

SUBJECT - PRINCIPLES OF ECONOMICS

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THE NATURE AND SCOPE OF ECONOMICS

* What is Economics?

Economics is a very interesting subject because it analyses how human beings make choices in an effort to maximize utility. It also analyses how a society seeks to allocate their limited resources in order to achieve growth. The term economics is derived from two words economy and science meaning the science of the economy or the science of proper utilization of resources. The basic features on the nature of economics is given below.

* The Classical view of Economics

The classical economist viewed economics as a science of wealth. Adam Smith, the father of economics, in his book titled 'An enquiry into the Nature and Causes of Wealth of Nations', defined economics as the science of wealth. According to him, economics makes enquiries into the factors that determine the wealth and growth of a nation. So to Adam Smith what forms the subject

matter of economics as the science of wealth and production and expansion of wealth. However Ricardo shifted emphasis from wealth production to wealth distribution. According to a French classical economist, J.B. Say, economics is the science of production, distribution and consumption of wealth. Other classical economist such as J.S. Mill, defined economics as the law that governs mankind in the production of wealth. The wealth definition means that wealth was considered to be an end in itself.

* The Neo-Classical View of Economics

The Neo-classical economists led by Alfred Marshall gave economics a respectable place among social sciences. Marshall defined economics as the study of mankind in the ordinary business of life, it examines that part of individual and the social action which is most closely connected with the attainment and use of material well-being. Wealth was regarded not as an end in itself but a means to an end because it was seen as the source of human welfare. Major propositions of Marshall's welfare definition are economics is the science of material welfare. Secondly, economics is a social science because it is a study of men as they live and move and think in the ordinary business of life and thirdly that economics

is the study of rational behaviour of people as they maximize their material welfare. This means that Economics is concerned with economic activities that promote material welfare but excludes all non-economic activities that are socially undesirable like stealing, prostitution, etc.

* Scarcity and Choice Definition by Lionel Robbins

Robbins criticized Marshall's definition and provided his own definition in his book, "An Essay on the Nature and Significance of Economic Science" in 1932. According to Robbins, economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses. This means that economics is a human science. It involves maximizing satisfaction from scarce resource and the means available for satisfying these ends (wants) are scarce or limited in supply. Also the scarce means are capable of alternative uses, that is the use of scarce resource for one end prevents its use for any other purpose at that point in time. The ends are of varying importance which necessarily leads to the problem of choice in selecting the uses to which scarce resources can be put to. It is the various alternative uses of the resources that we have to decide on the best allocation of resources.

It should be noted that Robbins' definition stands on three basic facts namely: Unlimited wants, scarcity of resources and alternative use of the resources that we discussed above.

Robbins' economics studies man's activity in regard to all goods and services, without distinguishing them as material and non-material, provided they satisfy human wants. In other words, economic problem is one of allocating scarce means in relation to numerous ends.

* Samuelson's Growth Oriented Definition

The present trend in the world is the establishment of welfare states and improvement in the standard of living through reduction in poverty, unemployment and income inequality. In line with this trend Samuelson has given a definition of economics based on growth aspects. According to Samuelson, "Economics is the study of how people and society end up choosing with or without the use of money, to employ scarce productive resources that could have alternative uses to produce various commodities over time and distribute them for consumption, now or in the future, among various persons or groups in the society." Samuelson's definition is an improvement over Robbins' scarcity definition.

* The Scope of Economics

Economics as a subject is experiencing continuous growth. The frontiers of the subject has been widened after Alfred Marshall separated it from the term Political Economy. A discussion on the scope of economics included the definition of economics, whether economics is an art or a science and whether it is a positive or a normative science.

* Economics as an Art and a Science

There have been numerous questions whether economics is an art or a science. Economics is an art as well as a science. Economics is an art because different theories and laws are explained with the help of graphs, figures, tables, equations. Also economics make use of assumptions which helps to define the conditions for the application of theories, laws and relationship between economic variables.

Economics is a science because it is a systematized body of knowledge in which economic facts are studied and analyzed. Economics just like science which have laws and theories which trace out a causal relationship between two or more phenomena. For instance the law of demand tells us that, all things being equal, a fall in price leads to an increase in demand and vice-versa. A rise or fall in price is the cause while the decrease or increase in demand is its effect.

* Economics as a Positive and Normative Science

According to J.N Keynes, a positive science may be defined as a body of systematized knowledge concerning what is; while a normative science is a body of systematized knowledge relating to the criteria of what ought to be. The Objective of a positive science is the establishment of scientific laws; while the objective of a normative science is the determination of the Ideals.

A positive science is concerned with what is. According to Robbins, economics is a science of what is which is not concerned with moral or ethical questions. The positive science of economics makes it devoid of value or ethical judgement, that is, it relates and describes facts without saying whether they are good or bad. For instance, statements such as 'Growth creates pollution' or 'Growth gets rid of pollution' are called positive statements - assertion of facts that can be tested.

Normative economics involves value judgement on what are simply known as values. It is concerned with the question of what ought to be. It makes distinction between good and bad depending on ethics and beliefs of the people rather than on scientific laws and principles. For instance, positive economics is concerned with how aggregate consumption and investment, how the national income and employment, and how the general price levels are determined. It does not go into the question of what should the price be, these questions of what should be and what ought to be, falls within normative economics.