scope and nature of economics.

**Scope of Economics**

‘Scope’ means the sphere of study. We have to consider what economics studies and what lies beyond it. The scope of economics will be brought out by discussing the following.
a. Subject–matter of economics.
b. Economics is a social science
c) Whether Economics is a science or an art?
d) If Economics is science, whether it is positive science or a normative science?

**a) Subject – matter of economics**: Economics studies man’s life and work, not the whole of it, but only one aspect of it. It does not study how a person is born, how he grows up and dies, how human body is made up and functions, all these are concerned with biological sciences, Similarly Economics is also not concerned with how a person thinks and the human organizations being these are a matter of psychology and political science. Economics only tells us how a man utilizes his limited resources for the satisfaction of his unlimited wants, a man has limited amount of money and time, but his wants are unlimited. He must so spend the money and time he has that he derives maximum satisfaction. This is the subject matter of Economics.

**Economic Activity**: It we look around, we see the farmer tilling his field, a worker is working in factory, a Doctor attending the patients, a teacher teaching his students and so on. They are all engaged in what is called “Economic Activity”. They earn money and purchase goods. Neither money nor goods is an end in itself. They are needed for the satisfaction of human wants and to promote human welfare.
To fulfill the wants a man is taking efforts. Efforts lead to satisfaction. Thus wants- Efforts-Satisfaction sums up the subject matter of economics.

**b) Economics is a social Science:** In primitive society, the connection between wants efforts and satisfaction is close and direct. But in a modern Society things are not so simple and straight. Here man produces what he does not consume and consumes what he does not produce. When he produces more, he has to sell the excess quantity. Similarly he has to buy a product which is not produced by him. Thus the process of buying and selling which is called as Exchange comes in between wants efforts and satisfaction.
Nowadays, most of the things we need are made in factories. To make them the worker gives his labour, the land lord his land, the capitalist his capital, while the businessman organizes the work of all these. They all get reward in money. The labourer earns wages, the landlord gets rent the capitalist earns interest, while the entrepreneur’s (Businessman) reward is profit. Economics studies how these income—wages, rent interest and profits-are determined. This process in called “Distribution: This also comes in between efforts and satisfaction.
Thus we can say that the subject-matter of Economics is

* 1. Consumption- the satisfaction of wants.
	2. Production- i.e. producing things, making an effort to satisfy our wants
	3. Exchange- its mechanism, money, credit, banking etc.
	4. Distribution – sharing of all that is produced in the country. In addition, Economics also studies “Public Finance”

**Macro Economics** – When we study how income and employment is generated and how the level of country’s income and employment is determined, at aggregated level, it is a matter of macro-economics. Thus national income, output, employment, general price level economic growth etc. are the subject matter of macro Economics.

**Micro-Economic** – When economics is studied at individual level i.e. consumer’s behavior, producer’s behavior, and price theory etc it is a matter of micro-economics.

**c) Economics, a Science or an Art?**Broadly different subjects can be classified as science subjects and Arts subjects, Science subjects groups includes physics, Chemistry, Biology etc while Arts group includes History, civics, sociology Languages etc. Whether Economics is a science or an art? Let us first understand what is terms ‘science’ and ‘arts’ really means.
A science is a systematized body of knowledge. A branch of knowledge becomes systematized when relevant facts hove been collected and analyzed in a manner that we can trace the effects back to their and project cases forward to their effects. In other words laws have been discovered explaining facts, it becomes a science, In Economics also many laws and principles have been discovered and hence it is treated as a science. An art lays down formulae to guide people who want to achieve a certain aim. In this angle also Economics guides the people to achieve aims, e.g. aim like removal poverty, more production etc. Thus Economics is an art also. In short Economics is both science as well as art also.

