Introduction :

Today's world is marked by scientific inventions and discoveries. This remarkable scientific progress enables to probe into the question, What is a science? Science is the systematic body of knowledge. There are two main types of sciences.

- Natural sciences
- Social sciences

- Natural science is one whose laws are universally acceptable and their validity can be tested in a laboratory under controlled conditions. Natural sciences are also called exact sciences because of their empirical approach to the study. e.g. Mathematics, Physics, Chemistry.
- Social Science is called abstract or behavioural science because it is related to the study of some or the other aspect of human behaviour. e.g. Psychology is related to 'mental' aspect of human behaviour. Sociology is related to the study of 'social' aspect of man as a member of society. Human behaviour can neither be empirically tested nor can be studied in the laboratory. Hence, the laws of social sciences are not universal but they are only statements of general human tendencies.

Meaning of Economics :

Economics is a social science. The origin of the term 'Economics' lies in the Greek word, 'Oikonomia' which means management of the household.

Economics is referred to as 'Queen of Social Sciences' by Paul Samuelson. Economics deals with the economic aspect of human behaviour. It deals with how human beings satisfy unlimited wants with limited means.

Let us understand the nature of Economics with respect to some popular definitions.

Refresh your memory :

Have you studied the following concepts in the previous textbooks?

Types of Economic Systems - Capitalism, Socialism and Mixed Economy.

Kautilya's Views on Economics :

Fig 1.1
Kautilya

Artha means 'Wealth' and Shastra means 'Science'. Arthashastra implies the science of acquiring and managing wealth. Essentially, Arthashastra is a treatise on Political Economy in its broadest sense.

Key-points based on Kautilya's views :

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

Do you know?

Kautilya was a great statesman, philosopher, economist and royal advisor during the Mourya period. He is also known by the name Chanakya or Vishnugupta. Kautilya authored the ancient Indian political treatise, the 'Arthashastra'.

Definitions of Economics :

1) Adam Smith's Wealth-Oriented Definition of Economics :

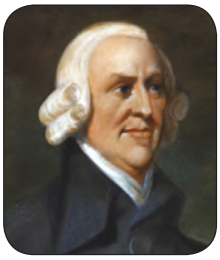

Fig 1.2
Adam Smith

Classical economist Adam Smith, also regarded as the "Father of Economics", has given the wealth-oriented definition of Economics. Out of his many literary contributions to Economics, he

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is most famous for his 1776 piece of work, "An Inquiry into the Nature and Causes of Wealth of Nations". Adam Smith defines Economics as "a science of wealth".

Key-points of Adam Smith's definition :

1) Laissez faire i.e. non-intervention of the government.
2) Capital and wealth accumulation
3) Nature's law in economic affairs.
4) Division of labour as an aspect of growth theory.

Do you know?

Paul Romer and William Nordhaus have won Nobel Memorial Prize in Economics for 2018. Paul Romer tends to be described as a growth theorist whereas Mr. Nordhaus has remarkably contributed to the field of Environmental Economics.

Find out :

Other Nobel Prize winners in Economics.

2) Prof. Alfred Marshall's Welfare-Oriented Definition of Economics :

Fig 1.3
Alfred Marshall

Neo-classical economist Prof. Alfred Marshall has given the welfare-oriented definition of Economics, in the book entitled "Principles of Economics" which was published in 1890. His definition states :

"Economics is a study of mankind in the ordinary business of life. It examines that part of individual and social action, which is closely connected with the attainment and use of material requisites of well-being".

Key-points of Marshall's definition :

1) Study of an ordinary man.
2) Economics is a behavioural science.
3) Study of material welfare.
4) Economics is not simply a study of wealth.

3) Lionel Robbins' Scarcity-Oriented Definition of Economics :

Fig 1.4
Lionel Robbins

This is the most popular definition of Economics. Robbins, in his book entitled, "An Essay on the Nature and Significance of Economic Science" published in 1932 mentions about the scarcity-oriented definition of Economics.

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

Key-points of Robbins' 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.

Do you know?

