

ECONOMICS

Oikos

(A House)

Nemein

(To Manage)

1.) Wealth Oriented definition:- Adam Smith defined economics in his book *& enquiry into the nature & causes of the wealth of nations*.

i.) Study of wealth:- Meaning of economics.

ii.) Meaning of wealth:- these are Only those things which we watch it, see it.

iii.) Cause of wealth:- Economic man.

Criticism:-

1.) More importance to Wealth.

2.) Narrow meaning of wealth.

3.) Neglect of man's welfare.

4.) Narrow subject Matter.

2.) Welfare Oriented definition:- Accⁿ to Marshall, Economics is the study of Mankind in the ordinary business of life, It examines that part of individual & social action which is most closely connected with the attainment & with the use of material things of well beings.

It is the Science of Development.

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Main Points:-

- 1.) Economics instead of Political economy.
- 2.) Study of Human beings.
- 3.) Study of economic aspect.
- 4.) Study of Human Welfare.
- 5.) Importance to the study of man.
- 6.) Study of Social man.
- 7.) Ordinary business of life.

Demerits:-

- 1.) Study of immaterial goods.
- 2.) Welfare is vague & difficult to measure.
- 3.) Defective measuring rod of money.
- 4.) Economics is not the social science but it is the Human Science.
- 5.) Limited Scope.

3) Scarcity Oriented definition: It is the science which studies human behaviour as a relationship b/w ends & scarce means (which have alternative uses).

Scarcity means limited.

means → How to achieve things.

Ends → What we want.

Q:- How to solve economic problems?

- (i.) Wants are limited.
- (ii.) Wants are differ in urgency.
- (iii.) Means are limited.
- (iv.) Alternative uses.

4) Development Oriented definition:- It is the study of how men & Society choose with or without the use of money, to employ scarce productive resources which could have alternative uses to produce various commodities or time & distribute them for consumption now & in the future among various people & groups of society.

Economics divided into two parts:-

- (i.) Micro Economics.
- (ii.) Macro Economics.

(i.) Micro Economics:- the term micro is derived from a Greek word MIKROS which means small. Micro Economics is that branch of Economics theory that focus on the study of individual unit. It is the study of particular firms, particular households, individual prices, wage income, individual industries, particular commodities it with the detail study of individual unit.

e.g. → How a consumer maximizes his satisfaction with his limited income.

Or
How a firm maximizes its profit.

Or

How the wage of a worker is determined on all instance of micro analytical approach.

In other words it is concerned with the

science is knowledge.

Charlie

Art is Action.

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determination of relative prices of different goods & factors of production that's why it is called the Price theory.

(ii) Macro Economics:- The term macro has been derived from the Greek word MAKROS which means large. It is the study of economy as a whole or its totality. It is concerned with the study of national income, national saving, aggregate consumption expenditure, total production, general price level. It also study national economic problems like unemployment, poverty & the issue connected with the economic development. Since the subject matter revolves around determination of income & employment. It is known as theory of income & employment. Its main tools are aggregate demand & aggregate supply.

* Slope of Economics :-

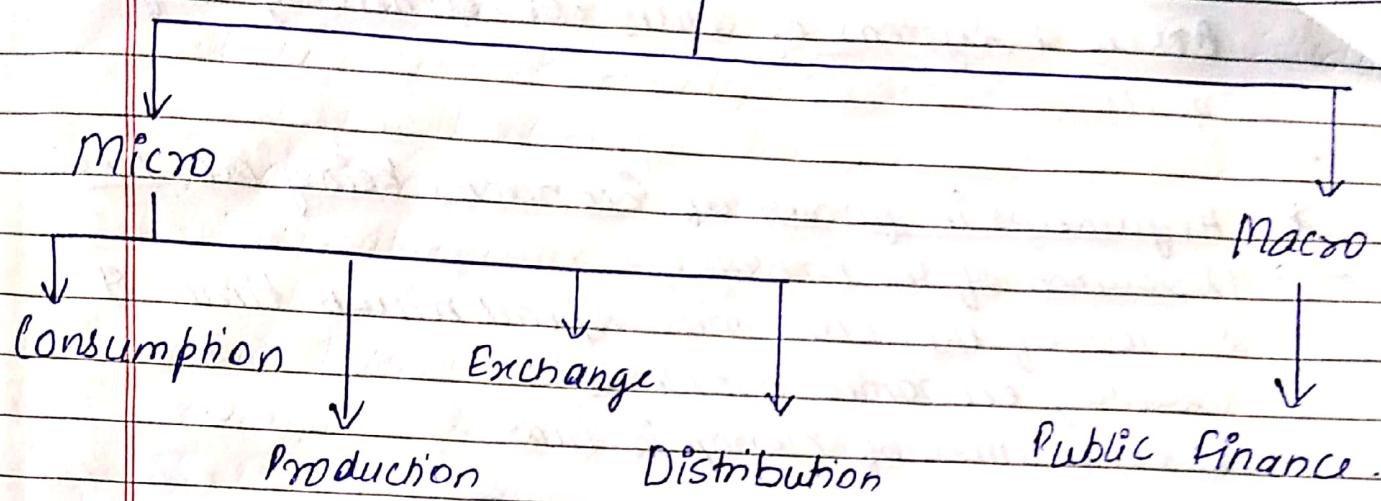
- 1.) Subject Matter of Economics
- 2.) Nature of Economics
- 3.) Limitations of Economics

1.) Subject Matter of Economics :-

→ Earlier it is divided into 5 Parts :-

- | | |
|-------|---|
| Micro | i.) Consumption |
| | ii.) Production (Land, Labour, Capital, Organisation, entrepreneur) |
| | iii.) Exchange |
| | iv.) Distribution |
- | | |
|-------|---|
| Macro | v.) Public finance. (Earning & Expenditure) |
|-------|---|

Modern Economics.



Science:- It is a systematic study of knowledge which traces the relationship b/w cause & effect.

Condition of Science-

- 1) It is a systematic study.
- 2) It is the relationship b/w cause & effect.
- 3) The law of science is universal.
- 4) Experiments are possible in Science.

