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Economic studies in English

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Chapter 1

Introduction to Economics

What is Economics?

Microeconomic & Macroeconomic

First — What is Economics?

The word "**<u>Economics</u>**" was derived from the Greek words "Oikos" (**<u>a house</u>**) and "Nemein" (**<u>to manage</u>**), which meant **<u>managing a household</u>**, using the limited money or resources a household has.

Let us explain a few important definitions frequently referred to in the economic theory.

1 Wealth Definition

The early economists like ***<u>J.E. Cairnes, J.B.Say, and F.A.Walker</u>*** have defined economics as **<u>a science of wealth</u>**.

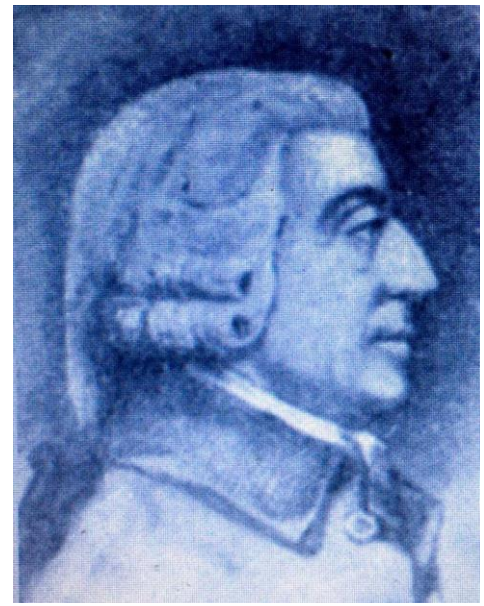
Lecture Notes

Adam Smith, who is also regarded as father of economics, stated that economics is a science concerned with **the nature and causes of wealth of nations**. That is, economics deal with the question as to **how to acquire more and more wealth by a nation.**

J.S.Mill opined that it is the practical science dealing with the **production and distribution of wealth**.

The American economist ***F.A.Walker*** says that economics is that **body of knowledge, which relates to wealth.**

Adam Smith



Adam Smith (June 5, 1723-July 17, 1790) was a Scottish political economist and moral philosopher. His 'Inquiry into the Nature and Causes of Wealth of Nations' was one of the earliest attempts to study the historical development of industry and commerce in Europe. That work helped to create the modern academic discipline of Economics and provided one of the best-known intellectual rationales for free trade and capitalism.

At the age of about fifteen, Smith proceeded to the University of Glasgow, studying moral philosophy under "the never-to-be-forgotten" (as Smith called him) Francis Hutcheson.

In 1740 he entered the Balliol College of the University of Oxford, but as William Robert Scott has said, "the Oxford of his time gave little if any help towards what was to be his lifework," and he left the university in 1746. In 1748 he began delivering public lectures in Edinburgh under the patronage of Lord Kames. Some of these dealt with rhetoric and belles-lettres, but later he took up the subject of "the progress of opulence," and it was then, in his middle or late 20s, that he first expounded the economic philosophy of "the obvious and simple system of natural liberty" which he was later to proclaim to the world in his Inquiry into the Nature and Causes of the Wealth of Nations.

2

Welfare Definition

Economists like Marshall, Robbins and Samuelson have put forward more comprehensive and scientific definitions. Emphasis has been gradually **shifted from wealth to man**. As Marshall puts, it is "on the one side a **study of wealth**; and on the other, and more important side, a part of the **study of man**."

According to ***Marshall***, economics **not only** analysis the aspect of **how to acquire wealth but also how to utilize this wealth** for obtaining material gains of human life.

Wealth has no meaning in itself unless it is used to purchase all those things which are required for our sustenance as well as for the comforts necessary for life. Marshall, thus, opined that **wealth is a means to achieve certain ends.**

Lecture Notes

In other words, economics is not a science of wealth but a science of man primarily. It may be called as **the science which studies human welfare**.

