

## XI ECO. NOTES ON STATISTICS (INTRODUCTION)

### 1. INTRODUCTION

The science of Economics is not very old. In fact, its origin can be traced to 1776, when Adam Smith's book 'An Enquiry into the Nature and the Causes of Wealth of Nations' was published. With the increase in areas of human activity, the scope of Economics has considerably increased over the years.

The word 'Economics' has been derived from two Greek words 'Oikos' (a house) and used to be called as 'Political Economy'.

### 2. MEANING OF ECONOMICS

As a subject, Economics is not very old. However, there is no harmony on its definition. Different economists have defined ways. Which has led to a lot of dispute and misconceptions. Various definitions of economics developed during the course of history have been broadly divided into four parts:

1. Wealth Definition by **Adam Smith**.
2. Welfare Definition by **Alfred Marshall**
3. Scarcity Definition by **Lionel Robbins**
4. Growth Oriented Definition by **Samuelson**

According to Adam Smith, 'Economics is the science of wealth'.

- In the ordinary language, wealth means money.
- But in economics, the term 'wealth' has a special meaning. *In Economics, wealth refers to those goods which satisfy human wants.*
- Adam Smith was of the view that economics is concerned with the problems arising from wealth-getting and wealth-using activities of people.
- He was interested mainly in studying the ways by which the wealth of all nations could be increased.

#### WELFARE DEFINITION

According to Alfred Marshall, 'Economics is a study of man in the ordinary business of life. It enquires how he gets his income and how he uses it'.

- Thus, it is on the one side, the study of wealth and on the other and more important side, a part of the study of man.
- According to Marshall, the primary object and end of economics is the promotion of material welfare, which is part of human welfare.
- Due to this reason, he shifted the emphasis from wealth to welfare.

#### SCARCITY DEFINITION

According to Prof. Lionel Robbins, 'Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses'.

- Scarcity definition of economics was given by Robbins in his book. 'An Essay on the Nature and Significance of Economic Science', published in 1932.
- Scarcity definition is based on following fundamental characteristics of human existence, which gives rise to economic problem:
  - a. **Unlimited Wants:** Man has unlimited wants or ends, i.e. they can never be fully satisfied. No sooner a want is satisfied, a new want emerges.
  - b. **Scarcity of Resources:** Scarcity refers to the limitation of supply in relation to demand for a commodity. Scarcity is universal and applies to all individuals, organizations and countries.
  - c. **Alternative uses:** Resources are not only scarce, but they can also be put at various uses. It makes choice among resources more important.

According to Robbins, these fundamental characteristics are found everywhere, in all countries and at all times. Economics deals with how the scarce resources of society would be allocated to the satisfaction of different wants.

### SCARCITY IS THE ROOT OF ALL ECONOMIC PROBLEMS

Scarcity refers to a situation when resources are not enough to satisfy all the wants of all people. Scarcity is pervasive, and is a fact of economic life for each and every individual, in the whole world. Scarcity of resources is the basic reason for existence of economic problems in all economies. There would have been no economic problem, if resources were not scarce.

### SCARCITY AFFECTS OUR DAILY LIFE....

We face various forms of scarcity in our daily life. The long queues at railway reservation counters, crowded buses and trains, shortage of essential commodities, increasing prices of petrol, vegetables or pulses, etc., are all manifestations of scarcity. We face scarcity because the things that satisfy our wants are limited in availability.

### Why do we study Economics?

Economics is studied because it enables us to understand different aspects of the economy and helps in analysing problems and policies of the government. However, the main reason for the study of economics can be simplified to a single word: 'Scarcity'. In other words, human wants are greater than the available resources. So, there is a need to allocate these scarce resources for the satisfaction of never-ending human wants. Hence, Economics is concerned with the selection of resources under conditions of scarcity.

### Growth Oriented Definition

According to Prof. Samuelson, 'Economics is the study of how man and society choose, with or without the use of money, to employ scarce productive resources, which could have alternative uses, to produce various commodities over time and distribute them for consumption now and in the future among various people and groups of society.'