* Arguments in favour of Economics being a Science:-

- 1) Systematic Study.
- 2) Cause & Effect relationship :- ↑ demand, ↑ price
- 3) Universal law :- In Eco, there is no universal law.
- 4) Experiments :- All world is the laboratory of Economics
- 5) Scale of Measurement :- In Eco Currency is the scale of measurement. e.g. In India Rupees is currency.

Economics is an Art:- Art consist of doing something well knowledge is science, action is Art &

Art is a system of rules for achieving definite goals.

* Arguments in favour of Economics being an art-

- 1) Solution of the Problem.
- 2) Most of the Economist spend much time & solving economic problems.
- 3) Verification of Economic law.

Economics is a tve or normative Science:-

* Economics as a tve science -

→ tve Science → What is it.

Arguments in favour of economics as a tve science -

- i) Logical basis
- ii) Based upon the Principle of division of labour.
- iii) Fear of Conclusion
- iv.) Formulation of theories / Models.

* Economics as a Normative Science !

→ Arguments in favour of Economics as a Normative Science !

- i.) Men is not only logical but also sentimental.
- ii.) Not Only light bearing but also fruit bearing.
- iii.) A means of social betterment
- iv.) Cannot be separated from ethics.

Limitations of Economics -

- 1) Study of Human activities Only.
- 2) Study of Economic Activities.

- 3.) Study of social man.
- 4.) Study of Average & Normal man.
- 5.) Study of real man.
- 6.) Measuring rod of Money
- 7.) Other things being equal.

Basic Macro Economic Concepts:-

→ There are 3 Major Basic Macro economic Concepts:-

- i.) Unemployment
- ii.) Inflation
- iii.) Output & Growth

(i.) Unemployment :- It refers to the situation where the population of the Country do not find work to earn their livelihood.

(ii.) Inflation :- It is an rise in the overall price level.

(iii.) Output & Growth :- Growth refers to the change in the level of economic activity from one year to another year.

Growth means the Poor & developing Countries wish to attain a rise in their national income & per Capital income. Aggregate Output is the total quantity of goods & services produced in an economy in a given period.

The aggregate output is the main measure to see how well the economy is doing.

Some Basic Terms!-

* National Income:-

→ (i) National Income:- It refers to the aggregate income earned by the normal residence of a nation during a given period as a result of their productive services.

National Product is the net output of commodities & services flowing during the year from the countries productive system into the hands of the ultimate consumers or into net addition to the countries Capital goods.

(ii) GDP (Gross Domestic Product):- It refers to the market value of the final goods & services produced within the domestic boundaries of a country during a period of 1 year.

$$\boxed{\text{GDP} = P \times Q}$$

P = Market Price

Q = Final goods / Services quantity.

(iii) GNP (Gross National Product):- It is a broader concept than GDP, GNP is the aggregate of the Market value of all the final goods & services produced in any given period usually in a year including net factor income earn from abroad.

$$\boxed{\text{GNP} = \text{GDP} + \text{Net factor income from Abroad}}$$

(iv) Net National Product (NNP) :- NNP at Market

price is the market value of the final goods & services produced within the domestic territory of a country during a period of an accounting year exclusive of depreciation & inclusive of NNP from abroad.

$$\text{NNP at Market Price} = \text{GDP at Market Price} - \text{Depreciation} + \text{Net factor income from abroad}$$

(v) Net Domestic Product at Market Price :- It is the market value of the final goods & services produced within the territory of a country during the period of an accounting year exclusive of depreciation.

$$\text{NDP at Market Price} = \text{GDP} - \text{Depreciation}$$

(vi) Net Domestic Product at factor cost or Net Domestic Income :- The net domestic product at factor cost is the sum of net value added by all the producer in the domestic territory of a country during an accounting year.

$$\text{NDP} = \text{Compensation of employee} + \text{Operating surplus} + \text{Mixed income of self employee.}$$

(vii) Gross Domestic Product at factor cost:- It is the sum of net values added by all the products in the domestic territory of the country & the consumption of fixed capital during an accounting year.

$$\text{GDP at factor cost} = \text{NDP at factor cost} + \text{Depreciation}$$

(viii) Net National Product at factor cost / National Income:- It is the net factor income accruing to the normal residence of the country during a year. It is the sum of domestic factor income & net factor income from abroad.

$$\text{National Income} = \text{NDP at factor cost} + \text{Net foreign income from abroad}$$

(ix) Gross National Product at factor cost:- It is the sum of factor cost of the gross product attributable to the factors of production supplied by the normal residence of the country during a year & net factor income from abroad.

$$\text{GNP at factor cost} = \text{NNP at factor cost} + \text{Depreciation}$$

Private Income:- Private income refers to that income which is obtained by the private sector from various sources.

→ $\text{Private Income} = \text{National Income} + \text{Transfer Payment}$
 from the government + Current
 transfers from Abroad + Interest
 on national Debt - Property and
 entrepreneurial income of the
 government - Saving of the non-
 departmental undertakings - Social
 security contribution

Personal Income:- It is the income actually received by person from all sources in the form of current transfer payments & factor income.

→ $\text{Personal Income} = \text{Private income} - \text{Corporate Saving}$
 - Corporate taxes.

Disposable Income:-

→ $\text{Disposable Income} = \text{Personal Income} - \text{Personal}$
 income taxes & miscellaneous
 receipts of govt. administrative
 departments leaves disposable
 Income.

$\text{Disposable Income} = (\text{Consumption} + \text{Saving})$

Demand:-

1) Desire :- A desire or anything is not the demand a conscious longing for a thing. A poor man may have a desire to possess a grand bungalow or a big house, a car and so many other costly things but he is too poor to purchase them. His desire for them will simply remain a desire as he doesn't have enough money with him.

2) Want :- It is also similar to demand what is that desire which is backed by the ability & willingness to satisfy it.

3) Need :- Need is necessity for any person.

4) Paying Capability :- If you are ready to pay & if you have money to buy anything.

Demand :- The Demand for a particular good is the amount that will be purchased at a given price & at a given time.

Demand may be define as the quantity of a commodity which a person is willing to buy at a certain price, at a particular time & at a particular place. Therefore there are 7 essentials of demand which are as follows.

- 1) Desire for a commodity.
- 2) Capacity to pay for it.
- 3) Willingness to pay for it.
- 4) Quantity, bought & sold
- 5) At a given price
- 6) At a given time
- 7) At a given place.

