

# STUDY MATERIAL FOR B.B.A SEM-1

## Subject:-Principles of Economics (Micro) By Dr. N.M Kanani

### CHAPTER-1

#### Meaning and Definition

Q.1 critically examines the definition of economics given by Professor Robbins?

Ans:-Introduction:-

It is not only customary but also logical to begin the study of any subject with its definition. But when we come to economics we are seriously handicapped in this regard. This is because there is no comprehensive definition of the subject. Economics begin a developing and dynamic subject its true range is not yet fixed. It can not be fixed either. This is because economics move with the time and time is never stedy.Its scope boundaries subject matter, reng, method and mode of analysis, approach to thinking on economic idea, etc.are changing with the time. Therefore Professor Myrdal said that economist need not be rigid regarding the definition of the subject.

Definition:-

However, the definition of economics has become  
Some what difficult but it does not mean that one can remain silent on the question of defining economics .number of economists have been trying to define the subject. The subject being vast has been viewed from different angles. We can classified in to three broad groups they are as under

- (A) Classical approach OR science of wealth.
- (B) neo-classical approach OR welfare definition.
- (C) Modern approach OR scarcity definition.

**(A) Classical Approach OR Science of Wealth:-**

Some classical economist formulated the definition in terms of wealth .they are as under:-

- Professor Adam smith says-  
“An inquiry into the nature and causes of the wealth of nation”.
- Professor J.B. Says-  
“Economics is the science which deals with wealth”.
- Professor Walker says-  
“Economics is the name of that part of knowledge which is related to wealth”.

**Conclusion:-**

A prominent place has been given to wealth in the above definition. If we consider above definition we can say wealth is everything. All the economic activities cluster around the wealth.

**Criticism:-**

The various wealth definition formulated by the classical economist have been criticized on several grounds. According to later economist like Thomas carlyl, John Ruskin, Professor Dickens, Professor William the wealth definition ignored the man they used expression like-

- (i)Gospel of mammon
- (ii)Bread and butter science

- (iii) Science of getting rich only
- (iv) Science teaches selfishness and love of money

**(B) Neo-Classical Approach OR Welfare Definition:-**

Neo-classical economists like Professor Marshall, Pigou and Cannon have defined economics in terms of welfare. These groups of economist have given precedence to welfare over wealth. Some important definitions are as under.

(1) Professor Marshall says:-

“Economics is a study of mankind in the ordinary business of life. It examine that part of individual and social action which is the most closely connected with the attainment and with the use of the material of well-being .thus, it is on the one side a study of wealth and on the other hand more important side a part of study of man.”

(2) Professor Cannon says:-

“The aim of political economy is the explanation of general causes on which material welfare of human being depends.”

**Conclusion:-**

- (i) Neo-classical approach puts emphasis on man rather than wealth.
- (ii) Prominent place has given to the material well-being.
- (iii) Professor Marshal laid the foundation of new branch of economics called welfare economics.
- (iv) The ultimate aim of the study of economics is to achieve welfare of human being.

Criticisms:-

Modern economist Professor Robbins has been criticized welfare definition on several grounds:-

(i) Marshal definition is not analytical but it is classificatory. It classifies economic phenomena in to material and non-material.

(ii)The definitions ignore non-material aspects and therefore it is narrow. It puts emphasis on material goods only (food, clothing, housing, etc) it excludes non-material activities like a survived of teacher or a service of doctor from the scope of economics.

(iii)According to professor Robbins the concept of welfare is subjective .it varies from community to community and nation to nation because it is a matter of personal likes and dislikes. Therefore it is not scientific.

(iv)The definition needlessly gives an ethical touch to economics. Neo-classical held that the function of economics is to give value judgment as regard ends.

In Robbins words whatever economics is concerned with but it is not concern with the cause of material welfare as such.

(C)Modern Approach OR Scarcity Definition:-

Having rejected the Neo-classical welfare defi. Robbins sought to present a new approach and deep insight describing the true nature, function and scope of economic science. The emphasis now is on the functional aspect of the subject. Important definition in this regard is given by Professor Lionel Robbins in his book “An essay on the nature and signifience of Economic science”.

