

Aspects of economics



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Economics is a popular, useful and significant social study. It studies economic activities of a man. Economic activities are those activities, which are concerned with the efficient use of such scarce means as can satisfy the wants of man. Human wants are unlimited, in the sense, that as soon as one want is satisfied another crops up. Most of the means of satisfying these wants are limited, because their supply is less than demand. These means have alternative uses; there emerge a problem of choice. Everybody has to make a choice regard to the use of his scarce means so that he may get maximum satisfaction from them. In short, Economics is the study of those activities of human beings, which are concerned, with the satisfaction of unlimited wants by utilizing limited resources.

Economics is not concerned with lifeless matter, as is the case with natural science like physics and chemistry.

Evolution of Economics:

The term ' Economics' is derived from two words of Greek language, namely, Oikos (Household) and Nemein (to manage) meaning thereby Household management. Earlier it used to be called as political economy. As a scholarly subject, the study of economics is barely 200 years old. The form of economics studies today is shaped by ADAM SMITH, the founder of modern Economics. His famous book, " an enquiry into nature and causes of wealth of nations:" was published in 1776.

In 1933, Prof. Ragnar Frisch, the famous economist of Oslo University Norway, divided the study of economics into two parts-

1. Microeconomics also known as Price Theory

2. Macroeconomics also known as Theory of Income and Employment.

Definition of Economics:

It is difficult to give an accurate definition of economics. A test of good definition is that it delimits boundaries of the subject clearly and correctly. In the words of Seligman, " Economics has suffered more than any other discipline from the malaise of polemics about definitions". In this respect Barbara Wootton's remarks, " whenever six economists gather there are seven opinions", appears to be quite pertinent.

There are two distinct approaches of the economists in respect of the definition of economics

1. No need of defining economics

According to some modern economists the subject of economics has been growing continuously. It will therefore be improper to limit its growth to the confines of a given definition.

2. Necessity of defining economics

Most of the economists agree with a view that defining economics is a must as it becomes possible to study of a subject, knowledge of it scientifically and properly. Nobel laureate Prof. Samuelson observes, " Beginners often wants a short definition of economics and in response to this demand there is no shortage of supply".

In order to facilitate the study, definitions of Economics have been broadly divided into four parts:

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- 1) Wealth Definition – Adam Smith
- 2) Welfare Definition – Marshall
- 3) Scarcity Definition – Robbins
- 4) Growth Oriented Definition – Samuelson

ADAM SMITH DEFINITION OF ECONOMICS AS SCIENCE OF WEALTH

According to classical Economists like Adam Smith, J. B. Say, Walker, J. S. Mill etc. economics is a subject that studies nature of wealth and its production, consumption, exchange and distribution etc.

Definitions:

Adam Smith, “ Economics is an enquiry into the nature and causes of wealth of nations”.

J. B. Say, “ Economics is the science which treats Wealth”.

Walker, “ Economics is the body of knowledge which relates to wealth”.

Senior, “ The subject Treated by political economics is not happiness but wealth”.

J. S. Mill, “ Economics is the practical science of production and distribution of wealth”.

Features

1) Economics is the study of wealth only. It deals with consumption, production, exchange and distribution. It gives primary place to wealth and secondary place to study of man.

2) Nature or Meaning of Wealth. Only such material commodities constitute wealth are scarce and useful. Material goods are those goods which can be seen or touched, for example cloth, furniture etc. Non – material goods like services and free goods like air and water are not wealth.

3) Causes of Wealth. Economics seeks to investigate the causes that lead to increase of wealth. There are two ways of increasing wealth:

a. By increasing the supply of goods through large – scale production made possible by saving the commodity

b. By increasing the demand for goods through extension of market.

4) Economic man The supporters and followers of wealth definition of economics have imagined such a man who is fully aware of his self – interest and who makes persistent efforts to achieve his selfish ends to the maximum. Such a man is called economic man.

Merits:

The main merit of wealth definition is that it has helped develop economics as an extensive and independent study concerning problems of wealth.

Economics had not developed as an independent and important study before 1776. Previously economics used to be treated as a study dealing with wealth getting, trade and agricultural activities of the state. According to

wealth definition the purpose of the study of economics is to increase the prosperity of both individual and the state.

