Question no. 1 Write down the Definition and Scope of Economics

DEFINITIONS OF ECONOMICS

Several economists have defined economics taking different aspects into account. The word 'Economics' was derived from two Greek words, oikos (a house) and nemein (to manage) which would mean 'managing an household' using the limited funds available, in the most satisfactory manner possible.

i) Wealth Definition

Adam smith (1723 - 1790), in his book "An Inquiry into Nature and Causes of Wealth of Nations" (1776) defined economics as the science of wealth. He explained how a nation's wealth is created. He considered that the individual in the society wants to promote only his own gain and in this, he is led by an "invisible hand" to promote the interests of the society though he has no real intention to promote the society's interests.

ii) Welfare Definition

Alfred Marshall (1842 - 1924) wrote a book "Principles of Economics" (1890) in which he defined "Political Economy" or Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well being".

iii) Growth Definition

Prof. Paul Samuelson defined economics as "the study of how men and society choose, with or without the use of 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 the future among various people and groups of society".

SCOPE OF ECONOMICS

Scope means province or field of study. In discussing the scope of economics, we have to indicate whether it is a science or an art and a positive science or a normative science. It also covers the subject matter of economics.

i) Economics - A Science and an Art

a) Economics is a science: Science is a systematized body of knowledge that traces the relationship between cause and effect. Another attribute of science is that its phenomena should be amenable to measurement. Applying these characteristics, we find that economics is a branch of knowledge where the various facts relevant to it have been systematically collected, classified and analyzed. Economics investigates the possibility of deducing generalizations as regards the economic motives of human beings. The motives of individuals and business firms can be very easily measured in terms of money. Thus, economics is a science.

Economics - A Social Science: In order to understand the social aspect of economics, we should bear in mind that labourers are working on materials drawn from all over the world and producing commodities to be sold all over the world in order to exchange goods from all parts of the world to satisfy their wants. There is, thus, a close inter-dependence of millions of people living in distant lands unknown to one another. In this way, the process of satisfying wants is not only an individual process, but also a social process. In economics, one has, thus, to study social behaviour i.e., behaviour of men in-groups.

b) Economics is also an art. An art is a system of rules for the attainment of a given end. A science teaches us to know; an art teaches us to do. Applying this definition, we find that economics offers us practical guidance in the solution of economic problems. Science and art are complementary to each other and economics is both a science and an art.

ii) Positive and Normative Economics

Economics is both positive and normative science.

a) Positive science: It only describes what it is and normative science prescribes what it ought to be. Positive science does not indicate what is good or what is bad to the society. It will simply provide results of economic analysis of a problem.

b) Normative science: It makes distinction between good and bad. It prescribes what should be done to promote human welfare. A positive statement is based on facts. A normative statement involves ethical values. For example, “12 per cent of the labour force in India was unemployed last year” is a positive statement, which could is verified by scientific measurement. “Twelve per cent unemployment is too high” is normative statement comparing the fact of 12 per cent unemployment with a standard of what is unreasonable. It also suggests how it can be rectified. Therefore, economics is a positive as well as normative science.

iii) Methodology of Economics

Economics as a science adopts two methods for the discovery of its laws and principles, viz., (a) deductive method and (b) inductive method.

a) Deductive method: Here, we descend from the general to particular, i.e., we start from certain principles that are self-evident or based on strict observations. Then, we carry them down as a process of pure reasoning to the consequences that they implicitly contain. For instance, traders earn profit in their businesses is a general statement which is accepted even without verifying it with the traders. The deductive method is useful in analyzing complex economic phenomenon where cause and effect are inextricably mixed up. However, the deductive method is useful only if certain assumptions are valid. (Traders earn profit, if the demand for the commodity is more).

b) Inductive method: This method mounts up from particular to general, i.e., we begin with the observation of particular facts and then proceed with the help of reasoning founded on experience so as to formulate laws and theorems on the basis of observed facts. E.g. Data on consumption of poor, middle and rich income groups of people are collected, classified, analyzed and important conclusions are drawn out from the results. In deductive method, we start from certain principles that are either indisputable or based on strict observations and draw inferences about individual cases. In inductive method, a particular case is examined to establish a general or universal fact. Both deductive and inductive methods are useful in economic analysis.

Question no. 2 Write down the meaning and subject matter of micro economics

Meaning

The prefix ‘micro’ is derived from the Greek word ‘mikros’ meaning small. Microeconomics studies the economic behaviour of individual economic units and individual economic variables.

Microeconomics is the study of individuals, households and firms' behavior in decision making and allocation of resources. It generally applies to markets of goods and services and deals with individual and economic issues.

