



IHS Lectures: ECONOMICS

Lecture 1:

The Economic Problem

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What Is Economics?





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In its simplest terms, economics is the study of how humankind secures its daily bread.

Individual vs Society



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We thrive not through individual self-sufficiency but through **specialization**. Just about 5 lakh coal workers power our energy needs. Train operators, sanitary workers and countless specialists keep the society functioning.

Division of Labour: Our Greatest Strength

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Specialized Production

Workers focus on specific tasks

Increased Prosperity

Society grows wealthier together



Trade & Exchange

Goods flow between producers

Consumption

Everyone benefits from others' skills

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Hidden Vulnerability: Our prosperity depends on millions of specialized workers. We are rich, not as individuals, but as members of a rich society, and our easy assumption of material sufficiency is actually only as reliable as the bonds that forge us into a social whole.

Economics and Scarcity



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- **Scarcity is socially and psychologically shaped**: as societies become richer, human wants expand—often driven by social status—so the feeling of scarcity can intensify rather than disappear.
- **Economics therefore studies the interaction between nature, human wants, and productive capacity**, recognizing that both desires and output are variable and socially determined, not fixed.



Two Key Tasks of Economic Society

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*These tasks appear simple but conceal enormous **complexity**. Most societies throughout history have only partially succeeded.*

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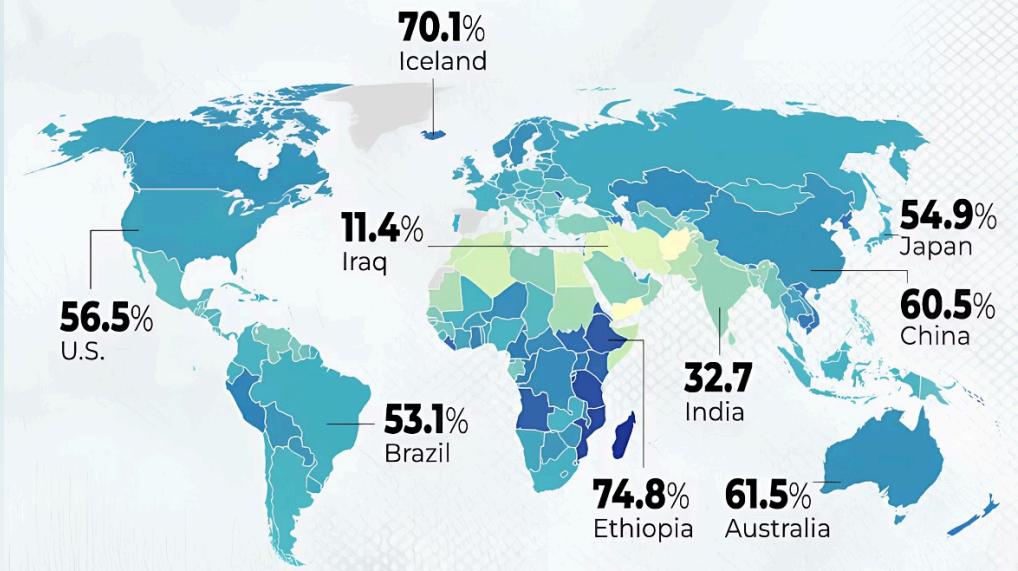
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Indian Women Out of Job Market

India was 165th out of 187 countries in terms of female labour force participation rate



Female labour force participation rate in 2023
4.8% 82.7%



Note: Share of female population ages 15+, modelled ILO estimate

Source: Gender Data Portal, World Bank Group

Graphic: Samrat Sharma, Jaipal Sharma

Allocating Effort Wisely

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Balance Output

Too many cars or too few? Luxuries whilst people starve? Allocation failures threaten society's survival.



The Distribution Dilemma



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Sustaining Workers

- In many nations, workers are often unable to work effectively because of their meager compensation. Worse yet, they often languish on the job while granaries bulge with grains.



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An inadequate solution to the distribution problem often reveals itself not in inadequate production but in social and political unrest.

Three Solutions to Economic Organization

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Tradition

Following ancestral ways—sons inherit fathers' occupations, customs dictate distribution.



Command

Authority directs economic activity—from pharaohs building pyramids to modern taxation.



Market

Individuals freely choose—yet society's needs are mysteriously fulfilled.

Tradition: The Ancient Solution

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Hereditary Chains

Jobs pass from Father to Son

Ancient Egypt

"...every man was bound by a principle of religion to follow the occupation of his father and was supposed to commit the most horrible sacrilege if he changed it for another." ~ Adam Smith

India

One is born to a caste that had its own occupation

Tradition also regulates Distribution through kinship rules

The rules of distribution could be subtle or crude, equal or unequal. Irrespective of the moral standpoint, it does serve as a *method* for distribution!



