wealth = Services and goods exchange with the help of money

CHAPTER ONE

NATURE AND SCOPE OF ECONOMICS

1. DEFINITION OF ECONOMICS BY ADAM SMITH

Adam Smith was British Economist. He was the founder of Classical School of Thought. He was the first man who started writing on economic problems. His book, "**An Inquiry into the Nature and Causes of Wealth of Nations**" was published in **1776**. This was the first ever book on Economics.
In his book, Adam Smith defined Economics in the following words:

"ECONOMICS IS THE SCIENCE OF WEALTH"

This is the first ever definition of economics. Adam Smith discussed four aspects of wealth in his book, which is as follows:

A. PRODUCTION OF WEALTH

In this part of the book, he discussed that how goods & services are produced with the help of four factors of production i.e., Land, Labor, Capital & Enterprise. So according to Adam Smith, production of goods & services is the production of wealth.

B. DISTRIBUTION OF WEALTH

This part of the book is related with the distribution of goods & services produced. Adam Smith discussed various theories about the determination of remunerations for the four factors of production. He also talked about the evenness & unevenness of distribution of wealth.

C. EXCHANGE OF WEALTH

This part of the book is about exchange of goods & services. Producers produce goods & services in excess of their needs. So they want to exchange their excess production with one an other. Adam Smith discussed the rules of Domestic & International Trade.

D. CONSUMPTION OF WEALTH

This segment of the book is about consumption of wealth. Adam Smith discussed that how an individual should spend his wealth to get maximum utility or satisfaction.

Economists like **Chapp Man, Franscis A. Walker, Alley, N.W. Senior, J.S.Mill, Ricardo, Malthus, and J.B.Say** etc. followed Adam Smith in his ideas about this subject. All these economists are called the Followers of Adam Smith.
So the Classical Economists, Adam Smith & Followers, defined Economics more or less in the following words:
"Economics is a science in which the Nature of Wealth and all those laws are studied which are related to the Production, Distribution, Exchange & Consumption of Wealth"

CRITICISM

Social Reformers like **RUSKIN, CARLYLE & ARNOLD** criticized this definition. They called it as a "Dismal Science" and a "Pig Philosophy". According to these reformers this science only discusses wealth, which creates selfishness into the man.
The main criticisms on this definition are as follows:

1. **IMPORTANCE TO WEALTH**
According to this definition basic importance is given to wealth rather than to man. The fact is that man is more important than wealth.

2. **CONCEPT OF ECONOMIC MAN**
According to this definition man works for self-interest while the social interest is ignored. The fact is that Economics does not study the selfish man but a common man.

3. **CONTROVERSIAL**
The word 'Wealth' did not have clear meanings, so the definition became controversial.

4. **MAN'S WELFARE**
This definition ignores the importance of man's welfare. Wealth cannot be the solution of all human problems.

5. **NO STUDY OF MEANS**
This definition gives importance to the earning of wealth but it ignores the means for the earning of wealth.

2. DEFINITION OF ECONOMICS BY ALFRED MARSHALL

Professor **Dr. ALFRED MARSHALL** was a British economist. He was the founder of Neo-Classical School of Thought. He defined economics in the following words:

"Economics is the study of that human behavior which is related with the ordinary business of life. It deals with that part of individual and collective human efforts which is greatly related with the attainment and with the use of material things for the prosperous life. So we can say that Economics, on the one hand, is the science of wealth while on the other hand, it is the study of an aspect of human life."

We can derive the following points from this definition of economics:

A. In this definition of economics Marshall says that wealth is sought for promoting human welfare. So primary importance is given to human welfare and not to wealth.
B. Economics is concerned with the ordinary business of life. It does not concern with Economic Man i.e., a man who only wants to get wealth only for wealth. Economics is concerned with ordinary man who is influenced by human considerations in the pursuit of wealth.
C. Economics does not study the wealth only for wealth but for the purpose that with the help of wealth we can attain those material requisites, which can increase the material welfare of human being.

cannot be measured

D. Human efforts are of many types. Economics is concerned only that struggles due to t[he] result of which material requisites are attained to the human being.