•Professor Lionel Robbins says:-

“Economics is the science which studies human behavior as relationship between ends and scarce means which have alternative uses.”

The basic features of Professor Robbins definition are as follows:-

(1) Economics is a social science:

There is no controversy on the point that economics is a science. It contains the systematic knowledge in regard to a specific part of human behavior. It can also be used for predicting future behavior under a given set of condition. However the emphasis in the above definition is on the positive character of the science.

(2) Unlimited wants OR Multiplicity of Wants:-

If our wants are limited no economic problem would have arise like other animal but wants of human begin are unlimited. When we are satisfied with one want another want arise. Thus, there is a chain of wants one changing the other.

(3) Wants can be graded:-

However all wants are not equally important, some are more important and more urgent than others. Thus a man's want can be arranged in order of their importance or priority. In this way wants can be graded.

(4) Scarcity of Means:-

Our wants are unlimited but mean to satisfy them are relatively limited. Means is a generic term. It stands for whatever is useful to satisfy our wants, it may involve time, money, energy and other resources. In this way the basic economic problem is of scarcity of resources.

(5) Alternative uses of means:-

Our means are not only limited but also have many uses. They can be used for satisfying any one of our many wants. Thus, means are capable for alternative uses. For example-money can be used either for consumption or for investment. If it is used for consumption however it can not be used for an investment.

Conclusion:-

(i)Economics is the logic of choice

(ii)The term “ENDS” used by Professor Robbins does not have any ethical meaning.”ENDS” may either be good or bad. Economics is not concerned with the nature of ends as such.

(iii)Professor Robbins definition is universal in its application.

(iv)Definition is analytical because according to professor Robbins economics studies human activity as a whole.

(v)Economics is a positive science. Science are divided in two parts  
1. Positive science 2.Normative science

(vi)According to Professor Robbins economics is concerned with the economising. Economising does not mean to live like a miser but we have to use our resources prudently or to make the best use of our resources.

(vii)The term “SCARCITY” used by Professor Robbins is not an absolute term but a relative concept because it is always in relation to want.

•Criticism of Robbins Definition:-

Professor Robbins definition has its limitations. It has been criticized on following ground:-

(i) According to professor Robbins economic problems arise due to the scarcity of means in relation to wants In this way the emphasis only on scarcity but the economic problems arise even under the

condition of abundance for example:-under the condition of depression the supply of goods is more than the demand therefore there is over production which is an important economic problem.

(ii)Professor Robbins attached too much importance to the economics of scarcity but the modern economics is growth oriented. At present how to overcome this scarcity is in the center of the study of economics.

(iii)The definition of Professor Robbins does not take in to account the social aspect of economic activities. Economics being a social science it is concerned with the study of economic activities of man as a member of society. The Economic behavior of a man alone on, an island is not important.

(iv)According to Professor Robbins definition the scope of economics becomes either too wide or too restricted. Its wider interpretation we can say that the economics will cover practically everything in human life because the problem of choice and scarcity is universal, in its narrow sense. Economics becomes the study of market only. Because in modern society, the adjustment of scare means with relation to wants is brought, by the market process.

## Q.2 Explain the scope OR Subject Matter of Economics

Ans:-Introduction:-

Economics is a very vast subject. It has several branches. Fundamentally it is the study of man's behavior in the economic society. The subject matter of economics is the economic problem as we have already seen the economic problem arise due to the scarcity of means in relation to wants. In this regard we can classify the subject matter of economics into various functional areas namely they are as under:-

(i)Consumption:-

It is logical that the theory of wants or consumption of wealth should be the first branches of economics because the wants of human begin are in base of economics activities. Therefore the consumption take place in the scope of economics .It deals with the meaning of consumption, the role of consumption in motivating economic activity nature of wants, the law of demand, elasticity of demand, utility analysis, the Engels law of family expenditure etc.

(ii) Production:-

Production involved the use of resources to produce goods to satisfy wants under this point economics studies the main factors of product namely land, labour, capital and organization (entrepreneurship), production function, cost and output relationship, forms of industrial organization, division of labour, location of industry, etc.