Thought	Names of the Economists
Classical School of Thought of 18th century	Adam Smith, David Ricardo, J. S. Mill, T. R. Malthus etc.
Neo-classical School of Thought of 19th and 1st half of 20th century	Alfred Marshall, A. C. Pigou, Irving Fisher etc.
Modern School of Thought from 20th century till date.	J. M. Keynes, Lionel Robbins, Paul Samuelson etc.

Branches of Economics :

In 1933, Sir Ragnar Frisch coined the terms Micro Economics and Macro Economics. These terms are derived from the Greek words 'Mikros' and 'Makros' respectively.

A) Micro Economics :

Micro means small. Micro Economics deals with the behaviour of the individual variables such as a household, worker, firm, industry etc.

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Kenneth Boulding's Definition of Micro Economics :

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

Basic Concepts of Micro Economics

1) Want : It is difficult to define 'want' in few words. In common language, want can be referred to as a need. In economics, want denotes a feeling of 'lack of satisfaction'. This feeling enables the individual to satisfy his want.

Human wants have grown in number for two basic reasons :

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

Characteristics of wants :

i) **Wants are unlimited :** Wants not only arise again and again but they are also unending. If one want gets satisfied, another arises. Wants go on multiplying in number.

ii) **Wants are recurring in nature :** Several human wants occur again and again, while some might be only occasional.

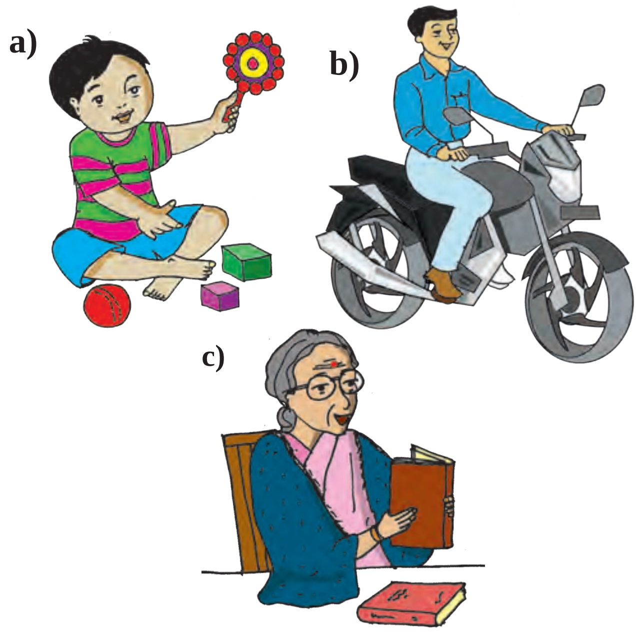

Fig. 1.5 : Age and Wants - a, b, c

iii) **Wants differ with age :** Wants and their satisfaction differ as per the chronological age. (Fig. 1.5 a, b, c).

iv) **Wants differ with gender :** Men and women want different goods according to their needs.

v) **Wants differ due to preferences :** Individual habits, tastes and preferences matter a lot while deciding wants of the people.

Fig. 1.6 : Seasons and Wants

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vi) **Wants differ with seasons :** Wants keep on changing with seasons (Fig .1.6).

vii) **Wants differ due to culture :** Differences in culture influence wants that are related to food, dressing styles etc.

Classification of Wants :

Wants can be classified in the following ways.

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

- Economic wants are those where monetary transaction is involved. An individual has to pay the price for them, e.g. food, medicines etc.
- Non-economic wants are those which can be satisfied without making monetary payment for them, e.g. air, sun shine etc.

ii) **Individual Wants and Collective wants :**

- Personal or individual wants refer to those wants which are satisfied at the individual level, e.g. a doctor using a stethoscope, a judge wearing his coat.
- Collective wants are social wants where there is collective satisfaction of wants, e.g. travelling by train.

iii) **Necessities, Comforts and Luxuries :**

- Necessities are the very basic needs of life, e.g. food, clothing, shelter, health and education.
- Comforts are those wants which make our life comfortable, e.g. washing machine, mixer, pressure cooker etc.
- Luxuries are those wants which are meant for pleasure and enjoyment, e.g. AC-car, well-furnished house etc.