Professor Marshall's followers like **CANNON, PARETO, PEGOU, CLARK, BAVERIDG[E]** etc., also defined Economics as **"A study of causes of material - welfare."**

MERITS OF THE DEFINITION

The merits of this definition of Economics are as follows:

1- **SCIENCE OF HUMAN WELFARE**
According to Marshall, economics is a science of human welfare. This science guid[es] human being to get and utilize resources for the fulfillment of human needs in a better way

2- **COMPREHENSIVE AND CLEAR DEFINITION**
Unlike the definition of economics by Adam Smith, this definition is clear from a[ll] conflicts. The struggle for the attainment of requisites in order to live a better life is th[e] scope of economics.

3- **STUDY OF INDIVIDUAL AND COLLECTIVE STRUGGLES**
According to this definition economics stresses the collective struggle of human being i[n] order to put the society on the way of progress.

4- **MAN'S IMPORTANCE**
According to Marshall, man is more important than wealth. Wealth is the source of th[e] fulfillment of human needs.

CRITICISM

Professor Lionel Robbins in his book, "Nature & Significance of Economic Science" criticize[d] this definition. The main points of his criticism are as follows:

1- **DOES NOT COVER THE WHOLE ECONOMIC PROBLEMS**
This definition does not cover the whole economic problems. According to this definitio[n] only those human efforts are discussed in economics, which increase the material welfare o[f] man. Those human efforts that do not relate with the material needs are not discussed in th[is] subject. The fact is that economics is related with all types of struggles for financial return[s] whether the struggle fulfils the material needs or non-material needs. So this definitio[n] covers some of the problems.

2- **THE CONCEPT OF CONSUMPTION OF WEALTH**
The part of man's income is consumed on the fulfillment of material needs like clothin[g,] housing, feeding etc. and the other part is consumed on the fulfillment of non-materi[al] needs like education, traveling etc. Marshall in Economics discusses only those problem[s] that are created by the use of wealth in the fulfillment of material needs while the fact is th[at] all the problems are discussed in economics.

3- **IMMEASURABLE CONCEPT OF WELFARE**
In this definition of Economics Marshall uses the word WELFARE which is ambiguous a[nd] immeasurable. Welfare is a state of mind that cannot be measured. So the concept th[at] cannot be measured should not be used in the definition of any science.

4- LIKES AND DISLIKES

According to Marshall, economics is a science of material welfare. If it is true, then we should take the steps that can increase the welfare and we should avoid the things due to which welfare may decline. So the question of likes and dislikes arises while the fact is that economics should be neutral among the various objectives.

5- ECONOMICS IS NOT A PURE SOCIAL SCIENCE

According to this definition economics is confined only to the social science. In this way economics only studies the behavior of that person who lives in society and it does not discuss the behavior of the person who does not live in the society.

3. DEFINITION OF ECONOMICS BY LIONEL ROBBINS

Professor Lionel Robbins in his book, "**Nature & Significance of Economic Science**" which was published in **1931**, defined economics in the following words:

"Economics is the science which studies human behavior as a relationship between ends & scarce means which have alternative uses."

This definition of Economics focuses its attention on a particular aspect of human behavior i.e., the behavior that concerns with the utilization of scarce resources to achieve unlimited ends.

Following three basic points are mentioned explicitly in this definition.

A. UNLIMITED WANTS

Human wants are unlimited. Multiplicity of wants is the cause of unending cycle of economic activity. If wants had been limited, they would have been adequately satisfied and there would have been no economic problem.

B. LIMITED RESOURCES

Economic resources are scarce in relation to human wants. Natural, human and artificial resources are not scarce in absolute term but they are scarce in relative term. So according to Robbins, unlimited wants and scarce means provide a foundation to the field of economics. Due to this relationship between wants and means, 'Economic Problem' arises. If all the things were freely available to satisfy the unlimited human wants, there would be no scarcity and there would be no economic Problem.

C. VARIOUS USES OF RESOURCES

The limited means available to satisfy human wants may be utilized alternatively. A particular mean is not fixed for a particular need. If particular means were fixed for the satisfaction of particular desires, no economic problem could have appeared.

The above-mentioned three points are explicit in the definition of economics by Robbins but there is also an implicit point in this definition that is as follows:

D. VARIOUS IMPORTANCES OF WANTS

This definition also points out implicitly that human wants are of various importance. Due to the difference in importance, problem of choice appears. If all human wants are of the same importance then there will be no problem for man because he can fulfill any of his desire with his limited resources.