Micro means small. Thus, micro economics analyses individualistic behaviour. It studies an individual consumer, producer, price of a particular commodity, household, etc. According to Prof. K.E.Boulding, **"Micro Economics is the study of particular firm, Particular household, individual prices, wages, incomes, individual industries and particular commodities."**

Subject Matter of Micro Economics:

The subject matter of Micro economics basically deals with the following theories:

1. Theory of Product Pricing:

This theory explains how the relative prices of cotton, cloth, rice, car and thousands of other commodities are determined. Price of a commodity depends upon the forces of demand and supply. Therefore, in order to explain the process of determination of price, analysis of demand and supply is necessary. Study of Demand side covers the analysis of consumer's behaviour whereas its supply side covers the analysis of conditions of production, cost and behavior of firm and industry.

Thus, the theory of product pricing is divided into two parts viz. 'Theory of Demand' and 'Theory of Production and Cost'.

2. Theory of Factor Pricing or Micro Theory of Distribution:

The theory of the price determination of various factors of production, such as rent for land, wages for labour, interest for capital and profits for entrepreneur is called theory of factor pricing or micro theory of distribution.

Accordingly, the theory of factor pricing discusses how the reward or return for the various factors of production (land, labour, capital and entrepreneur) should be repaid, when they are contributing to the production activities.

3. Theory of Economic WELFARE:

This theory deals with the efficiency in the allocation of resources. Efficiency in the allocation of resources is attained when it results in maximization of satisfaction of people.

I. Economic Efficiency: implies maximum satisfaction with the help of minimum use of resources. It involves three efficiencies Efficiency in production: It means producing maximum possible amount of goods from the given resources.

II. Efficiency in consumption: It means distribution of goods and services among the people for consumption, in such a way that it gives maximum satisfaction to consumers.

III. Efficiency in the direction of production: It means production of those goods which are most desired by the people.

Thus, the subject matter of micro economics is mainly concerned with the price theory and allocation of resources. It seeks to examine the basic economic questions regarding production, distribution and consumption of goods and services.

Question no. 3 Write down the meaning and subject matter of macro economics

It is that part of economic theory which studies the economy in its totality or as a whole. Macroeconomics is the study of aggregates and averages of the entire economy.

Subject Matter of Macro Economics

1. Determination of National Income:

The first major issue in macroeconomics is to explain what determines the level of employment and national income in an economy and therefore what causes involuntary unemployment. The level of national income and employment are very low in times of depression as in 1930s in various capitalist countries of the world. This will explain the cause of huge unemployment that emerged in these countries. Classical economists denied that there could be involuntary unemployment of labour and other resources for a long time. Classical economist thought that with changes in wages and prices, unemployment would be automatically removed and full employment established. But this did not appear to be so at the time of great depression in the thirties (1930) and after. Keynes explained the level of employment and national income is determined by aggregate demand and aggregate supply. With aggregate supply curve remaining unchanged in the short run, it is the deficiency of aggregate demand that causes under employment equilibrium with the appearance of involuntary unemployment. According to Keynes it is the changes in private investment that causes fluctuations in aggregate demand and is, therefore, responsible for the problems of cyclical unemployment.

2. General Price-level and Inflation:

Another macroeconomic issue is to explain the problem of inflation. Inflation had been a major problem faced by both the developed and developing countries in the last 50 years. Classical economists thought that it was quantity of money in the economy that determined the general price level in the economy and according to them, rate of inflation depended on the growth of money supply in the economy. Keynes criticized the 'quantity theory of money' and showed that the expansion in money supply did not always lead to inflation or rise in price-level. Keynes who before the second world war explained that involuntary unemployment and depression were due to the deficiency of aggregate demand, during the war period when prices rose very high, he explained in his booklet' how to pay for war' that just as unemployment and depression were caused by the deficiency of aggregate demand, inflation was due to the excessive aggregate demand. Thus, Keynes put forward what is now called 'demand-pull theory of inflation'. After Keynes, theory of inflation has further developed and many theories of inflation depending upon various causes have been put forward, to analyse the problem of inflation is an important issue in macroeconomics.

3. Business Cycles:

Throughout history market economics have experiences business cycles. Business cycles refer to fluctuations in output and employment with alternating periods of boom and recession. During boom or prosperity both output and employment are at high levels, whereas in recession both output and employment fall as a consequence large unemployment came into existence in the economy. When recession is extremely severe, they are called depression. What are the causes of these business cycles is an important macroeconomic issue which has been highly controversial. The objective of macroeconomic policy is to achieve economic stability with equilibrium at full-employment, level of output and income.

4. Stagflation:

During the decade of 1970s and in the subsequent decades market economies have experienced a still more intricate problem which has been described as stagflation. While in business cycles, recession or depression is accompanied by not only high degree of unemployment but also rapid inflation. This is a period which has high unemployment and recession (stagflation) which co-exists with high inflation. This problem is called stagflation. Stagflation could not be explained with Keynesian theory, which focuses on the demand side. Therefore, a new economic thought which is called supply-side economies emerged which explained stagflation by laying stress on the supply side of economic activity. Stagflation is an important issue of modern macroeconomics.

