about what economics is. He called all the earlier definitions as classificatory and unscientific. According to him, *"Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses."* This definition focused its attention on a particular aspect of human behaviour, that is, behaviour associated with the utilization of scarce resources to achieve unlimited ends (wants). Robbins definition, thus, laid emphasis on the following points:

(a) 'Ends' are the wants, which every human being desires to satisfy. Want is an effective desire for a thing, which can be satisfied by making an effort for obtaining it. We have unlimited wants and as one want gets satisfied another arises. For instance, one may have the desire to buy a car or a flat. Once the car or the flat is purchased, the person wishes to buy a more spacious and designable car and the list of his wants does not stop here but goes on one after another. As human wants are unlimited, we have to make a choice between the most urgent want and less urgent wants. Thus the problem of choice arises. That is why economics is also called as a science of choice. If wants had been limited, they would have been satisfied and there would have been no economic problem.

(b) 'Means 'or resources are limited. Means are required to be used for the satisfaction of various wants. For instance, money is an important means to satisfy many of our wants. As stated, means are scarce (short in supply in relation to demand) and as such these are to be used optimally. In other words, scarce or limited means/resources are to be economized. We should not make waste of the limited resources but utilize them very judiciously to get the maximum satisfaction.

(c) Robbins also said that, the scarce means have alternative uses. It means that a commodity or resource can be put to different uses. Hence, the demand in the aggregate for that commodity or resource is almost insatiable. For instance, if we have a hundred rupee note, we can use it either to purchase a book or a fashionable clothe. We may use it in other unlimited ways as we like.

Let us now turn our attention to the definitions put forward by modern economists. J.M.Keynes defined economics as the study of the management of scarce resources and of the determination of income and employment in the economy. Thus his study centered on the causes of economic fluctuations to see how economic stability could be established. According to F. Benham, economics is, *"a study of the factors affecting the size, distribution and stability of a country's national income."* Recently, economic growth and development has taken an important place in the study of economics. Prof. Samuelson has given a growth oriented definition of economics. According to him, economics is the study and use of scarce productive resources overtime and distribute these for present and future consumption.

In short, economics is a social science concerned with the use of scarce resources in an optimum manner and in attainment of desired level of income, output, employment and economic growth.

SUBJECT MATTER OF ECONOMICS

The subject matter of economics is divided into two categories–microeconomics and macroeconomics. Microeconomics, which deals with individual agents, such as households and businesses, and macroeconomics, which considers the economy as a whole, in which case it considers aggregate supply and demand for money, capital and commodities. Aspects receiving particular attention in economics are resource allocation, production, distribution, trade, and competition. Economics may in principle be (and increasingly is) applied to any problem that involves choice under scarcity or determining economic value.

The term 'Micro' and 'Macro' economics have been coined by Prof. Ragnar Frisch of Oslo University during 1920's. The word micro means a millionth part. In Greek mickros means small. Thus microeconomics deals with a small part of the whole economy. For example, if we study the price of a particular commodity instead of studying the general price level in the economy, we actually are studying microeconomics. Precisely, microeconomics studies the behaviour of individual units of an economy such as consumers, firms, and industry etc. Therefore, it is the study of a particular unit rather than all units combined together. Microeconomics is called Price theory, which explains the composition, or allocation of total production.

In short, microeconomics is the study of the economic behaviour of individual consumers, firms, and industries and the distribution of production and income among them. It considers individuals both as suppliers of labour and capital and as the ultimate consumers of the final product. On the other hand, it analyses firms both as suppliers of products and as consumers of labour and capital.

Microeconomics seeks to analyze the market form or other types of mechanisms that establish relative prices amongst goods and services and/or allocates society's resources amongst their many alternative uses. In microeconomics, we study the following:

1. Theory of product pricing, which includes-
   (a) Theory of consumer behaviour.
   (b) Theory of production and costs.
2. Theory of factor pricing, which constitutes-
   (a) Theory of wages.
   (b) Theory of rent.
   (c) Theory of interest.
   (d) Theory of profits.
3. Theory of economic welfare.