MERITS OF THE DEFINITION

The merits of the definition of economics by Robbins are as follows:

1. COMPREHENSIVE

This definition of economics is superior to early definitions because of the fact that no one can claim that all of his needs are fulfilled. Similarly in any part of the world human wants are abundant and resources are scarce. So this reality makes the definition comprehensive.

2. POSITIVE SCIENCE

Unlike early economists, Robbins regarded economics as a positive science. We can say that according to Robbins, economics is not concerned with the goodness or badness of wants i.e., it is not a normative science. In economics facts are studied neutrally. So, economics is a science like other science subjects.

3. WIDER SCOPE

Robbins widens the scope of economics. He takes into account all types of human wants, material or non-material as well as all types of persons whether living in a society or not. So unlike the definition of economics by Marshall, the problem of likes and dislikes does not appear.

4. NO CHARGE OF MAMMONISM

According to this definition no charge of Mammonism can be leveled against economics. Economics takes no responsibility for selecting the wants. They may be good or bad, economics is not concerned. Wherever the wants are abundant and the means are scarce, economics is directly concerned.

DEMERITS OF THE DEFINITION

This definition of Economics is also not free from demerits which are as follows:

1. POSITIVE SCIENCE

Robbins wants to prove this subject as a positive science but he ignores this fact that the purpose of all social sciences is to improve the human life. So if economics is assumed to be a positive science then there will be no use of it.

2. MEN AND MATTER

Robbins tries to prove economics as a positive science like other physical sciences but this fact is ignored that physical sciences are related to matter of which the actions and reactions are according to the Principles of Divinity. But economics is related with man and it is his nature that he cannot follow the fixed principles.

3. SCARCITY OF RESOURCES

Problems are not only created by the scarcity of resources but also by the abundance of resources. The depression of 1930s was also the result of abundance of resources.

4. STATIC NATURE

According to the contemporary economists, this definition of Economics is of Static Nature while in our society changes appear in resources and wants but Robbins did not discuss about this issue.

5. PROBLEM OF UNEMPLOYMENT

This definition does not explain the problem of unemployment. For some countries this is an urgent problem. There is abundance of manpower rather than scarcity of it.

6. ECONOMIC GROWTH

The theory of Economic Growth or Economic Development has become a very important branch of economics. Robbins' definition does not cover it.

4. COMPARISON BETWEEN THE DEFINITIONS OF ECONOMICS BY ALFRED MARSHALL & LIONEL ROBBINS

MARSHALL'S DEFINITION OF ECONOMICS

Professor Dr. Alfred Marshall, the founder of the Neo-Classical School of Thought, defines Economics as:

"Economics is the study of that human behavior which is related with the ordinary business of life. It deals with that part of individual and collective human efforts which is greatly related with the attainment and with the use of material things for the prosperous life. So we can say that Economics, on the one hand, is the science of wealth while on the other hand, it is the study of an aspect of human life."

ROBBINS' DEFINTION OF ECONOMICS

Professor Lionel Robbins in his book, **"Nature & Significance of Economic Science"** which was published in **1931**, defined Economics in the following words:

"Economics is the science which studies human behavior as a relationship between ends & scarce means which have alternative uses."

POINTS OF DIFFERENTIATION

There are some points of differentiation between these two definitions of economics that are as follows:

MARSHALL	ROBBINS
1. Economics is a science of material welfare.	1. Economics is a science of scarcity and choice.
2. The core and crux of economics is 'Human Welfare'.	2. The core and crux of economics is 'Economic Problem'.
3. The scope of economics is only confined with those things with the use of which human welfare is increased.	3. The scope of economics is not confined with the things that can increase human welfare but with the things that can satisfy any human want.

4. Services are not included in the definition of economics as these are not material.	4. Services are included in the definition of economics since these cannot be attained without payment.
5. Those human efforts are included in economics that are closely related with the attainment of material welfare of human being:	5. Each and every human effort is included in the scope of economics that is related to the fulfillment of unlimited wants.
6. Economics is a Normative Science.	6. Economics is a Positive Science.
7. Only those human activities, which are performed in the daily life, are included in the scope of economics.	7. All those activities are included in the scope of economics which are related with unlimited wants and limited resources.
8. Economics is a social science that concentrates only on human welfare.	8. Economics is a positive science and it does not concern with the goodness or badness of any human activity.
9. Definition of economics by Marshall is more realistic than that of Robbins as it concentrates on human welfare.	9. Definition of economics by Robbins is unrealistic as Robbins calls it a positive science while it cannot be a positive science in any sense.
10. According to Marshall, 'Economics is a Science of Material Welfare.' The objection is on the word, 'Welfare' since it cannot be measured.	10. This definition revolves around the 'Unlimited Wants and Limited Means', which is more realistic.
11. This definition fulfils the modern economic needs as Economic Development and Planning are considered as the basic duties of the government.	11. There is no concept of Planning and Economic Development in this definition of Economics.
12. This definition limits the scope of economics.	12. This definition widens the scope of economics.

