

# Nature and Scope of Economics

## **Introduction:**

The knowledge of economics is useful for everyone-individuals, households, business units, institutions as well as government.

Economic issues and problems are pervasive.

In the earlier years, economics was mixed with non-economic aspects of human knowledge and philosophy.

Some of the basic elements of discipline of economics are- (a) Study of working of an economy and the issues faced by it.

(b) The nature of economic problems and their solution is closely linked with the structure of economic system, and its progress and development.

(c) Economic problems of individuals and societies are not independent of other social, cultural and political aspects of human existence.

The primary task of the discipline of economics is to study the working of an economic system and issues faced by it.

In a simple economy, human beings are confronted with the problems of poverty and economic insecurity.

In a developed industrial economy, the problems are mainly of distributive justice and economic instability.

Some of the specific problems faced by market economics are-

(a) Labour management relations

(b) Exploitation of labour

(c) Inequalities of income and wealth (d) Cyclical fluctuations etc.

## **Economics is a study of an Economy:**

Economics can be defined as a study of economic system in its various aspects like

(a) structure (b) working (c) performance (d) problems (d) and their possible solutions.

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Study of economy includes-

(a) forms of economy (capitalist, socialist, mixed)

(b) economic decisions and their implementation

(c) inter relationship between economic units and their groups.

(d) performance of economic units

- (e) inter relationship with different economies.

Economic wants are those wants which can be satisfied by the consumption of goods and services.

Non-economic wants are those wants which do not need the consumption of goods and services.

Characteristics of wants are-

- (a) even if they are satisfied, they have a tendency to re-emerge.
- (b) with the passage of time, they tend to increase in number and variety.

**Problems with wants:**

(a) availability of insufficient resources, to satisfy them (b) mismatch between available means (resources) and wants! **Solution for the above problems:**

- (a) Increase the availability of resources
- (b) Ensure that the means (resources) are not wasted and used economically.

The entire set of arrangement for meeting the above objectives (a) increasing availability of resources (b) ensuring their economical use, is known as economy or economic system.

J. M. Keynes explained theory of economics as “It is a method rather than doctrine, an apparatus of the mind, a technique of thinking which helps its possessors to draw correct conclusions.

**Defining Economics:**

The subject matter of economics is too wide and therefore, no single opinion can be established for defining it.

The various reasons for difference in opinion while defining economics are -

- (a) structure of economy
- (b) stage of its development
- (c) expertise of economist providing the definition (d) purpose of studying economics.

**Economics as a science of wealth:**

- (a) This view of economics was expressed by Adam Smith (who is known as father of Economics)
- (b) He wrote a book named “An Enquiry into the nature and causes of wealth of nation” in 1776, in which he explained economics as  
“The great object of Political Economy of every country is to increase the riches and power of that country”

**(c) Objectives of economics according to Adam smith:**

to grow rich

acquire political and military strength

**(d) Features of wealth definition:**

Ignores the problem of distributive justice

Wealth does not have a universally accepted meaning.

Wealth represents only material goods.

**(e) Merits of wealth definition:**

The definitions were concerned with creation of wealth, which is the main problem of economics.

During early times, inequality of income was not a big problem, so Adam Smith ignored this problem.

**(f) Demerits of economics as a wealth:**

Neglects welfare aspect

With the development of economy, the problem of income inequality has arisen.

Economics has been reduced to a dismal science.

Definition is limited only to goods and not to services.

Concept of wealth is very narrow.

**(g) Shift by Ricardo:**

Ricardo emphasized on distribution of wealth (which was ignored by Adam Smith).

**(h) Other views on economics:**

Inductive reasoning (Historical School of Economics) - they believed in deriving generalisations from historical or fact or data base of economics.

Deductive reasoning - they believed in deducing conclusions logically.

**Economics on a welfare aspect:**

**(a)** The welfare aspect of economics was given by Alfred Marshall.

**(b)** He expressed economics as-“study of mankind in the ordinary business of life, it examines that part of individual and social action which is most closely connected with the attainment and use of material requisites of well being”. “Thus it is on one side a study of wealth and on the other and more important side, a part of study of man”.

**(c) Features of welfare definition-(Merits)**

Economics is the study of both wealth and man (but man is more important)

The core subject matter of economics is economic welfare

**(d) Demerits:**

It ignores creation of immaterial wealth like services of doctors etc . The term welfare is vague.

**(e)** Another aspect of welfare definition was given by A.C. Pigou

**(f) Features of Pigou’s definition:**

Economics is only that part of social welfare which can be measured in terms of money.

This definition is both wide and restrictive.

