

Basic Terms and Concepts of Economics

Basic Terms and Concepts of Economics : Economics indicated the economic behaviour of the people and society. So it is called social science in modern days without economics we are not think about our life, activities, and work. All the nation are also related with economics.

What is Economics

Definition of Classical Economists. The founders of Economics, Adam Smith, John Stuart Mill and others defined Economics as, "the Science of Wealth". According to Adam Smith,¹ the acquisition of wealth is the main objective of human activity. Therefore it is necessary to study how wealth is produced and consumed. This is the subject matter of Economics.

This definition was too materialistic. Apparently it made wealth more important than man for whose use wealth is produced.

The emphasis on wealth by the early writers on Economics was severely criticised by many people. Carlyle, Ruskin and other philosophers called Economics, defined in terms of wealth, the "Gospel of Mammon" and the "Dismal Science". The criticisms were mainly on two points:

(i) The assumption that human beings are guided by the desire to acquire wealth is incorrect. A man who is always guided by the wealth-motive may be called an "Economic Man". But the normal or the average man is not an Economic Man in this sense. The actions of the average man in a civilized community are determined by many motives (including, of course, the motive of acquiring wealth). Human behaviour cannot be properly analysed unless the other motives are taken into account.

(ii) Wealth, in the popular sense, means money or riches. The philosophers argued that money and riches are not subjects worthy of study by cultured persons.

To avoid the criticisms of the philosophers, Marshall defined Economics in such a way as to give more emphasis upon man than upon wealth.

Definition of Alfred Marshall. Towards the end of the nineteenth century, Alfred Marshall of Great Britain evolved a new definition which shifted the emphasis from wealth to man. "Political Economy or Economics is a study of man's actions in the ordinary business of life. It enquires how he gets his income and how he spends it."

Thus, according to Marshall, Economics is a study of a part of man's actions. Human beings undertake many different kinds of activities, social, religious, athletic etc. Economics is not concerned with all of them. It is concerned with only those activities which relate to the earning and

¹ Adam Smith's book, published in 1776 was entitled, "An Enquiry into the Nature and Causes of the Wealth of Nations."

spending of income. By such activities men acquire, "the material requisites of well-being". Economics is therefore, "on the one side, a study of wealth and on the other, and more important side, a part of the study of man".²

From 1890 to 1930 Marshall's definition was generally accepted as adequate. It was, however, not a precise definition. It made the scope of Economics too elastic. Also, it did not show why economic activities are undertaken. Nowadays it is thought that scarcity is the major cause of all economic problems. This aspect of Economics was not emphasised by Marshall.

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Definition of Robbins. In 1932, Lionel Robbins, of the London University, put forward a more precise definition of Economics. According to Robbins, "Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses". This definition makes Economics a study of 'means' and 'ends'. The 'means' or resources, available for the attainment of the objectives of human life, are scarce i.e., in short supply relative to the demand. How men use the scarce means to fulfil their desires, is the subject matter of Economics. The definition of Robbins can be analysed as follows:

1. The 'ends'. Human activity comes from the desire to secure certain 'ends' (or objectives) like food, clothing, shelter etc. The ends provide the motives for human activity. There are many possible ends. All the ends are not of equal importance. Some are desired with greater intensity than others.

2. The 'means', available to human beings for the achievement of the 'ends', are scarce. Desirable goods and services do not exist in sufficient quantities to satisfy everybody. The time available for pursuing the ends is also limited. "Life is short. Nature is niggardly."

3. Alternative uses. The 'means' have alternative uses, i.e., they can be used for different purposes. A man can use his labour for producing foodstuffs or for painting a picture. The scarcity of means forces men to choose between different means with a view to adjust the available means to the desired ends.

According to Robbins, scarcity of means to satisfy ends of varying importance is the characteristic feature of human life. Scarcity creates certain problems. Economics is the science which deals with these problems. It is concerned with the forms assumed by human behaviour in the disposing of scarce means or the allocation of scarce resources. Economics should therefore be defined in terms of scarcity and not in terms of wealth or in terms of welfare.⁸

Criticisms of Robbins' definition. Critics have pointed out that the definition of Robbins is adequate in certain respects. Some of the criticisms are mentioned below.

