

The word '**Economics**' is derived from the Greek word '**Oikonomia**' which can be divided into two parts: (a) '**Oikos**', which means '**House**', and (b) '**Nomos**', which means '**Management**'. Together they mean managing household. The coverage of economics is broader than the meaning of the word 'Economics'.

### **Economics is the study of choice under conditions of scarcity.**

This definition has two parts; a) Choice and b) Scarcity. Scarcity is a situation in which the amount of something available is insufficient to satisfy the desire for it. An individual, for instance, faces scarcity of time and spending power. Given more of either, he could have more of the good and services that he desires. At any given point of time, individuals face numerous scarcities. There are so many things one might like to have - sedan cars, branded clothes, stylish shoes, branded watches, sports equipment, studio apartments, independent bungalow, and so on.... i.e. individuals have unlimited wants but face the constraint of limited spending power.

Every individual confronts this kind of situation on day to day basis. Because of the scarcities of time and spending power, he is forced to make choices. He must allocate **scarce time** to different activities: work, play, study, sleep, shopping and more. Also he must allocate **scarce spending power** among different goods and services; housing, food, furniture, travel, and many others. And each time he choose to buy something or do something, he to make a choice to **not** buy something or **not** do something.

Given this, Economics would mean the study of ways in which mankind organizes itself to tackle the basic problem of scarcity of resources. Hence, economics is the study of alternate systems requisite to allocate these resources between competing ends. In view of allocation of resources, it can be said that;

So, Economics is the study of the **processes** by which the **relatively scarce resources are allocated to satisfy the competing unlimited wants of human beings in a society**. Of course, the available resources will be efficiently used when they are allocated to their highest valued uses.

Economics is, **thus, the study of how we work together to transform the scarce resources into goods and services to satisfy the most pressing of our infinite wants and how we distribute these goods and services among ourselves.**

This **definition of Economics, with the narrow focus on using the relatively scarce resources to satisfy human wants, is the domain of modern neo classical micro economic analysis**. Despite being correct, it is incomplete as it brings to our mind the picture of a **society with fixed resources, skills and productive capacity, deciding on what specific kinds of goods and services it ought to produce with the given resources and how they ought to be distributed among the members of the society**. However, **two of the most important concerns of modern economies are not fully covered by this concept**.

On the one hand, **we find that the productive capacity of modern economies has grown tremendously. Population and labour force have increased, new sources of raw materials have been discovered, and new and better plant and equipment have been made available on farms and in factories and mines. Not only has the quantity of available productive resources increased, their quality has also improved substantially. Better education and newly acquired skills have raised the productivity of labour force, and has led to the discovery of completely new kinds of natural resources such as shale gas and new alternative sources of energy.**

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On the other hand, we know that the resulting growth in production and income has not been smooth. There have been periods in which output not only failed to grow, but also actually declined sharply. During such periods, factories, workers and other productive resources have remained idle due to insufficient demand.

Economics, therefore, concerns itself not just with the crucial concern of how a nation allocates its scarce productive resources to various uses; it also deals with the processes by which the productive capacity of these resources is increased and with the factors which, in the past, have led to sharp fluctuations in the rate of utilisation of these resources.

It can be stated that it is difficult to have one universally acceptable definition of economics. However, systematic attempts were made in the past ever since the subject became a discipline of study.

Following notable definitions have been given

The first modern work on economics was done by a Scottish economist, author, philosopher and a pioneer of political economy Adam Smith. He is famously called the father of economics. (The modern economics as we know today)

In one of his works which was first published in 1776 called as “An enquiry into the nature and causes of wealth of nations” he talks about what builds wealth of nations, and also touches upon broad concepts/topics such as division of labour, productivity and free markets.

He defines the subject as an enquiry into the nature and causes of wealth of nations and in particular as a branch of science of a statesman or legislator (with the two fold objective of providing) a plentiful revenue or subsistence for people and to supply the state or the commonwealth with the revenue for the public services.

The central point in Smith’s definition is wealth creation. Implicitly, Smith identified wealth with welfare. He maintained that the discipline of economics is meant to identify the factors (i.e. causes) which make one economy richer than the other. He assumed that, the wealthier a nation, the happier its citizens are. Thus, it was important to find out, how a nation could become wealthy. Economics is the subject which is concerned with an objective of how to make a nation wealthy in order to grow rich and to acquire political & military strength.