Criticisms:

- i. More emphasis on wealth This definition has given more importance to wealth than to man. Wealth takes precedence over man. In fact, wealth is a means to satisfy man's wants. Man, not wealth should have been given greater importance.
- ii. Narrow meaning of wealth According to this definition wealth means only tangible goods such as apple, furniture, desk, fan etc. Non – material goods or services like that of doctor, nurse, lawyer etc. have been excluded from it.
- iii. Concept of Economic Wealth Wealth definition of economics is based on the concept of economic man. But according to Marshall and his followers such as economic man who works for his selfish motives alone is not found in real life. Economics is therefore is a study of real social human being and not of economic man.
- iv. Neglect of welfare This definition attaches no significance to the study of economic welfare of society. It lays too much emphasis on the study of wealth – getting activities alone. It pays no attention to the economic well – being of the society by proper use and equitable distribution of wealth.
- v. Neglect of the problem of scarcity and Choice. This definition completely ignores the study of two main features of economic activities,

namely: Scarcity and Choice. Wants being unlimited and economic goods having several uses being limited, there arises the problem of choice.

vi. Neglect of means to attain wealth This definition chooses attainment of wealth as the sole purpose of economics, but it does not specify the means, which should be adopted to acquire wealth. This definition gives no clear indication as to whether wealth obtained through legal or illegal means. As a matter of fact, economics studies exclusively those means of wealth – getting which are lawful and just.

vii. Narrow subject – matter This definition has restricted the scope and subject – matter of economics. In fact it does not study the acquisition of material goods alone. But as it should embrace both material goods as well as non – material services.

In short, economics is not merely a study of wealth. Wealth – definition of economics is quite vague and narrow.

MARSHALLS WELFARE DEFINITION

Neo – classical economists like Marshall, J. S. Mill, Pigou, Cannan etc. have included in the scope of economics those activities of man which are undertaken to acquire material goods which promote the welfare of man kind.

Definitions:

In the words of Marshall, “ Economics is a study of mankind in the ordinary business of life; it examines the part of individual and social action which is

most closely connected with the attainment and with use of material requisites of well being.”

According to Cannan, “ The aim of political economy is the explanation of the general causes on which the material welfare of human beings depends.”

According to Penson, “ Economics is the science of material welfare”

In the words of Beveridge, “ Economics is the study of general methods by which man co- operate to meet their material needs”

Features:

1. Importance to the study of Man These definitions have accorded more importance to the study of man than to wealth. Wealth is merely a means to satisfy wants of the man.
2. Study of Social Man In economics, one studies the economic activities of those men who live in the society. Individual and collective activities of such men that are part and parcel of the society are studied in economics.
3. Ordinary business of life This means those economic activities of man which are mostly concerned with wealth – getting and wealth – spending.
4. Study of real man Economics studies real man who possesses several virtues, believes in social welfare and is influenced by economic and non – economic motives.
5. Material requisites Economics studies those activities of the man which are closely connected with material requisites of well – being.

6. Welfare Economics studies those material means which promote human welfare. Economics is a subject of man's material well being. It is most closely connected with attainment and the use of the material requisites of well – being.

7. Science and Art According to these definitions, economics is both a science and an art. It is a positive science as it undertakes systematic study concerning material welfare of human welfare of human beings. It is also a normative science, as it undertakes to study these suggestions that help to promote material welfare. It is also an art as it informs those laws that augment economic welfare.

8. Classificatory These definitions have divided the economics activities of man into two classes that is ordinary and extraordinary; welfare and non welfare, material and nonmaterial; social and individual etc.

9. Money is the measure of Material Welfare According to Pigou, material or economic welfare is that part of social welfare which can be measured directly or indirectly with the measuring rod of money.

Merits:

Welfare definitions of economic are more relevant, comprehensive and scientific than wealth definitions. Credit for transforming economics as a Science of Human Welfare from a Science of Wealth goes to these definitions. Welfare definition stresses the fact that economic does not study wealth alone rather it studies human welfare as well. Thus welfare definition

has accorded economics a status of a superior social science. Consequently Economics is being regarded as “ an engine of social betterment”.

Criticisms:

i. Regarding Ordinary business of life The meaning of the term is not clear.

