

# Tutorial 1: Introduction to Economics

**Indian Institute of Technology Delhi**

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# Economics: Definitions?

- Economics is a study of the ways in which people use 'resources' to satisfy their wants.
- Problem of scarcity
- How to narrow this gap between what people want and what they are able to get is the basic problem studied in economics
- Narrowing the gap: Want less or get more
- Poets, philosophers, the proponents of various religions, and employers often counsel us to follow the first way.
- History shows that we have usually attempted the second way, the way of getting more, with varying and not easily-measured degrees of success.

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# Economics: Definitions?

- Economics as a study of how people organize the use of resources to satisfy their wants.
- In other words, economics is a study of economic organization.
- It is a study of how each type of economic organization is supposed to work.
- Just economic institutions? Or more?
- Production and allocation of material goods (and services) - Narrower
- Economics as a discipline has grown much faster in the last 80-90 years. Need broader definition?
- Economics - the analysis of incentives in all social institutions. (Myerson 1999)



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# Economics and Right and Wrong

- Questions of right and wrong are related to human value systems with which the economist may be deeply concerned as an individual but not as a scientist.
- In this framework, the task of the economist is to develop techniques for analyzing problems so that he can predict what will happen if a given change is introduced into a given situation.
- The responsibility then rests with the people, or those in authority, armed with this knowledge, to decide whether the consequences are or are not desirable.
- As a human being the economist will have his likes and dislikes, his preferences, his pet aversions, and his loyalties.
- As a scientist he must learn to hold these in check. He must not let them color his conclusions.
- But as a scientist he must have one loyalty, even though it too rests on an assumption. He must believe in the scientific method.

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# A scientific approach to the study of Economics

- Science is more than the technologies which cluster about it—more than its inventions and gadgets...
- ...it is even more than the discovery and correlation of new facts. Science is a method, a confidence and a faith. (Former president of the Rockefeller Foundation, Raymond B. Fosdick, in his 1940 Report)
- Science and freedom are inseparable.
- The economist cannot be true to science unless he is free—free to speculate, to criticize, to compare and to predict, for prediction is the end goal of science.
- Freedom is one of the few absolutes which the scientist must recognize.
- For this reason, we will call that economic system, economic policy, or economic action wrong which seems to present a clear threat to the maintenance of freedom.

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# Development as Freedom: Amartya Sen

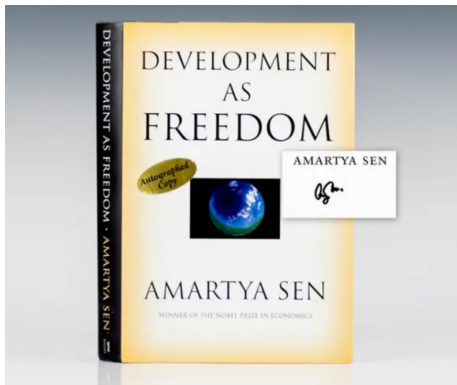


Figure: Book: Development as Freedom

# Equality: A scientific approach?

## *Equality of What?*

AMARTYA SEN

THE TANNER LECTURE ON HUMAN VALUES

Delivered at  
Stanford University

May 22, 1979

Figure: Equality of What?

# Questions?

- What are the two ways of narrowing the gap between what people want and what they are able to get? Can the economist say which of these ways is the better?
- "The economic organizations of all societies past and present appear to fall predominantly into one of two classifications or types." Can you think of any exceptions to this statement? What are the two types the authors have in mind?
- Distinguish between an economic good and a service; between a free good and an economic good.

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# References

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- Development As Freedom. SEN, Amartya. Item Number: 4059 New York: Alfred A. Knopf, 1999.
- NASH EQUILIBRIUM AND THE HISTORY OF ECONOMIC THEORY by Roger B. Myerson (JEL)
- ECONOMICS By John V. Van Sickle and Benjamin A. Rogge