5. IS ECONOMICS A SCIENCE OR AN ART?

NATURE AND SCOPE OF ECONOMICS

Definition and scope of economics are very closely interrelated. In fact the scope of economics is the further explanation of the definition.

We can easily understand the 'Scope of Economics' with the help of following discussions.

SUBJECT MATTER OF ECONOMICS

Each and every science has its own subject matter. As we know that there are various views about the definition of economics. So the views about its subject matter are also different.

According to the **Classical Economists**, the study of wealth is the subject matter of economics. **Neo-Classical Economists** thought that the study of human behavior with respect to material welfare is the subject matter of economics.

According to Professor Lionel Robbins, the Economic Problem of Choice, which is the result of scarcity of resources and abundance of wants, is the subject matter of economics.

Modern contemporary economists do not agree with the above said views about the subject matter. According to **ANATUL MURAD**:

"Scope of Economics is the explanation of the nature and behavior of an economy or an economic system and it is a struggle and research to find out the solutions of the problems faced by that economy or an economic system".

ECONOMICS AS A SCIENCE

In order to understand the scientific position of economics, we must understand the definition of Science.

"Science is the combination of informations about the realities which have been collected under neutral observations and there is a relationship between reasons and results".

According to this definition economics is a science because in this subject we collect the realities about the human behavior and also establish the relationship between reasons and results.

POSITIVE SCIENCE

The neutral study about the realities of a single unit of the universe and the establishment of relationship between reasons and results is called positive science.

NORMATIVE SCIENCE

The neutral study about the realities of any unit of the universe and the establishment of relationship between reasons and results and also to opine about these relationships that how these relationships should be, is the normative science.

According to Professor Robbins Economics is a positive science i.e., Economics does not concern about the goodness or badness of economic behavior of human being. But Professor Marshall calls it a normative science i.e., Economics must guide the human being in attaining maximum welfare. So we can say that Professor Marshall widens the scope of economics in this respect.

Honestly speaking Positive and Normative aspects of economics are both very important especially for the solution of the problems faced by the modern economies. With the help of Positive aspect of economics; economists enable to understand the nature of the problems and with the help of normative aspect of economics; they may be able to suggest the solutions for those problems.

ECONOMICS AS AN ART

In order to understand whether Economics is an Art or not, we must define an Art first.

'Application of science to attain a particular purpose is called an Art.'

According to this definition of an art, we can say that economics is also an art. Since in economics there are many principles that provide guidance to human being to solve various problems.

6. THE METHODOLOGY OF ECONOMICS

ECONOMIC ANALYSIS

In order to analyze an economy or an Economic System, there are two approaches. They are commonly called Micro Economics & Macro Economics.

Micro economics is based on the fact that it is very difficult to analyze the working of the complete economy or an Economic System without having perfect knowledge about the working of each and every segment of the economy.

Macro economics is based on the fact that the economy should be studied as a whole so that the complete economy is overviewed in order to find out the solutions to certain Economic Problems.

We may study an Economy as a whole or in terms of its decision-making units like:

- **Consuming units** e.g., Individual consumers
- **Producing units** e.g., Firms, Farms, Business etc.
- **Individual F.O.P** e.g., Labor, Land owner, Capitalists, Entrepreneurs.
- **Individual Industries** like Iron & Steel, Textile, and Chemical etc.

When the study of an economy is as a whole, it is Macro Economics and when the study of an economy is in terms of its decision making units, it is Micro economics.

MICRO ECONOMICS

Micro economics is also called **'Price Theory'**. The word **MICRO** is derived from the Greek word **'MIKROS'** which means one-millionth part i.e., very small. It does not mean that the theory itself is very small.

'Micro Economics is the study of some small part of the whole Economy.'

Following important problems, theories and behaviors are studied in Micro economics.