Microeconomics has occupied a very important place in the study of economic theory. In fact, it is the stepping–stone to economic theory. It has both theoretical and practical implications. Important points of its significance are mentioned as under:

1. Microeconomics is of great help in the efficient management of the limited resources available in a country.
2. Microeconomics is helpful in understanding the working of free enterprise economy where there is no central control.

3. Microeconomics is utilized to explain the gains from international trade, balance of payments disequilibrium and determination of foreign exchange rate.
4. It explains how through market mechanism goods and services produced in the community are distributed.
5. It helps in the formulation of economic policies, which are meant for promoting efficiency in production, and welfare of the people.
6. Microeconomics is the basis of welfare economics.
7. Microeconomics is used for constructing economic models for better understanding of the actual economic phenomena.

Despite the fact that it has so many benefits, it also suffers from certain defects or limitations. These are:

1. It is not capable of explaining the functioning of an economy as a whole.
2. It assumes full employment; which is rare in real life.
3. It cannot be used for solving the problem relating to public finance, monetary and fiscal policy etc.

Positive and Normative Economics

While discussing the scope of economics, we also think of whether economics is a positive or normative science. A positive science describes 'what is' and normative science explains 'what ought to be'. Thus a positive science describes a situation as it is, whereas normative science analysis the situation and suggests/comments on wrongness or rightness of a thing/state. For example, 'population in India is rising', is a positive statement and 'Rising population is an obstacle in the way of development' is a normative statement.

Classical economists consider economics as a positive science. They declined any comment about wrongness or rightness of an economic situation. Robbins also supported the classical view and stated that economics is not concerned with the desirability or otherwise of 'ends'. Therefore, the task of an economist is not to condemn or advocate but to explore and explain. However, economics should not be treated as only positive science. It should be allowed to pass moral judgments of an economic situation. It is, therefore, considered both positive and normative science. Thus, Economics is the social science that studies the allocation of scarce resources to satisfy unlimited wants. This involves analyzing the production, distribution, trade and consumption of goods and services. Economics is said to be positive when it attempts to explain the consequences of different choices given a set of assumptions or a set of observations, and normative when it prescribes that a certain action should be taken.

Questions for Review

1. Define economics as given by L. Robbins.
2. Who is regarded as the father of economics?
3. Who coined the terms—micro and macroeconomics?
4. Name the book written by Adam Smith.

5. 'Economics is a science of choice'—explain.

6. "Economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses." Explain.

7. Give the meaning of the term opportunity cost.

8. How is the study of microeconomics significant?

9. What is the scope of microeconomics?

10. What do you mean by marginal rate of transformation?

11. What is the basic problem of an economy?

12. What do you mean by the terms 'ends' and 'means'?

13. Define want.

14. What is the meaning of economizing of resources? Why is there a need for economizing resources?

16. What do you understand by Micro Economics?

17. What specific problem of an economy is studied in welfare economics?

18. Give the definition of a scarce resource.

19. What is meant by scarcity in economics?

20. Define an economy.

21. State Marshall's definition of Economics.

22. "Economics enquires into the nature and causes of wealth of nations". Who gave this definition of economics? What does it imply?

23. What is economics about? (NCERT)

24. Explain how scarcity and choice go together. (NCERT)

25. "Economics is about making choices in the presence of scarcity." Explain. (NCERT)

26. What are the main features of Marshall's Definition of economics?

27. "Scarce means have alternative uses."—Explain.

