



## 3



214en03

## GOODS AND SERVICES

You have learnt that human wants are unlimited and insatiable. Now the question is, how many of our wants can be satisfied and how they can be satisfied.

Human wants are satisfied by goods and services, which are carried through various economic activities. In this lesson you will learn about the terms goods and services, types of goods and services and significance of goods and services in relation to production, consumption, investment and human wants.



### OBJECTIVES

After completing this lesson, you will be able to:

- *explain the terms goods and services;*
- *identify various types of goods and services;*
- *distinguish between goods and services;*
- *understand the basis for different types of goods and services;*
- *know about free and economic goods and services;*
- *make out the difference between consumer and producer goods and services;*
- *explain how goods can be single use and durable use;*
- *differentiate between public goods and private goods.*

### 3.1 GOODS AND SERVICES

In our daily life, we come across variety of goods and services. When we are hungry, we take food. When we are thirsty, we take water. In a similar way we need many goods such as pen and paper to write, house to live in, chairs to sit, a washing machine to wash



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the clothes,, a television to watch the programmes etc. All these are the examples of goods that satisfy our wants.

But goods alone are not sufficient to fulfill our wants. We need the services of different people for different jobs. For example we require a hairdresser to cut our hair, a doctor to cure us, a tailor to stitch our clothes, a cobbler for mending our shoes etc. These are a few examples of services that satisfy our wants. Both goods and services satisfy human wants. These goods and services are as diverse as our wants.

### 3.2 DISTINCTION BETWEEN GOODS AND SERVICES

Now that we know that both goods and services are important to satisfy human wants, let us understand how both are different from each other. The main points of distinction are:

#### Goods

1. Goods are tangible in nature i.e. they can be seen and touched.
2. There is a time gap between production and consumption of goods as they are produced first and consumed later.
3. They can be stored and utilized when required.
4. They can be transferred from one place to another.

Let us take example of any one good, say chair. You can see a chair and can also touch it. The carpenter first makes it in his workshop. You use it after purchasing it from the market. So there is a time gap between production of chair and its consumption. If suppose you do not require that chair immediately you can keep it in your store and can use it when you require it. You can even give it or sell it to another person.

#### Services

1. Services are non-tangible in nature i.e. they can neither be seen nor be touched.
2. There is no time gap between the production and consumption of services. That is why they are produced and consumed simultaneously.
3. Services cannot be stored.
4. Transfer of service is not possible.

Let us consider the example of services of a doctor. The doctor examines a patient and writes the medicines. Now he has delivered a service (for the treatment of the patient), which we cannot see or touch. The moment he examines the patient, he has delivered his services which is also consumed by the patient. So there is no time gap between production and consumption of services. Now this service cannot be stored or transferred.

**INTEXT QUESTIONS 3.1**

1. Which of the following items are goods.
  - (a) Car
  - (b) Cell phone
  - (c) Transportation of passengers
  - (d) Mending of shoes
2. Out of the following, which are the characteristics of a good.
  - (a) Goods can be seen or touched
  - (b) Goods cannot be transferred
  - (c) There is no time gap between the production and consumption of goods
3. Out of the following, which are the characteristics of services
  - (a) Services can be seen or touched
  - (b) There is no time gap between production and consumption of services
  - (c) Services can be stored
4. Human wants are satisfied by consuming.
  - (a) Goods
  - (b) Services
  - (c) Both goods and services
  - (d) None of the above

**3.3 CLASSIFICATION OF GOODS AND SERVICES**

We know that different types of enterprises produce different types of goods and services. It is not possible to study them individually; therefore to understand them properly we have to classify them in a number of broad groups. This classification can be done in many ways. This classification helps us to understand the relative economic significance of different goods. We will study the following classifications:

1. Free goods and economic goods.
2. Free services and economic services.
3. Consumer goods and producer goods.
4. Consumer services and producer services.
5. Single use goods and durable use goods.
6. Private goods and public goods.