1. **THEORY OF CONSUMERS' BEHAVIOR**
   In this theory we try to understand how consumers decide about their purchases and what factors affect their decisions. This theory studies the demand side of the economic problem.

2. **BEHAVIOR OF THE FIRM**
   In this theory we discuss the basic problems of the firm i.e., what to produce? How to produce? Where to produce? How much to produce? For whom to produce? This theory examines the supply side of the economy.

3. **PRICE THEORY**
   In this theory, keeping in view the demand and supply sides, we study how the price of a single commodity is determined.

4. **THEORY OF INCOME DISTRIBUTION**
   In this theory we examine that how the national income is distributed among various F.O.P. In other words the principle, according to which wages, rent, interest and profit are determined, is studied under this head.

LIMITATIONS

Microeconomic analysis cannot give an idea of the functioning of an economy as a whole. An individual industry may be flourishing, whereas the economy as a whole may be languishing. We cannot apply the results derived from the Micro Analysis to the whole economy.

MACRO ECONOMICS

Macro economics is also called **'Income Theory'**. Macro means very large. **JOHN MAYNARD KEYNES** gave clear meanings to this concept in **1936** with the publication of his book; **"GENERAL THEORY OF EMPLOYMENT, INTEREST & MONEY"** as:

'Macro Economics is the study of aggregates and averages of the whole Economy'
'Macro Economic theory is the theory of Income, Employment, Price and Money'
'Macro Economics deals with the functioning of Economy as a whole'

In Macro economics, following theories are studied.

1. **THEORY OF EMPLOYMENT AND INCOME DETERMINATION**
   In this theory we study all the problems that arise in connection with the income and employment at national level. Here we also study how to raise the level of national income and employment in the country.

2. **THEORY OF TRADE CYCLE**
   In this theory we study the causes of the ups and downs in business, prices and national income under capitalistic system of production. We also study the ways by the use of which these fluctuation can be removed.

3. **THEORY OF MONEY**
   In this theory we try to understand the problems of money and banking. We attempt here to find out their solutions at the national level. Here we study also the problems connected with the general price level.

4. **THEORY OF INTERNATIONAL TRADE**
   Generally the problem of international trade is included in Macro economics but both the Micro & Macro approaches are used to study the problem.

5. **THEORY OF PUBLIC FINANCE**
   In this theory the problems relating to the sources of government revenue, the items of expenditure of the govt. and public debts are studied.

ADVANTAGES

Following are the advantages of the study of Macro economics:

- It is helpful in understanding the functioning of a complicated economic system. Study of individual aspect of the economy leads us nowhere. In fact the economy is more important than the individual.
- It is helpful in the formation of useful economic policies for the whole nation.

LIMITATIONS

Limitations of the theory are as follows:

- It ignores individuals. It is individual's welfare that is the main aim of economics. Increasing national savings at the expense of individuals' welfare is not a wise policy.
- Macro economics overlooks individual differences. While speaking of the aggregates, it is also essential to remember the nature, composition and structure of the components.

NEED FOR INTEGRATING MICRO AND MACRO ECONOMICS

It is impossible to understand any kind of economic phenomenon properly without full understanding of both Micro & Macro Economics. What is true of the part may not be true of the whole and vice versa. Sometimes the economy of the country tends to flourish as a whole whereas the individual industry may be languishing and vice versa.

So it is very important to integrate the two approaches in order to get the correct solutions of economic problems.

7. THE NATURE AND CHARACTERISTICS OF ECONOMIC LAWS

ECONOMIC LAWS

According to Alfred Marshall **"Economic Laws or statements of economic tendencies are those social laws which relate to branches of conduct in which the strength of the motives chiefly concerned can be measured by money price".**

Economics is a social science. People, living in a society, show a similar economic behavior. When this economic behavior in different aspects of economic life has been summed up as a set of generalization, it is known as economic laws. So

"An economic law is a statement, concluded and inferred, on the economic behavior of the people in general".

Economic laws are supposed to govern and explain all economic activities of the people living in a society. According to Lionel Robbins **'Economics is a science which studies human behavior as a relationship between multiple ends and scarce means, which have alternative uses'.** This shows that the use of limited resources in order to fulfill unlimited wants is the economic behavior or economic activities of the people. So it can be said that economic laws are the statements of tendencies by which human beings make use of scarce resources in order to satisfy unlimited wants e.g.,

The general tendency on the part of the people is that they purchase more at a lower price and less at a higher price, ceteris paribus. This economic tendency has been generalized as an economic law called the Law of Demand.