**d) Economics whether positive or normative science:**A positive science explains ''why" and "wherefore" of things. i.e. causes and effects and normative science on the other hand rightness or wrongness of the things. In view of this, Economics is both a positive and. normative science. It not only tells us why certain things happen, it also says whether it is right or wrong the thing to happen. For example, in the world few people are very rich while the masses are very poor. Economics should and can explain not only the causes of this unequal distribution of wealth, but it should also say whether this is good or bad. It might well say that wealth ought to be fairly distributed. Further it should suggest the methods of doing it.

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Economists differ in their views regarding the scope of economics. The scope of economics’ is a broad subject and encompasses not only its subject matter but also various other things, such as its scientific nature, its ability to pass value judgments, and to suggest solutions to practical problems.

For exam­ple, price controls on Kerosine oil have the desired effect of reducing cooking expenditures for some consumers, but they also reduce both con­servation of Kerosene by those consumers and the incentive of producers to bring more Kerosene to the market.

Other consumers will therefore be forced to rely more heavily on other more expensive sources of energy pushing the prices of these energy sources upward. Thus, the controls also generate an unintended result an increase in the energy costs for some consumers.

Good economic thinking demands that we recognise the secondary effects. This explains why a number of economists, while recognising the scarcity aspect of resources and the problem of choice arising there from described economics as a social science and not as a human science.

Thus according to T. Scitovsky, economics is **“a social science concerned with the administration of scarce resources.”** In a like manner, A. C. Cairn-cross defines economics as a “a social science studying how people attempt to accommodate scarcity to their wants and how these attempts interact through exchange”. These four aspects of economics may now be discussed.

**1. Subject matter:**

If we take a broad view of the subject matter of economics we may say that, Economics is the study of all phenomena relating to wealth and value. It is one of the social sciences that deal with economic goods, the creation of wealth through the satisfaction of human wants, the explanation of wealth, value and price, the distribution of income and the mechanism of exchange and markets of an economy.

According to Robbins, economics is the study of the problem of using available factors of production as efficiently as possible so as to attain the maximum fulfilment of society’s demands for goods and services. The ultimate purpose of economic endeavour is to satisfy human wants for goods and services.

The problem is that, whereas wants are virtually with­out limit, the resources—land, labour, capital and organisation—available at any one time to produce goods and services, are limited in supply, i.e., resources are scarce relative to the demands for them.

The fact of scarcity means that we must always be making choices. If, to take a simple example, more resources are devoted to producing motor cars fewer resources are then available for constructing roads or bridges or setting up schools and hospitals. Thus, economics is a science of scarcity or is a study of the problems of scarcity.

However, economics does not study the behaviour of human beings in the way other subjects like Physiology or Psychology study it. Economics is no doubt a Science, but it is not a pure (exact) science like Physics, Chemis­try,

Biology or even Mathematics. Economics is a social science concerned with how we solve society’s economic problems. Because of the abundance of economic data and the ample opportunity for scientific research in the real world, Samuelson calls it ‘the queen of social sciences’.

But, it is not an exact science. It may also be added that, the study of modern economics is divided into two parts, viz., microeconomics or price theory (concerned with the behaviour of an economic agent or unit such as an individual consumer or business firm) and macroeconomics (concerned with the study of certain broad aggregates, such as national income, output, the level of employment, the price level or even the growth rate of the economy or the study of the economic system in its totality).

**2. Science or Art:**

For quite a long time there was controversy among economists as to whether it is a science or an art. The members of the English classical school, such as Adam Smith, T. R. Mathus and David Ricardo, held the view that it was a pure science whose task was just to explain the cause of economic phenomena such as unemployment, inflation, slow growth or even trade deficit.

According to classical writers, economics is simply the study of cause and effect relationship.

However, neo-classical and modern economists have pointed out that economics is both a science and an art. Just to treat economics as a science is to rob it of its practical value. As Keynes has commented, “Practical men……. are usually the slaves of some defunct economist.” So, economics has both a theoretical side and a practical or applied side. In other words, economics is no doubt a science, but it is both ‘light-bearing and fruit bearing’.