2) Goods and Services : These are popular terms of economics.

- Anything that satisfies human wants is termed as a 'good'. It has material existence, e.g. chalk used by a teacher.
- Services also satisfy human wants but do not have any material existence, e.g. 'Teaching' offered by the teacher.

3) Utility : Capacity of a commodity to satisfy human wants or want satisfying power of a commodity is called utility.

4) Value : Value has two approaches in economics, i.e. 'value-in-use' and 'value in exchange'.

- **Value-in-use :** It refers to the worth of a commodity. In simple words, it is usefulness of a commodity, e.g. no one has to pay price for sunshine but its immense worth for life can never be doubted. In economic language, sunshine has a high value-in-use. It is an example of 'free good'.
- **Value-in-exchange :** It refers to the worth of a commodity or a service expressed in terms of another commodity. When this value is expressed in terms of money, it is called price of a commodity. A good which commands a price is termed as an 'economic good', e.g. TV, car etc.
- **Water-Diamond Paradox of values :** Some commodities have a high value-in-use but low exchange value, e.g. water, whereas, some commodities have low value-in-use but high exchange value due to its scarcity, e.g. diamond (Fig 1.7).

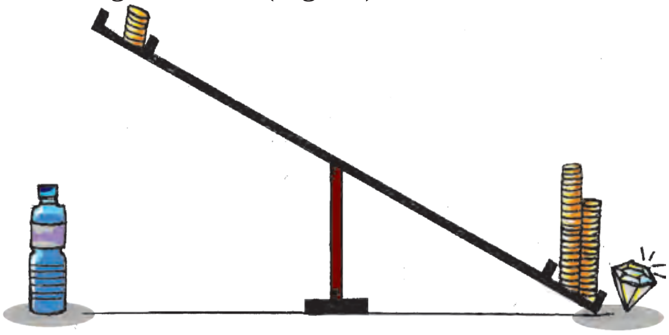

Fig. 1.7 : Water-Diamond Paradox

Find out :

Which of the following is 'free good' or 'economic good'?

- Water in river
- Oxygen cylinder
- Sunshine
- Water processed for drinking
- Air

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5) Wealth : Wealth refers to "anything which has market value and can be exchanged for money."

To be regarded as 'wealth', a commodity must possess the following characteristics :

i) Utility

ii) Scarcity

iii) Transferability

iv) Externality

i) **Utility :** A commodity must have the capacity to satisfy human wants, e.g. furniture, refrigerator etc.

ii) **Scarcity :** A commodity must be scarce in supply in relation to its demand if it is to be included in the term 'Wealth', e.g. all economic goods for which price is paid.

iii) **Transferability :** A commodity should be transferable from person to person as well as place to place. If the good is material or tangible then only it is possible to transfer it from place to place, e.g. vehicle, jewellery etc.

iv) **Externality :** A good can be transferred only if it is external to human body, e.g. bag, chair etc.

Do you know?

Physical transferability - This is actual transfer of goods from one person to another and from one place to another, e.g. vehicle.

Notional Transferability - It is not possible to transfer the good physically but there can be only transfer of ownership rights, e.g. land

Try this :

Prepare a list of commodities which satisfy the condition of physical transferability and notional transferability.

Do you know?

Inborn qualities like beauty, melodious voice, efficiency etc. are not 'wealth' in the strict sense of economics. They are neither external nor transferable.

6) Personal Income : Earnings received by a person from all sources is called his personal income.

7) Personal Disposable Income (PDI) : It is that part of personal income which is left over after payment of direct taxes such as income tax, wealth tax etc.

You should know :

Following are the various types of income.

A) **Fixed income :** Income which remains stable over a period of time, e.g. rent, wages.

B) **Fluctuating income :** Income which is not fixed but keeps on changing, e.g. profit. It can be positive, negative or zero.