CHARACTERISTICS OF ECONOMIC LAWS

Following are the characteristics of economic laws:

1. **CONDITIONAL**
   Economic laws are always conditional. Certain conditions are always attached to each economic law. These conditions are generally known as the assumptions of the law. At the end of each economic law it is stated that 'all other things remaining constant' or 'ceteris paribus' e.g., The law of demand is stated as **'a rise in the price of a commodity is followed by a reduction in its demand and vice versa, other things remaining the**

same'. These other things are income of the consumer, taste, fashion, and price of related goods. If these things change, law of demand will not prove to be true e.g., income of the consumer does not remain fixed rather it goes up. So with an increase in income, a rise in the price of a commodity will not be followed by a fall of demand.

2. LACK OF PREDICTABILITY

Economic laws depend upon assumptions. It is very difficult to keep all other things constant in real social life. That is why economic laws lack predictability e.g., according to the law of supply, quantity supplied increases with the increase in price and vice versa, ceteris paribus. Here other things are techniques of production and cost of production which in actual life very difficult to keep constant. So it will not be possible to predict a change in supply due to change in price.

3. QUALITATIVE

Economic laws are qualitative in nature. They are not quantitative. In case of law of demand we say that a fall in price of a product results in an increase in the demand for the product. But we cannot say that a fall in the price of a product by 10% will result in an increase in the demand for the product by 20%. That is why economic laws are expressed only in qualitative terms.

4. OPTIONAL

State laws are binding upon the people while economic laws are not. Economic laws are optional for them. They may or may not act upon them. No body can question about it e.g., if a person does not purchase more of a product after a fall in its price, no one takes any action against him.

5. LACK OF EXACTNESS

Application of economic law may change due to the change in economic, political, and social environment e.g.,

Economic situation of a country depends upon the forces of demand and supply which keep on changing with the passage of time due to so many reasons. So we can say that there is a possibility that law of demand will operate but we are never sure about its application.

6. LACK OF UNIVERSALITY

Economic laws are not universal like the laws of physical sciences. There are always exceptions to economic laws e.g.,

According to the law of demand a fall in the price of a product leads to an increase in demand for that product and vice versa but this law does not apply in case of very high or very low priced products.

7. ECONOMIC TENDENCIES

Economic laws represent economic tendencies of the people in general. They are only the statements of tendencies on statistical probabilities. We experience every day that the second glass of water gives us less satisfaction than the first one. This is the general tendency. Economic laws are the statements of general economic tendencies.

COMPARISON WITH OTHER LAWS

Following is the comparison of economic laws with other laws:

1. LAWS OF THE STATE

Laws of the state are made by legislature. These laws are in written form and people have to obey these laws. There is a need of executive force, which can implement these laws. In case of violation of these laws, courts award punishment. We can say that laws of the state are a binding force on the people and the violation of these laws is a crime.

Economic laws are not legislated. There is no need of executive force or judiciary to implement or to enforce these laws. Economic laws are simply general economic tendencies of the people. These laws are the statements of the economic realities of life. These laws have been made through observations and experiences in the economic life of the people. There is no institution, which can award punishment to those who violate economic laws. The violation of economic laws may results in wastage of economic resources of an individual or a society.

Laws of the state can be amended by the legislature, whereas no institution can do so with economic laws because economic laws represent economic realities of life and it is not possible to change the realities.

2. MORAL LAWS

Most accepted values of the society based on the teachings of a religion are called moral laws. These laws are always about 'to do something' or 'not to do something' e.g., speak the truth, do not tell a lie, be honest, *etc.*

Moral laws are permanently accepted by the people for their own spiritual well being. Those who follow the moral laws enjoy respectable position in the society and those who do not follow them lose their status.

Economic laws are not based on the value system and do not tell us either to do something or not to do something. Economic laws reflect economic tendencies of the people in general and are used for the economic uplift of the people.

Economic activities based on moral values lead to economic growth and development of the society and any divergence from moral values may lead to non-economic activities. Economic activities of the society must be based on moral values.

3. PHYSICAL LAWS

Physical sciences deal with matter. The laws of these sciences are made by experiments on matter in laboratories. Matter is a lifeless thing, so these laws prove to be exact and definite. These laws can be tested anywhere.