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### 1. Free goods and economic goods

Let us assume that you are in a desert. If you fill a bag with sand, you need not pay any price. But otherwise in a city, you have to pay for it. This example helps us to differentiate a free good from an economic good. Free goods are free gifts of nature. They are available in abundance i.e. in unlimited quantity and the supply is much more than the demand. You don't have to pay anything to get them. That is why they are called free goods. In short we can define free goods as goods which possess utility but which are not scarce.

In our daily life, we use toothpaste, soap, shaving cream, footwear, bread etc. These goods are man made and their supply is not unlimited. Similarly we use machines, buses, table, chair, books, fans, television etc. They too are man made and their supply is not unlimited. We use water for various purposes at home, sand for construction and different minerals in different forms. Now these are not man made but free gifts of nature. But because they are scarce i.e. their demand is more than their supply, they command a price and are not freely available. They are the economic goods.

Economic goods are those goods (manmade or free gifts of nature) whose demand is more than supply. They command a price and they can be bought in the market.

### 2. Free services and economic services

In case of services too, there are free services and economic services. Free services are those, which cannot be bought in the market and which are rendered due to love, affection etc. For example services of parents for their children. All those services, which can be bought in the market, are economic services such as services of doctors, engineers etc. The rest of the classification of goods and services deal only with economic goods and services.

### 3. Consumer goods and Producer goods

This classification is based on the purpose for which a particular good is used. Consumer goods are those goods, which satisfy the want of consumer directly. They are goods, which are used for consumption. For example bread, fruits, milk, clothes etc.

Producer goods are those goods, which satisfy the want of consumers indirectly. As they help in producing other goods, they are known as producer goods. For example machinery, tools, raw materials, seeds, manure and tractor etc are all example of producer goods.

#### 3a. Intermediate goods

Raw materials, power, fuels etc. used by the producers for further production of final goods and services are also called intermediate goods. Example : Wheat flour is an intermediate good in the production of bread in the bakery.



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#### 4. Consumer's services and producer's services

Here too the basis of classification is the same as that of goods. When the consumers or the households directly use services, they are known as consumer services. For example services of a tailor stitching your shirt or services of a doctor giving you the treatment or services of a plumber repairing your leaking tap, etc.

Producer services on the other hand are used to produce other goods and services, which are in turn demanded by the consumers. In other words producer services satisfy the human wants indirectly. For example a tailor stitches a shirt for a readymade garment shop, an electrician repairs fault in the electric supply in a production unit or even a truck-transporting raw material to a factory.

#### 5. Single use and durable use goods

All types of goods whether consumer goods or the producer goods are further classified into single use and durable use goods. Single use goods are those goods, which can be used only once. They are finished only in one use. For example bread, butter, egg, milk etc are the single use consumer goods as they are consumed immediately and once for all. Similarly single use producer goods are exhausted in one production process. For example coal, raw material, seeds, manure etc. To elaborate it further let us take the example of production of sugar. Here the raw material is sugarcane, which is used only once.

Durable use goods are those goods, which can be used again and again for a long period of time. There are durable use consumer goods as well as durable use producer goods. Durable use consumer goods are cloth, furniture, television, scooter etc. that can be used by consumer again and again. Durable use producer goods are used in production again and again for example, machines, tools, tractors and implements etc. this does not mean that repeated use of these goods does not make any difference to them. In fact the value of these goods gets depreciated after continuous use.

#### 6. Private goods and public goods

Goods can be classified on the basis of their ownership. All goods that are privately owned and are exclusively enjoyed by individuals are called private goods. For example all the goods owned by you are private goods. This includes your watch, pen, scooter, books, table, chair, bed, clothes etc. If you own a factory then its building, machinery; tools etc are your private goods.

