

DEFINITION OF ECONOMICS

1. Wealth Definition: By *Adam Smith*.

“Economics is the science of wealth”. This covers: How to earn money? How to spend money? How to become rich?

2. Welfare Definition: By *Alfred Marshall*.

It is a study of man as such, not of wealth. It is a study of man's actions in the ordinary business of life. e.g. Dhirubhai Ambani.

3. Scarcity Definition: By *Lionel Robbins*.

Economics is the science, which studies human behaviour as a relationship between ends and scarce means, where the means have *alternative uses*. This definition is more practical. According to this definition,

- ENDS: refers to *human wants*, which are unlimited. One is compelled to choose between the *more* urgent and *less* urgent wants. That is why Economics is also called a “*science of choice*”. Wants once satisfied can appear again. e.g. Thurst and hunger.

- **SCARCE**: refers to *limited resources*, e.g. Pure Air, Pure Water.
- **MEANS**: refers to *resources*, i.e. *Land, Labour, Capital, Entrepreneurship and Technology*, which are *scarce (limited)*, but have *alternative uses*.

These resources, when combined in different forms, can produce a variety of *Goods and Services* (i.e. *Commodities*).

ECONOMIC PROBLEM

It is basically the problem of :

- (a) *Choice of Wants.*
- (b) *Choice of Methods*, using which the resources can be combined to produce various commodities.

Problem of Allocation of Resources

Every economy faces *three* basic economic problems:

- (a) What to Produce? (b) How to Produce?
- (c) For Whom to Produce?

(a) What to Produce? refers to budgeting the resources. We have to make choices between more urgent wants and less urgent wants, because resources are limited.

(b) How to Produce? We decide the method of producing the commodities, as we know that resources have alternative uses. Hence, we have to select a technique, or combination of resources and technique. Techniques can be of two types: (i) *Capital Intensive* (ii) *Labour Intensive*, depending on the available resources.

(c) For Whom to Produce? This problem arises when commodities are produced. It means how to distribute the commodities in the society. e.g. Wheat produced – how much will be given to PDS and how much will be allotted to the market.

Full Employment and Utilization of the Resources: Using resources in the best possible manner, without wasting them, is called *efficient utilization of resources*. Every economy wants to utilize its resources *efficiently*, so that it can attain *maximum* production or output and *maximum* wants can be satisfied.

Growth of Resources:

- Over a long period, the population *grows* and greater amounts of commodities are demanded.
- However, *resources*, which are the means to produce the commodities, are *limited*.
- Therefore, we have to *increase the resources over time*, so that we can fulfill the greater demands of the growing population.

TYPES OF ECONOMY

1. MARKET Economy:

- *No government interference* in the working of the economy or activities of individuals. Only *Private Sector* operates in the economy.
- The *Price mechanism* is used to distribute commodities.
- Markets are *open*. (Low market control.)
e.g. USA and Canada.

2. SOCIALIST Economy:

All major decisions regarding consumption, production and distribution of commodities are taken by the *State (Government)*, or the *Public Sector*. e.g. USSR, China and Cuba (South America).

3. MIXED Economy:

Combination of Socialist Economy and Market Economy. Both *Public Sector* and *Private Sector* operate in the economy. e.g. India.