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The Cost of Tradition:

Stability comes at the cost of stagnation. Bedouin tribes and Burmese villages remain largely unchanged for centuries. Internal economic change is minimal.

Command: The Power Solution

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Ancient Egypt

Pharaoh Cheops mobilized 100,000 workers for 10 years to build pyramids and roads—authority imposed upon traditional agriculture.



Medieval China

Despotic rulers organized massive projects like the Great Wall through centralized economic control.



Modern Applications

Taxation, martial law during disasters, Nazi Germany, Soviet economic planning, Emergency in India—command has been an important tool for economic organization even in democracies.

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- Unlike tradition, command can **rapidly enforce economic change**—the most powerful instrument for transformation.
- It can be an instrument of a democratic as well as of a totalitarian rule.
- No society today is without its elements of command, just as none is devoid of the influence of tradition.

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"But what if no one volunteers for farming or bus driving?"

"The market will ensure all jobs are filled—it will be to people's advantage."

"But how will we fix the right level of any product (say cloth) in this 'market society' ?"

"You won't!"

"Then how do we know there will be enough cloth produced?"

"The Market will see to that."

And how do we know there won't be too much cloth produced?"

"The Market will see to that too!"

"And who runs this Market?"

"Nobody runs it. It runs itself through how people behave."

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This seems *inconceivable* to those unfamiliar with markets—yet it can often work!

Economics and the Market System

- How does the market system assure us that our mines will find miners, our factories workers?
- How does it take care of production?
- How does it distribute its production?
- How does it happen that in a market-run nation each person can indeed do as he or she wishes and still fulfill needs that society as a whole presents?
- Does the market always succeed ? When does it fail?
- Is the market just ?



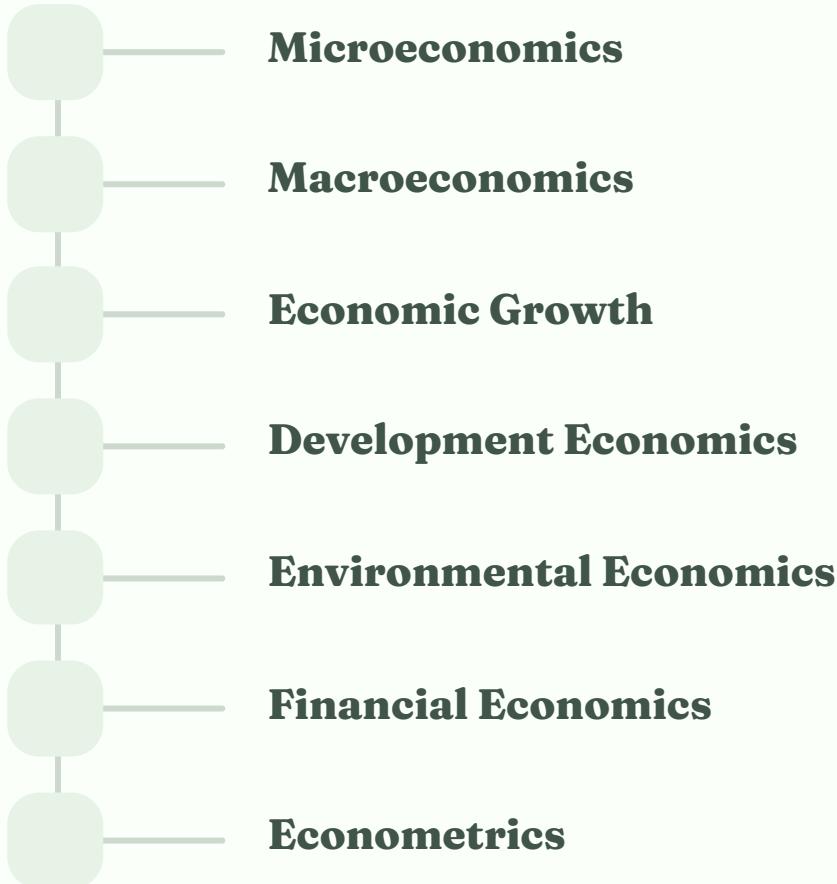
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❑ The discipline of Economics is primarily concerned with these very problems — many of the problems we encounter as a society in today's world have to do with the workings or mis-workings of the market system!



Branches of Economics

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- Microeconomics**
 - Macroeconomics**
 - Economic Growth**
 - Development Economics**
 - Environmental Economics**
 - Financial Economics**
 - Econometrics**