

# ECONOMICS

GEN COM COE

**Module 1 ; Class 1**

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### ☐ BASIC CONCPETS OF ECONOMY

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- ☐ Developed and Underdeveloped Economy. Developing economy
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## BASIC CONCPETS OF ECONOMICS

- ✓ ☐ The word “Economics” was originated from a Greek word called OIKONOMIA.
- ✓ ☐ Here Oikonomia derived from the combination of two Greek words – OIKOS (Household) and NOMOS (Management).
- ✓ ☐ ‘Oikonomia’ implies management of a household or administration.

## History of Economics

- ☒ The subject Economics was first discussed in ancient Greece as a part of Social Science.
- ☒ Scottish scholar Adam Smith first defined Economics as a separate subject through his renowned book called 'An Enquiry into the Nature and Causes of the Wealth of Nations (1776)', popularly known as 'Wealth of Nation'.
- ☐ Hence Adam Smith is known as father of economics, also called father of political economics and father of classical economics.



## History of Economics

DD - SS

- ☐ Here classical economics believes that every production decision to be determined by demand and supply. There will be no government intervention.

$DD > SS \Rightarrow P \uparrow$

$DD < SS \Rightarrow P \downarrow$

- ☒ Name of some classical economists- J. S Mill, J. B. Say, David Ricardo.

- ☒ The idea of non-government intervention (or Laissez faire) system got questioned during 1930's great depression. Market stopped functioning and economy dipped into huge crisis.

## Concepts to know

### Laissez faire

It is an economic philosophy of free market that opposes govt. intervention.

The basic principle of Laissez faire holds that market should be naturally competitive which promotes the idea of capitalism.

This idea was developed by the French Physiocrats during the 18th century which was further popularised by **Adam Smith** in his book '**Wealth of Nation**'.

- ❑ British economist John Maynard Keynes argued for FILL THE WHOLE policy for government which can stimulate the demand. Through this idea the role of government has been established when market economy fails.
- ✓ ❑ Eventually J M Keynes became known as- Father of modern economics.
- ❑ His book General Theory of Employment, Interest and Money (1936) is regarded as one of the most influential economics books of the twentieth century





➤ **Factors of production:**

- Inputs those are used in any type of production is called factors of production.

- In economics there are basic **four factors of production-**

**Land** – It is natural resource

**Labour** – It means physical and mental effort

**Capital** – It is a produced means of production

**Organisation** – It bears risk and uncertainty in any production

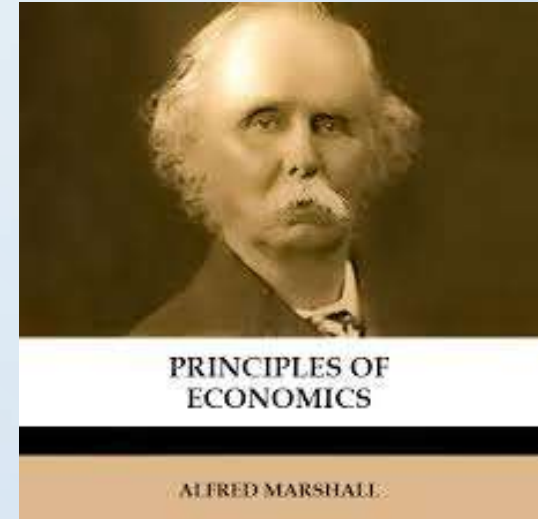


## Functions of Economics

- ❑ Economics deals with three basic functions and those are- 1. Production 2. Distribution 3. Consumption
- ✓ ❑ Production: Any activity which has income generation power by converting raw materials into finished products. Example- Teaching in school, production of any goods like books, food etc.  
*non-economic production*
- ❑ Activities those are not production: A teacher teaching his daughter at home, housewives activities at home, farmer cultivating to feed his own family etc.
- ✓ ❑ Distribution: The process through which inputs or outputs are being allocated to generate sufficient satisfaction.
- ✓ ❑ Consumption : The process in which goods or services are used to satisfy economic needs.

## Definition of Economics

- ❑ Economics has many definition. As the subject evolves, the definitions evolve with it. A lot of economists defined economics in different ways based on their research and perception.
- ❑ Alfred Marshall, who is known as father of neo-classical economics, named his famous book on economics as 'Principles of Economics' and defined economics as : "Political Economy or Economics is the study of mankind in the ordinary business of life, it examines the behaviour of individual and social action".