C) **Money income :** It is the income received in actual currency of the country. In other words, it is the income in cash, e.g. ₹ 5,000

D) **Real income :** It is the purchasing power of money income, e.g. commodities purchased out of money income.

E) **Contractual income :** This income is paid as per the terms and conditions of contract, e.g. rent, wages.

F) **Residual income :** Income which is left over after making payments to all factors of production is called residual income, e.g. profit

G) **Earned income :** Income obtained after participating in the productive activity, e.g. rent, wages, interest, profit.

H) **Unearned income :** Income received from all sources without indulging in any productive activity, e.g. windfall gains, lottery prizes.

8) Economic activity : Economic activities can be classified into four types which include production, distribution, exchange and consumption.

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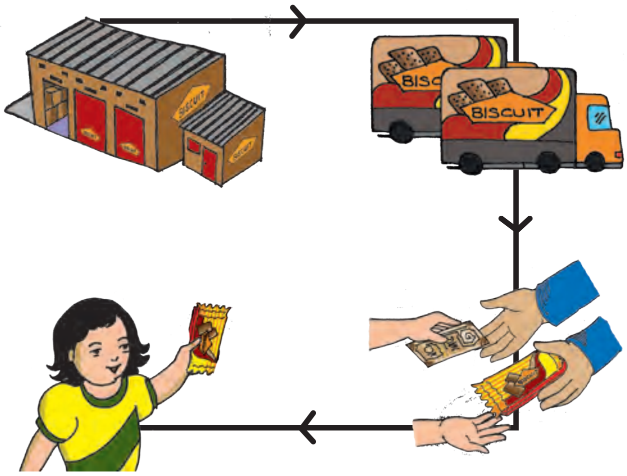

Fig. 1.8 : Economic Activities

a) **Production :** Production is creation of utility. There are four factors of production such as land, labour, capital and entrepreneur.

Always remember :

The activities which are carried out just for the sake of charity, hobby or in general, where there is no monetary exchange are considered 'unproductive' in the sense of Economics, though they may be adding immense value to life.

Factors of production :

i) **Land :** 'Land' in Economics is a wide term. It is a natural factor of production. Any natural resource that is available on, above and below the surface of the earth is called 'land' in Economics, e.g. minerals which are found below the surface of the earth; soil, water on the surface of the earth; air, sunshine, wind are above the surface of the earth. Land earns 'rent' in productive activity.

ii) **Labour :** Labour is a human factor of production. Any physical or mental effort undergone during the process of production to earn the reward of 'wages' is called 'labour', e.g. carpenter, accountant, engineer etc.

iii) **Capital :** Capital is a produced means for further production. It is a man-made factor of production which earns the reward in the form of 'interest', e.g. machinery, technology, factory building etc.

iv) **Entrepreneur :** Entrepreneur is the organizer who is a real captain of the industry. He is a special kind of labour who gets the work done to earn the reward of 'profit' in the process of production.

b) **Distribution :** It is division of factor rewards among different segments of the society. Factors of production claim their rewards of rent, wages, interest and profit through the process of distribution.

c) **Exchange :** It is give and take between various units in the economy. 'Exchange' refers to sale and purchase of goods and services. In economics, exchange is necessarily a monetary transaction.

d) **Consumption :** It is making use of goods and services to satisfy human wants.

B) Macro-Economics :

Macro means large or aggregate or total. Macro-Economics is therefore the study of aggregates covering the entire economy such as total employment, national income, national output, total investment, total savings, total consumption, aggregate 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 :** This reveals the total economic performance of a nation. It is referred to as the total income of a country.

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In the economic sense, national income is the 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) Saving : It is that part of the income which is set aside to satisfy the future needs by foregoing current consumption. In other words, saving is that part of income which is not spent currently on consumption.

3) Investment : It refers to creation of capital assets through mobilisation of savings, e.g. machinery, equipment etc.

4) Trade Cycles : Trade cycles are fluctuations in business. They are ups and downs in the overall economic activities. Ups and downs means fluctuations caused by inflation and depression respectively.

