

Meaning and Definition of Economics

Economic and Non-economic Activities

An economy is a system which provides people with goods and services and directly or indirectly satisfies their wants.

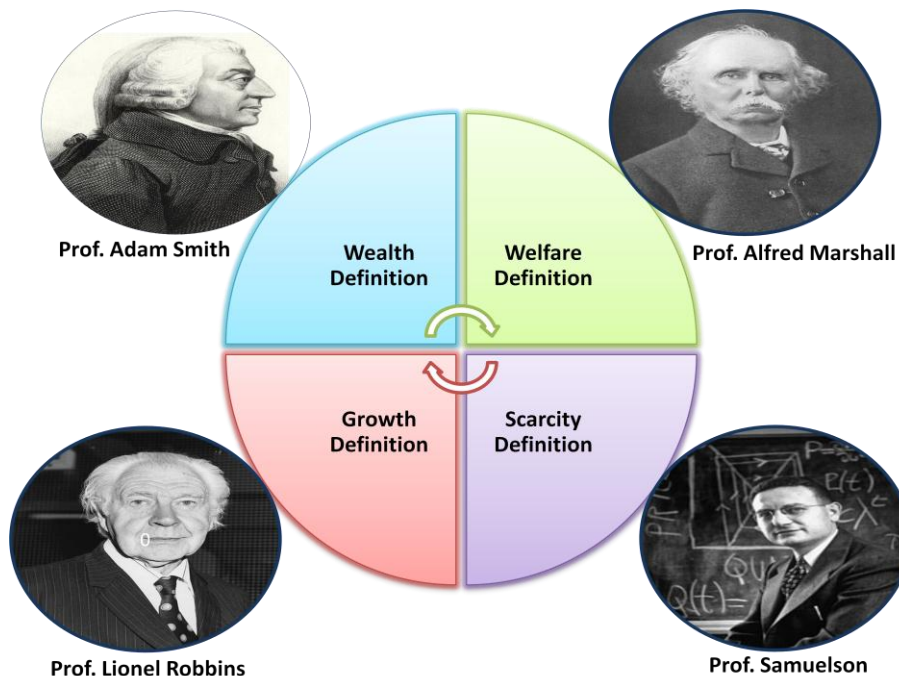
Economic activities are the set of activities carried out by human resources to satisfy their needs. It is essentially concerned with the production, exchange and consumption of goods and services. For example, businessmen may make a profit or experience a loss, while labourers receive wages and salaries as a remuneration of services rendered by them.

Activities which have no economic elements or are not concerned with money and wealth are known as non-economic activities. There are various types of non-economic activities such as social activities, political activities, religious activities, charitable activities, parental activities and recreational activities. Examples of social activities are organising marriage parties, attending birthday parties of friends and relatives, while examples of political activities are meetings of various political parties such as the Congress, BJP and ADMK.

Definitions of Economics

Social Science is a branch of science which studies how societies are organised and function. Various Social Science branches include Sociology, Anthropology, Psychology, Economics and Political Science. Every branch studies the organisation and functioning of society from its perceptive.

Economics studies the economic behaviour of individuals and organisation in society. It also studies individuals and organisations engaged in economic activities concerned with the production, distribution and consumption of goods and services. Hence, Economics is regarded as the queen of all social sciences.



Wealth Definition

The famous book *An Inquiry into the Nature and Causes of Wealth of Nations* was written by Adam Smith. Adam Smith stated, “Economics is concerned with an enquiry into the nature and cause of wealth of nations, and it is related to the laws of production, exchange, distribution and consumption of wealth.”

Features of the Wealth Definition of Economics

- Exaggerated emphasis on wealth: This definition gave too much importance to the creation of wealth in an economy. Many economists believed that economic success of any nation depended only on the accumulation of wealth.
- Inquiry into the creation of wealth: This definition indicates that Economics also deals with an inquiry into the causes behind the creation of wealth. For example, wealth of a nation may be increased by raising the level of production and export.
- Study on the nature of wealth: This definition further explored that the wealth of a nation included only material goods; for example, different manufactured items. Non-material goods were not included. Hence, non-material goods such as the services of teachers, doctors and engineers are not considered ‘wealth’.
- Economic Man: This definition is based on the man who is always self-centred and self-interested in nature. Economic Man focused on his own well-being and had only one motive—to earn money.



Criticisms

- Materialistic concept: This definition laid too much emphasis on wealth and did not consider human welfare. But wealth is only one of the many means for human pleasure and welfare. Hence, this definition is neglected.
- Ambiguous: The definition of wealth is not very clear. In earlier days, wealth included only material goods such as money, gold, silver, land, sugar, tea and ghee which are visible. Non-material goods were not included. Hence, non-material goods such as services of teachers, doctors and engineers are not considered ‘wealth’ under this definition.
- Narrow scope: This definition claims wealth as the only subject of Economics and does not study the concept of welfare. Therefore, it is considered incomplete and narrow.
- Stress on the concept of Economic Man: This definition is based on the concept of Economic Man which emphasised that the main motive of a man is to acquire wealth. However, other motivations of a man like feeling affection and emotions are neglected.
- Scarcity and choice: This definition ignores scarcity and choice, which are important concepts of Economics. In the real sense, economic activities occur because goods and services satisfying human wants are scarce in nature for innumerable uses.
- Importance of man ignored: The definition by Adam Smith gives unnecessary importance to wealth leaving aside the importance of human beings.