1. *Cairncross*. The definition of Robbins ignores the social character of economics. The economist is not concerned with individual behaviour or with individual ends unless and until the individual's acts have consequences on other peoples' behaviour or ends. The problems of an iso-

⁸ Marshall, Principles of Economics, (1890)

lated individual, like Robinson Crusoe, are of no importance to the citizen of the modern world. Cairncross suggests that, to emphasise the social character of Economics, the definition of Robbins should be modified as follows: "Economics is a social science studying how people attempt to accommodate scarcity to their wants and how these attempts interact through exchange."

2. *Boulding*. Boulding⁵ points out that Robbins' definition makes the jurisdiction of Economics too narrow. According to him, Economics is not merely a study of scarce means but also of human welfare, for welfare is an end in itself.

3. *Robertson*. According to Robertson,⁶ the definition of Robbins is "at once too narrow and too wide". It is too narrow because it excludes from Economics the study of organisational and managerial defects. Such defects lead to under-employment of resources but they are not caused by scarcity of means. On the other hand the problem of allocation of scarce resources is one which may arise in fields not generally included within the scope of economics. For example, the army commander in a battle or a cricket captain arranging his field may suffer from scarcity of "resources". If Economics is defined in terms of scarcity alone then topics like the above will come within the jurisdiction of Economics and its scope will become too wide.

"From the point of view of the economist the conditions of human existence exhibit four fundamental characteristics- The ends are various. The time and the means for

⁵ The following question from Robbins explains his views:

achieving these ends are limited and are capable of alternative application. At the same time the ends have different importance. Here we are, sentient creatures with bundles of desires and aspirations, with masses of instinctive tendencies all urging us in different ways to action. But the time in which these tendencies can be expressed is limited. The external world does not offer full opportunities for their complete achievement. Life is short. Nature is niggardly."

"The material means of achieving ends are limited. We have been turned out of Paradise. We have neither eternal life nor unlimited means of gratification. Everywhere we turn, if we choose one thing we must relinquish other which, in different circumstances, we would wish not to have relinquished. Scarcity of means to satisfy ends of varying importance is, an almost ubiquitous condition of human behaviour"—Robbins, *The Nature and Significance of Economic Science*.

Conclusion. In spite of its inadequacies, the definition of Economics as given by Robbins, is very popular. Some examples are given below:

*Stonier and Hague.*⁷—"Economics is fundamentally a study of scarcity and of the problems to which scarcity gives rise".

*Samuelson.*⁸—"Economics is the study of how men and society end up choose, with or without the use of money, to employ scarce productive resources which could have alter-

⁷ Cairncross, *Introduction to Economics*, Ch. 1..

⁸ Boulding, *Economic Analysis*, Ch. 1.

⁹ Robertson, *Lectures on Economic Principles*, Vol. 1., p. 23.

Basic Terms and Concept of Equilibrium

native uses to produce various commodities and distribute them for consumption, now and in the future, among various people and groups in society. It analyzes the costs and benefits of improving patterns of resource allocation" .

*Watson.*¹- "How to get more and how to make the best use of what is available is the economic problem, the everlasting problem of every family, every business firm, and every unit of government."

A working definition. Robbins stressed on the alternative and the competing use of resources. Many modern economists, including Lipsey, think that Economics can be broadly defined as the discussion of the following topics:

1. How a society utilizes its resources.
2. How the output is distributed among the individuals and the groups in that society.
3. How the production and distribution system in the society change over time.
4. The efficiency of the economic systems.

Growth Oriented Definition : Its main objective is to increase social welfare and improve the standard of living of the people by removing poverty, unemployment, inequality of income and wealth, malnutrition, etc. of the nation. Hence, economic growth is the central point of all economic policies. Prof. Samuelson has given a definition of economic based on growth so after Robin definition, economic growth is turning points of all the nation. Now all nations are improving or achieving economic growth, for that many economic problems centre according it, aspects. According to Samuelson,