Samuelson's definition tells us that economics is a social science and it is mainly concerned with the way how society employs its limited resources for alternative uses. So, it is a modified version of scarcity definition.

Samuelson's definition is considered to be the most appropriate and satisfactory. It not only includes all the issues which were highlighted in the earlier definitions, but also takes up the issue of economic growth and social welfare.

**Conclusion:** We can conclude with the following definition of economics which is mainly used by many of the economists:

**'Economics is the study of how people and society choose to employ scarce resources that could have alternative uses in order to produce various commodities that satisfy their wants and to distribute them for consumption among various persons and groups in society.'**

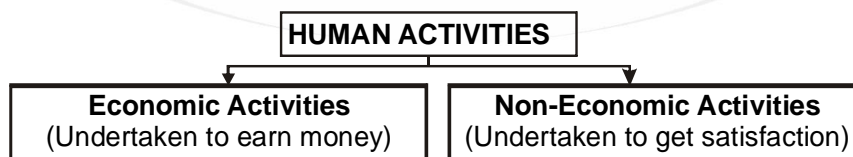
## 3. ECONOMICS AND NON-ECONOMICS ACTIVITIES

### Introduction

All human beings are engaged in some activity or the other in order to satisfy their basic needs. For example, farmers are busy in their field, workers are working in factories, professionals (like CA's or Doctors) are busy in their profession. Depending on wants, all human activities can broadly be divided into two categories:

#### 1. Economic Activities

#### 2. Non-Economic Activities



### ECONOMIC ACTIVITIES

Economic activities refer to those activities, which are undertaken to earn a living. For example, worker working in a factory, shopkeeper selling goods in his shop, doctor attending to patients in his clinic, etc.

Economic activities are concerned with all those activities, which are concerned with the Production, Consumption and Distribution of goods and services, which are not available free. So, every economy should undertake three main economic activities:

**a. Consumption:** Consumption is an economic activity which deals with the use of goods and services for the satisfaction of human wants. Eating of bread, drinking of milk, wearing watches, listening music, etc. are consumption activities.

**b. Production:** Production refers to all activities which are undertaken to produce goods and services for generation of income and satisfying human wants. It is the process of converting raw material into finished products. Land, labour, capital and entrepreneur are the four factors of production. The activities of farmer, carpenter, trader, teacher, doctor, shopkeeper, etc. all come under production.

**Two Vital Elements of an Economy:** "Production" and "Consumption" are the two essential economic activities of an economy. Generally, every individual in an economy is engaged either in consumption activities or in production activities. When an individual is engaged in the consumption of goods or services, he is acting as a consumer. Similarly, when an individual is engaged in the production of some goods or service, he is acting as a producer.

**c. Distribution:** Distribution is that economic activity which studies how income generated is distributed among the factors of production. It deals with determining how the total income arising from production process (known as Gross Domestic Product of GDP) is distributed to land, labour, capital and entrepreneur in the form of rent, wages, interest and profit respectively.

## IMPORTANT TERMS

**Consumer:** A consumer is one who consumes goods and services for the satisfaction of his wants.

**Producer:** A producer is one who produces goods and services for the generation of income. For example, farmer or a manufacturer.

**Service holder:** A Service holder is a person who works for some other person and gets paid for it in the form of wages or salary.

**Service provider:** A Service provider is a person who provides some kind of services to others for a payment. For example, Lawyer, Doctor, Banker etc.

## Subject Matter of Economics

The subject matter of economics is divided into following sections of study:

- 1. Consumption:** In consumption, we study wants, their origin, nature and characteristics and the laws governing them.
- 2. Production:** In production, we study the means of production, their basic features and also the laws governing production.
- 3. Exchange:** In exchange, the price determination through the forces of demand and supply is studied.
- 4. Distribution:** We know that production is the result of the combined efforts of the four factors of production namely land, labour, capital and entrepreneur. So, the production is distributed among these factors in the form of rent, wages, interest and profit respectively. This division is studied in the distribution section of economics.
- 5. Public Finance:** Due to increase in the role of Government, Public Economics has now emerged as a separate branch of study. Public Finance is the most important topic of Public Economics, which deals with the economics of government. It studies mainly about the income and expenditure of government.