Welfare

The welfare definition was propounded by Dr Alfred Marshall in his book *Principles of Economics* in 1890. According to him, “Economics is a study of mankind in the ordinary business of life. It examines that part of individual and social actions which is most closely connected with the attainment and use of material requisites of well-being.”

In this definition, he gave more importance to human welfare in comparison to wealth. He stated that wealth was only a means to satisfy human wants and not an end in itself.

Features of Marshall's Definition of Economics

- Study of material requisites of well-being: This definition indicates that Economics deals with the material aspects of well-being. Thus, it studies the materialistic aspects of economic welfare.
- Concentrates on the ordinary business of life: It shows that Economics deals with the study of man in the ordinary business of life. Thus, Economics enquires how an individual gets his income and how he uses it.
- Stress on the role of man: This definition stressed on the role of man in the creation of wealth or income.
- Economics is a social science: Economics does not study the behaviour of a single person but of people living together in a society. People live together and interact with each other while working at firms, factories, shops and offices. The problems and activities arising out of these are studied by Economics.
- Use of money: This definition regards material economic welfare as a part of social welfare which can be measured in terms of money.



Criticisms

- Narrow concept of the subject: Marshall in his definition of Economics concentrated mainly on material welfare and ignored non-material welfare. As a result, the use of the word 'Material' in his definition of Economics considerably narrows down its scope. This is because human welfare is not only affected by the amount of material goods produced and consumed but also by the amount of non-material goods produced and consumed. For example, the services of doctors, lawyers, teachers, dancers, engineers and professors satisfy wants and are scarce in supply. Therefore, this proved to be a major drawback of this definition.
- Relationship between Economics and welfare: There are many activities which do not promote human welfare but are regarded as economic activities. These include the manufacturing and sale of alcoholic goods or opium.
- Welfare cannot be measured: Welfare is a state of mind and cannot be quantitatively measured, as it is subjective. Because the exact amount of welfare cannot be measured and the satisfaction derived from purchases, performances and activities cannot be calculated in exact figures, only assumptions can be made. Also, it varies from person to person, place to place and age to age. For example, when two friends purchase the same good, it is impossible to identify or measure or even assume that how much welfare each is going to gain.

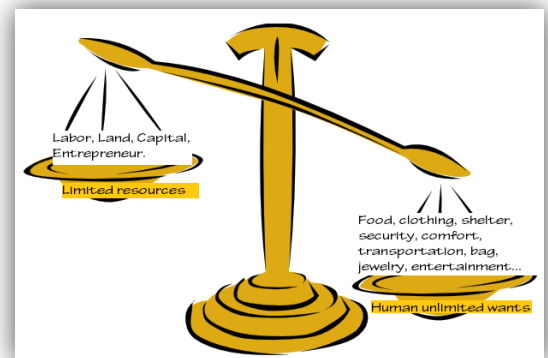
- Impractical: This definition of welfare is theoretical in nature. It is not possible in practice to divide man's activities into material and non-material activities.

Scarcity

The scarcity definition was given by Professor Lionel Robbins in his book *An Essay on the Nature and Significance of Economic Science* published in 1932. He stated that Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses. He meant that Economics studies activities performed by man to obtain scarce means with alternative uses in order to satisfy their unlimited wants.

Features of Robbins' Definition of Economics

- Human wants are unlimited: The scarcity definition of Economics states that human wants are unlimited. If one want is satisfied, another want crops up. Thus, different wants appear one after another.
- Limited means to satisfy human wants: Though wants are unlimited, yet the means for satisfying these wants are limited as the resources required to meet these wants are limited.
- Efficient use of scarce resources: Wants are unlimited and are to be considered in order of importance. On the basis of such importance, scarce resources are to be used in an efficient method for the satisfaction of these wants.
- Need for choice and optimisation: Wants are to be categorised as the most essential and the least essential wants. Economics is also called a science of choice. Hence, scarce resources are to be used for the maximum satisfaction of essential human wants.



Growth

The growth-oriented definition of Economics was given by Professor Samuelson. He stated, "Economics is a study of how people 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 persons and groups of society."

Features of Samuelson's Definition of Economics

- Dynamic problems of production: Economic growth is measured by the change in national output over a period. Economics is concerned with determining the method of using scarce resources to produce commodities over a period. Thus, the dynamic issue of production has been brought within the purview of Economics.
- Dynamic allocation of consumption: It is concerned with the method of consumption now and in the future. Thus, the problem of dividing the use of income between current and



future consumption has been included in this definition.

- Distribution of consumption: It is concerned with the distribution of consumption among various individuals and groups in a society. Initially, the problem of distribution was not clear but the modern definition makes it a more understandable concept.
- Improvement of resource allocation: The definition also says that Economics analyses the costs and benefits of improving the method of resource allocation.