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B.A. Economics
Sem-1st
Paper - MJC
Topic - Nature and scope of Economics(1st lecture)

Definition of Economics

Economics is that branch of social science which is concerned with the study of how individuals, households, firms, industries and government take decisions relating to the allocation of limited resources to productive uses, so as to derive maximum gain or satisfaction.

Simply put, it is all about the choices we make concerning the use of scarce resources that have alternative uses, with the aim of satisfying our most pressing infinite wants and distributing it among ourselves.

Definition of Economics by Adam Smith , Marshall and Robbins :



WHAT IS ECONOMICS ACCORDING TO ADAM SMITH ?

Book : The Wealth Of Nation (1776)

Adam Smith : Economics is a science which deals with wealth. Economics Provides the Guidelines to the individuals society or nation.

His emphasis on wealth as a subject-matter of economics is implicit in his great book—‘An Inquiry into the Nature and Causes of the Wealth of Nations or, more popularly known as ‘Wealth of Nations’—published in 1776.

TWO MAIN POINTS OF ADAM SMITH DEFINITION

1. Wealth is concerned to be Value in exchange of goods and services. it is only concerned with the wealth of Nation But Not production.
2. Secondly When there is a market for example where both production of wealth and distribution of wealth. The manner where both production and distribution takes place it is called “Invisible Hand OR price System ”

TheYoungIndianEconomists.WordPress.com

Definitions

2. Marshall's definition: Science of Material Welfare. Cntd.,



Aims:

1. Study of man and his welfare as a member of the organized society.
2. Study causes of material welfare.
3. Separates the science of economics from other social sciences.

Critics:

1. Too narrow and unscientific
2. All material goods can't promote welfare
3. Quantification of welfare is difficult
4. Concept of welfare misleading
5. Neglects basic problems classificatory rather than analytical.

- Part 1
- Part 2
- Part 3
- Part 4
- Part 5
- Part 6

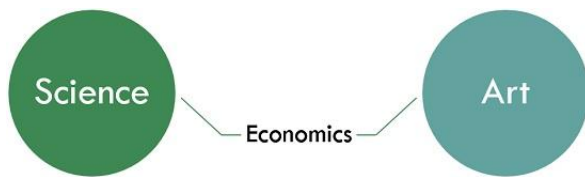
Lionel Robbins(1898-1984)

‘An Essay On Nature & Significance Of Economic Science’(1932)

- Scarcity, Unlimited Wants, Analytical

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

Nature of Economics :



Economics is a science:

Science is an organised branch of knowledge that analyses cause and effect relationships between economic agents. Further, economics helps in integrating various sciences such as mathematics, statistics, etc. to identify the relationship between price, demand, supply and other economic factors.

Positive Economics: *A positive science is one that studies the relationship between two variables but does not give any value judgement, i.e. it states 'what is'. It deals with facts about the entire economy.*

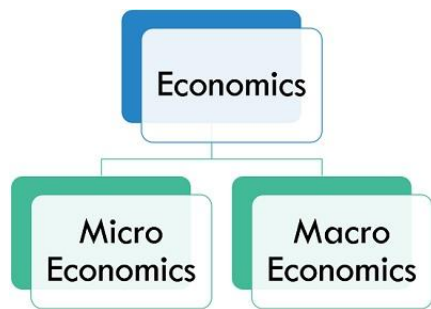
Normative Economics: *As a normative science, economics passes value judgement, i.e. 'what ought to be'. It is concerned with economic goals and policies to attain these goals.*

Economics is an art:

Art is a discipline that expresses the way things are to be done, so as to achieve the desired end. Economics has various branches like production, distribution, consumption and economics, that provide general rules and laws that are capable of solving different problems of society.

*Therefore, economics is considered as **science as well as art**, i.e. science in terms of its **methodology** and arts as in **application**. Hence, economics is concerned with both theoretical and practical aspects of the economic problems which we encounter in our day to day life.*

Scope of Economics :



Microeconomics: *The part of economics whose subject matter of study is individual units, i.e. a consumer, a household, a firm, an industry, etc. It analyses the way in which the decisions are taken by the economic agents, concerning the allocation of the resources that are limited in nature.*

It studies consumer behaviour, product pricing, firm's behaviour. Factor pricing, etc.

Macro Economics: *It is that branch of economics which studies the entire economy, instead of individual units, i.e. level of output, total investment, total savings, total consumption, etc. Basically, it is the study of aggregates and averages. It analyses the economic environment as a whole, wherein the firms, consumers, households, and governments make decisions.*

It covers areas like national income, general price level, the balance of trade and balance of payment, level of employment, level of savings and investment.

Differences between Micro- Economics and Macro- Economics

Differences	Microeconomics	Macroeconomics
Definition	Microeconomics is the study of economic actions of individuals and small groups of individuals.	Macroeconomics studies the economy as a whole and not a single unit but combination of all.
Concern with	Particular households, firms and industries	National income, general price levels, national output, unemployment and poverty
Objective	On demand side is to maximize utility whereas on the supply side is to minimize profits at minimum cost	Full employment, price stability, economic growth and favourable balance of payments.
Basis	Price mechanism which operates with the help of demand and supply forces	National income, output and employment which are determined by aggregate demand and aggregate supply
Assumptions	Rational behaviour of individuals	Aggregate volume of output of an economy, the extent to which its resources are employed
Limitations	Existence of full employment	Involvement of 'Fallacy of Composition' which doesn't prove true