SS1 Economics – Week 1

Topic: Meaning of Economics and Related Concepts

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1. DEFINITION AND SCOPE OF ECONOMICS

What is Economics?

Economics is the study of how people, businesses, and governments make choices on how to use limited resources to meet their unlimited wants.

Human wants are unlimited—we want food, clothes, houses, phones, cars, education, etc. But the resources to get these things—like money, time, raw materials—are limited or scarce. So, we must make choices. Economics helps us understand how to make the best use of what we have.

Popular Definitions of Economics

Adam Smith (Father of Economics):
Defined economics as “an inquiry into the nature and causes of the wealth of nations.”
His focus was mainly on how a country can grow rich and how people can accumulate wealth through trade and production.

Alfred Marshall:
He saw economics as “a study of man in

the ordinary business of life."
Marshall emphasized the well-being and satisfaction of individuals, not just wealth.

Lionel Robbins:
He defined economics as "the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses."
This is the most widely accepted modern definition. It emphasizes:

Human wants (ends) are unlimited

Resources (means) are limited and scarce

We must choose how best to use them

Scope of Economics

The scope of economics refers to the areas or branches it covers:

1. Microeconomics:
Focuses on individual parts of the economy like a single business, consumer, or market.
Examples:

How a company sets its product price

How consumers choose what to buy

How demand and supply affect prices

2. Macroeconomics:
Deals with the economy as a whole. It looks at broad issues like:

Inflation (general rise in prices)

Unemployment

National income

Government policies

Economic growth

3. Other Areas of Scope:

Production: Creating goods and services

Distribution: Getting goods from producers to consumers

Consumption: How people use goods and services

Public Finance: How governments raise and spend money

International Trade: Exchange of goods between countries

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2. IMPORTANCE AND METHODOLOGY OF ECONOMICS

Importance of Studying Economics

1. Helps in Decision-Making:
Individuals, businesses, and governments all make economic decisions. Economics helps us make better choices, e.g., whether to save or spend money.

2. Solves Basic Problems of Scarcity:
Economics helps societies decide:

What to produce?

How to produce?

For whom to produce?

3. Guides Economic Policies:
Governments use economic knowledge to make budgets, tax plans, subsidies, and other policies that improve citizens’ lives.

4. Improves Standard of Living:
When resources are used wisely, it leads to more production, job opportunities, and better living conditions.

5. Assists Businesses:
Economics helps companies understand market trends, consumer behavior, and competition so they can succeed.

6. Helps in Personal Financial Planning:
Individuals learn how to manage income, save money, and invest wisely.

Methodology of Economics

This refers to the ways economists study problems and find solutions. There are two main methods:

a. Positive Economics

Based on facts and real-life observations.

Explains “what is.”

Example: “A rise in the price of petrol will reduce its demand.”

b. Normative Economics

Based on opinions, values, and what ought to be.

Suggests what should happen.

Example: “The government should reduce petrol prices to help the poor.”

Steps in the Economic Method

1. Observation:
Noticing economic events or patterns. E.g., noticing that people buy less rice when the price rises.

2. Formulating Hypotheses:
Making an assumption or educated guess. Example: “If the price of rice increases, demand will fall.”

3. Data Collection and Testing:
Gathering real data to prove or disprove the hypothesis.

4. Developing Economic Theories and

Laws:
After testing, the idea becomes a theory or law if it holds true repeatedly.

5. Prediction:
Economists use theories to predict future events, such as the effect of rising fuel prices on transport costs.

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3. ECONOMICS AS A SCIENCE

Why is Economics Considered a Science?

Economics is considered a social science because it uses scientific methods to study human behavior in relation to resource use.

Just like physics or chemistry:

It observes facts

It forms hypotheses

It tests predictions

It develops theories

However, it is a social science, not a natural one, because:

1. Human Behavior is Unpredictable: People may not always act logically or rationally.

2. Economic Laws are Not Universal: Unlike natural sciences, the laws of economics don’t apply everywhere or at all

times. For example, a fall in price does not always increase demand (if the good is of low quality).

3. Influenced by Emotions and Culture: People's decisions are often influenced by religion, culture, trends, and emotions—factors that are not easily measurable.

Summary / Recap

Economics is the study of how scarce resources are allocated to satisfy human wants.

It involves making choices due to scarcity.

It is divided into microeconomics and macroeconomics.

The subject is important for personal, business, and government decision-making.

It uses both positive (fact-based) and normative (opinion-based) methods.

Economics is a science, though not exact like physical sciences, because it deals with human behavior.