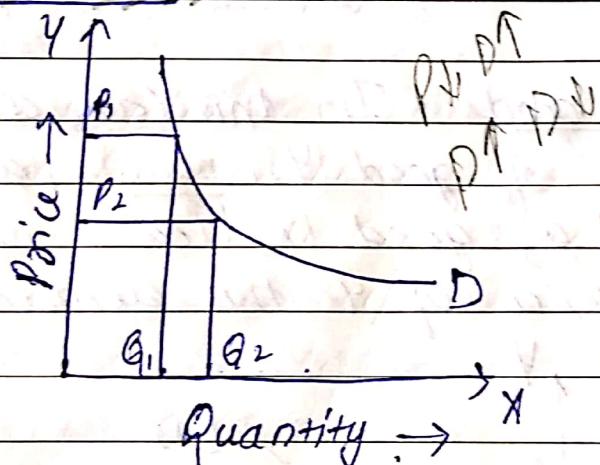
Demand therefore, is an effective desire.

Types of Demand:-

- 1.) Price Demand:- Price Demand expresses the relationship b/w the price & demand of a commodity other things being equal.

$$D_x = f(P_x), \quad \text{Demand is the function of price.}$$

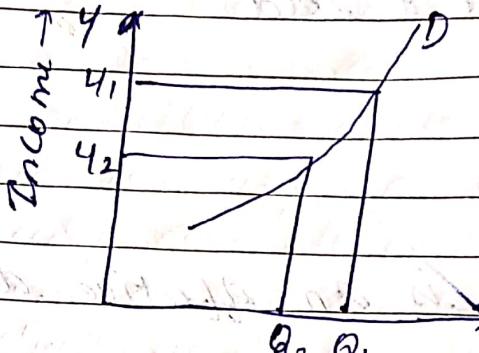
2.) Income Demand:-



- 2.) Income Demand:- It expresses the relationship b/w income of the consumer & quantity demanded of a commodity, other things remaining the same.

$$D_x = f(Y_x) \quad (\alpha = \text{commodity})$$

Demand is the function of Income.
(Y = Income)



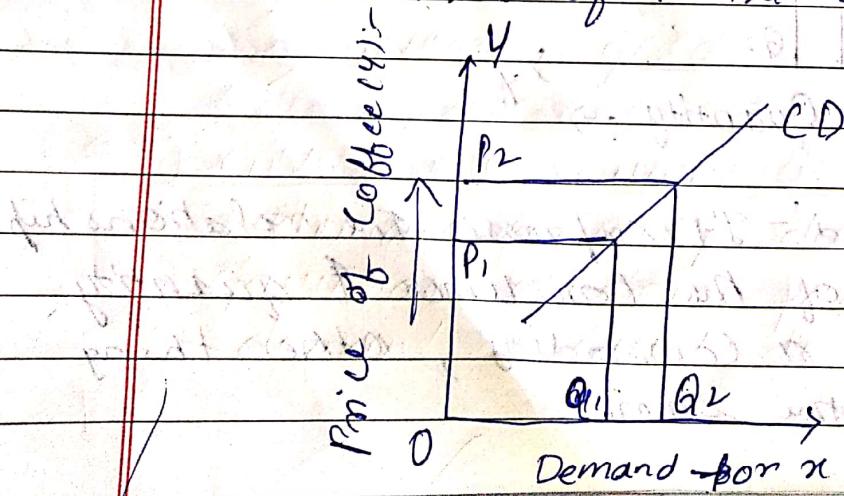
Quantity →

3) Cross Demand :- It expresses the relationship b/w the quantity demanded of good (X) & the price of relative good (Y). Other things remaining the same. there are two types of relative goods:-

- (i) Substitute goods or Supplementary goods,
- (ii) Complementary goods. (Tea & Sugar)

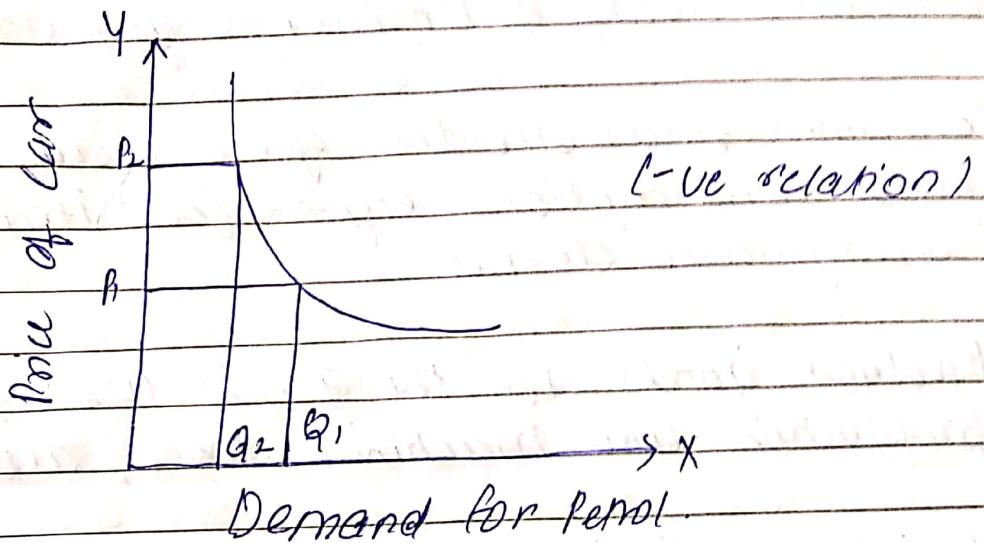
Tea & Coffee

(i) Substitute goods :- In this case a rise in the price of good (Y) (Coffee) raises the demand of good (X) (Tea). If a fall in the Price of Y the demand for X falls.



(The relation)

(ii) Complementary goods:- In this case the goods are complementary like pen & ink, car & petrol.



✓ 4) Composite demand:- It refers to the demand for one commodity in order to satisfy two or more wants.

✓ 5) Direct & Derived demand:- When a commodity is demanded for its direct consumption, it is called direct demand.
e.g. demand for bread to eat.

→ derived demand refers to the demand for one commodity as a result of demand for another like demand of house it also derived from another goods like demand of chousi, cement, brick, furniture, etc.