Economic laws deal with economic thinking of the people rather than dealing with lifeless matter. As economic thinking of the people keep on changing with the passage of time, these laws lack exactness.

Economic laws can be applied more exactly than the laws of other social sciences because economic phenomenon can be measured in terms of money while this type of measurement is not possible in case of other social sciences.

8. THE METHODS OF ECONOMIC INVESTIGATIONS

In order to study economics scientifically i.e., to derive the laws of economics, two methods are adopted which are as follows:

DEDUCTIVE METHOD

According to this method particular conclusions are derived from general truths. It takes a few general principles and applies them to draw conclusions. e.g.,

If we accept the general proposition that man is entirely motivated by self-interest. Muhammad Farooq is a man. So the inference will be drawn that Muhammad Farooq is motivated by self-interest.

It is a simple generalization that man requires food to keep his body and soul together. So we can deduct the inference that demand for food increases when population increases.

In applying the deductive method of economic analysis, we proceed from general to particular. Classical economists like RICARDO, SENIOR, J.S.MILL, MALTHUS applied the deductive method in their investigations.

In order to deduct the particular result from the simple generalization, following four conditions must be satisfied.

- To choose the simple generalization.
- To deduct a particular result from that generalization.
- To check the correctness of the results.
- To explain the relationship between the results and generalization.

MERITS OF THE METHOD

Following are the main benefits of the deductive method.

1) This method is near to reality. It is less time consuming & less expensive.
2) This method is simple because it is analytical.
3) This method helps in deriving economic theories.
4) This method brings exactness and clarity in economic analysis.

DEMERITS OF THE METHOD

Following are the disadvantages of this method.

a) This method is highly abstract. It requires a great deal of care to avoid bad logic or faulty economic reasoning.
b) This method is simple and precise only if the underlying assumptions are valid. More often, the assumptions turn out to be based on half-truths or have no relation to reality. So the conclusions drawn from such assumptions will be misleading.

This method is also called **ANALYTICAL, ABSTRACT** or **PRIOR** method.

INDUCTIVE METHOD

This method involves the process of reasoning from particular facts to general principles. According to this method facts are examined and then general principles are laid down. This method derives economic generalizations on the basis of experience and observations.

In this method, data is collected about a certain economic phenomenon. These informations are systematically arranged and the general conclusions are drawn from them. e.g., We observe 200 persons in the market. We find that nearly 195 persons buy from the cheapest shops. Out of the

5, which remain, 4 persons buy local products even at higher rate just to patronize their own products, while the 5th is a fool.

From this observation we can easily draw the conclusion that **'People like to buy from a cheaper shop unless they are guided by patriotism or they are devoid of common sense.'**

This method is also called **HISTORICAL, REALISTIC** or **EMPRICAL** method.

MERITS OF THE METHOD

Following are the merits of the inductive method:

- It is based on the facts; as such the method is realistic.
- In order to test the economic principles, this method makes use of statistical technique. So it is more reliable.
- It is a dynamic method. The changing economic phenomenons are analyzed and on the basis of collected data conclusions and solutions are drawn from them.
- This method also helps in future investigations.

DEMERITS OF THE METHOD

Following are the demerits of the inductive methods.

- If conclusions are drawn from insufficient data, the generalizations obtained may be faulty.
- The collection of data itself is not an easy task. The sources and methods employed in the collection of data differ from investigator to investigator. So the results may differ even with the same problem.
- This method is time-consuming and expensive.

Modern economists do not rely on any one method to exclusion of the other. It is realized that theories without facts are barren, while facts without theories are meaningless. So it is concluded that both the deductive and inductive methods are needed for scientific study of economics as the right and left feet are both needed for walking.

9. THE IMPORTANCE OF STUDY OF ECONOMICS

Economics is considered the most important and useful subject as compared to any other branch of knowledge. Economics makes human welfare its direct and primary concern. People realize that the study of economics can provide solutions to their economic and social problems. Economics helps in raising the quality of economic life of a person. **DURBIN** says, **'Economics is the intellectual religion of the day'**

The importance of the study of economics can be judged by the following discussion.

A) THEORETICAL USES

Following are the theoretical uses of the study of economics.

1. MENTAL ABILITY

The study of economics widens the mental ability of the people. It enables them to understand the economic realities of life e.g., usefulness of saving and investment, need to boost exports, need to control imports etc.