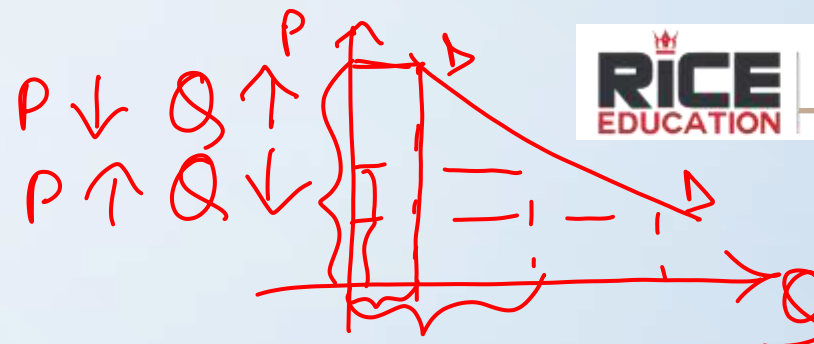


## Defination of Economics

- ☒ Jacob Viner described economics in a very simple way by saying “Economics is what economists do”.
- ☒ J. B. Say defined economics as the science of production, distribution, and consumption of wealth.
- ☒ Professor Samuelson writes “Economics is the oldest of the arts, newest of the science – indeed the queen of all social science”.
- ☒ According to Lionel Robbins “Economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.”
- ☒ So the basic problem of economics is scarcity of resources and unlimited human wants.

# Branches of Economics

## Microeconomics



- ☐ The term derived from the Greek word MIKROS which means small.
- ☐ The Branch of economics which deals with single or individual unit like individual consumer or house hold is called microeconomics.
- ☒ Microeconomic theories- Theory of demand and supply, theory of production, cost, market and revenue etc.
- ☒ Microeconomics is also known as Price Theory



# Macroeconomics

- ❑ The word Macro comes from the Greek word MAKROS which means large.
- ❑ The branch of economics which deals with the functioning of the economy as a whole is called macroeconomics.
- ❑ Some macroeconomic theories- fiscal policy, monetary policy, inflation, national income etc.
- ❑ Macroeconomics is also known as- Theory of Income and Employment.
- ❑ ~~The term Microeconomics and Macroeconomics were first coined by Professor Ragnar Frisch~~

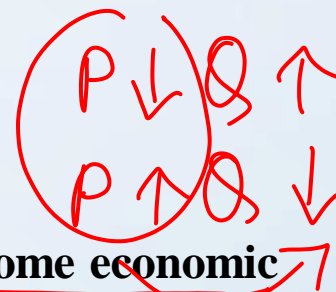


## Positive Economics

- ❑ It deals with causes and consequences of some economic fact. It relies on objective data analysis, relevant facts and associated figures.



Positive economics was popularized by the economist Milton Friedman, who said that economic science should objectively analyse data without any bias or agenda.



$M_s \uparrow \Rightarrow$  Purchasing Power  $\uparrow$



## Normative Economics

- ☐ Normative economics focuses on value-based judgments aimed at improving economic development, investment projects and the distribution of wealth. It deals with what it ought to be.
- ☒ One of the most famous normative economists is Amartya Sen, a Nobel prize winner (1998).



## BASIC CONCEPTS OF ECONOMY

- ☐ It is a broad institutional and legal framework where human activities like production, consumption, exchange, distribution take place.
- ☐ Economic system is also known as economic society or simply the economy of the country. The economic agents can be individuals, organisation or government.
- ☐ Normally an economy may be classified either on the basis of–
  - ☐ (i) Ownership of resources
  - ☐ (ii) Level of economic growth
  - ☐ (iii) Its nature

**On the basis of ownership of resources, an economy  
can be classified as –**

- ☒ **Capitalistic/ Market/ Free Enterprise/ Laissez Faire economy**
- ☒ **Socialistic/ Controlled/ Command economy**
- ☒ **Mixed/Semi-controlled/ Semi- command economy**

$DS \times SS \Rightarrow P \uparrow$   
 $DS < SS \Rightarrow P \downarrow$

CAPITALISTIC ECONOMY	SOCIALISTIC ECONOMY
1. All factors of production are owned by the <b>private sector</b> .	1. All resources and factors of production are owned by the <b>Government</b> .
2. Production is done according to <b>market demand</b> .	2. Production is done according to needs.
3. Prices of all products are determined at <b>the market</b> .	3. Prices of all products are determined by the <b>Government</b> .
4. Producers and consumers enjoy an absolute freedom and sovereignty	4. Freedom and sovereignty of consumers and producers are nil.
5. A huge <b>competition</b> is observed among the producers.	5. <b>Economic planning</b> is done.
6. <b>Profit maximization</b> is the chief aim.	6. <b>Social welfare</b> maximization is the chief aim.
7. The role of government is <b>very minimum</b> and that of market is very important.	7. The role of government is <b>very important</b> .
8. <b>Economic Inequality</b> is a serious problem of this type of economy etc.	8. <b>Bureaucratic problem</b> is a major problem of this kind of economy etc.
9. Examples : USA, UK, Australia etc.	9. Examples : China, Vietnam, Cuba, <b>Former Soviet Russia</b> etc.

## Mixed Economy

- ☒ It is a kind of economy where both government or public and private sectors co-exist. But government sector to some extent controls the private sector.
- ☒ Examples: India, Pakistan, Bangladesh, Sri Lanka etc.
- ☒ India adopted mixed economic policy in 1948.