Comitative

6.) Comitative demand:- Demand for substitute
is called Comitative demand

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Consumer Goods & Producers goods:-



Consumer goods are the goods used for final consumption. e.g. food items, Readymade clothes.

Producer goods are the goods used for production like machine, tools, rubber etc.

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Perishable & Durable goods:-



Both Consumers & Producers goods are further divided into Perishable & durable goods.

Perishable goods are those which can be consumed only once. While durable goods are those which can be used more than once over a period of time.

e.g. → Cold drink is Perishable & Motorcycle is durable goods.

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7.) Derive & Autonomous demand:- When the demand for a product is tied to the purchase of some parent product its demand is called derive demand.

e.g. → The demand for current is a derived demand as it is needed not for its own sake but for satisfying the demand for building.

Autonomous demand is individual by nature & it is hard to find.

8) Company & Industry demand:-

Q8)

Determinants of demand or factors Affecting demand:-

→ 1) Price of the Commodity:- Basically, demand for commodity depends upon its price if the price rises the demand falls & if the price falls the demand rises.

Note! Price → Independent //
Demand → Dependent.

2) Price Expectations:- Demand is also influenced by expected changes in prices. If people anticipate a rise in price in future, they buy more now & store the commodity, then demand rises if they expect a fall in price they may postpone their purchases, then demand falls.

Note:- Price ↓se \rightarrow Demand ↑se.

Price ↑se \rightarrow Demand ↓se.

3.) Price of related good) - the demand for a commodity is also influenced by changes in the price of related goods like substitutes & complementaries.

4.) Income of the consumer:- Income level determines the demand to a great extent. Normally there is direct relationship b/w income & demand. In case of normal goods if income rises ^{then} demand also rises & if income falls then demand also falls low quality.

On the other hand demand for inferior goods falls with ↑se in income & rises with ↓se in income. & vice versa.

5.) Population:- Demand for commodities depends upon the size of population. ↑se in population leads to more demand for all types of goods & ↓se in population leads to a fall in demand.

6.) Taste & preferences:- these terms are used in broad sense. they include fashion, habit, custom, etc. It also affects on demand.

7.) Distribution of Income :- Demand is also influenced by the distribution of income in the society. If income is equally distributed there will be more demand. If income is not equitably distributed, there will be less demand.

8.) Discoveries:-

9.) Trade Activity :- The laborer level of demand for different goods depend upon the business condition of the country. If the country is passing through boom. When trade is active and brisk the demand for all commodities tends to rise. But in the days of depression when trade is dull & slow demand tends to fall.

10.) Climate & Weather :- Demand for commodities also depend upon the climate of an area and weather. In cold hilly areas woollen are demanded during summer & rainy season demand for umbrellas may rise. In winter ice is not so much demanded but in summers the demand of ice is high.

11.) Money Supply:- Supply of money determines the purchasing power of money. When money supply rises people acquire more purchasing power thus rising the demand for goods & services if money supply falls demand for goods also falls.

12.) Savings:- If people save more they will have less money to spend on goods, the demand decrease. If people save less, demand will rise.

13.) Reduction in taxes:- Reduction in taxes & duties will allow more persons to enter a particular market & thus raising the demand for a particular product.

Demand functions:-

→ The important factors influencing the demand for a commodity can be briefly express in the following functional relationship known as demand function.

$$D_x = f(p_x, p_y, Y, T \dots)$$

p_x = Price form

p_y = Price for q. of relative good

Y = Consumer Income

T = Taste & preferences

where, D_x = Demand for a commodity.

f = shows the functional relationship b/w the demand of good x & other variable i.e. (P_x, P_y, Y, T)

Demand Schedule:- Demand schedule is a schedule which shows different quantities of a commodity purchased at different prices. It is a list of prices & quantities. It explains the functional relationship b/w price & demand of a commodity.

It is of two types:-

(i.) Individual demand Schedule:-

(ii.) Market demand Schedule.

(iii.) Individual demand Schedule-

Price of Milk (₹)	Quantity Demanded by Mr. X (kg)
5	1
4	2
3	3
2	4
1	5

(iv.) Market demand

Q.) Market demand Schedule:-

Price of Milk (₹)	Quantity demanded by Mr. X (kg)	Quantity demanded by Mr. Y (kg)	Market Demand
5	1	2	3
4	2	3	5
3	3	4	7
2	4	5	9
1	5	6	11

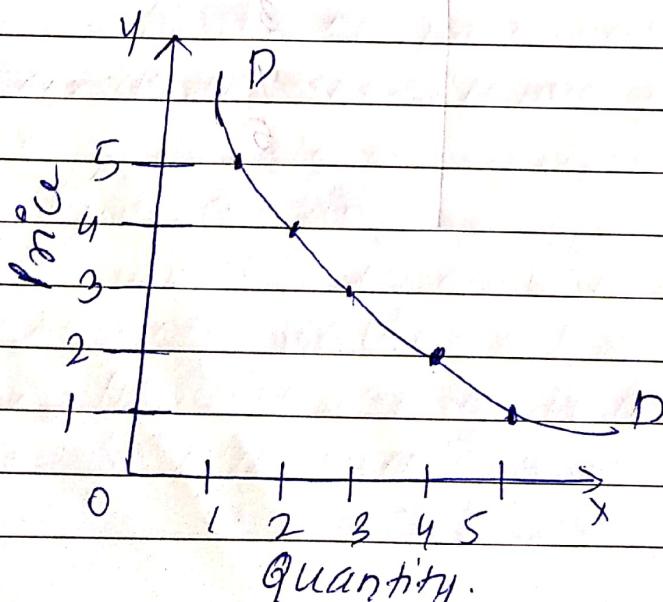
Market demand = quantity demand + quantity demand
by Mr. X by Mr. Y.

Demand Curve- Graphic representation of demand schedule is a demand curve

It is of two types

- 1.) Individual demand curve
 - 2.) Market demand curve

1.) Individual demand (curve):-



d.) Market demand curve:-



law of demand:- This law is also known as the first law of purchase. It indicates the functional relationship b/w the price of a commodity and its quantity demanded in the market. Law of demand states that other things being equal, the demand for a good extends with a fall in the price and contracts (decreases) with a rise in price.

Price ↓ → Demand ↑

Price ↑ → Demand ↓.

