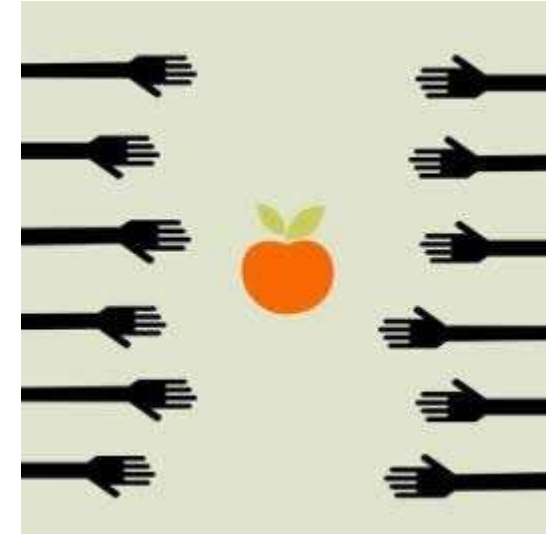


# Business Economics

# Concept



## Unlimited Wants



## Scarce Resources

Unlimited wants-Scarce resources-----mean - resources are scarce/limited to fulfil unlimited wants  
(Like food, cloth etc.)

Unlimited wants----- scarce resources -----choice making

Economics is the study of how human beings make choices to allocate scarce resources to satisfy their unlimited wants in such a manner that consumers can maximise their satisfaction, producer can maximise their profits and the society can maximise its social welfare.

## Definition of Economics

We can classify different definitions of economics into five parts as following:-

- Wealth Definition( Adam Smith, David Ricardo, J.B.Say, J. S.Mill)
- Welfare Definition (Alfred Marshall)
- Scarcity Definition (L. Robbins)
- Growth- oriented Definitions (Henry Smith, Samuelson, K.G.Seth)

## Wealth Definition (Adam Smith, David Ricardo, J.B.Say, J. S.Mill)

- Adam Smith- Father of Economics
- Defined Economics in his book titled " An Enquiry into the nature and causes of wealth of nations" in 1776
- Economics- Study of wealth
- It was considered that the duty of economist to increase the wealth of the society.

**Characteristics of Wealth Definition:-** 1) Wealth is the central point of Economics/Focus on what wealth is 2) Focus on how can it be multiplied for growth and development 3) Imagination of Economic man 4) Individual and social interest are not mutual contradictory.

## Wealth Definition (Adam Smith, David Ricardo, J.B.Say, J. S.Mill)

But according to economist like Thomas Cartyle and Ruskin this definition and concept of economics are defective as these definitions lay much **emphasis on the wealth** which is **only a means** and it **ignored man and its welfare**, which is undoubtedly the end of all economic activity.

Wealth has been considered as **merely means for achieving welfare**. But at the same time, **wealth can not be the ultimate aims of one's life**.

Wealth is necessary for economic development and achieving the welfare of the society. Wealth has therefore, been considered as an important subject of study.

## Welfare Definition (Alfred Marshall)

Dr Marshall in his book **Principle of Economics** published in 1890, has defined Economics in these terms

"Economics is a study of mankind in the ordinary business of life. It examines that part of individual and social actions which is most closely connected with the attainment and use of material requisite of well being"

Thus,

On one side, it is **study of wealth** and on the other and more important side, a part of the study of man.

Through his definition, he established a relationship between **economics and welfare**.

Marshall has given **primary importance to man** and **secondary importance to wealth**.

## Welfare Definition (Alfred Marshall)

Robbins criticised this definition because

- 1) It is study of all human beings, not only of social beings.
- 2) It studies all economic activities- material or non- material.
- 3) Welfare definition of economics lacked universality and scientific precision.



## Scarcity Definition (L. Robbins)

L. Robbins challenged the traditional view of the nature of economics science given by Marshall.

Prof. Lionel Robbins gave his definition of Economics based on scarcity of resources and problem of choice in his book " **Nature and Significance of Economic Science**" in the year 1932.

According to him "Economics is a science that studies human behaviour as a relationship between ends and scarce means which have alternative uses"

**Characteristics:-** He has emphasised on the following points:

- i) Human Wants (or ends) are unlimited.
- ii) Resources (or means) to satisfy these wants are limited.
- iii) These scarce resources have alternative uses.

## Scarcity Definition (L. Robbins)

**Positive Points:-** Instead of discussing a certain type of human behaviour, it focuses its attention on a particular aspect of human behaviour i.e. behaviour concerned with the utilization of scarce resources to achieve unlimited ends.

Therefore an individual or an economy is faced with the problem of choice which means the allocation of scarce resources to various alternative uses so as to make optimum utilization of these resources and attain maximum benefits.

Thus Robbins considered all types of resources, whether monetary or non monetary as the subject matter of economics. But according to Robbins, Economics should be neutral between ends. This implies that economics should only give optimum allocation based on the given situations in terms of benefit but should refrain from value judgements that is it should not say what is good or bad. This view of Robbins made positive in nature rather than being normative.

**Criticism:-** This definition is impractical and difficult. It has reduced economics to simply a theory of value determination or science of choice making. It has nothing to do with welfare of mankind. Economics cannot be neutral to end's.

## Growth-oriented Definitions (Samuelson, Peterson etc.)

According to modern economists like Samuelson, Peterson, Ferguson etc. "**Economics** is a science that studies those activities of man which he undertakes to maximise his satisfaction by making proper use of his scarce means"

These economists have combined in their definition the essential elements of the definitions by Marshall and Robbins.

According to them, economics is concerned with the efficient allocation and use of scarce means as a result of which economic growth is increased and social welfare is promoted.

## Growth-oriented Definitions (Samuelson, Peterson etc.)

Prof. Paul A. Samuelson gave the development definition of Economics as

"Economics is the study of how people and society choose, with or without the use of the money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time and distribute them for consumption now, and in future, among various people and groups in society. It analyses costs and benefits of improving patterns of resource allocation".

Thus Samuelson added to Robbins' definition two or more aspects i.e. **sustained economic growth** of the country and **equitable distribution** of what is produced among all sections of the society. This made economics positive as well as normative in nature.

### Characteristics

- i) Economics suggests as to how can the available resources be utilised in most effective manner
- ii) Economics suggests as to how can the resources of an economy be expanded.
- iii) Economics emphasises upon maximum satisfaction of human wants.
- iv) Economics emphasis upon increase in the level of employment and standard of living