- **Inflation** is a continuous rise in general price level.
- **Depression** is a continuous fall in overall prices and lowering down of economic activity in general.

Do you know ?

Unemployment created due to impact of cyclical fluctuations is called 'Cyclical Unemployment'.

5) Economic Growth : The term economic growth has a 'quantitative' dimension. In simple words, economic growth means an increase in the real national income of the country, over a long period of time.

6) Economic Development : This is a wider concept which has a 'qualitative' dimension. Economic development implies economic growth plus progressive changes in certain important variables which determine well-being of the people, e.g. education, health etc.

Find out :

Which of the following terms is a part of micro economics or macro economics?

- Global poverty
- Price of a commodity
- Balance of payments
- Profits of a firm
- National income

Always Remember

Economic Growth	Economic Development
1) Economic growth means an increase in the real national income of the country.	1) Economic development indicates economic growth plus progressive changes in certain important variables which determine well-being of the people.
2) This concept is narrow and quantitative.	2) This concept is broader and qualitative.
3) Economic growth is possible without economic development.	3) Economic development is not possible without economic growth.
4) Economic growth is a unidimensional concept.	4) Economic development is a multi-dimensional concept.
5) Economic growth is spontaneous and reversible.	5) Economic development is deliberate and irreversible.
6) Economic growth is measured in terms of national income and per capita income.	6) Economic development is measured in terms of agricultural productivity, industrial productivity quality of human life etc.

Table : 1.1

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EXERCISE

Q. 1. Choose the correct option :

1) Statements related to Economics :

a) Economics is a social science.
b) Concept of economics is derived from Greek word 'Oikonomia'.
c) Economics is related to the study of human economic behavior.
d) Economics is related to management of the household.

Options : 1) a, b and c 2) a and b
3) b and c 4) a, b, c and d

2) Statements incorrect with reference to Adam Smith's definition :

a) Adam Smith is a classical economist.
b) Wealth of Nations is authored by Adam Smith.
c) Economics is the science of wealth.
d) Economics studies common man.

Options : 1) d 2) a, b and c
3) a and d 4) c and d

3) Key points in Lionel Robbins' definition :

a) Wants are unlimited
b) Means are limited
c) Wants are not gradable
d) Means have alternative uses.

Options : 1) a and b 2) b and c
3) a, b and d 4) a, b, c and d

4) Statements related to wealth :

a) Wealth means anything which has market value and can be exchanged for money.
b) It is external to human being.
c) Wealth has no utility.
d) Wealth is scarce and exchangeable.

Options : 1) a, b and d 2) a, c and d
3) b, c and d 4) None of the above

5) Aspects considered in National Income :

a) Final goods and services are included in national income.
b) Produced goods and services in a financial year are included in national income.
c) Double counting is avoided.
d) Value is considered as per market price.

Options : 1) a and c 2) b and c
3) a, b and d 4) a, b, c and d

Q. 2. Complete the correlation :

1) Natural sciences : Exact sciences : : Social sciences : ☐
2) Physics : ☐ : : Psychology : Social science
3) Arthshastra : Kautilya : : Wealth of Nations : ☐
4) Necessity : ☐ : : Comforts : Washing machine
5) Free goods : Value-in-use : : Economic goods : ☐

Q. 3. Identify and explain the concepts from the given illustrations :

1) My father purchased a two wheeler vehicle. This helps to fulfil my travel needs.
2) A study of the annual income of the family of Ramesh
3) As per the data for financial year 2018-19, the country's production of goods and services increased by 20%.
4) Karuna's mother saves ₹ 1000/- every month out of her given salary.
5) Ram's father utilized his provident fund amount to set up grocery store.

Q. 4. Answer the following :

1) Explain the features of wealth.
2) Explain the characteristics of human wants.

Q. 5. State with reasons whether you agree or disagree with the following statements :

1) All wants can be satisfied at a time.
2) Human wants change as per the seasons and preferences.
3) Value-in-use and Value-in-exchange are the same.

Q. 6. Answer in detail :

1) Explain the basic concepts of macro economics.

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