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Chapter ①

{ Basic Economic Concepts }

★ Definition / meaning: Economic is a social science in which all the activity of mankind and study which are related to with earning & spending of money.

to study the economic activity there are some Rules and Theory are formulated. and when we apply those Rules and theory to solve the problem of organization then it is known as Managerial / Business Economic.

★ Wealth oriented definition of Economics:

→ the wealth oriented definition of Economic is given by "Adam Smith". He is also known as "Father of Modern Economics".

→ He defined Economic as "science of wealth" in which He described Economic as the science relating to the laws of Production, distribution & Exchange.

★ Criticism of Adam Smith definition of Economics:

1) too much importance to wealth: definition of Economic by Adam Smith gives primary importance to wealth & secondary to Human Being.

ii) Narrow meaning of Wealth: In the definition the word 'Wealth' only means material goods such as vehicles, industries, raw material, banks etc (in simple production, distribution & exchange). It doesn't include Im-material goods like services of doctor, lawyer, teacher etc.

In modern economic definition the word "Wealth" means includes Both material & immaterial goods.

iii) Concept of Economic man: Acc^r to this the main Object of Human Activity is only to earn more & more wealth in short He earns only for his self interest & social interest is completely ignored.

iv) Stress on wealth: Since the main aim of the Political Economy is to increase the riches of the economy, it gives more stress on wealth not anything else.

Welfare oriented definition of Economic:

→ The welfare oriented definition of Economic is given by ^{Dr.} Alfred Marshall.

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→ acc^r to him the Economics is study of Human activities in the ordinary course of Business. It studies how man attains his income and how he utilises it. In this way it study wealth, and on the other hand it is the part of the study of man which is most important.

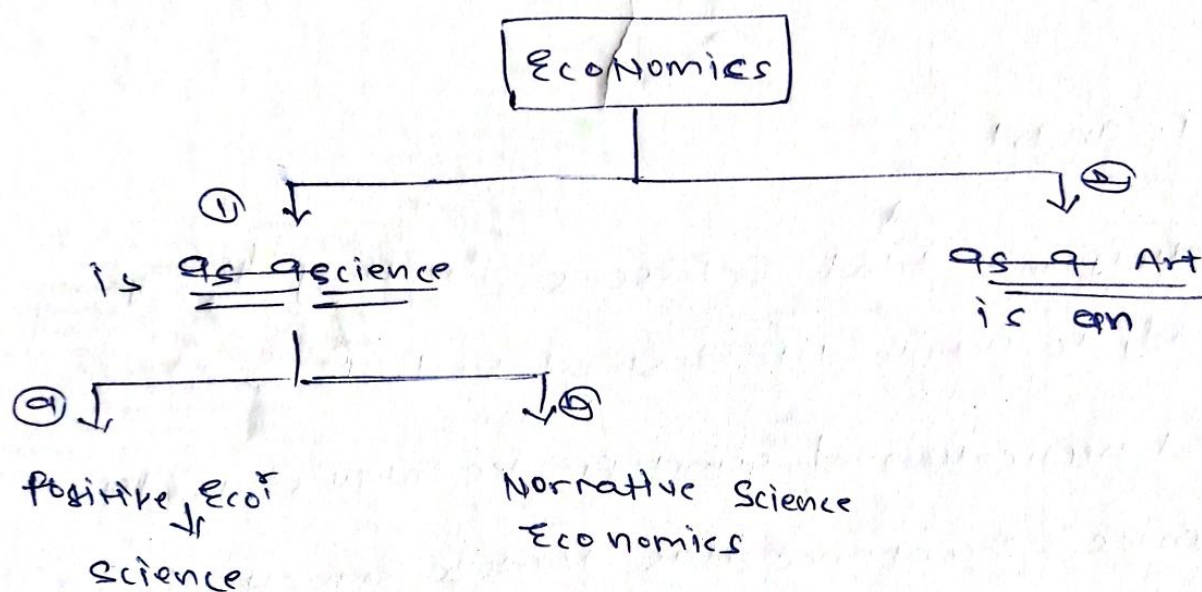
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→ In short Economics is the science of Human Activity
Instead of science of wealth.

* Nature & Scope of Economics :

→ Same phrase definition likni hai

* Nature of Economics :



① Economic is a science :

→ Science is an organised branch of knowledge that
Analyses cause and effect ~~Relationship~~ Relationship b/w
Economic agents.

Further, Economics helps in integrating various
science such as mathematics, ~~statistic~~ statistics etc. to identify
the relationship b/w price, demand, supply & other economic
factors.

Q1 : Positive Economics : A Positive science is one that

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Studies the Relationship B/w two variables But does not give any value judgement i.e. it states "what is",

It deals with the facts about entire economy

B) = Normative Science Economics : the normative science is the one that passes value judgement i.e. 'what ought to be'

It is concerned B/w economic goals and policies to attain these goals.