The law of demand can be given in the form of formula;

$$\boxed{\frac{P}{Q}}$$

$Q \rightarrow$ Quantity (Demand)
 $P \rightarrow$ Price

It is read as Q is inversely related to P.

→ Accⁿ to Dr. Marshall the law of demand states amount demanded inc. with a fall in price & diminishes with a rise in price.

→ Accⁿ to Samuelson law of demand states that people will buy more at lower price & buy less ~~ba~~ at higher prices, ~~ceteris paribus~~

Assumptions of the law of demand:-

→ While stating the law of demand, the phrase Other things remaining the same or *ceteris paribus* is used. It conveys the condition on which the law of demand is based.

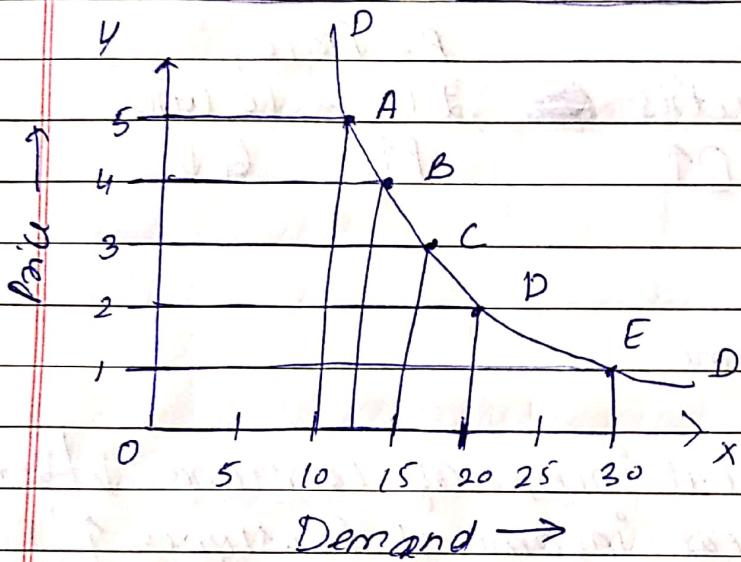
The main Assumptions of the law of the following:-

- 1.) No change in the income of the consumer.
- 2.) No change in the Price of relative good.
- 3.) there should be no expectation of any change in the future prices for consumer's Taste, preferences & choices remain constant.
- 4.) No commodity in question is not of any prestigious value such as diamonds.
- 5.) No Substitute for the commodity in question are available.

Explanation of the Law of demand :-

→ The law of demand can be explained by following table and diagram:-

Price of Milk (₹)	Quantity of Milk (in kg)
5	10 ↕ 50
4	12 ↕ 40
3	15
2	20
1	30



Main Points of the Law of demand :-

- 1) Inverse Relationship:- Law of demand has inverse relation b/w Price & demand.
not-
- 2) Qualitative & Quantitative:- It shows Only direction i.e. Price rise but How much demand is
- 3) No Proportional Change:-

4.) One sided:- It gives only, what changes occur in price, How it effects the demand but it does not tell, what changes occur in demand, how it effects the price.

#

Causes of the operation of law of demand

Or

Why does demand curve slope downward?

→ 1) Law of diminishing marginal utility- Satisfying power of human wants is known as utility

$$P \uparrow - Q \downarrow \quad Q = \text{Quantity}$$

P = Price.

e.g. → £5 - 5 utils
 $P \downarrow \quad Q \uparrow$ $P \uparrow \quad Q \downarrow$
 £10 - 10 utils.

2) Income Effect:-

(i) Monetary income

(ii) Real Income.

Price ↑ — real income of consumer ↓ / Demand

Price ↓ — real income of consumer ↑ / Demand

Price - Change.

Demand - Not Change.

3) Substitution Effect:-

→ e.g. → Tea & Coffee.

Price of Tea ↑ — Demand of coffee ↑.

Price of Tea ↓ — Demand of coffee ↓.

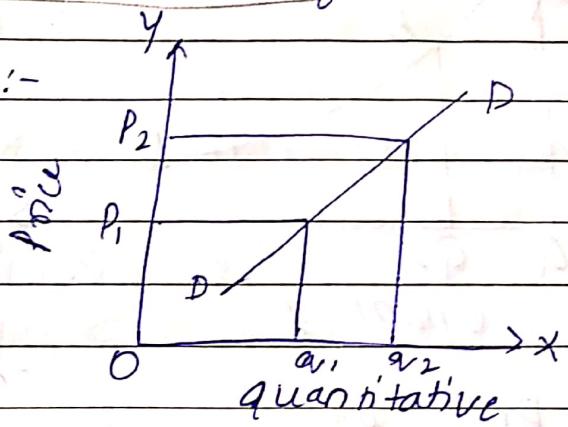
4) New buyers:- The entry of new buyers \rightarrow Price rise
 \rightarrow exit of buyers \rightarrow Price fall \rightarrow Demand↓
 and vice versa.

5) Different use:-

Electricity Price ↑ \rightarrow Demand ↓ \rightarrow use Only light
 Electricity Price ↓ \rightarrow Demand ↑ \rightarrow all things
 like fan, A.C.,
 Machine).