JB Say was a French economist who would fall under the classical economists category has in the year 1803 published his principal work called a Treatise on Political Economy. He was in favour of competition, free trade, and lifting restraints on business. He defines this subject in social context as the science which traces the laws of such of the phenomena of society as arise from the combined operations of mankind for the production of wealth, in so far as those phenomena are not modified by the pursuit of any other object. Economics was defined and discussed at length as the study of production, distribution, and consumption of wealth by Jean-Baptiste Say in his Treatise on Political Economy (1803).

David Ricardo was a classical economist who was famous for his theory on wages and profit [Ricardo stated that as real wages increase, real profits decrease because the revenue from the sale of manufactured goods is split between profits and wages. He said in his Essay on Profits, "Profits depend on high or low wages, wages on the price of necessities, and the price of necessities chiefly

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on the price of food."], **labour theory of value** [according to this theory value of a good is measured by the labour that took part to produce the goods, so it is based not on the compensation paid for the labour but on the number hours spent on the production of unit/ cost of production], **theory of comparative advantage** [which states that free trade between two or more countries can be more beneficial even when one country has an absolute advantage over other countries in all areas of production] **and theory of rents** [Ricardo was the first economist to discuss the idea of rents, or benefits that accrue to the owners of assets solely due to their ownership rather than their contribution to any actually productive activity, He defined rent as "the difference between the produce obtained by the employment of two equal quantities of capital and labour." Ricardo believed that the process of economic development, which increased land use and eventually led to the cultivation of poorer land, principally benefited landowners. According to Ricardo, such premium over "real social value" that is reaped due to ownership constitutes value to an individual but is at best a paper monetary return to "society". The portion of such purely individual benefit that accrues to scarce resources Ricardo labels "rent"]. **all of these theories are mentioned in his book On the Principles of Political Economy and Taxation published in the year 1817.**

John Stuart Mill/JS Mill was another classical economist who was credited/ well known for his 1848 work which is one of the most important books on economics or political economy of the nineteenth century. (It is so influential that until beginning of twentieth century it was used as the foundational textbook, in Oxford University until 1919 called "Principles of Political Economy," which combined the disciplines of philosophy and economics and advocated that population limits and slowed economic growth would be beneficial to the environment and increase public goods.

Alfred Marshall (1842 - 1924) defined Economics as – the study of mankind in the ordinary business of life. According to him, "Economics examines that part of individual and social action which is most closely connected with the attainment and with the use of material requisites of well-being."

**Key features of Welfare Definition:**

- i) It defines Economics as the study of activities related with human being and their material welfare.
- ii) Marshall clarified that Economics is related with incomes of individuals and its uses for creating material welfare.
- iii) Collectively incomes of a group of individuals form the wealth of a nation and ultimate objective of Economics is to increase welfare of individual by their day to day activities.

Lionel Charles Robbins (1898 – 1984) defined Economics as – a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.

**Key features of Scarcity Definition:**

- i) It recognized that Economics is a science deals with the economic behaviours of human being.
- ii) It also assessed that all the physical and non-physical resources have associated with scarcity.

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- iii) The resources have multiple utility and it can only be used either for one purpose or another. The use of most of the resources are mutually-exclusive.
- iv) There is a need of efficient use of scarce resources, and primary objective of Economics is to ensure efficiency in use of resources with a purpose to satisfy human wants.

Paul Samuelson (1915 – 2009) defined Economics as - the study of how man and society choose with or without the use of money to employ the scarce productive resources, which have alternative uses, to produce various commodities over time and distributing them for consumption, how or in the future among various person or groups in society.

Key features of Growth Definition:

- i) It deals with allocation of scarce resource to be used in productive purposes.
- ii) The selection of most efficient use of the resources from the alternative ways.
- iii) The growth of economies will depend upon the consumption and production in the economy.
- iv) This definition also points towards Economics as a study of economic system.

*Economics has been defined by various Economists and social thinkers with different objectives and contexts. All these definitions are correct and none can be taken as universally acceptable. It points to the fact that Economics as a subject deals with divergent areas, issues and activities and has a wide scope. This is why it is important for a student to understand the nature as well as scope of the subject along with its limitations, before delving deep into its content. For this please refer the links provided for MODULE - I*

**Note-** The following Module has been prepared to give a brief understanding of the history of economics and some very important definitions given by economists over time.

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