### **Scarcity Definition of Economics:**

- (a) The scarcity approach of economics was represented by Lionel Robbins.
- (b) This discipline of economics is based on pure reasoning and logical investigation.
- (c) Lionel Robbins expressed economics as "it is the science that studies human behaviour between ends and scarce means which have alternative uses". **(d) Features of this definition:**

Limited means (resources)

Unlimited ends (wants)

Alternative uses of means

According to Robbins, economics should be studied only in terms of "what is" and not "what ought to be."

He also expressed "whatever economics is concerned with, it is not concerned with the causes of material welfare".

The main problem is of choice making.

The "Fundamental Premise of Economics" is that individual should choose the alternative for which they believe the net gain to be greatest.

### **(e) Demerits of the definition:**

The definition makes economics a human science rather than social science. C Narrow and restricted scope

Shortage of merit goods (goods which not only benefit the consumers but also non consumers like education)

Some public services like defense, justice etc cannot be provided by the market.

### **Growth Definition of Economics:**

- (a) This definition was propounded by Paul A. Samuelson
- (b) He expressed economics as-  
"Economics is the study of how people and society end up choosing, with or without the use of money, to employ scarce productive resources that could have alternative uses, to various commodities and distribute them for consumption now or in future among various persons and groups in society. It analyses the cost and benefits of improving patterns of resource allocation".

### **Scope of Economics:**

Our economy is dynamic in nature which means as economy develops, the nature of problems keeps on changing.

In order to understand economics model building approach is used which assumes whole economy as a small model

The knowledge of economics can be used for the benefit of the society by-

- (a) increasing collective welfare

- (b) accelerating rate of economic growth
- (c) reducing fluctuations in income and employment.

### **Nature of Economics - Science or an Art:**

#### **Economics as a Science:**

- (a) **Science is a body of knowledge which shows relationship between cause and effect:**

Economics is a body of generalizations or laws and like science shows cause and effect relationship. **For e.g.** - The law of demand in economics says “when price of a commodity rises (cause), its quantity demanded falls (effect).

- (b) **Science is capable of measurement:** Like science, economics is also measured.  
**For e.g.** In economics, measurement is in terms of money.

- (c) **Science has a methodological apparatus:**  
Economics can also be studied using various methods

**For e.g.** Inductive Reasoning and Deductive Reasoning are the two methods of studying economics.

- (d) **Science has an ability to forecast:**  
Like science, the various laws of economics can help in forecasting which are beneficial for making policies.

**For e.g.** - Consumer demand, supply of a product etc can be predicted using various laws.

#### **Economics is not a Perfect Science:**

- (a) Reliance cannot be placed on accuracy of economic laws as these are based on humans who are unpredictable.
- (b) Economics does not have controlled experiments (i.e. the conditions are not stable) as a result actual results differ from predicted ones.
- (c) There is no fixed pattern of human behavior which may be used to formulate economic laws.
- (d) While deriving economic laws only the "most important" causes are considered, which reduces the reliability of economic predictions. Hence, economics is not an exact science but it can be termed as a science on account of nature and quality of its reasoning.

#### **Economics as an Art:**

- (a) Art tells us how to do the thing i.e. to achieve a objective. Economics is also used for achieving a variety of goals.

**For e.g.** All policies etc made in economics has the ultimate objective of solving economic problems.

- (b) Art is the practical application of theoretical knowledge Like Art, Economics also practices its theoretical laws.

**For e.g.** The various policies are made only after having a theoretical knowledge of the society and country as a whole.

Hence, economics is also an art.

## **Economics as a Positive or Normative Science:**

“Economics is a science and economics is a positive science mean the same thing”

“Economics as an art and normative economics means two related but different things”

Let us see what is positive/normative science:

### **(a) Positive Economics:**

It investigates “what is”.

It does not pass value judgements.

It is not concerned with welfare propositions.

This approach of economics was propounded by Lionel Robbins.

### **(b) Normative Economics:**

Normative is derived from the word “Norm” or “Standard” which implies “what ought to be”.

It passes value judgements.

It is concerned with welfare propositions.

It decides standards which should be adhered to in achieving economic objectives.

This approach was propounded by Alfred Marshall.

Hence, economics is both a positive and normative science however in spite of using normative economics, our economy cannot reach a happy state of affairs because of the following reasons :

- (a) Lack of uniformity in choice of objectives so the question of “what ought to be” remains undecided.
- (b) Lack of information of the economy due to which we cannot ascertain which steps should be taken to achieve the goals.
- (c) Several courses of action cannot be attained at the same time.