Public goods are those goods, which are owned and enjoyed by the society as a whole. For example roads, bridges, park, town hall etc. are all collectively owned. They are available to all people in a society without any discrimination, i.e. no one is denied from the consumption of public goods. Both government and private entrepreneurs may produce public goods.



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### INTEXT QUESTIONS 3.2

Which of the following are correct?

1. Economic goods are-
  - (a) Those which are scarce
  - (b) Those which have a price
  - (c) Those which are scarce and also have a price
2. Consumer goods are those goods –
  - (a) Which help in further production
  - (b) Which satisfy the human wants directly
  - (c) None of these
3. Examples of producer goods are-
  - (a) Machinery
  - (b) Tractors
  - (c) Bread
  - (d) Raw material
4. Which of the following statements are correct?
  - (a) Free goods are those goods whose supply is more than the demand.
  - (b) Single use goods are those goods, which are used one for all.
  - (c) Durable use goods can be used again and again.
  - (d) Public goods are those goods, which are collectively owned.

### 3.4 ROLE AND SIGNIFICANCE OF GOODS AND SERVICES IN AN ECONOMY

Goods and services have a multidimensional role to play in an economy. Their role can be stated in relation to-

#### 1. Human wants

You have studied that human wants are unlimited and they are also ever increasing. It means if the availability of different goods and services like clothes, shoes, furniture,

utensils, television, scooter, fruits, vegetable, food grains and services of doctor, plumber, electrician etc increases, it will satisfy more human wants.

## 2. Production

We require consumer goods and services to satisfy increasing human wants. But this increase in availability of consumer goods and services depends on the increased availability of producer goods and services. We can produce more if we have more and better machinery, raw material, tractors, seeds, manure etc. similarly we require more of transportation services, banking and insurance services. Thus it is the quantity and quality of producer's goods and services that will determine the availability of consumer goods and services in the market.

## 3. Investment

Increase in the production of goods and services will also determine the level of investment. Given the quantity of goods and services, a part of it is consumed, which satisfies the human wants. Whatever is not consumed is used for further production and it results in capital formation in the economy. If the production of goods and services is more, it is likely that the consumption will be more and the investment will also be more. The larger is the surplus, the larger is the productive capacity of the economy.



### INTEXT QUESTIONS 3.3

Write true or false against each of the following statements

1. Consumption of goods and services helps in the satisfaction of human wants. [ ]
2. Availability of goods and services depends on the availability of producer goods. [ ]
3. More production results in more consumption and more investment. [ ]



### WHAT YOU HAVE LEARNT

- Human wants are unlimited. Goods and services can satisfy them.
- Free goods are those goods which are available in unlimited quantity and do not command a price in the market.
- Economic goods are limited in supply in relation to their demand. They also command a price in the market.



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- Free services are rendered out of love, affection etc. They cannot be bought in the market.
- Economic services are the services, which can be bought in the market.
- Consumer goods are those goods, which satisfy consumer’s want directly.
- Both consumer goods and producer goods are further classified into single use and durable use goods depending upon the number of times that good is used. If used only once, it is single use and if used again and again it is durable use good.
- Consumer services satisfy the wants of consumers directly whereas producer services help in the further production of goods and services.
- Quality and quantity of goods and services determine the level of production, investment, consumption and satisfaction of human wants.



**TERMINAL EXERCISE**

1. Distinguish between goods and services.
2. Distinguish between economic goods and free goods.
3. Distinguish between consumer goods and producer goods.
4. Distinguish between single use and durable use goods.
5. What is the role and significance of goods and services in an economy?



**ANSWERS TO INTEXT QUESTIONS**

**Intext Questions 3.1**

1. a, b      2. a      3. b      4. c

**Intext Questions 3.2**

1. c      2. b      3. a, b, d      4. a, b, c, d

**Intext Questions 3.3**

1. True      2. True      3. True

**MODULE-2**  
**ABOUT ECONOMY**

4. Economy – Its Meaning and Types
5. Central Problems of an Economy
6. Basic Economic Activities

