CHAPTER-I: ECONOMICS – AN INTRODUCTION

Introduction

Economics is a science of human behaviour concerned with the allocation of scarce means in such a manner that consumers can maximize their satisfaction, producers can maximize their profits and the society can maximize its social welfare.

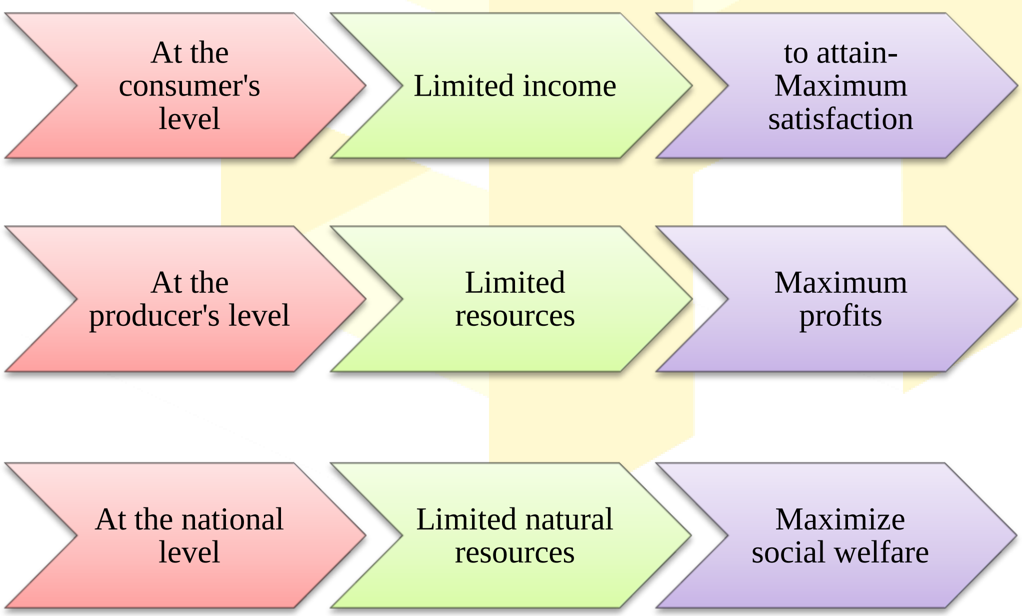
Scarcity of resources of the problem of choice

Two basic characteristics of resources/means:

a) **Scarcity**: Resources are scarce in relation to their wants. It is a situation when demand for a good exceeds its supply even at a zero price.
b) **Alternative uses**: Resources have alternate use.

- Choice is the consequence of scarcity:-
  Choice emerges when limited resources are to be used for the satisfaction of unlimited wants.
  Choosing one alternative and not choosing others is a problem of choice. It is also called economic problem, it stems out of scarcity.

