What is Economics----

Economics is the science that deals with production, exchange and consumption of various commodities in economic systems. It shows how scarce resources can be used to increase wealth and human welfare. The central focus of economics is on scarcity of resources and choices among their alternative uses. The resources or inputs available to produce goods are limited or scarce. This scarcity induces people to make choices among alternatives, and the knowledge of economics is used to compare the alternatives for choosing the best among them. For example, a farmer can grow paddy, sugarcane, banana, cotton etc. in his garden land. But he has to choose a crop depending upon the availability of irrigation water. Two major factors are responsible for the emergence of economic problems. They are: i) the existence of unlimited human wants and ii) the scarcity of available resources. The numerous human wants are to be satisfied through the scarce resources available in nature. Economics deals with how the numerous human wants are to be satisfied with limited resources. Thus, the science of economics centres on want - effort - satisfaction. Economics not only covers the decision making behaviour of individuals but also the macro variables of economies like national income, public finance, international trade and so on.

A. DEFINITIONS OF ECONOMICS Several economists have defined economics taking different aspects into account. The word ‘Economics’ was derived from two Greek words, oikos (a house) and nemein (to manage) which would mean ‘managing an household’ using the limited funds available, in the most satisfactory manner possible.

1.Wealth Definition Adam smith (1723 - 1790), in his book “An Inquiry into Nature and Causes of Wealth of Nations” (1776) defined economics as the science of wealth. He explained how a nation’s wealth is created. He considered that the individual in the society wants to promote only his own gain and in this, he is led by an “invisible hand” to promote the interests of the society though he has no real intention to promote the society’s interests. Criticism: Smith defined economics only in terms of wealth and not in terms of human welfare.

Ruskin and Carlyle condemned economics as a ‘dismal science’, as it taught selfishness which was against ethics. However, now, wealth is considered only to be a mean to end, the end being the human welfare. Hence, wealth definition was rejected and the emphasis was shifted from ‘wealth’ to ‘welfare’.

ii) Welfare Definition Alfred Marshall (1842 - 1924) wrote a book “Principles of Economics” (1890) in which he defined “Political Economy” or Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well being”. The important features of Marshall’s definition are as follows: a) According to Marshall, economics is a study of mankind in the ordinary business of life, i.e., economic aspect of human life. b) Economics studies both individual and social actions aimed at promoting economic welfare of people. c) Marshall makes a distinction between two types of things, viz. material things and immaterial things. Material things are those that can be seen, felt and touched, (E.g.) book, rice etc. Immaterial things are those that cannot be seen, felt and touched. (E.g.) skill in the operation of a thrasher, a tractor etc., cultivation of hybrid cotton variety and so on. In his definition, Marshall considered only the material things that are capable of promoting welfare of people. Criticism: a) Marshall considered only material things. But immaterial things, such as the services of a doctor, a teacher and so on, also promote welfare of the people. b) Marshall makes a distinction between (i) those things that are capable of promoting welfare of people and (ii) those things that are not capable of promoting welfare of people. But anything, (E.g.) liquor, that is not capable of promoting welfare but commands a price, comes under the purview of economics. c) Marshall’s definition is based on the concept of welfare. But there is no clear-cut definition of welfare. The meaning of welfare varies from person to person, country to country and one period to another. However, generally, welfare means happiness or comfortable living conditions of an individual or group of people. The welfare of an individual or nation is dependent not only on the stock of wealth possessed but also on political, social and cultural activities of the nation. iii) Welfare Definition Lionel Robbins published a book “An Essay on the Nature and Significance of Economic Science” in 1932. According to him, “economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses”. The major features of Robbins’ definition are as follows: a) Ends refer to human wants. Human beings have unlimited number of wants. b) Resources or means, on the other hand, are limited or scarce in supply. There is scarcity of a commodity, if its demand is greater than its supply. In other words, the scarcity of a commodity is to be considered only in relation to its demand. c) The scarce means are capable of having alternative uses. Hence, anyone will choose the resource that will satisfy his particular want. Thus, economics, according to Robbins, is a science of choice. Criticism: a) Robbins does not make any distinction between goods conducive to human welfare and goods that are not conducive to human welfare. In the production of rice and alcoholic drink, scarce resources are used. But the production of rice promotes human welfare while production of alcoholic drinks is not conducive to human welfare. However, Robbins concludes that economics is neutral between ends. b) In economics, we not only study the micro economic aspects like how resources are allocated and how price is determined, but we also study the macro economic aspect like how national income is generated. But, Robbins has reduced economics merely to theory of resource allocation. c) Robbins definition does not cover the theory of economic growth and development. iv) Growth Definition Prof. Paul Samuelson defined economics as “the study of how men and society choose, with or without the use of money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time, and distribute them for consumption, now and in the future among various people and groups of society”. The major implications of this definition are as follows: a) Samuelson has made his definition dynamic by including the element of time in it. Therefore, it covers the theory of economic growth. b) Samuelson stressed the problem of scarcity of means in relation to unlimited ends. Not only the means are scarce, but they could also be put to alternative uses. c) The definition covers various aspects like production, distribution and consumption. Of all the definitions discussed above, the ‘growth’ definition stated by Samuelson appears to be the most satisfactory. However, in modern economics, the subject matter of economics is divided into main parts, viz., i) Micro Economics and ii) Macro Economics. Economics is, therefore, rightly considered as the study of allocation of scarce resources (in relation to unlimited ends) and of determinants of income, output, employment and economic growth.