**Pakistan School , Kingdom of Bahrain**

**E- Support and Learning Material / Session 2020-2021**

**Subject: Economics Grade : 11-Arts**

 **FIRST TERM**

**Chapter 1: Fundamentals of Economics**

**Q:1 What is economic problem? And how it is solved?**

**Ans:** Economic problem, in essence, is the problem of scarcity & choices. It arises out of scarcity & is solved by making choices.

**“Economics is the study and management of scarce resources”**

**Q:2 Define human wants.**

**Ans:** Human want means the desire to get something which provides utility for example a hungry person wants food.

**Q:3 What are the types of human wants?**

**Ans:** Human wants can be divided into two types

i) Economic wants ii) Non-economic wants

**Economic wants:** These are the wants which can be satisfied only by spending money for example want to get a cycle or to have a hair cut are economic wants.

**Non-economic wants:** The wants or desires of people which are possible to satisfy without the use of money are called non-economic wants for example desire for friendship or breathing of air etc. **But in economics, we study only economic wants.**

**Q:4 In how many ways human wants can be satisfied?**

**Ans:** Human wants are satisfied in three forms. **(Necessities, comforts, luxuries)**

**Necessities: Necessities** are those **items** or services you absolutely must buy with your income. **Necessities** include basic food, clothing, shelter, heat, and medical care.

**Comforts:** After meeting necessities of life, we may use many other things, which make our life easier or increase our efficiency in work. These are called comforts for example fan, watch, telephone etc.

**Luxuries:** The goods which are not necessities or comforts but people having extra money want to get those are called luxuries. Luxury goods have less utility but high price. For example diamonds, expensive cars, oversize homes etc.

**Q:5 What are the characteristics of wants?**

**Ans:** Wants have certain characteristics given as under

1. Wants are unlimited
2. Wants re-appear
3. Wants compete with each other
4. Wants differ in importance
5. Present wants appear to be more important than future wants.
6. Wants changes with time
7. Wants are complementary
8. Wants can be satisfied in alternative ways

**Q:6 What do you mean by goods & services?**

**Ans: Goods:** All material things which are used by human beings to satisfy their wants are called goods for example food, clothes, book, cycle, building etc. Goods are tangible.

**Services:** Those actions of individuals, which can satisfy other’s wants are called services, for example lecture by the professor, examination of patient by doctor etc. Services are intangible.

**Q:7 Differentiate between consumer & producer good.**

**Ans: Consumer goods** Consumer goods are the goods which can satisfy human wants directly. They have utility. These include things like bread, car, cycle etc

**Producer goods** these are the goods which are used for the production of other goods or for earning income. Without the aid of capital goods, labour can produce very few goods. Producer goods are of three types (i) **Raw materials** like metal, wood, oil etc (ii) **Semi-manufactured goods** like steal, cotton yarn, flour etc. (iii) **Manufactured goods** for example machinery, tools, buses, computers.

**Q:8 Define Scarcity.**

**Ans:** Scarcity means a situation where available resources are insufficient to produce all the goods and services people wish to have.

**Q: 9 What do you mean by economic laws?**

**Ans:** Economic laws are general principles or observed behavior of people under a given situation.

**Q:10 Define utility in economics.**

**Ans:** Utility is the power or ability of some good or service to satisfy human want, For example water has the ability to satisfy thirst, so we can say that the water has the utility for a thirsty person.

**Q:11 Define economics in the words of professor Adam smith.**

**Ans:** Adam smith considered that “Economics is a science of wealth” It deals with production of wealth, consumption of wealth, distribution of wealth and exchange of wealth.

CRITISM

Actually speaking the definition given by Adam Smith had been boldly criticized on the following grounds:

1. One Sided Definition

It was the one sided definition because of only wealth had been taken in to consideration while “humans” were neglected who are equally important in the discussion of economics.

2. Emphasis on Wealth

According to this definition, wealth was given to much concentration on wealth that destined man selfish and illustrious. Therefore the social reformers raised voices against this definition.

3. End Or Mean

Wealth was taken as end by itself and not a mean to an end. This concept is wrong because wealth is the source of satisfaction and satisfaction by itself. It is a mean not an end while it is for man and man is not for wealth.

4. Narrow Sense of Wealth

The term wealth was interpreted in a very narrow sense. Wealth meant something tangible, visible and concrete object, which is capable of satisfying human, needs thus all the intangible goods and services which provide to human being were completely ignored.

5. Limited the Scope

According to the classical definition, “Science of wealth” was regarded as a subject matter of economics had been left out from its study. Only the people engaged in production and consumption were studied under this definition.

**Q: 12 Define economics in the words of Professor Marshall.**

**Ans:** According to Marshall: Economics is the study of mankind in ordinary business of life; how to get income and use it. It examines the material aspect of human wellbeing.

