UNIT-1

MEANING OF ECONOMICS:

Economics is the social science that analyzes the production, distribution, and consumption of goods and services. The term *economics* comes from the Ancient Greek word ***oikonomia***, which means "management of a household, administration" (from *oikos*, "house" + *nomos*, "custom" or "law", hence "rules of the household"). Current economic models emerged from the broader field of political economy in the late 19th century. A primary stimulus for the development of modern economics was the desire to use an empirical approach more akin to the physical sciences.

Wealth and Welfare Definition:

The Classical View: The classical economists beginning with Adam Smith defined economics as science of wealth. Adam Smith defined it as the ***"nature and cause of wealth of nations,"*** whereby it "proposes to enrich both the people and sovereign." His follower J.B. Say in France defined economics as "the study of the laws which governs wealth." Other followers of classical view like Nassau Senior, F.A. Walker, J.S. Mill, and J.E. Cairnes also defined economics as a matter of wealth.

The Neo-Classical View: Marshall's Definition: Alfred Marshall laid emphasized on man and his welfare. Wealth was regarded as the source of human welfare, not an end in itself but a means to an end. According to Marshall in his book entitled 'Principles of Economics, ***"Political Economy or Economics is the study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with attainment and with the use of material requisites of well being. Thus 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."***

Scarcity Definition of Robbins: In the publication "Nature and Significance of Economic Science" in 1932 Robbins defined, ***"Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses."*** This definition is based on the following related postulates:

i. Economics is related to one aspect of human behavior, of maximizing satisfaction from scarce resources.
ii. Ends and wants are scarce. When a particular want is satisfied other crop up to take place.
iii. The obvious reason for the non satisfaction of unlimited wants is the scarcity of means of the disposal of mankind. The time and means available for satisfying these ends are scarce or limited.
iv. The scarce means are capable of alternative use. At a time, the use of a scarce resource for one end prevents its use for any other purpose.
v. Economics is related to all kinds of behavior that involve the problem of choice.

Growth oriented Definition: Prof. Samuelson's View: Modern age is age of economic growth. Its main objective is to increase social welfare and improve the standard of living of the people by removing poverty, unemployment, inequality of income and wealth etc. of nation. Prof. Samuelson has given a definition of economics based on growth aspects. According to him: ***"Economics is the study of how people and society end up choosing, with or without the using of money, to employ scarce productive resources that could have alternative uses to produce various commodities, over time and distribute***

them for consumption, now or in the future, among various persons or groups in society. Economics analyses the costs and the benefits of improving patterns of resource use."

SCOPE OF ECONOMICS

A discussion about the true scope of economics includes the subject matter of economics, whether economics is a science or an art, or is a positive or a normative science.

ECONOMICS AS A SCIENCE: A science is a systematized body of knowledge ascertainable by observation and experimentation. It is body of generalizations, principles, theories or laws which traces out a causal relationship between cause and effects. For any discipline to be a science

(a) it must be systematized bodies of knowledge;

(b) have its own laws or theories;

(c) which can be tasted by observation and experimentation;

(d)can make predictions;

(e) be self-corrective;

(f) have universal validity.

If these features of a science are applied to economics, it can be said that economics is a science.

Economics is also a science because its laws possess universal validity such as the law of diminishing returns, the law of diminishing marginal utility, the law of demand etc. Again economics is a science because of its self-corrective nature. It goes on revising its conclusions in the light of new facts based on observations.

ECONOMICS AS AN ART:

Art is the practical application of scientific principles. Science lays down certain principles while art puts these principles into practical use. To analyze the causes and effects of poverty falls within the purview of science and to lay down principles for the removal of poverty is art. Art facilitates the verification of economic theories. Economics is thus both a science and an art in this sense.

ECONOMICS AS A POSITIVE SCIENCE:

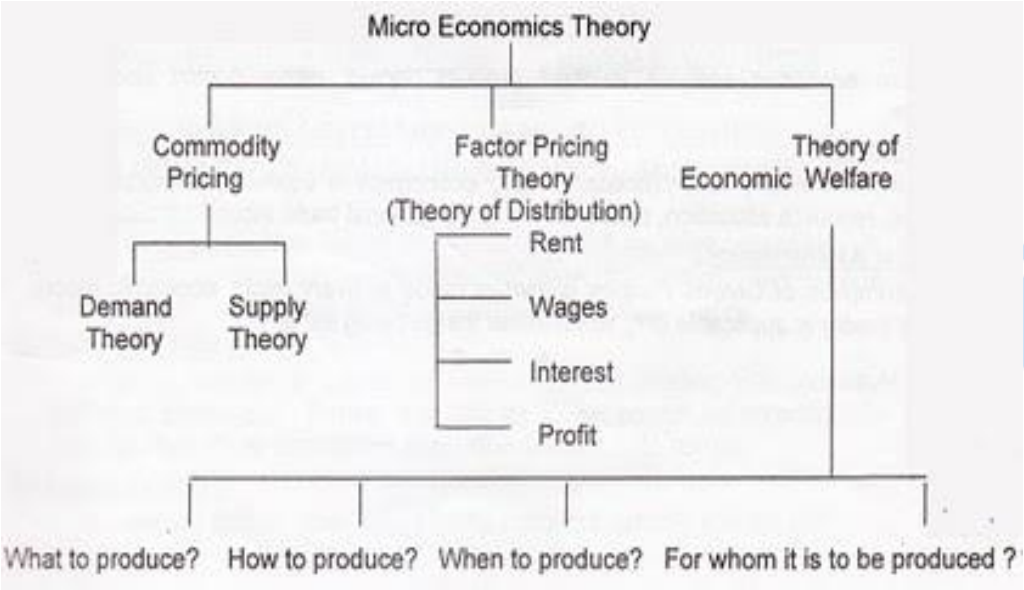
A positive science may be defined as "a body of systematized knowledge concerning what is." Thus positive economics is concern with "what is".

ECONOMICS AS A NORMATIVE SCIENCE:

Economics is a normative science of "what ought to be." As a normative science, economics is concerned with the evaluation of economic events from the ethical viewpoint. Marshall, Pigou and few other economists do not agree that economics is only a positive science. They argue that economics is a social science which involves value judgments and value judgments cannot be verified to be true or false. It is not an objective science like natural sciences.

MICROECONOMICS: Microeconomics is the study of the economic actions of individuals and small groups of individuals. This includes the study of particular firms, particular households, individual prices, wages, income, individual industries and particular commodities.

SCOPE OF MICROECONOMICS



Importance / Advantages of Microeconomics:

1. Individual Behaviour Analysis
2. Resource Allocation
3. Price Mechanization
4. Helps in Economic Policy formulation
5. Free Enterprise Economy
6. Helpful in Public Finance management
7. Helpful in Foreign Trade
8. Social Welfare

Disadvantages / Limitations of Microeconomics:

1. Unrealistic Assumptions
2. Inadequate Data
3. Ceteris Paribus

MACROECONOMICS: Macroeconomics is that branch of economic theory which deals with the study of the economy in the aggregates with specific focus on unemployment, inflation, unemployment, business cycles, growth, monetary and physical policies.

Definition:

In the words of Boulding. "Macroeconomics deals not with individual quantities such as, but with aggregate of these quantities, not with individual income but with national income, not with the individual output but with national output."

In the words of Shapiro. "Macroeconomics deals with the functioning of the economy as awhole."

Scope of Macroeconomics:

1. Theory of National Income
2. Theory of Employments
3. Theory of Money
4. Theory of General Price Level
5. Theory of Economic Growth
6. Theory of International Trade
7. Macro Theory of Distribution
8. Theory of Trade Cycles

Importance / Advantages of Microeconomics:

1. To understand the working of economy
2. Helpful in formulation of economic policies
3. Helpful in controlling economic fluctuations
4. Helpful in international comparisons
5. National Income
6. Helpful in Understanding the Functioning of the Economy

Disadvantages / Limitations of Macroeconomics:

1. Dependence on the Individual Units
2. Heterogeneous Units
3. Misleading Aggregates
4. The Aggregates which Compose a System may not be Significant
5. Micro Changes Sometimes are More Important than Macro Changes

DISTINCTION BETWEEN MICROECONOMICS AND MACROECONOMICS

Microeconomics	Macroeconomics
1- Microeconomics is generally the study of individuals and business decisions.	1- Macroeconomics looks at higher up country and government decisions.
2- Microeconomics is the study of decisions that people and businesses make regarding the allocation of resources and prices of goods and services.	2- Macroeconomics, on the other hand, is the field of economics that studies the behavior of the economy as a whole and not just on specific companies, but entire industries and economies.
3- Microeconomics focuses on supply and demand and other forces that determine the price levels seen in the economy. For example, microeconomics would look at how a specific company could maximize its production and capacity so it could lower prices and better compete in its industry.	3- This looks at economy-wide phenomena, such as Gross National Product (GDP) and how it is affected by changes in unemployment, national income, rate of growth, and price levels. For example, macroeconomics would look at how an increase/decrease in net exports would affect a nation's capital account or how GDP would be affected by unemployment rate.
4- The bottom line is that microeconomics takes a bottoms-up approach to analyzing the economy	4- Macroeconomics takes a top-down approach.

MANAGERIAL ECONOMICS: Managerial economics helps in decision-making as it involves logical thinking. Moreover, by studying simple models, managers can deal with more complex and practical situations.