② Economic is an art :

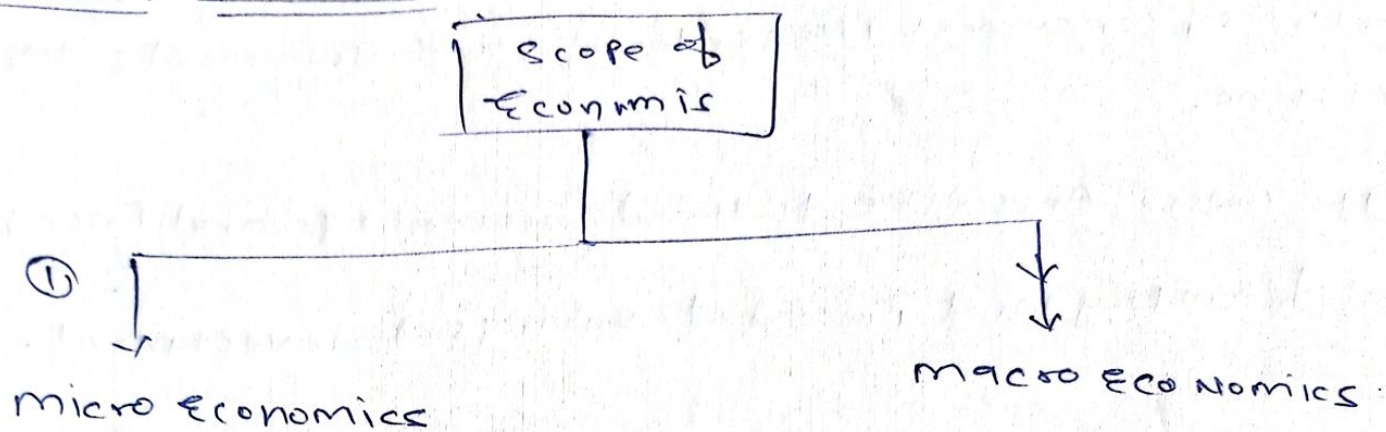
→ Art is a discipline that expresses the way things are to be done, to achieve the desired end.

→ the practical application of scientific techniques is the Art of Economics. Economics has various branches like Production, distribution and consumption. that provides general rules & directions and is capable of solving different problems of society.

→ therefore Economics is considered as science as well as Art. i.e. Science in terms of its methodology and Art as in Application.

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* Scope of Economics :



I) micro Economics :

→ the part of Economics whose subject of matter of study is individual units i.e. a consumer, a household, a firm, an industry etc.

It analyses the way in which the decisions are taken by economics agents.

→ it studies consumer behaviour, Product Pricing, firm's behaviour, factor Pricing etc.

II) macro Economics :

→ it is the branch of Economics which studies the entire economy, instead of individual units i.e. level of GDP, total investment, total saving, total consumption etc.

Basically it is the study of Aggregates and Avg.

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→ it analyses Economic Environment as a whole, wherein the Firms, consumers, Household, and governments takes decisions.

→ it covers Area like National Income, general Price level, level of Employment, level of Savings & Investment.

The Fundamental difference B/w micro & macro Eco lies in the Scale of study. i.e. in micro Eco most importance is given to determination of Price. whereas macro Eco is concerned with the determination of income of the economy as a whole.

Nevertheless Both micro & macro Eco are complementary to one other as they both aimed at maximising the welfare of the ~~country~~ economy as a whole.

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★ deductive & inductive method

Economics adopt two Imp^s methods in its ~~investing~~ investigation and formulation of laws and Principles. the methods are.

- i) : deductive method
- ii) : inductive method

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I) deductive method:

→ deduction means Reasoning or inference from the general to the Particular or from the universal to the individual.

→ Bacon described deductive method as a "descending Process".

Here we start from certain formula, data & assumption, then by logical Reasoning we arrive at certain conclusion. So we start with some undiscussed facts and after adding some assumption we build up theory.

deduction consist of 4 steps:

- ① → Selecting the Problem
- ② → the formulation of Assumption
- ③ → Formulating Hypothesis / Reasoning
- ④ → testing & Verifying the Hypothesis

Merits of deductive method:

- i) this method is near to Reality.
- ii) it is less time consuming & less expensive.
- iii) the use of mathematical techniques in deducing theories of economics brings Accuracy / Exactness and clarity in Economic Analysis.
- iv) there is limited scope of experimentation so this

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Method Helps In deriving Economic theories.

④ → this method is simple as it is Analytic.

Merits of deductive method:

① → the deductive method is simple & precise only if the assumptions made by us are valid. Most often the assumptions turn out to be based on half truths or have no relation to reality. The conclusion drawn by such assumption may lead to ~~misleading~~ mislead.

② → the deductive method is highly Abstract so it requires a great deal of care to avoid fallacy or reasoning.

2) Inductive method:

→ Induction is the process of reasoning ^{from} ~~from~~ a part to whole, or from Particular to general or from individual to universal.

→ Bacon described it as 'an Ascending' Process. In which facts are collected, arranged and then general conclusions are drawn.

→ this method is also known as Empirical method and was adopted by the "Historical School of Economists".

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the Inductive method involves 4 steps:

- i): the Problem: In order to generalise an Economic Phenomenon the Problem should be properly selected and clearly stated.
- ii): Data: the 2nd step collection, Enumeration, Classification and Analysis of data by using appropriate ~~statistical~~ statistical techniques
- iii) Observation: data are used to make observation about particular facts concerning the Problem.
- iv): Generalisation: on the basis of observation, generalisation is logically derived which establishes a general ~~fact~~ Truth from Particular Facts.

Merits of inductive method:

- i): the inductive method is Realistic because it is Based on Facts that are Real & Actual.
- ii): Inductive method is dynamic method. the changing Economic Phenomenon are Analysed and on the Basis of Analysis, conclusion are drawn.
- iii) it also Helps in future investigations.
- iv): As it makes use of statistical method. so it is reliable.

to solve ~~cent~~ wide range of Economic Problems.

demerits of Inductive method:

- ① → If conclusion drawn from insufficient data then the generalization obtained may be faulty.
- ② → the Collection of data is Not an Easy task. the Source & methods employed in the collection of data differ from Investigator to Investigator. So the Result we get may differ even for same Problem.
- ③ → the inductive method is time consuming as well as expensive.

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