

The nature, scope and methods of economics

[Economics](#), [Macroeconomics](#)



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SOCIETY:- Most introductory textbooks of Economics begin by asking the question 'What is Economics about?' Although Economics is a vast subject and precise definitions are usually complex and controversial, it is not a difficult matter to give a simple and sensible answer to this basic question.

Economics is essentially a study of the ways in which people provide for their well-being. Economists are concerned with the study of human behavior as a relationship between ends and scarce means which have alternative uses'

(Lionel Robbins). **MICRO AND MACROECONOMICS:-** Economics can be divided into microeconomics and macroeconomics. Microeconomics is the study of individual markets. (A market is an arrangement which links buyers and sellers.) For instance, an economist may study the market for compact discs.

This will involve looking at the decisions and behavior of people who buy compact discs, the firms that sell the compact discs and any other groups which influence the price and availability of compact discs, such as the government While macroeconomics is the study of the whole economy. It

includes, for example, the study of the nature, causes, consequences of unemployment, inflation, economic growth and international trade and government policy. **WANTS AND NEEDS:-** Economics, both macro- and

microeconomics, is about the satisfaction of wants. It is necessary to be quite clear about this; it is people's wants rather than their needs which provide the motive for economic activity. People go to work in order to obtain an income which will buy them the things they want rather than the things they need. It is not possible to define 'need' in terms of any particular quantity of a product, because this would imply that a certain level of

consumption is right' for an individual. Economists tend to avoid this kind of value judgment which tries to specify how much people ought to consume. It is assumed that individuals wish to enjoy as much well-being as possible, and if their consumption of food, clothing, entertainment and other goods and services is less than the amount required to give them complete satisfaction they will want more of them. **SCARCITY:-** Resources are scarce when they are insufficient to satisfy people's wants. Scarcity is a relative concept. It relates the extent of people's wants to their ability to satisfy those wants. Neither people's wants nor their ability to produce goods and services are constant. Most countries' productive potential is increasing but so is the appetite of their citizens for goods and services. When a certain living standard is reached, people strive for even better living conditions. A good example of this is health care. As medical science and technology advances, people expect more ailments to be treated. So scarcity is a feature of all societies from the poorest to the most affluent. **CHOICE:-** The resources available to satisfy people's wants are, at anytime, limited in supply. As most people cannot have all the goods and services they want, they have to make choices. With no rise in income, if someone wants to buy, for instance, a new coat they may have to spend less on eating out for a while. Similarly with limited resources, if a country wishes to devote more resources to health care it will have to reduce the resources it devotes to, for example, education. **OPPORTUNITY COST:-** In considering scarcity and choice economists make use of opportunity cost. This is a very important concept in economics. It makes clear the true resource cost of any economic decision. For instance, building a new hospital may mean that the construction of a

stretch of motorway has to be postponed. So opportunity cost is the cost in terms of the best alternative forgone. For example, if a person buys a watch it may cost £50 but what is more significant is what has to be given up to make the purchase. This may be the opportunity to purchase a pair of shoes or the opportunity to have extra leisure instead of working to earn the £50.

ECONOMIC AND FREE GOODS:- In the case of the vast majority of goods and services, resources have to be used in order to produce them. For example, to provide health care requires the use of labor in the form of doctors and nurses, land on which the hospital is built and capital in the form of beds, operating tables, dialysis machines and other equipment. So the production of most goods and services involves an opportunity cost – the resources employed could be put to other uses. These products are called economic goods. However there are a few goods which do not involve an opportunity cost, for example sea water and sunshine. This is because they do not require resources to produce them – they are in existence naturally. These products are known as free goods.