Marshall has used this term to signify economic activities, that is, activities concerned with wealth – earning and wealth – spending.

ii. Limited Scope This definition had narrowed the scope of economics. Economics need not confine itself exclusively to the study of attainment of material goods.

iii. Uncertain concept of welfare The concept of welfare is ambiguous, uncertain and temporary. Study of material welfare renders economics as an uncertain science. The concept of welfare belongs to the realm of psychology. It varies with time, place, conditions and persons.

iv. Economics is a Human Science It studies the economic activities of those men who live in society, is also wrong. It studies economic activities of all human beings whether they are members of society or not.

v. Economics is only a Positive Science Economics is the function of Ethics. Economics does not give any clue to solve economic problems. It is ‘ neutral between ends’. It is wrong to call it normative science or an art.

vi. Impractical Its assumption that those activities of man are studied in it which are concerned with his well -being is wrong. It is not so form practical

point of view. Economics studies all those activities which are related to income – spending by man, whether they promote his well being or not.

In short welfare definition of economics is superior to wealth definition but according to Lord Robbins it is Classificatory and Narrow Definition.

ROBBINS SCARCITY DEFINITION

With regard to Scarcity definition of economics, Austrian economists Menger, Petter and English economists Stigler had expressed his views but it was examined in details by Prof. Robbins in his book “ An Essay on the Nature and Significance of Economics Science” published in 1932.

Definitions:

According to Lord Robbins, “ Economics is a science that studies human behavior as a relationship between ends and scarce means which have alternative uses”.

In the words of Harvey, “ Economics is the study of how men allocate their limited resources to provide for their wants”.

In the words of Scitovosky, “ Economics is a science concerned with the administration of scarce resources”.

Features:

1. Unlimited Wants or Ends By Ends, Robbins means wants. In economics, wants of man are concerned with goods and services. These are called economic wants. There are no limits of these wants. As one is satisfied

another one crops up. This chain of wants is endless. Economics is concerned with the satisfaction of economic wants irrespective of their being virtuous or otherwise.

2. Limited or scarce Means Wants are greater than means. As the Demand is more than the supply.

W = Wants

M = Means

> = Greater Than

3. Alternative Uses of Means These Scarce means have alternative uses. Eg. Milk we know means, is a means. It can be used for preparing Butter, curd, cheese etc.

4. Wants Differ in Urgency Man has several wants, but at any given time one of these wants may be more urgent and important than other wants. As such wants differ in urgency. A person wants for his sick child, medicine, milk and fruit.

5. Economic Problem When all four characteristics of human life; namely, unlimited wants, scarce means, alternative uses of means and different urgency of wants become operative, there arises the problem of choice. One has to make a choice as to which want to be satisfied first and by what means. Problem of choice making is called economic problem.

6. Opportunity Cost Definition tells us that it is due to the problem of choice that in order to fulfill one want we have to forego another. We cannot fulfill all

our wants(ends) simultaneously. The opportunity cost of a thing is always expressed in terms of the next best alternative foregone.

Merits:

- 1) Positive Science As the Definition explains the nature of economic activities. It is neutral with regard to welfare. It is silent about value – judgment. It is neither a normative science nor art. It is simply a positive science.
- 2) Study of Human Behavior The definition has a study of human behavior instead of a study of a social man. Economics studies the economic activities of all human beings whether living in or out of society. Economics studies the behavior of man both at individual and social level.
- 3) Analytical Economic problems arise because ends (wants) of man are unlimited but the means to satisfy them are not only scarce but also have alternative uses. Man has to make a choice with regard to ends and scarce means. This definition is a scientific analysis of the origin of economic problems and their solution.
- 4) Wider Scope Economics encompasses all sorts of economic activities whether they are related to material goods or non – material services; whether they are conducive to well – being or not.
- 5) Universal This definition is concerned with the problem of unlimited ends(wants) and scarce means. This problem is found at any place and in any type of economy, that is capitalism, socialism etc.

6) More logical explanation of economic Problem This definition has offered a more logical and precise explanation of the nature of economics. Economic problem does not arise due to material well – being. It arises mainly due to the scarcity of means in relation to their demand. Problem of choice or Valuation, which is the main problem of economics, arises because of scarcity of means and tier alternative uses.