ATTRIBUTES OF THE DEFINITION

Marshal’s definition of economics contains the following attributes:

1. Study of Mankind

According to this definition economics is the study of human beings. It emphasizes on man. It excludes the study of plants animals and beasts. But it does not study the activities of all human beings. Despite it studies only the activities of real, social and normal man.

2. Material Welfare

According to this definition, wealth is achieved for material welfare. Material welfare refers to the economic prosperity and well being which is achieved through earning of wealth. Of course, the aim of a man’s life is to attain the welfare, which is possible through wealth.

3. Economic Aspect of Life

In the light of this definition economics studies only the economic aspect of life and leaves out the other aspects of social, religious, political etc. economic aspect relates to how a man earns his income and how he spends it.

4. Studies of Physical Activities

According to this definition, economics studies only material activities such as that of carpenters, masons etc. The activities of teachers, doctors engineers i.e. services have been neglected.

5. Economics is a Social Science

Economics is a social science and not one which studies isolated individuals. In economics we study persons living in a society, influencing other people and being influenced by them.

CRITICISM OF THE DEFINITION

Prof. Lionel Robbins criticized strongly Marshals definition of economics. He pointed the following defects in the definition:

1. Narrow Concept of the Subject

Since marshal concentrated mainly on material welfare as a result of the material goods therefore according to marshal’s definition only those activities, which produce material goods, are studied in economics and the service sector of the business has been entirely neglected. This proved to be a major criticized part of the definition.

2. It is Classificatory

Marshal’s definition is classificatory. It has classified economic phenomenon in to material and non-material. The definition however recognizes only the satisfaction of material needs in to the subject of economics.

3. Ambiguity in Definition

The distinction made in this definition between ordinary business of life and extra ordinary is not clear.

4. Welfare cannot be measured

Welfare is a state of mind and is unquantifiable i.e. it cannot be quantitatively measured. The correct amount of welfare cannot be measured and the satisfaction derived from the purchases or performance or activities cannot be calculated in exact figures. Only the assumption can be made. For instance if two friends purchase the same commodity, it would almost be impossible to identify, measure or even assume that how much welfare they are going to gain through their purchases.

5. Economics is not Purely a Social Science

Marshals have defined economics as a social science. According to him that all men being members of the society is the concern of the subject but a man living in jungle does not fall within its orbits. But Robbins argued that economics studies all human beings whether or not they are members of society. Thus it is better to call economics as “human science”.

6. Objection on Welfare

The objection is not merely to the word material but also to welfare. If economics is made to welfare rather than wealth it gives rise to anomalies e.g. Intoxicants come under wealth but their use is not conducive to human welfare. There are on the other hand, many things like love and affection, which are highly conducive to welfare but are not regarded as wealth. In deed about welfare vary from time to time, person-to-person and place-to-place.

**Q:13 Define economics in the words of Robbins.**

**Ans:** Robbins defined economics as “Economics is the science, which studies human behavior as a relationship between ends, and scarce means, which have alternative uses.

Robbins definition is based on:

1. Multiplicity of wants.

2. Scarcity of means

    In other words, Robbins definition says that:

1. The ends are unlimited,

2. The means to achieve those ends are limited, and

3. The means are capable of alternative uses.

ATTRIBUTES OF THE DEFINITION

Followings are some of the attributes of Robbins definition:

1. Multiplicity of Ends

As a matter of fact, never come to an end. They are always unlimited. As soon as one want is satisfied, another comes forward. Thus it is the unlimitedness of a person wants that never stops him from working and keeps him engaged in the work of earning money for the satisfaction of his wants.

2. Scarcity of Means

It refers to the limited resources due to which economic problems arise. But if the resources were unlimited, then consequently there would have no economic problems and all the wants would have been satisfied. But it should be noted that the means are scare with respect to their demand.

3. Selection / Urgency of Wants

It is obvious that some of the wants are more urgent for us as compared to others. Naturally, we go to satisfy our urgent needs / wants first and then the remaining ones. If all the wants are same there would be no urgency to fulfill then and hence no economic problem would arise.

4. Alternative Uses

According to the Robbins definition all the scars means are capable of alternative uses i.e. they can be put to a number of uses e.g water can be used for drinking as well as for cooking. The main problem arises that where the utilization should be made first.

5. Human Science

Robbins in his definition has broadened the scope of economics. According to him economics is the study of human behavior as a whole both within and outside the society. It does not restrict the subject matter within specific limits.

