

# Meaning of Economics and other Related Concepts

# 1

## CHAPTER

## INTRODUCTION

It is necessary for the beginner in the study of economics to know the meaning or definition of the subject, and to understand some of the basic concepts or ideas about it. This chapter discusses the meanings of economics and the various related concepts.

### OBJECTIVES

At the end of this chapter, students should be able to:

- ◆ Explain the meaning of economics;
- ◆ Mention and explain the basic concepts of economics and their relevance to day-to-day human activities and decision-making;
- ◆ State the relationship between the concepts of wants, scarcity, choice and opportunity cost in economics.

### 1.1 Various Definitions of Economics

Economics does not have a specific definition. Different authors have defined economics in different ways. For example, Adam Smith (1776) defined economics as “an inquiry into the nature and causes of the wealth of nations”. His main interest was to investigate the reasons for the disparity in the wealth distribution among countries. He wanted to know why some countries were poor and undeveloped while others were rich and developed.

John Stuart Mill (1843) viewed economics as “the practical science of production and distribution of wealth”. To him what determines the amount of wealth possessed by an individual and how the wealth produced are shared out among the various members of the society were the major concerns. In this view, Alfred Marshal (1890) defined economics as “the study of mankind in the ordinary business of life”. He argued that the accumulation of wealth is aimed at improving the welfare of man.

According to Davenport, economics is “the science that treats phenomena from the stand point of price. Anything that has money value should be within the structure of economics”. There are as many definitions of economics as there are economists. However, one of the best definitions of the subject, which is also widely accepted, was given by Professor Lionel Robbins. He defined economics “as a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses”. This definition is all encompassing and includes the elements of most of the previous definitions.

### 1.2 Scope of Economic Activities

It is a subject that is concerned with the people living in society. According to Marshall, the behaviour of human beings cannot be predicted; therefore, principles of economics cannot be formulated like the laws of science. The subject is related to man and hence it is a living subject. It is also concerned with the accumulation of wealth and material well-being of man.

### 1.3 Importance of Economics

**(a) Allocation of scarce resources:** Economics helps in deciding the alternative uses of the scarce resources in order to satisfy the numerous unlimited wants.

**(b) Production:** Economics deals with the fundamental questions of what, where, how and for whom to produce goods and services in order to satisfy human wants.

- (c) Distribution:** Economics deals with how the produced goods and services are to be distributed.
- (d) Consumption:** The study of economics enables us to know the pattern of consumption of goods and services in our society.
- (e) Budget:** The study of economics enables the economist to estimate a country's total revenue, human wants and project the total expenditure in a given year.
- (f) Logical thinking:** The study of economics helps to develop an inquisitive, balanced, highly philosophical logical thinking.
- (g) Practical man:** The study of economics makes an individual more practical, so that he adopts practical approaches to world issues and finds solutions to daily problems.
- (h) Objectivity:** Economics helps to develop objectivity in an individual. This is because economics sees things as they are and not as they ought to be.
- (i) Analytical skill:** The study of economics helps the individuals to build up a body of economic principles and equips him with the tools of economic analysis which will enable him to understand current issues and problems.
- (j) Increases societal well-being:** The study of economics helps the individual to contribute his quota towards increasing the wellbeing of society.
- (k) Efficiency:** Economics helps the individual to avoid unnecessary and costly mistakes arising from decision making.

## 1.4 Methodology of Economics

Economic methods have varied over time and differs between schools of economic thoughts. A central area of debate has been whether economics should follow the methods of the social sciences or of the physical sciences. Economic methodology is the study of how economies function, how they could function and how they should function. It examines various theoretical key concepts such as theories and models, assumptions and idealisation, causation and explanation. It also examines the fundamental concepts such as rationality, choice, trust, coordination and equilibrium.

## 1.5 Economics as a Science or Social Science

Science is knowledge gained by observation and experiment. As a science, economics uses scientific methods to study the behaviour of man, while as a social science, it studies human behaviours. Like all other science subjects, economics is a body of knowledge arranged in an orderly manner and this knowledge is obtained by observing human beings, their behaviours and their social environment.