Criticisms

i. Ignores Social Aspect of Economic Activities Robbins definition ignores the social aspect of economic activities. Robbin is wrong when he holds that the activities of those who live outside the society also form part of the study of economics. Need of the study of economics is felt only when economic problems assume social significance.

ii. Economics is not neutral as regards Ends Economics is social science. Economists have to pronounce their judgment as to which ends are noble and which ones are base and so need be discarded. In the words of Thomas, “ The function of an economist is not only to explore and explain, but also to advocate and condemn”.

iii. Concealed Concept of Welfare This definition refers to maximization of satisfaction or welfare as relates to the study of economics to allocating the scarce means into alternative uses in such manner as to get maximum satisfaction.

iv. Very Wide scope of Economics It has unnecessarily widened the scope of economics. If economics is to be considered as the study of choice of all

sorts of scarce means, then it would become difficult to decide which action of man is to be studied and which is to be left out.

v. Not only a Positive Science Definition asserts that economics is a positive science that concerns itself with mere choice – making valuation and that it has nothing to do with ethics or welfare of man.

vi. Division of Personality The definition has splitted the personality of economists into two parts: as an economist where he simply analyses economic phenomenon and does not bother about its good or bad effects, and as a citizen when he expresses its good or bad effects. But personality cannot be so divided s when the economic phenomenon is analyzed, its good or bad effects are also judged.

vii. Impractical This definition has rendered economic as impractical subject.

It is known to all of us that want are unlimited and means are scarce.

Economic cannot give any advice in this respect. If it is so, then economics has no practical utility.

viii. Scarcity is not the cause of Economic Problem This definition is based on wrong assumption that scarcity is the main cause of arousal of economic problems. Many important problems such as the problem of unemployment and depression are economic problem but they arise not due to scarcity.

ix. Study of Static Condition According to this definition means and ends are assumed to be constant. Consequently, this definition has made economics a static study. As in real life means and ends are always changing. Economic growth is mainly due to continuous change in the means.

x. Not fully applicable to Rich Countries This definition does not apply to rich countries because in those countries many economic problem arise due to plenty and not scarcity.

xi. Not applicable to under – developed Countries This definition is inapplicable to under developed economies as the problem in these economies is to make proper use of their resources.

xii. Not applicable to Centrally Planned Economics This definition has little relevance to centrally planned economics because the responsibility of choice making vests with the society as a whole and not with an individual. Under planned economies man's economic actions are not always based on his rational behavior, rather the same are determined by the government policies.

xiii. Complex and Abstract This definition has made economics a complex and emotionless subject. It is a definition of economics for economists. It has no utility for an ordinary man.

xiv. Use of Words ' Means' and ' Ends' The difference between the words ends and means is not clear. A thing may be a mean at one time and an end at another time.

In short, Robbins definition is a scientific and analytical definition of economics. Its main defect is it has treated economics as a mere theoretical study. It has ignored the practical or welfare aspect of economics. In fact, economics cannot be separated from its welfare content.

GROWTH ORIENTED DEFINITIONS

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According to modern economists like noble prize – winner Prof. Samuelson, Benham Lipsey, Steiner, Ferguson etc. both the problems concerning nature of scarce means and their proper use are the subject of study of economics. Problems of the present use of scarce resources is mainly a problem of choice – making and the problem of their future growth is a problem of economic growth. Consequently, economics is concerned with Choice – making and economic growth.

Definitions

In the words of Nobel prize winner Prof. Samuelson, “ Economics is the study of how people and society end up choosing with or without the use of money, to employ scarce productive resources that could have alternative uses, it produces various commodities over time and distributes them for consumption, now or in the future, among various persons and groups in society. It analyses costs and benefits of improving patterns of resources allocation.”

According to Benham, “ Economics is the study of the factors affecting employment and standard of living”.

C. E. Ferguson has defined economics in these terms, “ economics is a study of the economic allocation of scarce physical and human means (resources) among competing ends, an allocation that achieves a stipulated optimizing or maximizing objective.”

Features

1. Economic resources These definitions underline the point that economics is a study of economic resources. These economic resources refers to natural, human and physical resources which satisfy human wants but are scarce and have alternative uses.

2. Efficient allocation of resources Choice – making is the main problem of economics. Efficient allocation and use are the chief objectives of choice – making.

3. Full utilization of resources According to growth – oriented definitions, economics is not concerned with the allocation of resources only but also with their full use and employment.