Exceptions to the law of demand:-

\rightarrow 1) Ignorance:-



2) Speculative:-

3) Giffin paradox:-

4) Fear of shortage:-

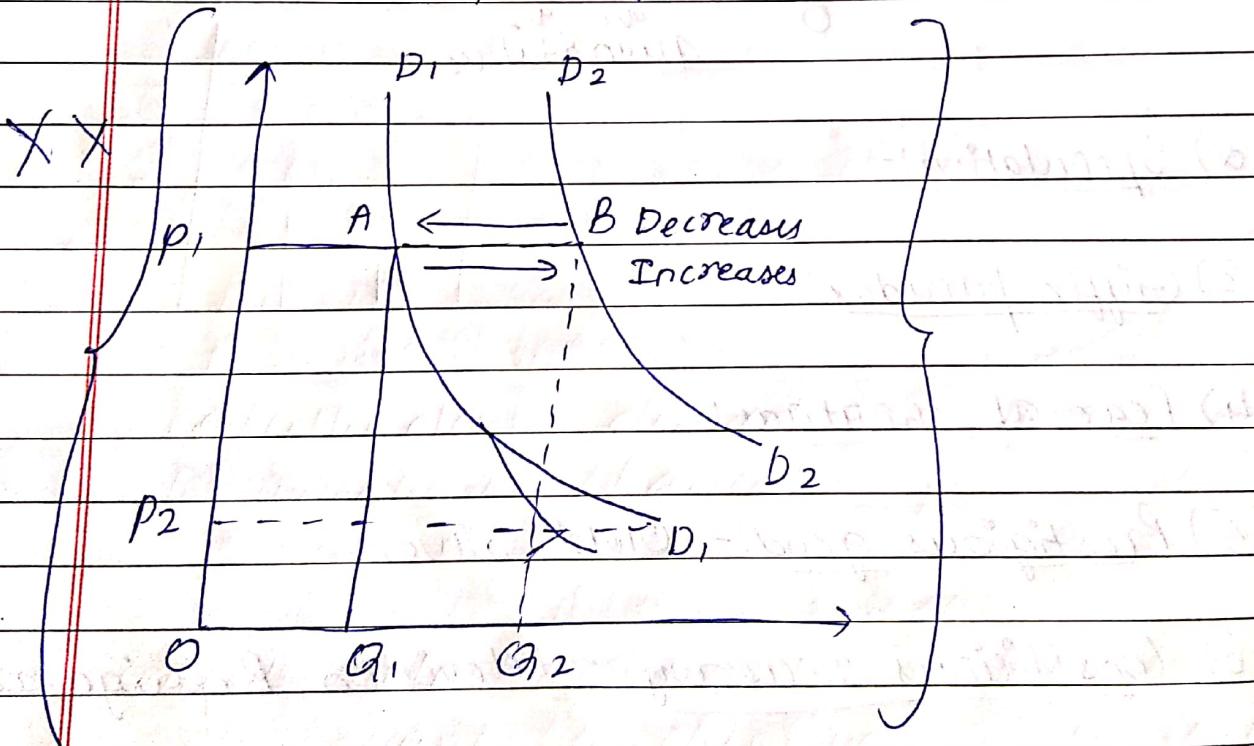
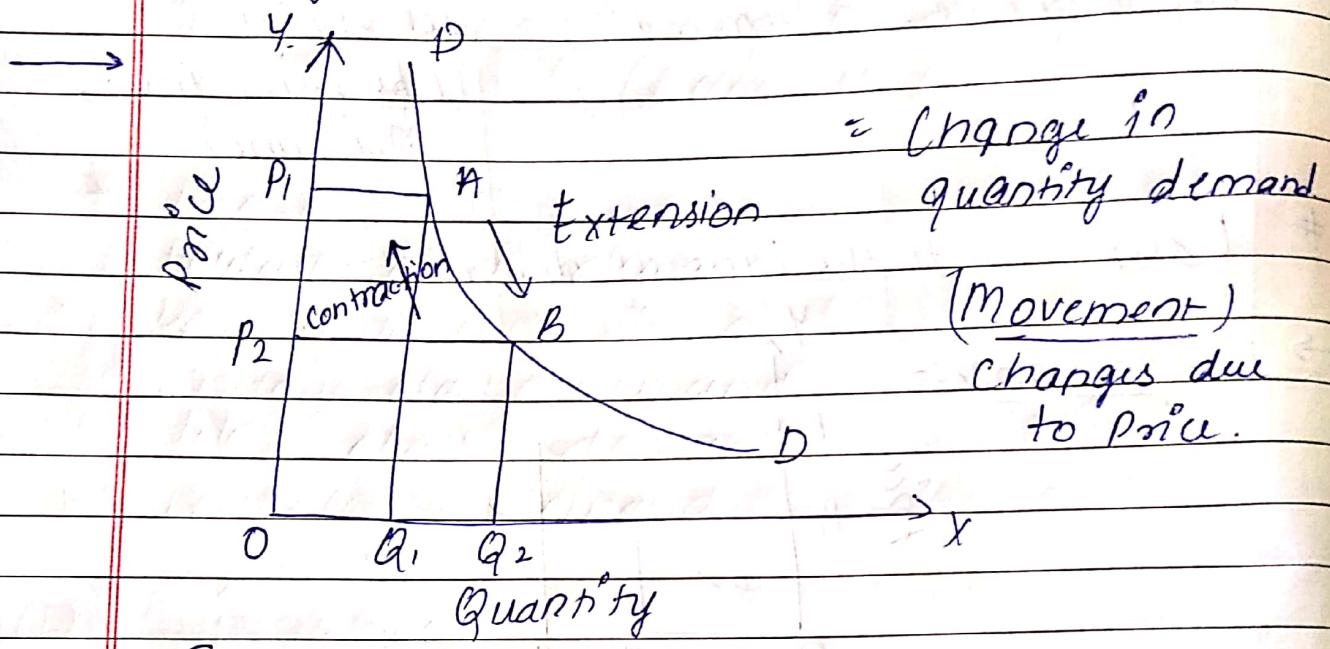
5) Prestigious good:- Gold, Silver.