Scarcity and choice are inseparable



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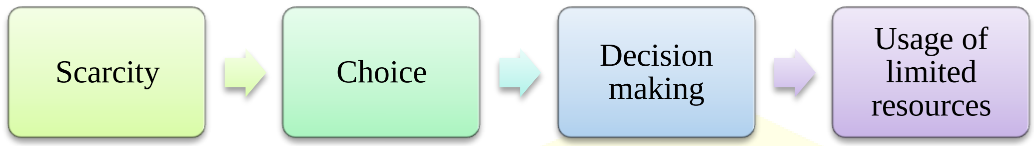
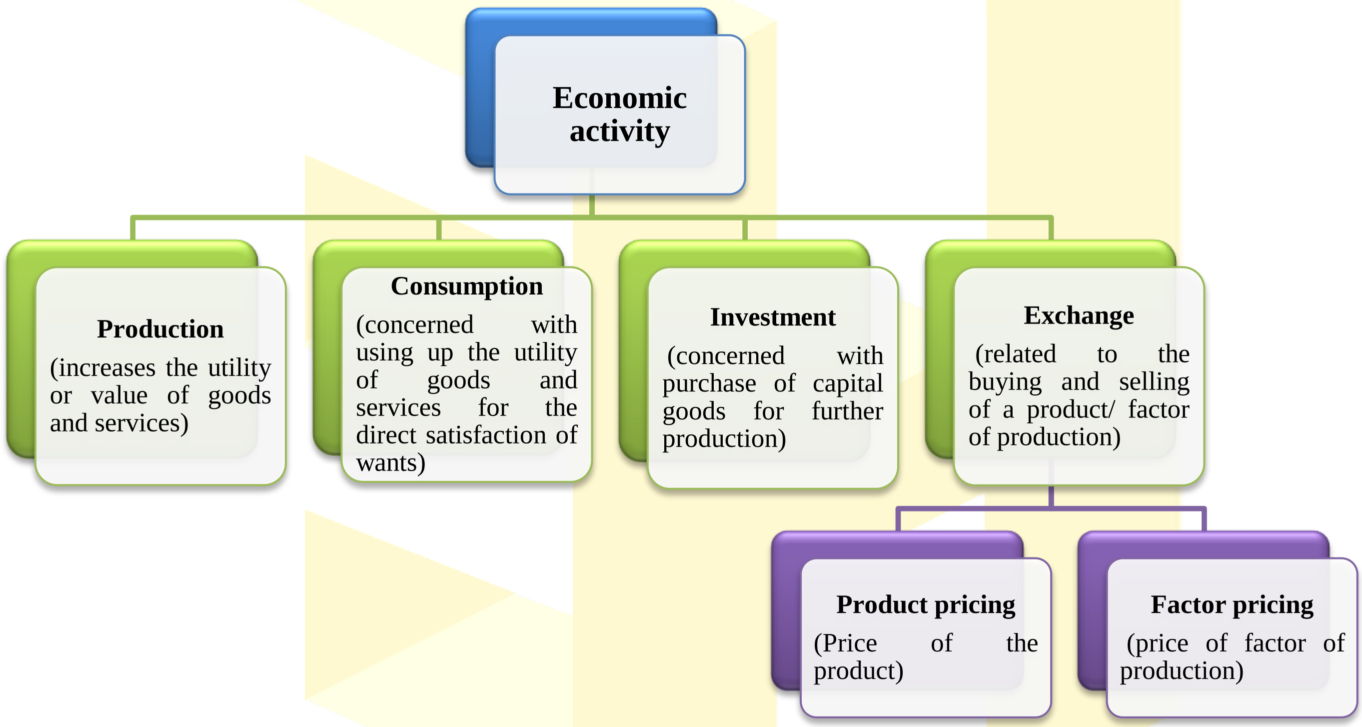


Economic activity: Production, Consumption, Investment and Exchange

Economic activity is the activity which is based on or related to the use of scare resources for the satisfaction of human wants.



Economy: Market Economy, Centrally Planned & Mixed Economy

Economy is a system spread over a particular area that reveals the nature and level of diverse economic activities in that area.

Economy

Market Economy: Economic activities are left to the free play of market forces. Producers are free to produce and consumers are free to consume. No Government interference. Self –interest is the prime consideration.

Centrally planned Economy: Course of economic activities is dictated or decided by some central authority or by the Government. Not a free economy. Social welfare is the main objective.

Mixed Economies: Exhibit characteristics of both market and centrally planned economy. Government intervenes to ensure social justice along with a higher level of growth.

Rationality & Optimization

Rationality refers to the tendency of an individual to promote his self-interest. A consumer is rational in his behaviour if he attempts to maximize his satisfaction which he is spending his money on the purchase of different goods and services.

Optimization refers to the best possible use of resources.

Difference between Micro and Macro Economics

Basis	Micro economics	Macro economics
Level of study	Micro economics studies economic relationships or economic problems at the level of an individual.	Macroeconomics studies economic relationships or economic problems at the level of the economy as a whole.
Objective	Microeconomics is basically concerned with the determination of output and price for an individual firm or industry. Accordingly, microeconomics is briefly referred to as the Theory of Price.	Macroeconomics is basically concerned with determination of aggregate output and general price level in the economy as a whole. Accordingly, macroeconomics is briefly termed as The Theory of Income and Employment.
Assumption	Study of microeconomics assumes that macro variables remain constant.	Study of macroeconomics assumes that micro variables remain constant.
Significant role	Market mechanism plays a significant role in the context of microeconomic problem.	Government plays a significant role in the context of macroeconomic problems.

Positive & Normative Economics

I. **Positive Statements**:-

a. Describe what was, what is and what would be.

b. These statements are capable of empirical verification.

c. Do not pass any value judgment.

II. **Normative Statements**:-

a. Describes ‘what ought to be’.
b. Determine the norms or aims.
c. These statements pronounce value judgments.