**Pakistan School , Kingdom of Bahrain**

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

**Subject: Principles of Economics Grade : 11 (Commerce)**

**FIRST TERM**

**Chapter 1 : Basics of Economics**

Concept

As a matter of fact a man is born with wants, which are always unlimited. A human being always tries to satisfy his wants i.e. satisfaction of wants becomes a prime objective of his life. In order to satisfy his wants, a man has to work. Since most of the wants are mainly related to the materialistic well being of a person’s state of life, therefore the work that he doses gives him a material reward.

Economics deals with all those efforts or activities human being for bringing welfare in his life and for satisfying his wants performs them. The basic objective for the performance of such activities to achieve satisfaction and the driving force working behind it is to earn money it is to earn money i.e. to receive income.

In the light of above forts we can define in very simple words,” economics as: all the activities performed by man to earn income and it on achieving satisfaction of his wants are called economic activities or simply economics”

From the above definition, we get a specific definition in which economics moves i.e.

·It deals only with economic activities,

·It deals only with human activities and

·It takes in to part the people who are social and normal.

Origin of the word Economics

Origin of the word Economics

According to economists, the word ‘economics’ has been derived from the word ‘Political Economy’ which consist of three Latin words:

Polis which means state.

Plika which means domestic or related home.

Nama which means principles.

i.e. it means those principles which are adopted in a home to bring a balance between income and expenditure that can be applied to a state for the sake of balance. Most economist state that the Economics has been derived from the Greek word “OIKONOMOS”. (household management).

Early Definitions of Economics

Early Definitions of Economics

The classical school of thought i.e. Adam Smith, N.W Senior, Hills, Malthus and Ricardo have defined economics as,

“Economics is the science of wealth”

In the words of Adam Smith,

“Science, which enquires the nature and cause of the wealth of nations”

Waller defined economics as,

“Economics is that body of knowledge which relates to wealth.”

In the words of Mills,

“Economics to the science of wealth in relation to mass.”

In short, the classical school of thought emphasized purely wealth. So we can say that

“Economics studies the production, consumption, exchange and distribution of wealth.”

Smith's Definition of Economics

Smith's Definition of Economics

**“Science which enquires the nature and cause of the wealth of nations.”**

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.

Marshal's Definition of Economics

Marshal's Definition of Economics

The new classical definition or Marshal’s definition of economics says that:

**“A study of mankind in the ordinary business of life. It examines the part of individual and social action which is most closely connected with the attainment and use of material requisites of well being”**

In simple words, he said

**“Economics is a link between wealth and welfare”**

This definition has generally regarded economics as

**“Science of material welfare”**

Generally this definition is considered to be the finest of all since it encircles man’s activities performed by him for earning and spending of his income.

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.

Robbins Definition of Economics

Robbins Definition of Economics

Prof. Lionel Robbins gave his definition of economics in his book” Nature and significance of Economic Science” in the year 1932 .He defined economics as,

**“Economics is the science that 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

Comparison of Marshall's and Robbins Definitions of Economics

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.