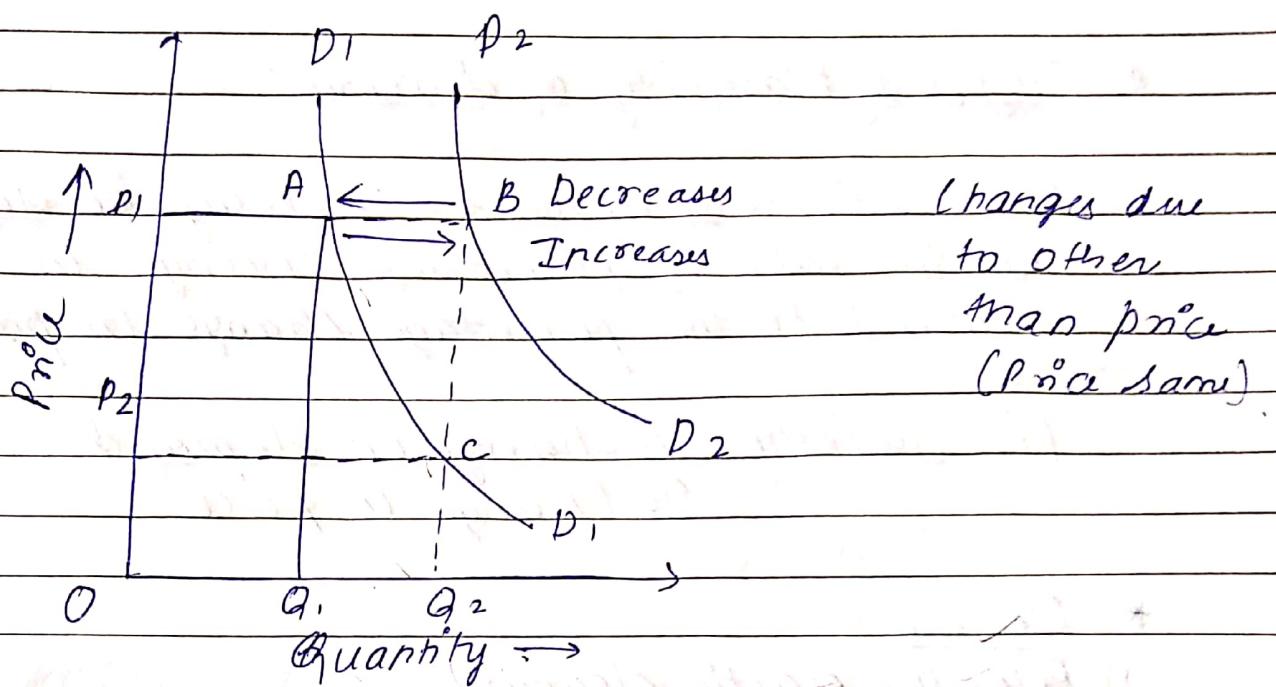
6) Conspicuous necessity:- television, Refrigerators.

Movement Along a demand curve and Shift in demand curve:-

Purchase in quantity demand:-

Change in demand:-





Same demand curve \rightarrow Extension / Contraction
Other demand Curve \rightarrow Use / Use.

Elasticity of demand: - Law of demand explains that there is an inverse relationship b/w the price & quantity demanded of a commodity. The law of demand does not explain the degree of change in demand. In order to measure the extent of change in demand Prof. Marshall developed the concept of elasticity of demand. Elasticity of demand measures the degree of change in demand of a commodity in response to a change in the price of a commodity or change in the income of the consumer or change in the price of related goods.

Elastic = Change in Price there is great impact on demand & if there is no impact of change in price it is inelastic.

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* Types of Elasticity of demand:-

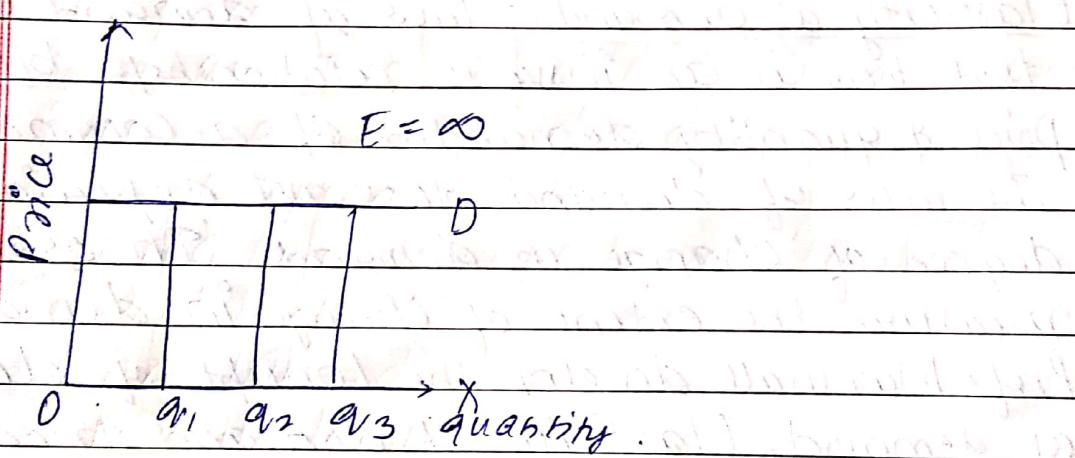
- 1) Price elasticity of demand:- It may be defined as the ratio of percentage change in demand to the percentage change in price.

$$\text{Price Elasticity} = \frac{\% \text{ change in demand}}{\% \text{ Change in price}}$$

* Degrees:-

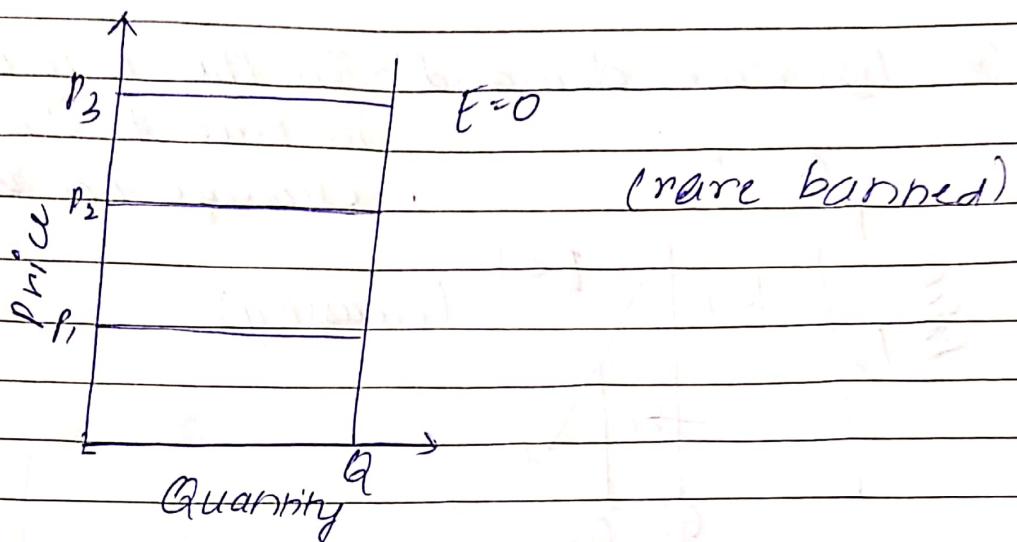
- Perfectly elastic demand
- Perfectly inelastic demand
- Unitary elastic demand
- More elastic demand
- Less elastic demand

(i.)