CHARACTERISTICS OF MANAGERIAL ECONOMICS

i. Managerial Economics is micro-economic in character.
ii. Managerial Economics largely uses that body of economic concepts and principles, which is known as 'Theory of the firm' or 'Economics of the firm'.
iii. Managerial Economics is pragmatic.
iv. Managerial Economics belongs to normative economics rather than positive economics (also sometimes known as Descriptive Economics).

MANAGERIAL ECONOMICS AND OTHER SUBJECTS

Managerial Economics and Economics: A survey in the U.K has shown that business economists have found the following economic concepts quite useful and of frequent application:-

i. Price elasticity of demand,
ii. Income elasticity of demand,
iii. Opportunity cost,
iv. The multiplier,
v. Propensity to consume,
vi. Marginal revenue product,
vii. Speculative motive,
viii. Production function,
ix. Balanced growth, and
x. Liquiditypreference.

Business economics have also found the following main areas of economics as useful in their work:-

i. Demand theory,
ii. Theory of the firm-price, output and investment decisions,
iii. Business financing,
iv. Public finance and fiscal policy,
v. Money and banking,
vi. National income and social accounting,
vii. Theory of international trade, and
viii. Economics of developing countries.

- **Managerial Economics and Management Accounting**

ROLE OF MANAGERIAL ECONOMIST:

Environmental Studies

Business Operations

Specific Functions:

- Sales forecasting.
- Industrial market research.
- Economic analysis of competing companies.
- Pricing problems of industry.
- Capital projects.
- Production programs.
- Security/investment analysis and forecasts.
- Advice on trade and public relations.
- Advice on primary commodities.
- Advice on foreign exchange.
- Economic analysis of agriculture.
- Analysis of underdeveloped economics.
- Environmental forecasting

Economic Intelligence

Participating in Public Debates

BASIC ECONOMIC CONCEPTS IN MANAGERIAL ECONOMICS:

It is useful and essential for better results to identify and understand the basic concepts. These concepts or principles constitute the most significant contribution of economics to managerial economics. The basic concepts or principles are as under:

I. Opportunity cost
II. Incremental principle
III. Principle of the time perspective
IV. Discounting principle
V. Equi-marginal principle

SCIENCE:

The word science comes from the Latin "scientia," meaning knowledge. According to Webster's New Collegiate Dictionary, the definition of science is "knowledge attained through study or practice," or "knowledge covering general truths of the operation of general laws, esp. as obtained and tested through scientific method and concerned with the physical world."

FEATURES OF SCIENCE:

A science is a systematized body of knowledge ascertainable by observation and experimentation. It is body of generalizations, principles, theories or laws which traces out a causal relationship between cause and effects. For any discipline to be a science:

i. It must be systematized bodies of knowledge;
ii. Have its own laws or theories;
iii. Which can be tasted by observation and experimentation;
iv. Can make predictions;
v. Be self-corrective;
vi. Have universal validity.

THE ASSUMPTIONS OF SCIENCE:

The purpose of science is to find order in the chaos of natural phenomena. Science attempts to represent nature as simply and accurately as possible with natural laws--descriptions of how nature behaves. Thus, science is totally based on following assumptions:

- **Reality of the world** - we exist (that's a good thing!)
- **Rationality** - the world is understandable
- **Regularity** - there are recurring patterns in the world
- **Discoverability** - we can discover the solutions to the problems we study
- **Causality** - events happen because of preceding causes

THE GOALS OF SCIENCE:

As per George Abell following are the goals of science:

- Discover Regularities
- Describe the Behaviour
- Discover Laws
- Search for Causes

Role of Science in Development of Economy

Both inventions and innovations related to natural sciences and social sciences plays important role in the development of economy. Invention and innovation cause in the following areas which leads to economic development:

1. Development of new product.

2. Development of new market.
3. Development of new process of production.
4. Increasing productivity.
5. Changing proportion of factors.
6. Increasing urbanization.

Engineering

What is Engineering?

Basically, to put it into simple terms, engineering is where you solve problems. To add a bit more to it, engineers use technical, as well as scientific knowledge in order to make judgments. By using their imaginations, they come up with solutions to problems either new or old.

According to the Accreditation Board for Engineering and Technology (ABET):

***"Engineering** is the profession in which a knowledge of the mathematical and natural sciences gained by study, experience, and practice is applied with judgment to develop ways to utilize economically the materials and forces of nature for the benefit of mankind."*

Role of Engineering in Economic Development

There is a great reliance on technology to solve environmental problems and economic development around the world today. Engineering plays an important role in economic development by: (1) mechanization of the production process, and (2) development of infrastructure

Technology

What Is Technology?

Technology is the making, usage and knowledge of tools, techniques, crafts, systems or methods of organization in order to solve a problem or serve some purpose. The word *technology* comes from Greek *technología*; from *téchnē*, meaning "art, skill, craft", and *-logía*, meaning "study of-". The term can either be applied generally or to specific areas: examples include *construction technology*,*medical technology*, and *information technology*.

Role of Technology In Economic Development