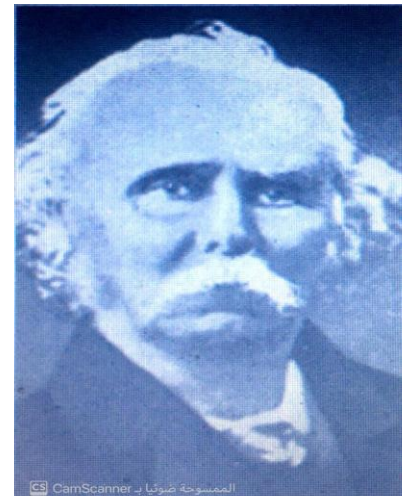
Economics is concerned with those **activities**, which relates to wealth not for its own sake, but **for the sake of human welfare** that it promotes.

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

Above definition has been criticized on the ground that it only confines its study to the material welfare. **Non-material aspects of human life are not taken into consideration**.

Further, as ***Robbins*** said the **science of economics studies several activities, that hardly promotes welfare**. The activities of producing intoxicants, for instance, do not promote welfare; but it is an economic activity.

Alfred Marshall



l (July 26, 1842- July 13, 1924), born in Bermondsey, London, England, became one of the most influential economists of his time. His book, Principles of Political Economy (1890) brought together the theories of supply and demand, of marginal utility and of the costs of production into a coherent whole. It became the dominant economic textbook in England for a long period.

Marshall grew up in the London suburb and was educated at the Merchant Taylor's School and St. John's College, Cambridge, where he demonstrated an aptitude in mathematics. Although he wanted early on, at the behest of his father, to become a clergyman, his success at Cambridge University led him to take an academic career.

He became a professor in 1868 specializing in political economy. He desired to improve the mathematical rigor of economics and transform it into a more scientific profession. In the 1870s he wrote a small number of tracts on international trade and the problems of protectionism. In 1879, many of these works were compiled together into a work entitled The Pure Theory of Foreign Trade: The Pure Theory of Domestic Values. Marshall began work on his seminal work, the Principles of Economics, in 1881, and he spent much of the next decade at work on the treatise. His most important legacy was creating a respected, academic, scientifically-founded profession for economists in the future that set the tone of the field for the remainder of the twentieth century. Marshall's influence on codifying economic thought is difficult to deny. He was the first to rigorously attach price determination to supply and demand functions; modern economists owe the linkage between price shifts and curve shifts to Marshall. Marshall was an important part of the "marginalist revolution;" the idea that consumers attempt to equal prices to their marginal utility was another contribution of his. The price elasticity of demand was presented by Marshall as an extension of these ideas. Economic welfare, divided into producer surplus and consumer surplus, was contributed by Marshall, and indeed, the two are sometimes described eponymously as 'Marshallian surplus.' He used this idea of surplus to rigorously analyze the effect of taxes and price shifts on market welfare. Marshall also identified quasi-rents.

3

Scarcity Definition

According to ***Lionel Robbins***, "Economics is the science which **studies human behavior as a relationship between ends and scarce means which have alternative uses.**" This definition focused its attention on a particular aspect of human behavior, that is, behavior associated with the utilization of scarce resources to achieve unlimited ends (wants).

Robbins definition, thus, laid emphasis on the following points:

A

'Ends' are the wants, which every human being desires to satisfy. **We have unlimited wants** and as one want gets satisfied another arises. As human wants are unlimited, we have to make a choice between the most urgent want and less urgent wants. Thus **the problem of choice** arises. That is why economics is also called as **a science of choice**.