## NON-ECONOMIC ACTIVITIES

Activities which are not concerned with creation of money or wealth are known as Non-Economic activities. For example, housewife cooking food for her family or a teacher teaching his own son.

In non-economic activities, there is no expectation of any kind of monetary reward or benefit. They are inspired by sentimental reasons and are performed out of love, sympathy, sentiments, patriotism etc.

Some more examples of non-economic activities performed in the economy are:

- Charitable activities like blood donation camps, free education to needy students;
- Social activities like get-together, attending parties;
- Political activities performed by different political parties;
- Religious activities like praying to God.

**Q. Explain the difference between economic goods and free goods with the help of examples.**

**Ans.** Goods which are in such plentiful supply that they do not command any market price are called free goods, for example, air, sunshine, rain, etc. Goods which are scarce and command price, are called economic goods; for example, wheat, cloth, car, furniture, tea, etc.

**Q. What are the two branches of economics?**

**Ans.** The two main branches of economics are: Microeconomics and Macroeconomics.

**Q. What is Microeconomics?**

**Ans.** Microeconomics is the study of the behaviour of individual economic units such as price determination of a commodity,

behaviour of a consumer, a producer or a firm

**Q. What is Macroeconomics?**

**Ans.** Macroeconomics is the study of the aggregates and averages relating to the whole economy, e.g., total consumption, total employment, national income, general price level, etc.

**Q. Is economics a science or an art?**

**Ans.** Economics is a social science that studies economic problems and policies in a scientific manner. Economics is an art as it gives practical guidance in solution to various economic problems. Economics, thus, is as science as well as an art.

**Q. Is economics a positive science or normative science or both?**

**Ans.** As positive science answers what is? What was? Where we study human decisions *as facts which can be verified with actual data*

A normative science which refers to what ought to be? What ought to have happen? The normative statements, in fact, are the opinions of different persons relating to rightness or wrongness of particular thing or policy. Thus, economics is both positive and normative science.

**Q. Who is the father of economics?**

**Ans.** Adam Smith is regarded as the father of economics.

**Q. Name the book written by Adam Smith. Also indicate the year of its publication.**

**Ans.** "An Enquiry into the Nature and Causes of Wealth of Nations" The year of publication: 1776.

**Q. What is the basis of difference between economic activities and non-economic activities?**

**Ans.** Motive of earning of wealth is the basis of difference between economic and non-economic activities.

**Q. What are the main criticisms of Adam Smith's definition of economics?**

**Ans.** Criticism of Adam Smith's definition of economics are:

- (a) Adam Smith took narrow meaning of wealth as precious material goods only.
- (b) This definition gave too much importance to material wealth.
- (c) This definition wrongly presumes the existence of an economic man.

**Q. Give two main points of criticism of Marshall's definition.**

**Ans.** Criticism of Marshall's definition:

- a. According to Marshall, economics studies about material goods only, but it is not correct. Because economics studies immaterial services also such as services of a teacher, doctor, etc.
- b. Marshall's definition depends on material welfare. But economics cannot be linked directly with material welfare.

**Q. Give two points of criticism of Robbins' definition of economics.**

**Ans.** Criticism of Robbins' definition of economics:

- a. Robbins' definition does not make clear distinction between means and ends.
- b. The definition regards economics neutral towards ends. If it is accepted then the study of economics would be of no use.

**Q. Give two main differences between Marshall's and Robbins' definitions of economics.**

**Ans.** Differences between Marshall's and Robbin's definitions of economics are:

- a. Marshall's definition of economics is classificatory as it mentions various classifications like ordinary-extra-ordinary; material-non-material; economic-non-economic etc.

Robbins' definition is analytical as it analyses the problem of choice.

- b. According to Marshall, economics is social science and related with the material welfare of mankind.

According to Robbins economics is human science and has nothing to do with the welfare.