CRITICISM OF THE DEFINATON

Robin’s definition also faces criticism from many economists. Some of the criticizing points areas follows:

1. Economics as a Positive Science

According to Robins, economics discovers only the facts that give rise to certain problems and does not give suggestions as to how to deal with human behavior that varies from man to man and from time to time. So it is not a physical science, which deals with matter and energy and remains unchanged at any place. Economics is therefore not a physical science. It discovers both causes / efforts and suggestions.

2. Human Touch Missing

In Robbins definition the human touch is entirely missing. It does not take in to account the systematic thinking, human sympathy, imagination and the variety of human life.

3. Abstract and Complex

Robbins has made economics more abstract and complex and hence difficult. This distracts from its utility for the common man. Utilities of economics lie in being a concrete and realistic study.

4. Macro Concept

Another criticism on Robbins definition is that it ignores the macro aspect. It has ignored the issues like employment, national income from its boundaries.

5. Does not Covers Economics of Growth

The economic growth theory or economic development theory has been overlooked in Robbins definition. Economics of growth explains how an economy grows and the factors, which bring about an increase in national income and productivity of the economy. Robbins takes the resources as given and discusses only their allocation.

Comparison of Marshall's and Robbins Definitions of Economics

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After comparing the two definitions of economics given by two eminent economists the following differentiating points have come forward:

Marshal was of the view that economics is a study of mans action in the ordinary business of life. In other words he wants to study economics, all those activities which are directly related to wealth. Robbins on the other hand regards economics as the study of economic aspect of all human activities. Marshal’s definition is quite materialistic .he has restricted economics to a study of human behavior related to wealth. Robbins on the other hand takes in to account the human behavior related to scarce means.

Marshal’s definition is classificatory. It classifies human activities in to economic activities and non-economic activities. Robbins definition on the other hand is analytical.

Marshal’s definition includes the economic activities of only those persons who member of society. Robbins definition includes the activities of social human beings only as far as they are concerned with wealth. Robbins definition is study of every human behavior, which is related to scar means.

Scope of Economics

Scope of Economics

The scope of a subject refers to the fields they actually cover. The scope of economics can be finely understood if we classify it into heads viz:

1. Subject matter

2. Nature

3. Limitations

These headings are discussed as under:

Subject Matter

It can be further studied as:

According to Adam Smith

The classical economist Adam Smith considered wealth as the subject matter of economics. According to him economics deals with the activities of man in earning his income me and spending it among different objects in order to obtain the maximum benefit for satisfaction of his wants.

According to Marshal

The neo classical economist Alfred Marshal regarded material welfare it be the subject matter of economics. According to him the activities of man kind as a social being and in the ordinary business of life which are related to the attainment of economic well being through the use of the material requisite are considered to be the subject matter of economics.

According to Robbins

According to Robbins those activities, which originate because of the imbalance relation between human wants and available resources constitute the subject matter of economics.

According to Keynes

Keynes is of the view that economics problems constitute the subject matter of economics.

Nature of Economics

The nature of economics includes study or discussion that weather economics is arts or science?

Economics as a Science

Most of the economists regard economics as a science because it is a body of knowledge, which deals facts and rules and studies their cause?????? with their effect. Now economics as a science generally studied two heads:

Economics as a Positive Science

Most of the English economists regard economics as a positive science because it examines the relationship between causes and effect. It studies economic problems, which are existing and effect directly human life.

Economics as a Normative Science

Some economists think that economics is a normative science. It tells that weather a particular thing is describable or not. The aim of economics is to promote human welfare so it studies the factors relating to what out to be.

Economics is an Art

Economics not only studies how economic problems arise but it also recommends positive measures to end these problems. The purpose of economics is to promote welfare and satisfaction and thus it outlines the guidelines to achieve these objectives.

Limitations of Economics

Economics has some limitations, which are as follow:

1. Economics does not study all human activities. It is limited only to those activities, which are related to wealth.

2. Economics studies only the human activities. It does not study the activities of other creatures.

3. Economics studies the activities of normal real and social man. The activities of insane, drunkards etc are not studied under economics.

Un-Employment can be Eradicated

Economics can help to reduce unemployment through division of labor large-scale production etc.

Distribution of Money

Economics teaches equal distribution of money among all the people to discriminate the difference of rich and poor through laws of taxation etc.

Utility to Individual

It can be studied as:

1. Utility to Producers

The study of economics is of great importance to the capitalists. It can help them to achieve cooperation of the working classes, utilize the available resources and factors of production to their best output and maximum profit. Buying and selling principles, supply consumption, demand determination etc are to be solved though economics.

2. Utility to Consumers

Economics offers practical guidance to the consumers. It suggest them the principle by which he can drive maximum satisfaction and benefits out of his limited income it helps him to divide his income successfully between the expenditure of necessities, comfort and luxuries.

3. Utility to Laborer

The study of economics is also useful for the laborers. It encourages him to claim appropriate return for his work.