

Lesson – 12

Introduction to the Study of Economics

Summary

Economics is the study of how societies divide and use their resources to produce goods and services and of how those goods and services are then distributed and consumed. A country's economy consists of three major economic agents; consumers, firms and government. Analyzing the choices made by these economic agents is one of the main subjects of microeconomics. In this we will learn about meaning of the term economics , definition of the term economics, concept and differences between micro and macro economics, concept of positive and normative economics and importance of micro and macro economics . Let us discuss now,

Meaning of Economics

- The term 'Economics' is derived from two Greek words OIKOS and NEMEIN, meaning the rule or law of the household.
- The study of economics is concerned about allocation and judicious utilization of available resources of nation.

Definitions 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.”

Robbins definition is comprehensive in explaining the scope of Economics.

Nobel Laureate Prof. Samuelson has spelled out Economics as follows –

“Economics is the study of how men and society choose, with or without the use of money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time, and distribute them for consumption now and in the future among various people and groups of society.”

Positive and Normative Economics

Positive Economics

- Positive economics deals with economic analysis which is based on facts and statistical data.

- Positive economics relates to the phenomenon of 'what is'.
- Example - As per 2011 census, India's population was around 121 crore.

Normative Economics

- 'Normative economics deals with the issue of 'what ought to be'.
- Normative economics is based on value judgment and debate which are required to arrive at some conclusion.
- Example - India should control its population by adopting family planning.

Micro Economics vs. Macro Economics

Micro Economics

- Microeconomics is derived from the Greek word micros meaning small, it relates to the individual economic agent's.
- study of the economy deals with decision making process by any individual, firm, household with respect to matters of production, consumption, determination of prices in the market, determination of wage rate, and so on.
- Micro economics also puts emphasis on behaviour patterns and role of firms and

and Individuals in income distribution and study of conditions of efficiency in production and attainment of overall efficiency.

Macro Economics

- Macroeconomics is the branch of economics that deals with the economic aggregates of a country as a whole.
- The word macro is derived from the Greek word macros meaning large.
- The focus areas are aggregate economic variables of an economy which includes components of output, price level, income and employment etc in an economy.
- Macro Economics provides the basis for making policies and its implementation.
- The study area involves the analysis of effects in the market of taxation, budgetary policies, on money supply, role of state, , wages, employment, and output.

Interdependence between Micro and Macro economics

- A close interlink exists between macro and micro economics.

- All micro economic studies can help in better understanding and analysis of the macro economic variables.
- For example, increased taxes are a macroeconomic decision but their impact on savings of a firm is microeconomic analysis. Further, how this saving impacts the economy is a macroeconomic analysis.
- A study of the process of price determination and the role of buyers and sellers in this process is a micro economic study, whereas the study of the general price level in the economy is a macro economic study.

Significance of Micro and Macro Economics

Significance of Micro Economics -

Microeconomics has both theoretical and practical importance.

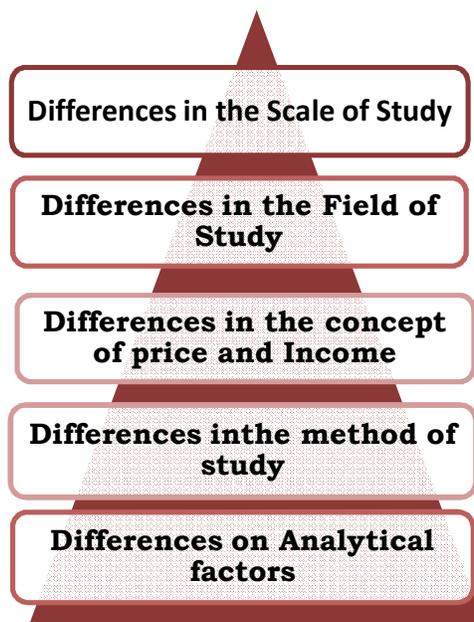
- It helps in formulating economic policies.
- It enhances productive efficiency.
- It contributes towards greater social welfare.
- It also helps the government in formulating correct price policies.
- It helps in the determination of international exchange

Significance of Macro Economics -

Theoretical and practical importance of Macro economics are as follows –

- Formulation of Economic Policies
- Functioning of an Economy
- Understanding and Controlling Economic Fluctuations
- Study of National Income and Study of Economic Development
- Performance of an Economy,
- Nature of Material Welfare.

Basis of Differences between Micro and Macro Economics



Evaluate Yourself

Q. Briefly explain the concept of positive and normative economics with suitable example.

Q. Define the term economics given by Robbins and Samuelson.

Q. Distinguish between micro and macro economics.

Q. List out the importance of micro and macro economics