2. **CHANGING ECONOMIC SITUATION**
The study of economics tells us how to adjust with ever changing economic situations of the country with the passage of time. We get awareness with the help of economics about inflation, unemployment, deficit in B.O.P., structure of taxes etc.

3. **SENSE OF RESPONSIBILITY**
The study of economics creates a sense of responsibility among the people. By studying economics they come to know about the scarcity of resources and undertake economic activities to solve the economic problems within their limited resources.

4. **IMPORTANCE OF SAVINGS**
The study of economics develops an attitude towards savings since economics leads us to the maximization of utility by minimum expenditure. So economics helps us to promote the level of saving and investment that possess the key importance for growth and development of the country.

5. **ECONOMIC SYSTEMS**
Economics teaches us about the working of various economic systems. This type of study enables us to go for the best system for the welfare of the people.

B) PRACTICAL USES

Following are the practical uses of the study of economics.

1. **SOLUTION TO ECONOMIC PROBLEMS**
The study of economics enables us to identify the economic problems and leads us to the measures for their solutions.

2. **BETTER USE OF RESOURCES**
The study of economics helps in the optimum utilization of resources. Since resources are scarce and wastage of scarce resources cannot be afford by the countries that are desirous of development.

3. **GUIDANCE FOR THE FINANCE MINISTER**
The study of economics for the finance minister is as important as the circulation of blood in the human body. Without having knowledge about this subject he will not be able to implement the manifesto of the political party in power and will remain handicapped in his office.

4. **GUIDANCE FOR PRODUCERS**
The study of economics is necessary for industrialists and businessmen. They can learn about the optimum combination of F.O.P., determination of price, boom and depression in business, export and import policies by studying economics so as to become successful businessmen.

5. **RIGHTS OF LABOUR CLASS**
The study of economics is also very important for laborers. Economics creates awareness among the laborers about their exploitation by the entrepreneurs. So with the help of

economics laborers can protect their rights successfully.

6. **GUIDANCE FOR POLITICIANS**
Economics is very helpful for the politicians. It enables them to make the manifesto of their political parties in which they can commit to solve the economic problems of the people. Politicians in power must know the fiscal and monetary structure of the country.

7. **EVEN DISTRIBUTION OF WEALTH**
The study of economics enables us to understand the reasons of uneven distribution of wealth. By the study of economics we can learn about measures to check this tendency. Economics favors just distribution of wealth in a country.

8. **IMPORTANCE FOR BUREAUCRATS**
Bureaucrats must know about economics as they run economic institutions in the developing countries.

9. **DEVELOPMENT PLANNING**
There is an acute shortage of human and physical resources in developing countries. Available resources are being miss-allocated. Development planning, which is a branch of economics, provides solution to these problems.

10. **POLITICAL STABILITY**
Political stability is the pre-requisite for economic development. It enables the government to carry out long-term economic policies. Economics teaches us how to be peaceful citizen of a country so that the country's pace of economic growth may not be retarded.

11. **RESTRAINT OF ILLEGAL SOURCES OF INCOME**
Economics acknowledges only those economic activities that are done within the legal framework. Economics discourages illegal sources of income like smuggling, black marketing etc.

QUESTIONS FOR REVIEW

Q No.1 : Define & critically explain the concept of economics by Adam Smith.

Q No.2: Critically explain the definition of economics by Alfred Marshall.
(B.Z.U. 1,2000)

"Economics is a Science of Material Welfare" Discuss.
(B.Z.U. 2.2000)

Q No.3 State, explain & criticize Professor Lionel Robbins' definition of economics.
(B.Z.U. 2,96 & 1,97)

"Economics is a science of Scarcity & Choice." Discuss critically.

Q No.4 Give comparison between the two definitions of economics by Alfred Marshall & Lionel Robbins.

Q No.5 Is economics a science or an art? Discuss the nature & scope of economics.

Consider the subject matter of economics with reference to the three definitions of the study.
(B.Z.U. 2,99)

Q No.6 Discuss the methodology of economics. Whether Micro & Macro economics be integrated?

Distinguish between Micro & Macro economics and show their interdependence.
(B.Z.U.1, 99)

Distinguish between Micro & Macro economics. Also discuss their interdependence.
(B.Z.U.2, 2000)

Q No.7 Describe the nature of Economic Laws. How do they differ from the laws of physical and social sciences?

Q No.8 Explain the methods most suited to Economic Investigations.

Q No.9 What is the importance of the study of economics?