5. Economic Growth:

Another important issue in macroeconomics is to explain what determines economic growth in a country. Theory of economic growth has been recently developed as an important branch of macroeconomics. The problem of growth is a long-run problem and Keynes did not deal with it. It was Harrod and Domar who extended the Keynesian analysis to the long-run problem of growth with stability. They laid stress on the dual role of investment- one of income generating, which Keynes ignored because of his preoccupation with the short-run. Harrod and Domar in their models showed that investment adds to productive capacity (capital stock), and then if growth with stability (without stagnation or inflation) is to be achieved, income or demand must be increasing at a rate large enough to ensure the full utilization of the increasing capacity. Thus, macroeconomic models of Harrod and Domar have explained the rate if growth of income that must take place if the steady growth of the economy is to be achieved. These days growth economics has been further developed and extended a good deal and new theories of growth have been put forward by Solow, Meade, Kaldor and Joan Robinson.

Since the growth theories of Harrod, Domar, Kaldor, Meade and others apply particularly to the present day developed countries, special theories which explain the causes of underdevelopment and poverty in less developed countries and they also suggest strategies for initiating and accelerating growth in them have also been propounded. These special growth theories relating to less-developed countries are generally known as economies of development.

6. Balance of Payments and Exchange Rate:

Balance of payments is the record of economic transactions of the residents of a country with the rest of the world during a period. The objective of preparing such a record is to present an account of all the receipts of goods imported, services rendered, and capital received by the residents of a country and the payments made for goods imported, services received and capital transferred to other countries by residents of a country. There may be deficit or surplus in balance of payments. Both create problems for an economy. An important effect is that the transactions in balance of payments are influenced by the exchange rate. The exchange rate is the rate at which a country's currency is exchanged for foreign currencies. The instability in exchange rate has been a major problem in recent years which has given rise to serious balance of payments problems.

Question no. 4 what are Central Problems Of An Economy?

We know that resources limited in relation to the unlimited wants, it is important to economise their use and utilise them in the most efficient manner.

It leads to the following central problems that are faced by every economy.

1. What to produce
2. How to produce
3. For whom to produce

1. **What to produce:** It is basically the problem of selection of commodities and their quantities to be produced. There is a limited resource, and thus producers can't produce all the goods, in an economy.

So, every economy has this problem that what to produce and in what quantities. It has two dimensions.

(a) Kinds of goods to be produced

(b) Quantity of goods to be produced

2. **How to produce:** this problem refers to the selection of technique to be used for the production of goods and services.

There are various techniques available to produce goods.

(a) Labour Intensive Technique (greater use of labour)

(b) Capital Intensive Technique (greater use of machines)

Choice of technique mainly depends upon the availability of resources, structure of economy and policies of the government. Thus it is difficult to allocate the resource efficiently and effectively.

3. **For whom to produce:** Due to lack of resource in every economy, can't satisfy all the wants of its people. So, there is a problem to select the category of people who consume the goods. Whether to produce goods for the rich section or poor section of society or more for rich and less for the poor section.

The allocation of scares resources and the distribution of the final goods and services are the central problem of the economy.

The Reason behind these central problems is the compulsion of making choices among alternative uses of scarce resources to get maximum satisfaction.

Question no. 5 Explain the types of economic system in the world

There are four primary types of economic systems in the world: traditional, command, market and mixed. Each economy has its strengths and weaknesses, its sub-economies and tendencies, and, of course, a troubled history.

1. Traditional Economic System
A traditional economic system is the best place to start because it is, quite literally, the most traditional and ancient type of economy in the world. There are certain elements of a traditional economy that those in more advanced economies, such as Mixed, would like to see return to prominence.

2. Command Economic System
In terms of economic advancement, the command economic system is the next step up from a traditional economy. This by no means indicates that it is fairer or an exact improvement; there are many things fundamentally wrong with a command economy.

Centralized Control: The most notable feature of a command economy is that a large part of the economic system is controlled by a centralized power; often, a federal government. This kind of economy tends to develop when a country finds itself in possession of a very large amount of valuable resource(s). The government then steps in and regulates the resource(s). Often the government will own everything involved in the industrial process, from the equipment to the facilities.

3. Market Economic System
A market economy is very similar to a free market. The government does not control vital resources, valuable goods or any other major segment of the economy. In this way, organizations run by the people determine how the economy runs, how supply is generated, what demands are necessary, etc.

Capitalism And Socialism: No truly free market economy exists in the world. For example, while America is a capitalist nation, our government still regulates (or attempts to regulate) fair trade, government programs, moral business, monopolies, etc. etc. The advantage to capitalism is you can have an explosive economy that is very well controlled and relatively safe. This would be contrasted to socialism, in which the government (like a command economy) controls and owns the most profitable and vital industries but allows the rest of the market to operate freely; that is, price is allowed to fluctuate freely based on supply and demand