**TABLE 1.1** Differences Between Economics and Other Science Subjects

Economics	Physical Sciences
Economics belongs to the group of social sciences	Physics, chemistry and other related subjects belong to the group of physical, natural or pure sciences
Economics studies human behaviour	Pure or natural sciences studies inanimate objects
Economics does not isolate its object of study	Physical science(s) isolates its objects of study
Experiments are not subject to control	Experiments performed are subject to control
The object of study is flexible	The object of study is rigid
Conclusions arrived at are not definite	Conclusions arrived at are definite

The facts obtained from this observation are tested in order to arrive at certain laws such as the laws of demand and supply, diminishing returns, law of marginal utility and so on. These laws have been tested within the society and experimented on the production, distribution and consumption of goods and services. Economists use scientific methods to explain observed phenomena and predict the outcome of future events. Economics possesses attributes of science like investigation, observation, arrangement, classification and interpretation of facts. It studies human behaviour and hence it is regarded as a social science and not part of physical or natural sciences.

## **1.6 The Concept of Wants, Scarcity, Scale of Preference, Choice and Opportunity Cost**

### **1.6.1 Wants**

Wants simply mean the desire or wish to own goods or services that give satisfaction. Human beings want many things at a particular time. Wants are numerous but needs are a necessity. The basic needs of man are *food, shelter* and *clothing*. As these needs are satisfied, other needs will arise. This is why we say that human wants are insatiable.

### **1.6.2 Scarcity**

Scarcity refers to the limited supply of available resources that satisfy the unlimited human wants. These resources are scarce relative to their needs. So, the means to satisfy our unlimited wants are inadequate. Therefore, to the economist, all things (i.e., goods, services, time, money, productive resources etc.) are scarce at all times relative to the demand for them. Individuals have limited means to satisfy their numerous wants. Business organisations and firms have limited capital and other forms of resources to produce all they wish to produce. The government has limited resources to finance her projects that would satisfy the needs of her citizens.

### **1.6.3 Choice**

Choice involves taking a decision which arises as a result of numerous human wants and scarcity of resources. Choice is the act of selecting some pressing needs for satisfaction out of many others based on the available resources. Man is faced with the problem of choice because it is impossible to satisfy all his needs at the same time. Therefore, man must choose the most pressing needs based on the available resources within his reach. For instance, every human being likes to eat food, own a house with all the necessary household appliances like a television set, etc. However, not everybody can afford all this at a time because such a person will have to choose the most pressing need.

Government also makes a choice on how to allocate the available resources concerning what goods and services to produce for her citizens and the proportion of resources to be apportioned to each sector, such as agriculture, health, education etc. For firms, a choice of the kind of business to embark upon must be made because of the issue of limited resources.

Conclusively, the individuals, government and firms have to choose among alternatives in order to achieve their objectives.

### **1.6.4 Scale of Preference**

Scale of preference means the arrangement of individual wants in the order of their relative importance. The drawing of scale of preference will make it easier for choice to be made. Since human wants are unlimited and the available resources needed to satisfy these wants are limited, human beings will therefore rank these needs in the order of importance called scale of preference. It means placing pressing needs first before the less important ones. For example, a student who is in dire need of textbooks, sandals, biro, shoes, trousers, shirts, exercise books, wrist-watch, handset but with limited resources may draw his scale of preference as explained in Table 1.2. Assuming the student has N2000.00 in hand as at the time he needed the above items; judging from his scale of preference above, he can only afford exercise books, textbooks, sandals and shirt as a result of his limited money relative to his needs. This student is therefore faced with the problem of choice and opportunity cost.

**TABLE 1.2** A Typical Student's Scale of Preference

Items Needed	Price (₦)
Exercise book	40
Biro	20
Textbook	300
Sandals	200
Shirt	1000
Trousers	1000
Shoes	1500

Scale of preference is important because it helps to:

- (a) rank our needs in order of their importance.
- (b) make rational choices.
- (c) efficiently utilise limited available resources.

### 1.6.5 Opportunity Cost

Opportunity cost means the alternative forgone or the sacrifice made in order to satisfy another want. It is also known as real cost or true cost. The concept is used in economics to express “cost” in terms of a forgone or sacrificed alternative. It refers to the need that is left unsatisfied in order to satisfy other more pressing needs. For instance, an individual has only N40.00 and is faced with a choice between buying a bottle of coca-cola and buying an exercise book. If he buys the exercise book rather than the coca-cola, the opportunity cost or real cost to him is the drink he did not buy. The money cost is N40.00. Opportunity cost is also applicable in the use of time; for instance, attending a mathematics class instead of a chemistry class.

**Opportunity cost is important for the following reasons:**

- (a) It helps in deciding how to spend scarce resources.
- (b) It helps in the allocation of scarce resources.
- (c) It shows that every activity involves a sacrifice.
- (d) It guides businessmen, governments and individuals on how best to use available resources.
- (e) The concept of opportunity cost reveals that every activity involves a specific cost which is measured by forgone earning or output.
- (f) Opportunity cost is important in resource allocation. For example, when planning to erect a building on a piece of land, a landlord should also weigh the cost of using the same piece of land for growing crops.
- (g) The concept of opportunity cost helps the government to decide how to spend its revenue; for example, either to build roads with a certain sum of money or to use the money to improve educational facilities.
- (h) The concept of opportunity cost helps the government in decision-making.
- (i) It helps firms in deciding the techniques of production. If they use more capital intensive methods, they will be displacing labour and creating more unemployment.

