:**

1. Individual wants or personal wants are satisfied at the individual level. For eg, doctor using stethoscope etc.
2. Collective wants are those wants in which there is collective satisfaction of the wants. These are social wants. For eg, travelling by train.

- **Necessities, Comforts and Luxuries:**

1. Necessities are the basic needs of the individual For eg, food, clothing Shelter etc. Comforts are those wants in which we can make our life comfortable For Eg, washing machine, mixer etc..
3. Luxuries are meant for our pleasure and enjoyment. For eg, AC car etc.

2. Goods & Services:

- Anything that satisfies human wants and have material existence is known as Goods. For eg, chalk used by teachers.
- Anything that can satisfy human wants but do not have material existence is known as Services. For eg, teaching is a service offered by a teacher.

3. Utility :

- Utility is capacity of a commodity to satisfy human wants or want satisfying power of a commodity.

4. Value : Two approaches

- **Value in Use:** It means the worth or usefulness of commodity. For eg, we don't pay for “Sunshine” but it has tremendous usefulness. So, It has high value in use. It is a free good.
- **Value in Exchange:** In this, the worth of a commodity expressed in terms of another commodity. When it is expressed in terms of money, it is called price of commodity. So, it is an economic good.
- **Water-Diamond Paradox of Values:** Some commodities have a high value-in use but low exchange value, e.g. water. On the other hand, some commodities have low value-in use but high exchange value due to its scarcity, e.g. Diamond.

5.Wealth:

Wealth means anything which has market value and can be exchanged for money.

Characteristics of Wealth:

- **Utility:** A commodity must have utility. For e.g. furniture.
- **Scarcity:** A commodity must be scarce in supply in relation to its demand. For e.g. all economic goods.
- **Transferability:** A commodity must be transferable from one person to another and from one place to another. For that, a good must be tangible. For e.g. Vehicle.
- **Externality:** A good can be transferred if it is external to human body. For e.g. bag, chair etc.

6. Personal Income :

Personal Income means earnings received by person from all sources..

7. Personal Disposable Income :

It is left over income of personal income after paying all the direct taxes. For e.g. Income Tax, Wealth Tax etc

8. Economic Activity :

It is divided into four types:

- Production
- Distribution
- Exchange
- Consumption

1. Production:

Production is creation of utility. Four factors of production are:


a) Land :

- Wide Term
- Natural factor of production
- In Economics, any natural resource available on, above and below the surface of the earth is Land.
- For e.g. Minerals: found below the surface of the earth, Water, soil: found on the surface of the earth Air, sunshine: found above the surface of the earth
- Land earns Rent in productive activity.

b) Labour :

- Human factor of production
- A physical or mental effort during the process of production
- It earns wages.
- For e.g. carpenter, accountant, engineer etc.

c) Capital :

- Produced means for further production.
 - Man-made factor of production
 - It earns reward in the form of Interest,
 - For e.g. machinery, factory building etc.
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d) Entrepreneur:

He/ she is the organiser ; a real captain of the industry.

He / she is a special labour who gets the work done from the other to earn the reward in the form of Profit.

2. Distribution:

It divides the rewards among different segments of the society. Factors of production get their rewards in the form of rent, wages, interest and profit through the distribution process.

3. Exchange :

It is a give and take between various units in the economy. It means sale and purchase of goods and services.

In Economics, exchange is nothing but monetary transaction.

4. Consumption:

It is making use of goods and services to satisfy the human wants.



Macro-Economics:

Macro is large or aggregate or total. Macro-Economics is the study of aggregate. It covers entire economy. It includes total employment, national income, national output, total investment, total savings, total consumption, total supply, aggregate demand, general price level etc.

Kenneth Boulding's definition of Macro-Economics:

“Macro Economics deals not with individual quantities as such, but with the aggregates of these quantities, not with the individual incomes but with the national income, not with individual prices but with the general price level, not with individual output but with the national output.”

Basic concepts of Macro Economics :

1. National Income :

It means the total economic performance of country. In other words, it is the total income of the nation. In economic terms, national income means aggregate monetary value of all final goods and services produced in an economy during a year.

Definition by National Income Committee :

“ A national estimate measures the volume of commodities and services turned out during a given period counted without duplication.”

2. Savings :

It means that part of income which is kept aside for future needs by foregoing current consumption. So, saving means not to spent currently on consumption.

3. Investment :

It is a creation of capital assets through the mobilization of savings.

For e.g. machinery, equipment etc.

4. Trade Cycles :

Means fluctuations in business. They are ups and downs in the economic activities. These ups and downs cause due to inflation and depression respectively.

Inflation means continuous rise in general price level.

Depression means continuous fall in overall prices results in lowering down in the economic activity.

5. Economic Growth :

It is quantitative. It means increase in real national income of the country, over a long period of time.

6. Economic Development :

It is qualitative. It includes economic growth and progressive changes in certain important variables which determine well-being of the people. For e.g. education, health.