B

‘Means ’or resources are limited. Means are required to be used for the satisfaction of various wants. We should **not make waste** of the limited resources but utilize them very judiciously to get the **maximum satisfaction.**

C

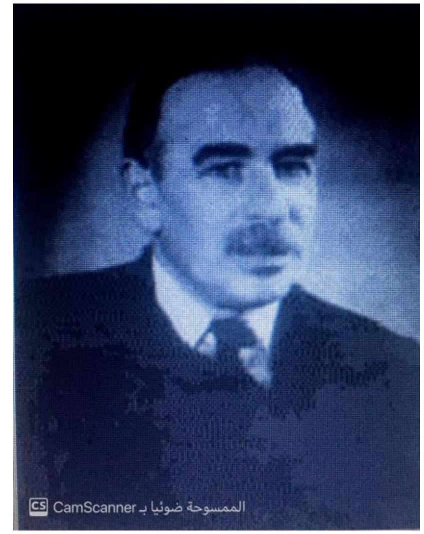
The scarce means have alternative uses. It means that a commodity or resource can be put to different uses.

J.M.Keynes defined economics as the **study of the management of scarce resources** and of the determination of income and employment in the economy. Thus his study centered on the causes of economic fluctuations to see how economic stability could be established.

Prof. Samuelson has given a **growth** oriented definition of economics. According to him, economics is the **study and use of scarce productive resources overtime and distribute these for present and future consumption.**

Lecture Notes

John Maynard Keynes



John Maynard Keynes (June 5, 1883-April 21, 1946) was an English economist, whose radical ideas had a major impact on modern economic and political theory as well as Franklin D. Roosevelt's New Deal. He is particularly remembered for advocating interventionist government policy, by which the government would use fiscal and monetary measures to aim to mitigate the adverse effects of economic recessions, depression and booms.

He is considered by many to be the founder of modern macroeconomics. John Maynard Keynes was the son of John Neville Keynes, an economics lecturer at Cambridge University and Florence Ada Brown, a successful author and a social reformist.

Keynes enjoyed an elite early education at Eton, where he displayed talent in nearly every field of his unusually wide-ranging interests. His abilities were remarkable for their sheer diversity. He entered King's College, Cambridge to study mathematics, but his interest in politics led him towards the field of economics, which he studied at Cambridge under A.C. Pigou and Alfred Marshall. His magnum opus, The General Theory of Employment, Interest and Money challenged the economic paradigm when published in 1936. In this book Keynes put forward a theory based upon the notion of aggregate demand to explain variations in the overall level of economic activity, such as were observed in the Great Depression.

Second — Microeconomics & Macroeconomics

The subject matter of economics is divided into two categories– **microeconomics** and **macroeconomics**. Microeconomics, which deals with individual agents, such as households and businesses, and macroeconomics, which considers the economy as a whole,

1 Microeconomics

Microeconomics **deals with a small part** of the whole economy. For example, if we study the ***price of a particular commodity*** instead of studying ***the general price level*** in the economy, we actually are studying microeconomics.

Precisely, microeconomics **studies the behavior of individual units** of an economy such as ***consumers***, ***firms***, and ***industry*** etc. Therefore, it is the study of a particular unit rather than all units combined together.

In short, microeconomics is the study of ***<u>the economic behavior of individual consumers, firms, and industries</u>*** and ***<u>the distribution of production and income among them</u>***. It considers individuals both as suppliers of labor and capital and as the ultimate consumers of the final product. On the other hand, it analyses firms both as suppliers of products and as consumers of labor and capital.

Microeconomics seeks to ***analyze the market form*** or other ***types of mechanisms that establish relative prices amongst goods and services*** and/or ***allocates society's resources amongst their many alternative uses***.

Microeconomics ***<u>studies product and factor pricing and also theory of economic welfare</u>***. It is sometimes referred to as **<u>price theory</u>**, because it mainly revolves around the prices of different variable.

Lecture Notes

2

Macroeconomics

Macroeconomics, on the other hand, **deals with the aggregates of the whole economy**. In other words, it is a study of all units combined together. It is a study of economic system as a whole.

Macroeconomics, thus, **deals with the behavior of various economic variables that refer to the economy as a whole**. These variables are—***total national income***, ***aggregate employment***, the extent to which the economy's resources are being fully employed, ***aggregate saving*** and ***investment***, and the ***general price level*** in the economy.

Macroeconomics, therefore, **studies theories related to income, output, employment, and growth**.

Lecture Notes