4. Increase in resources This definition also underlines the fact that the objective of economics is to increase the quantum and productivity of resources in future. This results in an increase in the growth rate of economy, more employment and higher standard of living

Merits

1) Realistic Explanation of economic problem This definition offer realistic explanation of economic problems. Economic problems arise because wants are unlimited but means to satisfy those wants are limited.

2) Science and Art According to Samuelson, economics is oldest among arts and newest among the group of science. In fact it is the queen of social sciences.

3) Not Neutral as regards Ends As per these definitions, economics welfare forms apart of the study of economics. Economic welfare is that part of general welfare which is measured in terms of money. Economics studies both material and non – material means of economic welfare.

4) Practical These definitions have rendered economics a more practical and useful subject. Economics does not analyses economic problem only rather it suggests measures to solve them.

5) Dynamic These definitions have imparted dynamism to economics. Study of economics is not restricted to the present day problems relating to consumption, production, distribution, etc. of economic resources, but it studies their future problems as well.

6) Universal These definitions are universal. These are concerned with the economic problems of all types of economies, developed or underdeveloped.

7) Analysis of Economic Quantities Boulding holds that according to growth – oriented definitions of economics, a major part of the economic analysis relates to the investigation of the forces determining the form of economic quantities and their mutual relations.

In short, the above definitions of economics are superior and comprehensive. Growth – oriented definitions of economics include the merits of the definitions as given by Marshall and Robbins. These definitions have given a more quantitative, dynamic and practical form of study of economics.

WHICH OF THESE DEFINITIONS IS THE BEST?

Different Economics have given different definitions of economics. Boulding is of the opinion that any single concise definition of economics will be inadequate. Of course to define it as “ a study of mankind in a ordinary business of life” is to give a very wide view of economics.

According to Adam Smith, “ economics is a study of wealth. Robbins is of the view that economics is a science that studies human behavior as a relationship between ends and scarce means which have alternative uses

Picking up the term wealth form the definition of Adam Smith, ‘ welfare’ from that of Marshall, ‘ Scarcity’ from that of Robbins and ‘ economic growth’ from that of Samuelson, an acceptable definition of economics can be constructed in these words: “ Economics is a subject that studies those activities of man which are concerned worth the maximum satisfaction of wants or with the promotion of welfare and economic growth by the efficient consumption production and exchange of scarce means having alternative uses.”

WELFARE DEFINTION

Adam Smith, “ Economics is an enquiry into the nature and causes of wealth of nations”.

Features:

- Economics is the study of wealth only. .
- Nature or Meaning of Wealth.
- Causes of Wealth.
- Economic man

Criticisms:

- More emphasis on wealth.
- Narrow meaning of wealth
- Concept of Economic Wealth
- Neglect of welfare
- Neglect of the problem of scarcity and Choice.
- Neglect of means to attain wealth
- Narrow subject – matter

MARSHALLS WELFARE DEFINITION

In the words of Marshall, “ Economics is a study of mankind in the ordinary business of life; it examines the part of individual and social action which is most closely connected with the attainment and with use of material requisites of well being.”

Features:

- Importance to the study of Man
- Study of Social Man
- Ordinary business of life
- Study of real man
- Material requisites
- Welfare
- Science and Art
- Classificatory
- Money is the measure of Material Welfare

Criticisms:

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- Regarding Ordinary business of life
- Limited Scope
- Uncertain concept of welfare.
- Economics is a Human Science
- Economics is only a Positive Science
- Impractical

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Features:

- Unlimited Wants or Ends
- Limited or scarce Means
- Alternative Uses of Means
- Wants Differ in Urgency
- Economic Problem
- Opportunity Cost

Criticisms

- Ignores Social Aspect of Economic Activities
- Economics is not neutral as regards Ends”.
- Concealed Concept of Welfare
- Very Wide scope of Economics
- Not only a Positive Science
- Division of Personality

- Impractical
- Scarcity is not the cause of Economic Problem
- Study of Static Condition
- Not fully applicable to Rich Countries
- Not applicable to under – developed Countries
- Not applicable to Centrally Planned Economics
- Complex and Abstract
- Use of Words ‘ Means’ and ‘ Ends

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Features

- Economic resources
- Efficient allocation of resources
- Full utilization of resources.
- Increase in resources

Merits

- Realistic Explanation of economic problem
- Science and Art

- Not Neutral as regards Ends
- Practical
- Dynamic
- Universal
- Analysis of Economic Quantities