

ECONOMICS

CHAPTER-26

MEANING AND IMPORTANCE

OF ECONOMICS



After studying this chapter you learn :

- Know the importance of consumers, sellers, producers, service providers in economics.
- Know the importance of studying economics.
- Be able to define-economic activities, production and factors of production.

Meaning of Economics

Everyday we make use of a variety of goods and services, and thereby, satisfy our needs. We eat food, wear clothes, and use different kinds of goods like pens, pencils, bicycles, T.V. and mobiles. We make use of services of teachers to learn to read and write, and the services of doctors when we are ill. In the same manner, everybody around us makes use of goods and services. Such people are called Consumers.

The goods that we use are not available to us free of cost. We have to pay money for them. The people who obtain the goods from the producers and sell them to the consumers, are called Sellers.

Farmers grow food grains, fruits and vegetables. The cobbler make shoes for us. A goldsmith prepares gold ornaments. A tailor stitches clothes for us. Owners of factories manufacture a variety of goods. All these people are called Producers.

Many agricultural workers work in the fields. Many people work in hotels, business and commercial centres, information and technology companies and various other organisations for wages. These people are called Labourers.

We make use of buses, trains, boats, ships and aeroplanes to transport people and goods from one place to another. The electric

company supplies electricity to everyone. The telephone company provides telephone, mobile and internet services. They have to be given money for such services. The people who provide such services are called Service Providers.

Observe the situations given above. Consumers pay money and buy the goods and services they need. Sellers, producers, labourers and service providers engage in profitable businesses. Thus, all the activities that man engages in to earn money and to utilize money are called economic activities. Economics is a subject which studies the daily economic activities of man.

Indians, from ancient times, have given importance to the study of man's economic activities. Detailed information is available in the Manusmruti about farming, industry, tax, revenue and other economic issues. Kautilya, who lived during the Mauryan period, wrote a book called Arthashastra. This gives detailed explanation of not only political administration but also financial management and general economic system.

*The word '**Economics**' originates from the two Greek root words **okos** and **nomos**. **Okos** means 'a house' and **nomos** means 'management'. Thus the word '**Economics**' means making good use of the resources in order to bring happiness and satisfaction to all the members of the family. Over the years, the scope of Economics has widened to national and international levels.*

The subject matter of Economics has been changing from time to time. The Father of Economics, **Adam Smith**, who lived in the 18th century, has said, "Economics is the study of Wealth."

The Importance of the Study of Economics

There is a financial aspect influencing most of the activities of man. Economics helps us in many ways in our lives. Every citizen should have knowledge of economics. The points mentioned below bring out the importance of the study of economics:

- Economics helps us to understand poverty, unemployment, economic inequality and other related problems that we get to see around us, and to find solutions for those problems.

- When we attempt to satisfy our unlimited wants through our limited income, problems of choice crop up. Economics enables us to find solutions in such situations.
- When producers want to create goods and services, they are faced with questions like – what to produce? How to produce? Whom to produce for? At what price to produce? Knowledge of economics guides them on such occasions.
- Economics identifies the reasons for the rise and fall of prices, and the results of such fluctuations. It provides ideas to bring stability in prices.
- Land, water, forests, minerals and other natural resources are limited in quantity. Economics suggests ways to make use of these limited resources with care and efficiency, and also pass them on to the next generation.

In this manner, Economics is very helpful in our daily lives. Thus, the study of Economics is not only enlightening but also profitable.

Study of Economics is not only enlightening but also profitable.

- A.C.Pigou

Economic Activities

We have seen that human wants are unlimited. Goods and services have the capacity to satisfy our wants. This quality is called 'Utility'. For eg - We eat food when we feel hungry. Food has the power to satisfy our need. We want to drink water when thirsty. Water has the power to quench our thirst.

Wants are the basis of all economic activites

Many of the goods and services that we use everyday are in limited supply, and hence are not available free of cost. We have to pay money to get them. These goods and services are called economic goods and services. Then how do we get money? We will have to do some work in order to earn money. Man makes use of his skills and

labour to earn money, and satisfies his wants by utilizing that money. In order to earn money and wealth, and thereby to satisfy his wants, man engages himself in various activities. These activities are called economic activities.

The most important objective of economic activities is to satisfy human wants. In every society, economic activities are bound by certain rules and traditions. Man's economic activities can be classified into four different kinds:

1. Production Activities : Production activities are those that produce goods and services. For ex: Agriculture, Animal Husbandry, Fishing, Mining, Forest Development, different kinds of industries, Transport, Communication etc.

2. Consumption Activities : Goods and services are produced for consumption. Man satisfies his wants by buying goods and services. All these activities are known as consumption activities.

3. Exchange Activities : The producers produce goods for the consumers. There is a marketing system to supply the produced goods to the consumers. In this system, activities of collection of goods, transportation, selling and buying take place.

4. Distribution Activities : The income that is earned through the production of goods has to be distributed to the various factors of production that have enabled the production. This process involves activities undertaken to determine the price of the factors of production. Steps have to be taken to ensure that the income earned is distributed among all factors in a just manner.

Man is not engaged only in economic activities in his daily life. He engages himself in many activities like social, cultural, political, educational and religious activities too. Sometimes many activities which are not economic in nature become economic activities. For ex: when a teacher gives free tuitions at home to students, it is not an economic activity. When the same teacher charges fees for giving tuitions, it becomes an economic activity.

EXERCISES

I Fill in the blanks with suitable words :

- 1 The word 'Economics' originates from the Greek root words _____ and _____.
- 2 Kautilya who was in the Mauryan court, wrote the book _____.
- 3 The quality of the goods and services which can satisfy man's wants is called _____.
- 4 The physical and intellectual work that is done in return for money is called _____.

II Answer the following in a sentence each :

- 5 What is Economics?
- 6 Who is identified as the 'Father of Economics'?
- 7 What are Economic Activities?
- 8 A student buys a pen and writes with it. What kind of economic activity is this?

III Answer the following in three or four sentences each :

- 9 What are man's economic activities?
- 10 Why do we need to study Economics?
- 11 How has the meaning of Economics changed from time to time?

IV Activities :

- 12 List the economic activities the members of your family are engaged in.
- 13 Identify the various economic activities of the people around you or your village are engaged in.
- 14 List the goods that you consume everyday.
- 15 Observe how farmers decide to grow and how do they decide to grow.

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