On the basis of economic development an economy can be classified into

- ☒ Developed Economy
- ☒ Underdeveloped / Least-developed Country (LDC)
- ☒ Developing Economy

## Difference between economic growth and economic development

1. Economic growth is the positive change in the real output of the country in a particular span of time.

Economic Development involves a rise in level of production in an economy along with the advancement of technology, improvement in living standards and so on.

$$ED = EG + \text{Social changes}$$

2. Economic growth enables an increase in indicators such as GDP, per capita income etc.

On the other hand, economic development enables improvement in the life expectancy rate, infant mortality rate, literacy rate and poverty rates etc.

## Difference between economic growth and economic development

3. Economic growth results in quantitative changes, but economic developments brings both quantitative and qualitative changes.

4. Economic growth can be measured in a particular period. On the other hand, economic developments is a continuous process, which can be seen in the long run. It is applicable in case of developing countries



### Comparative analysis of developed and underdeveloped economy:

DEVELOPED ECONOMY	UNDERDEVELOPED ECONOMY
✓ High national income and per capita income	✓ Low national income and per capita income
✓ Low population growth rate	✓ High population growth rate
✓ Low poverty rate	✓ High poverty rate
✓ Low unemployment rate	✓ High unemployment rate
✓ Low Maternal Mortality Rate (MMR), Infant Mortality Rate (IMR)	✓ High Maternal Mortality Rate(MMR), Infant Mortality Rate (IMR)
✓ High Literacy Rate	✓ Low Literacy Rate
Example- US, UK, Germany etc.	Example- <u>Niger</u> , <u>Afghanistan</u> , Burundi etc.

## On the basis of Nature ,Economy Can be classified as

- a) Agricultural / Traditional Economy
- b) Industrial / Modern Economy
- c) Dualistic Economy

## Salient features of agricultural / traditional economy:

- ✓ ☐ Maximum proportion of population is engaged in agricultural sector.
- ✓ ☐ Maximum portion of national income comes from agricultural sector.
- ✓ ☐ Import is dominated by industrial product and export is dominated by agricultural product.
- ✓ ☐ Example : Sub-Saharan Africa.



## Feature of Industrial economy

- ☒ Maximum proportion of population is engaged in industrial sector
- ☒ Maximum portion of national income comes from industrial sector
- ☒ Export is dominated by industrial product
- ☒ Example- china , Japan USA , UK etc.



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**Dualistic economy** – An economy where both technically advanced and primitive sector co-exist

## Some more types of economies

- ❑ Simple Economy: An economy in which there is no application of knowledge of science and technology. In this economic system money is not considered as medium of exchange. Presently simple economy does not exist.
- ❑ Complex Economy: Complex Economy is such an economy where infrastructure is developed and monetary structure is improved. Here money is used as a medium of exchange.
- ❑ Presently all countries are examples of complex economy.

- ☒ **Closed Economy:** It is a kind of economy which does not maintain any international relationship. Here no trade of goods and services take place.
- ☒ **Open Economy:** It is a kind of economy in which international trade takes place. Presently all countries are examples of open economy.



## **CENTRAL ECONOMIC PROBLEMS :**

**Every economic system, regardless of its type, faces three fundamental or central or basic economic problems. These are**

- i) What to produce and in what quantity?**
- ii) How to produce?**
- iii) For whom to produce?**



## CENTRAL ECONOMIC PROBLEMS AND ITS SOLUTION IN DIFFERENT ECONOMY

- ☒ In the capitalist economy such problems are solved by Price Mechanism or Market Mechanism or Market forces (on the basis of market demand & supply).
- ☒ But in a socialist economy these problems are solved in another way. Here, it is the economic planning through which these central economic problems are solved.
- ☒ Finally, it should be better to mention that in a Mixed Economy, economic problems can be addressed by both the price system and economic planning.

1. Which of the following explain the term ‘economic development’ : [ WBCS Mains 2020]
  - A. Improvement in technology involved
  - B. Improvement in production
  - C. Improvement in distribution system
  - D. All of the above

**Mixed Economy is an economy where : [ WBCS Mains 2018 ]**

- A. There is coexistence of public sector along with private sector**
- B. Both agriculture and industry are equally promoted by the state**
- C. Economy is controlled by military and civilians**
- D. There is equal importance of both small scale and heavy industries**

**Ans- A**

. India opted for mixed economy in : [ WBCS Mains 2017 ]

- A. Framing the constitution
- B. Industrial policy of 1948
- C. Second five year plan
- D. None of them

Ans- B

**Economic growth in India will happen necessarily if there is : [ WBCS Mains 2016]**

- A. Population growth**
- B. Capital Formation**
- C. Technological progress in global economy**
- D. All of these**

**Ans- B**

**THANK YOU**