(iii) Exchange:-

Each individual dependent on others. As we know our wants are many in number and we are not able to produce each and every commodity.exchang thus becomes vital part of our economic activity. Exchange is connecting link between consumption and production. In exchange we study the buying and selling of goods and how the price of goods are determined. The nature and structure of market who can practice price discrimination? These points are included in this portion.

(iv) Distribution:-

The production of wealth or income generated is the result of joint effort of the factors production .therefore it should be distributed among the various factors of production. Under this point, the economics study the share of the various factors of production in the form of rent, wages, interest, and profit accruing respectively to land, labour capital and enterprise.

(v) Public Finance:-

Modern state is not only police state but it is known as welfare state. In modern economy, how government raise income

and how it spent is studied in the special branch of economics called public finance. Under this branch of economics we study the principles of taxation, public expenditure and public debt etc.

(vi) Money and Banking:-

Money and banking are lubricant of all economic activities. Therefore it is included in the scope of economics .under this point economics study the function of money, value of money, monetary policy of central bank function of commercial bank, functions of central bank etc.

(vii) Foreign trade:-

It deals with the principles governing inter-national trade and how it can be regulated by changes in tariffs. Under this point economics study exchange rate, exchange control, balance of payment, foreign reserves, role of international financial institution etc.

Conclusion:-

Economics studies the problems of production, distribution, consumption and Exchange both form static and dynamic point of view and also from micro and macro economics point of view economics also studies the problem of economic development and growth.

Q.3 Explain the nature of economics:-

Ans :-Introduction:-

We have already studied the definition and the scope of economics. We are now in a position to grasp the true nature of economics. In the nature of economics we generally deal with its character as science or art.

●Economics as Science:-

The term science means a system body of knowledge which describe

The causes effect relation between different variables. A branch of knowledge becomes systematic or scientific. When relevant facts, are collected. Classified, analyzed and laws are established to explain the causes and effect relationship between these facts.

We must remember that every science has to pass through three stages of growth like descriptive predictive and control stage. In the first stage there is description of observed facts. In the second stage science becomes predictive. In this stage a limited use is made of quantitative techniques. In the third stage the science is in a position to control the phenomenon it deals with.

Applying this concept of science we may conclude that economics is a fully fledged science. Among social science it is said economics is on the top. But the question still remains whether it is a positive science a normative science.

●Economics as a positive science:-

Positive science are all those science which study things as they are .They do not suggest how thing should work but study thing as they actually work. Under positive science the relationship between causes and effect are brought out. It state what will happened under given conditions. No advice is rendered. It does not indicate what should be done.

According to Prof. Robbins economics is a positive science because it studies things as they are and explain their causes are effects. It studies the things in reference to what is? The businesses of an economist are to analyses and explain facts. He has not to pass any judgment on any matter. In Robbins word-“Economics is entirely natural between ends”.

The economist is not concerned with the ends as such ends may be good or bad, moral or immoral, fair or unfair. Economist does not say anything about it.

●Economics as a normative science:-

Normative science are all those science which study thing as They ought to be Ethics is a normative science It tells us how we should behave. It suggests what action should be taken under a given situation to achieving a given purpose.

According to Prof. Marshall and pigou the ultimate object of the study of any science is to contribute human welfare. Therefore economics should be a normative science. It should be able to suggest policy measures to the politician. It should be able to describe guideline for the conduct of economic activities. In this way it should be called a both light bearing and fruit bearing science.

●Economics as an Art:-

Art is a practical application of scientific theories while science lays down certain theory. Art puts these theories to practical use.

For Example:

To identify the causes of income inequality is within the preview of science and to use this knowledge for framing policy for the reduction income inequality is an art.

However it is difficult to separate art from science. Even though we can sharply draw the different between science and art. A science is a theoretical body of knowledge. But art is applied knowledge. Art does not explain theorems, it solve general problem. In this way a science teach us to know and art teach us to do.

Conclusion:-

The letter summering up discussion. We would reveal that economics is both a science and art.