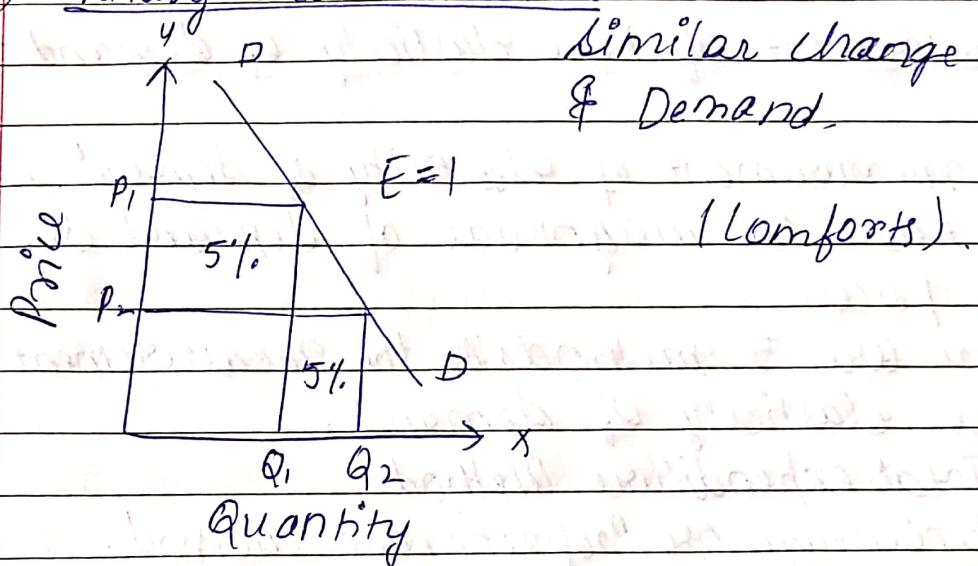


Perfectly elastic demand:- If there is no minor or negligible change in price.

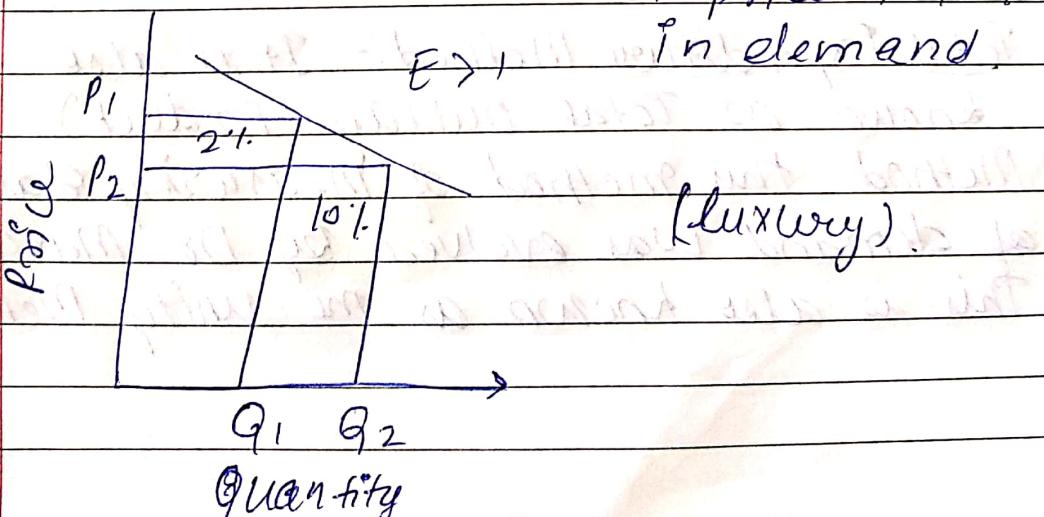
(ii.) Perfectly inelastic demand:- If there is no change in demand. It is rare banned.



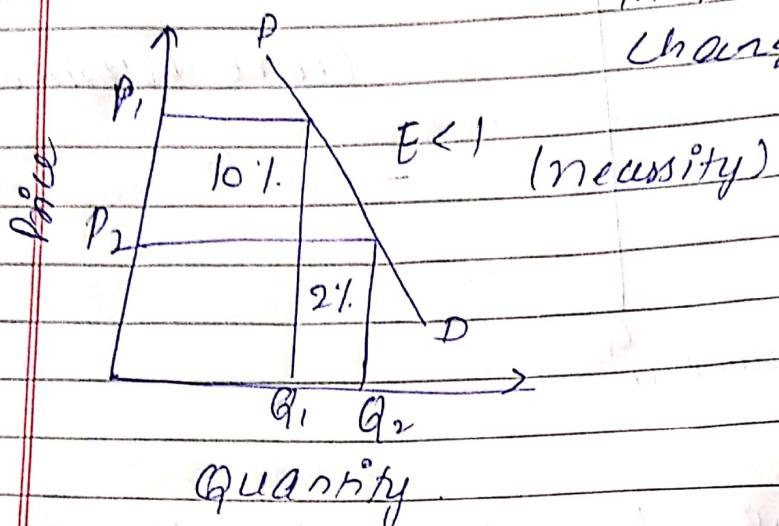
(iii) Unitary Elastic demand:- In this there is similar change in Price & Demand.



(iv) More Elastic demand:- In this 2% change in price & 10% change in demand.



(V.) Less Elastic demand:- In this 10% change in price & 2% change in demand



* Measurement of Price Elasticity of demand-

→ The measurement of elasticity of demand is to know the magnitude of demand due to the price.

There are 5 methods of the measurement of Price elasticity of demand.

- 1.) Total expenditure Method.
- 2.) Percentage or Proportionate Method.
- 3.) Point Method.
- 4.) Arc Method
- 5.) Revenue Method.

1.) Total Expenditure Method:- It is also known as Total Outlay (Product) Method. this method of measuring elasticity of demand was evolved by Dr. Marshall. This is also known as the unity Method.

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Accⁿ to this method there can be 3 Majors of elasticity of demand.

- i.) Greater than unity.
 - ii.) Equal to unity.
 - iii.) Less than unity.

Case	Price	Demand	Total Expenditure	Explanation	Elasticity of demand
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