28. Name the Economist who coined the terms micro and macro.

29. Write five importances of micro economics.

30. Mention three shortcomings of microeconomic theory.

31. What do you understand by positive and normative economics?

32. Is economics a positive science?

2 PROBLEMS OF AN ECONOMY

CENTRAL PROBLEMS OF AN ECONOMY

Scarcity is the root cause of all economic problems. We know that resources are scarce or short in supply in relation to demand; but wants or ends are unlimited. As a consequence, we face the problem of choice among so many of our wants. This is because scarce means have alternative uses. Thus, we have to choose among the most urgent and less urgent wants. In fact, the basic problem of an economy is the problem of choice. More precisely, problem before us is to take right decisions in regard to the goals or ends to be attained and the way, the scarce means to be utilized for this purpose. Every economy faces some fundamental problems called as central problems of an economy. These are the following:

(1) **What goods and services are to be produced?** The first major problem faced by an economy is what types of goods and services to be produced. As resources are limited, we must choose between different alternative collection of goods and services that may be produced. It may also imply whether to produce capital/producer goods or consumer goods. Moreover, we have to decide about the quantity of the goods to be produced in the economy.

(2) **How to produce these goods and services?** The next problem we have to tackle is the problem of how to produce the desired goods in the economy. Thus the question of techniques to be used in the production comes in the mind. Whether we should use labour-intensive technique or capital – intensive technique. Labour-intensive method of production implies more use of labour per unit than capital whereas; capital-intensive technique indicates more use of capital per unit than labour. The choice depends on the availability of resources. A labour surplus economy can well use the labour–intensive technology.

(3) **For whom these goods and services are to be produced?** Once we have decided what goods to be produced and what techniques to be used in the production of goods, we are encountered with another problem, i.e., the problem of distribution of goods in the economy. This is the problem of sharing of national income.

(4) **Are the resources efficiently used?** We have also to see that scarce resources are efficiently utilized. This is the problem of economic efficiency or welfare maximization.

Ref – Intro to Economics, By *Dutta*, New Age Pub

(5) **Are the resources fully employed?** An economy must also try to achieve full employment of all its resources.

(6) **How to attain growth in the economy?** An economy is to ensure that it is attaining sufficient growth rate so that it is able to grow larger and larger and develop at faster rate. It should be able not only to make a structural change from agrarian to industrial sector but also to increase per capita and national income of the country. An economy must not remain static. Its productive capacity must increase continuously.

It is clear that the basic problem of an economy is the economizing of resources. The economizing problem arises in every type of economic society owing to the fact that resources are scarce in relation to multiple wants/ends.

PRODUCTION POSSIBILITY CURVE

The production possibility Curve is a graph that depicts the trade-off between any two items produced. It is also known as Transformation Curve or Production Frontier, which shows the maximum feasible quantities of two or more goods that, can be produced with the resources available. In other words, it indicates the opportunity cost of increasing one item's production in terms of the units of the other forgone. Prof. Samuelson analyzed the economizing problem by the use of production possibility curve.

Thus, a PPC shows the maximum obtainable amount of one commodity for any given amount of another commodity, given the availability of factors of production and the society's technology and management skills. The concept is used in macroeconomics to show the production possibilities available to a nation or economy, and also in microeconomics to show the options open to an individual firm. All points on a production possibilities curve are points of maximum productive efficiency or minimum productive inefficiency: resources are allocated such that it is impossible to increase the output of one commodity without reducing the output of the other. That is, there must be a sacrifice—an opportunity cost—for increasing the production of any good. All resources are used as completely as possible (without the situation becoming unsustainable) and appropriately. The production possibility curve does not remain stationary. It moves outward overtime with growth of resources and improvement in technology. This is because we get more output from the same quantities of resources. The table below illustrates production possibilities of a simple economy producing two commodities—cars and computers. Two production possibilities–E and F are shown. When the economy decides to put more resources for the production of computers, it must sacrifice some resources from the production of cars. Thus, when 10000 computers are decided to be produced, 5000 cars cannot be produced as the resources are now diverted to the production of computers.

Production possibilities	*Computers (in 000's)*	*Cars (in 000's)*
E	5	15
F	10	10

The adjacent Fig. 2.1 derived from the table above, shows the production possibility curve. If all resources in the economy are utilized in the production of cars, OA units of cars can be produced.