Inflation, unemployment, monopoly, economic growth, pollution, free markets versus central planning, poverty, productivity and other current issues are all covered in the study of economics. Economics is a problem- based social science, and the problems with which it is especially concerned are among the central issues of our times.

Economics is relevant not only to the big problems of society, but also to the personal problems, such as one’s job, wages, unemployment, the cost of living, taxes and voting.

The accomplishments of economics have established it as perhaps the most successful social science. No other social science has had equivalent impact in applying reason and science to the shaping of the nation’s social destiny. No other social science has a Nobel Prize.

Nineteenth century historian Thomas Carlyle gave economics the nick­name ‘the dismal science’. Perhaps economics acquired its reputation as a dismal science because economists emphasise costs, or because they focus on the negative aspects of each phase of the business cycle—inflation during expansion and unemployment during recessions. Economics is really a very optimistic subject in many ways.

**3. Positive or Normative:**

Another controversial aspect of economics is whether it should be neutral or pass value judgments. The members of the English classical school were of the opinion that economists were not supposed to make any normative statement or pass any value judgment on the desirability or otherwise of the economic decisions.

Some later members of the classical school even went to the extent of suggesting that economists should not give any advice on any issue.

This means that economics should stand neutral as regards ends. However, the same view has been reaffirmed by Robbins, who commented that the function of the economist is to explore and explain, not to uphold or to condemn. This simply means that econo­mists should take ends as given. Their task is just to discover ways and means of achieving these ends (i.e., to find out ways of accomplishing objectives).

No doubt, by restricting himself to positive aspect of economic science (with its focus on resource allocation and valuation of commodities and factors) Robbins has narrowed (restricted) the scope of economics. He denied economics the right to study welfare.

As he has commented,**“What­ever economics is concerned with it is not concerned with the causes of material welfare as such.”**He has also ignored macroeconomics altogether as also the problems of developing countries like India.

So, Robbins’ view of economic science is not only one-sided but mislead­ing, too. The task of economists is not just to explain why certain things happen (i.e., why there is so much of unemployment in India in spite of her planned economic development or why there is so inequality in the distri­bution of income and wealth notwithstanding the prevalence of the progres­sive income tax system).

It is equally vital to pass judgment as to whether certain things are good or bad from society’s welfare point of view. For example, it is not enough for an economist to explain the present problem of unequal distribution of income and wealth in India.

It is the task of the economists to condemn this phenomenon and to suggest certain measures which should be adopted by the government to solve the inequality prob­lem.

This means that, economics is both a positive and a normative science. While positive economics is the scientific study of ‘what is’ among economic relationships, normative economics is concerned with judgments about ‘what ought to be’ in economic matters. (Normative economic views cannot be proved false, because they are based on value judgments.)

**4. Problem-solving Nature:**

The classical economists believed that eco­nomics could not solve practical problems, because there were non-eco­nomic (social, political, ethical, religious and other) aspects of people’s lives.

**As J.M. Keynes commented in 1923:**

“The theory of economics does not furnish a body of settled conclusions immediately applicable to policy. It is a method rather than a doctrine, an apparatus of the mind, a technique of thinking which helps its possessor to draw correct conclusions.”

However, this view is not correct. In fact, the primary function of econo­mists is to formulate policies and to suggest solutions to economic problems. Acknowledge of economics is essential for policymaking.

Policy-makers, who do not understand the consequences of their actions are unlikely to reach their goals. The most important point to note here is that, economists can suggest solutions to society’s economic problems such as unemployment, inflation, trade deficit and slow growth.

This is why modern governments take the help of economists for formulating monetary fiscal and exchange rate policies. Since the New Deal era in the 1930s, economists have moved in the forefront of government policy analysis.

Economics offers a social science with models for organising facts and for thinking about policy alternatives. In fact, the U.S. Council of Economic Advisors is unique; no such permanent agency exists for any other social science. Indeed, few scientists of any kind enjoy so much prestige as the economists J.K. Galbraith, Paul Samuelson, Lester Thurow, or Milton Fried­man.