

CHAPTER-27

BASIC CONCEPTS OF ECONOMICS



After studying this chapter you learn :

- Learns about the fundamental concepts in Economics.
- Inter-Relationship between Demand, supply distribution, production etc.
- National Economic development.
- Importance of labour and dignity of Labour.

In order to understand economics easily it is necessary to have the knowledge of some technical terms widely used in the subject. Do these terms are very commonly used in our daily life, in economics they have definite meaning and scope. Hence it is necessary to know some selected concepts in brief.

Demand : Demand is not only a want, in addition to want if there is an attitude to buy and ability to spend money, then only it becomes demand. Demand is the quantity of economic goods that can be brought at a fixed price at a given time. Generally when the price increases, the demand for it decreases.

Demand has a great influence in the field of production. When there is an increasing demand, generally production, employment , income and supply increases. The standard of living of the people improves. The nation continues to move in the progressive direction. When the demand decreases generally production, income and supply also decreases. The standard of living of the people decreases. the national progress also decreases. It is for this reason that demand is considered as the index of the Nation's progress.

Supply : Supply is the quantity of goods and services readily available for sale in market at a given price. Generally if the price of the goods and services increases; the flow of quantity of goods and services to the market also increases. The standard of living improves.

The Nation moves in the direction of progress. If the price of the goods decreases, the flow of quantity of goods and services to the market for sale also decreases. the production and income also decrease and the unemployment increases and the standard of living decrease. The progress of the Nation also decreases but in some situations this law does not operate and whatever may be the price the supply remains the same.

Demand and supply are interdependent. The change that takes place in one, will influence the other immediately and this is indicated by the price of goods.

Example : When the demand is less, supply is also less and the price decreases, when the demand increases, supply also increases and the price also increase. in short, it can be said that the demand and supply are the two pillars of the economic activities of man.

Production : The world production has a broad meaning in economics. Production includes production of goods and services. though production appears to be the creation of wealth, man cannot create anything new. It is possible for him to increase the utility of the natural wealth available. Hence, we must know that production means only to create special utility. The goods thus produced must also have value.

The production function includes activities such as transport, trade and distribution. The function of production completes only when the goods and services reach the consumer. Many factors like natural wealth, labour, capital and organisation are essential for production. Economists have called these factors as factors of production. Production is possible only when there is proper co-ordination among these four factors. It is only for the welfare of the consumers that crores of people are involved in different ways in different capacities in the process of production.

Distribution : Distribution is a very important economic activity. The important function of distribution is to distribute the goods produced involving the interaction of the factors of production. The national income distributed among land, labour, capital and organisation are called rent, wages , interest and profit respectively.

This distribution takes place in the rate of the role played by each factor of production. It should balance the demand and supply without bringing an obstacle to production. Special importance should not be given to any factors of production nor should any of them be neglected. This is necessary to maintain equilibrium in the entire economic system. Distribution is influenced by many factors such as production, demand, supply, consumption, price fixation, etc.

Consumption : The use of goods and services to satisfy wants is called consumption. The goods and services that are consumed may be good or bad but as long as they satisfy wants they will be consumed. In modern economics a lot of importance is given to consumption.

There are two types of consumption

1. Goods and services used for production.
2. Finished goods used to satisfy wants.

Generally consumption means satisfaction of wants.

The prosperity of the Nation, the standard of living and employment ratio depend upon the quantity of consumption of the respective Nation. This is because the economic organisation is there to satisfy human wants and it ends only after consumption. In order to consume there must be production and distribution. Production takes place to satisfy wants. When consumption increases production and income also increases creating markets for the goods produced and providing full employment opportunities. When consumption decreases-production, income and value decreases and this creates unemployment. So consumption and production have a close relationship between them. Both of them combined together have a significant influence on the National income.

Utility : Utility is also one of the key terms among the various terms widely used in economics, utility is the power of satisfying wants. It includes all goods and services which satisfy human wants directly or indirectly. But it cannot be measured. This varies from person to person. Also for the same person it varies from time to time and place to place. Attitudes and seasons may also influence utility.

Utility is not satisfaction, but it is the power of giving satisfaction. Satisfaction is the effect of utility. This means that the goods and services which have utility gives satisfaction to us. Utility has no relationship with usage. Generally both these terms are used in the same sense they do not mean the same. For example taking alcohol has no use but it has utility.

Economists have classified utility as

1. Principle utility
2. Form utility
3. Time utility and
4. Place utility

All things that can be used in original form are said to have principal utility example water, fruit, egg etc.

Things that are used by giving a definite shape or form to it have form utility.

Example: giving the shape of an ideal to the stone by the sculptor, giving the shape of a chair or table to wood by the carpenter, etc.

Things that are stored when they are abundantly available and used when they are not available, their value increases and then they are said to process utilitarian value. This is called time utility.

Example : Preparation of mango pickles and used when mangoes are not available by preserving mangoes when they are available.

