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B.A. Economics  
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Paper - MJC  
Topic - Nature and scope of Economics (2nd lecture)

## **Nature and scope of Economics**

### **Introduction to Economics**

- Definition** : Economics is the social science that studies the production, distribution, and consumption of goods and services. It analyses how individuals, businesses, governments, and nations make choices about allocating resources.
  
- Scope**: It covers everything from small individual decisions to large-scale government policies affecting entire economies.

### **Nature of Economics**

- **Social Science Aspect:**

Economics is rooted in social sciences, focusing on human behaviour and how societies manage resources. Unlike pure sciences, economics deals with human motives, decisions, and interactions.

- **Positive vs. Normative Economics:**

Positive economics explains "what is" in economic terms without making judgments, while normative economics addresses "what ought to be," involving value judgments.

- **Micro vs. Macro Perspectives :**

Microeconomics studies individual choices, markets, and prices. Macroeconomics analyses large-scale economic issues such as inflation, unemployment, and GDP growth.

- **Core Subject Matter of Economics**

### **1. Scarcity and Choice :**

Economics addresses the problem of scarcity—resources are limited while human wants are virtually unlimited. This leads to choices and trade-offs.

### **2. Supply and Demand:**

The foundational concept that explains how goods and services are allocated. Supply and demand balance in a free market determines prices.

### **3. Opportunity Cost:**

Examines what is sacrificed when choosing one option over another, helping to make efficient choices.

### **4. Production and Consumption:**

Economics studies how goods and services are produced, who produces them, and how they are distributed and consumed.

### **5. Resource Allocation:**

Economic systems—capitalism, socialism, mixed economies—have different methods for allocating resources.

- **Major Theories and Models**

- Classical and Neoclassical Economics:**

These focus on free markets and individual decision-making. Key figures include Adam Smith, who introduced the concept of the "invisible hand," and Alfred Marshall, who formalised supply and demand.

- Keynesian Economics:**

Developed by John Maynard Keynes, this theory focuses on total spending in the economy and its effects on output and inflation.

- Behavioural Economics:**

Explores how psychological factors affect economic decision-making, contrasting traditional models that assume rational behaviour.

## **Application of Economics in Real Life**

- Policy Making:**

Governments use economics to inform policies on taxes, spending, trade, and regulation.

- Business Decisions:**

Companies apply economic principles to decide pricing, production levels, and expansion.

## □ **Individual Choices:**

Consumers use basic economic reasoning, like comparing prices or deciding to save or spend.

## **Conclusion**

Economics is a vast, dynamic field that seeks to explain human behaviour in terms of resource use and value creation. It has evolved over centuries to include diverse perspectives and approaches to understanding how societies manage scarcity and choice.