## Summary

(a) Definitions of economics

- ◆ It is a study of people, firms, entrepreneurs and government.
- ◆ It is a science that deals with production, distribution, exchange and consumption.
- ◆ It is the study of the causes on which the material welfare of human beings depends.
- ◆ It is the study of the general principles of the administration of resources.
- ◆ It deals with exchange, scarcity and choice.

(b) Economics is a social science because it studies human behaviours which vary with situations and circumstances.

(c) The basic concepts of economics are:

- ◆ Choice: This involves a preference of one thing to another.
- ◆ Scarcity: This in economics means that resources are limited.
- ◆ Wants: It is the desire to own goods and services that give satisfaction.
- ◆ Scale of preference: This is the arrangement of wants in the order of priority or importance.

(d) Opportunity cost: This means the sacrifice or alternative forgone in order to get something.

(e) Rationale / importance of economics

- ◆ It is concerned with the use of scarce resources to satisfy unlimited human wants.
- ◆ The study of economics helps an individual to build up a body of economic principles.
- ◆ It stimulates thinking which leads to higher educational aspirations and goals.

## Class Activities

**(a)** Group students for a discussion relating economic concepts to the daily activities of individuals, firms and the government.

**(b)** Students should explain their reactions whenever the resources needed to meet their needs are in short supply.

**(c)** Students should be asked to list their needs in their order of importance.

## Revision Questions

### Objective Questions

1. Economics is the study of how to:

- (a) Choose between alternatives given the limited resources.
- (b) Regulate the money that is in circulation in a country.
- (c) Be prudent in the use of available resources.
- (d) Improve the standard of living of the society at large.
- (e) Arrange our needs in order of usefulness before satisfying them. **(SSCE 1993)**

2. Scarcity in economics arises because:

- (a) The resources available are adequate.
- (b) Individuals have limited time.
- (c) Resources are limited in supply.
- (d) Human beings have limited wants.
- (e) Individual wants are equal to the resources available. **(SSCE 1993)**

3. The real cost of a commodity is:

- (a) The cost of the alternative that has to be sacrificed for it.
- (b) The alternative that has to be foregone in order to purchase it.
- (c) Its market price.
- (d) The alternative cost involved when the opportunity of buying the commodity is missed.
- (e) The sacrifice that is made after buying the commodity. **(SSCE 1993)**

4. A scale of preference is a list:

- (a) Of consumers' wants arranged in their order of importance.
- (b) That helps the individual to make a rational choice.
- (c) That enables the consumer to make a wise decision about his choice.
- (d) That is necessary because human beings are faced with competing wants.
- (e) Of all satisfied wants arranged in order of magnitude. **(SSCE 1993)**

### Essay Questions

1. (a) Explain the term 'opportunity cost'.

(b) Highlight the relevance of opportunity cost concept to individuals,



firms and government. **(SSCE 1997)**

2. (a) Why is scarcity a fundamental problem in economics?

(b) Give a reason why economics is a (i) Science (ii) Social Science.

(c) How does the government solve the problem of scarcity? **(SSCE 2000)**

3. (a) Why is the scale of preference important?

(b) Explain the concept opportunity cost.

(c) State the opportunity cost in each of the following actions:

(i) A shirt was purchased for N500.00 instead of a pair of shoes.

(ii) Onions were planted on a farm realising N20,000 instead of maize that could have realised N25,000. **(SSCE 2003)**

4. (a) Distinguish between wants and demand. **(WASSCE 2006)**

Year	Savings	Current	Fixed Deposit
1984	100	65	40
1985	120	75	45
1986	120	70	60
1987	180	100	145
1988	200	130	50

(b) Present the data above in the form of a component bar chart. **(SSCE 1992)**

## Glossary

**Want:** This is a desire or wish of consumers to own goods or services that gives satisfaction.

Wants are luxury.

**Scarcity:** This refers to the limited supply of available resources.

**Choice:** This is taking a decision which arises as a result of numerous human wants and scarcity of resources.

**Scale of Preference:** It means the arrangement of individual wants in the order of their relative importance.

**Opportunity Cost:** Is the alternative forgone or sacrifice made in order to satisfy other wants.