Things that are available in abundance at one place will have more utility and value when they are transported to their place where they are not available this is called place utility.

Example : The apples grown abundantly in Shimla or the oranges grown in Kodagu. Find more value and utility when they are transported to a place where they are not grown.

Price : The value that is expressed in the form of money is called price. The money that is to be paid in lieu of goods or services is called price. When there is great demand for goods and services it is

difficult to distribute them among large number of people. Price plays an important role here. The main function of price is to equate the demand and supply. When the demand and supply for equator at the price will remain stable. At this stage there is neither deficit or surplus of goods and services, but when there is a difference between demand and supply, price also varies. But in course of time another price is fixed at two equal the demand and supply again. In this way demand and supply play an important role in fixing the price.

Profit : Generally speaking the amount that remains after deducting the expenditure from the income of the production is called profit.

According to economics the reward that the producer gets for the services rendered for production is called profit. This is the amount that remains after giving rent, wages and interest, which help in the process of production. The amount that remains may be less or more. Sometimes it may not remain at all. The degree of efficiency of production is responsible for the profit or less of production.

In the field of economics profit finds great importance, profit is the main source of all the economic activities. As profit increases economic activity also increases and National progress takes place rapidly. As profit decreases economic activity decreases and national progress deteriorates. This creates an economic crisis.

Co-operation : Corporation has a prominent position in economics. Though, this is a type of factory organisation this is considered a way of life. Co-operation is the light which enkindles the neglected, non influential people of limited accomplishments. The system of co-operation has shown that co-operative effort helps the common man to get benefits which otherwise reserved only for the rich and influential. This is free from exploitation.

Co-operation is an extraordinary system where people desire to come together to work on the basis of equality to protect their economic interest. The main aim of this is to achieve progress by self help. There is no scope for competition here. Here all activities are managed by the members, profit is shared, suitable discount in price is given on goods bought by the members. There is no place for middle man here.

There is no scope for exploitation. The elected directors will look after the affairs of the institution. Here all are owners and all are workers.

“Each for all all and all for each” is the spirit of cooperation. Here each shareholder has one vote irrespective of number of shares that he holds. Besides, there is a limit to acquire the number of shares. Everyone finds equal opportunities there is no discrimination on the basis of caste, creed or religion. There is freedom to become a member at any time and to withdraw membership at any time.

National Income: Nation is also getting income as an individual this income is called the national income. It is the total income obtained in a year from all the sources of production. It is difficult to compute the national income. It is a big problem particularly in developing countries.

The volume of the national income depends upon production. If the production increases the national income also increases. The increase in the national income indicates the progress of the nation and the standard of living of the people. Increase in the national income is the symbol of economic development. Decrease in national income shows the economic backwardness of the nation and poor standard of living of the people. It is because of this reason every Nation tries to increase its national income.

Per Capita Income: If the national income is divided by the total population of the Nation we get the per capita income. If the national income is more the per capita income is also more (depending on the growth of population) and the standard of living of the people will be high as a result people lead a contented life.

If the national income decreases per capita income also decreases (accordingly with the growth of population) under standard of living will also be low. Poverty and diseases increased and people lead their life with difficulty. A comparison of the per capita income of different nations reveals the economic condition of a given Nation and economic progress of that country.

Importance of Labour: It is the innate quality of man to work hard to accomplish and to improve the standard of living. This effort might be physical or mental. Digging, Ploughing and Lifting or Carrying loads are some of the examples for physical labour. The work or services of a teacher, scientist, lawyer, technician, IT worker and clerk are some of the examples of mental labour. The physical labour requires physical strength, whereas mental labour requires intelligence.

In developing Nations the educated class will be more in number and they perform their work sincerely with concentration. Whether the task is physical or mental. There is dignity of labour. The society does not discriminate and both the class of workers receive equal respect.

Mahatma Gandhi had great trust in the dignity of labour. He showed this practically to him to speak with the national president is as important as to speak with the workers engaged in unclean occupations. There should not be any ill feeling of high or low in labour.

Many educated people search for the jobs which involve mental labour but there is not enough employment opportunities for all. Employment opportunities in physical labour are more. One has to give up the feeling of high and low and must prepare to take up the job that he gets. Then only he realises the importance of labour. A feeling of equality develops in them and the building of a Nation becomes easy.

EXERCISES

I Answer the following :

1. What is demand in economics?
2. What is the influence of demand in the field of production?
3. What is distribution?
4. How can distribution be done effectively?
5. Mention the differences between national income and per capita income?
6. What is the importance of labour?

II Fill in the blanks with suitable words :

7. The production decreases when the demand_____
8. Goods and services used for the satisfaction of wants are_____
9. If the national income is divided by the nation's total population we get_____
10. Workers involved in carrying materials loading and unloading the cargo are called_____
11. Workers involved in teaching the students, belong to _____ workers.

III Activities :

12. Visit a nearby market and observe how wants vary when the prices vary.
13. Read the News Papers and notice the daily variations in the economic field.

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