

Chapter-1Basic Concepts in EconomicsQ.1 — Define —

1. Natural Science (2m)

2. Social Science - (2m)

1. Natural Science :-

"Natural Science is one whose laws are Universally accepted and their validity can be tested in a laboratory under controlled conditions".

Natural Sciences are also called exact Sciences.

(e.g) Mathematics, Physics, Chemistry etc.

2) Social Science :-

"Social Science is the Systematic study of Human behaviour"

It is also called abstract or behavioural science.

(e.g) Psychology, Sociology, Economics etc

The laws of Social Sciences are not Universal in nature but they are only statements of general human tendencies.

Q.2 Explain Kautilya's Views on Economics :-

Kautilya's is the name of Chanakya or Vishnugupta. He was a great Philosopher, economist and royal advisor during Maurya Period. Kautilya gave us treatise on Political Economy called Arthashastra.

Main Points of Kautilya Views

- i) Government has to play an important role.
- ii) It is necessary to create wealth to ensure welfare of state.
- iii) There is need for efficient administrative System.
- iv) Effective use of Political ideas into Artha shastra.

Q.3 Explain Adam Smith's View on Economics?

Classical Economist Adam Smith is known as 'Father of Economics' has given us Wealth-Oriented definition of Economics.

According to Adam Smith - "Economics is a Science of wealth"

In 1776 he gave us book - "An Inquiry into the Nature and causes of wealth of Nation"

* Main Points of Adam Smith View :-

- i) There is No Government intervention (Laissez Faire Policy)
- ii) Proper Division of labour in economy.
- iii) Capital and wealth accumulation.
- iv) Nature's Law in economic activities.

Q.4 Explain Alfred Marshall's View on Economics.

Alfred Marshall gave us - Welfare-Oriented definition of economics. As a neo-classical economist he published book - "Principles of Economics" in 1890.

According to Alfred Marshall -

"Economics is the study of mankind in the ordinary business of life. It examines that part of individual and social action which is closely connected with the attainment and use of material requisites of well-being."

Main Points of Marshall's View :-

- i) Study of an ordinary man.
- ii) Study of material welfare
- iii) Economics is a behavioural science
- iv) Economics is not simply a study of wealth

Q15 Explain Robbin's View on Economics

Prof. Lionel Robbins gave us Scarcity-Oriented definition of Economics in his book -

"An Essay on the Nature and Significance of Economic Science" Published in 1932.

According to Robbins -

"Economics is a science which studies human behaviour as a relationship between ends and Scarce means which have alternative Uses"

Main Points of Robbins View :-

- i) Wants are Unlimited.
- ii) Means to satisfy wants are limited.
- iii) Wants are gradable
- iv) Means have alternative Uses.

Q:6 Explain Features of Human wants ?

(A) Introduction :- In simple words - wants means need or requirement. But in Economics want means a feeling of - Lack of satisfaction. Now a days human wants are increasing due to :-

- i) Rise in Population
- ii) Desire for Higher Standard of Living.

(B) Features/Characteristics of Wants :-

1) Wants are Unlimited :- Human wants are Unlimited. If one want gets satisfied another arises. Man is bundle of wants. Wants arise not only again and again but they are also unending.

2) Wants are Recurring in Nature :- Many human wants occur again and again is called Recurring wants. e.g. Food, Clothing etc.

But some wants may occur occasional.
e.g. To see movie, To buy car, Scooter, AC etc.

3) Wants Differ with Age :- Wants keep on changing with our age.

e.g. A child wants toys, ice-cream, chocolates etc. An adult wants mobile, Laptop, car, scooter etc.

4) Wants Differ with Gender :- Wants of Men and Women are different according to their needs.

e.g. A man wants - Shirt, Pants, Ties etc. But a women wants Sarees, Salwar suits etc.

5) Wants Differ due to Preferences :- Wants of each individual differ on the basis of - Taste, Preference, Habit, fashion etc.

6) Wants Differ with Seasons:- human wants

Keep on changing with seasons.

e.g. we like cotton clothes during summer, woollen clother during winter etc

7) Wants Differ due to culture :- We all come from different culture. Differences in culture influence wants like - Food, clothing, dressing style etc

Q.7 Value-in-Use and Value-in-Exchange are same concepts?

Disagree: Value-in-Use and Value-in-Exchange are different concepts.

There are Two approaches in Value-

Value
↓
1. Value-in-Use

1. Value-in-Use :- It means worth or usefulness of a commodity.
e.g. Sunshine gives life to our entire earth but no one pay price for it. Sunshine has a high value-in-use but it is 'free good'.

2. Value in Exchange :- It means the worth of commodity or service ~~in terms of~~ in terms of Price.
e.g. we can purchase various goods and services is exchange of Price. These goods are called - 'Economic Goods'.

3. Paradox-value :- "Comparison between Value-in-Use and Value-in-exchange is called Paradox Value".

Water has high Value-in-Use but low Value-in-exchange.
Diamond has low Value-in-use but high Value-in-exchange due to Scarcity. It is called Water-Diamond Paradox Value.

Q.8. Human wants change as per the seasons and preferences?

Agree. Human wants can be changed as per seasons and preferences.

Refer - Q-6

Q.9 Explain Features of Wealth?

(A) Introduction :- Our Wealth include all Economic goods. Economic goods can be exchanged with money.

(B) Meaning :- "Anything which has market value and can be exchanged for money is called Wealth".

(C) Features of Wealth :-

1. Utility
2. Scarcity.
3. Transferability
4. Externality
5. Marketability

1. Utility :- It must Posses utility. A commodity must have capacity to satisfy human wants.
(e.g) A.c, Mobile, Furniture etc.

2. Scarcity :- Wealth includes all economic goods for which Price is Paid. A commodity must be Scarce in supply in relation to its demand.

3. Transferability :- A commodity should be transferable from person to person as well as place to place. Wealth should be easily transferable
e.g. car, scooter, Jewellery etc.

4. Externality :- A commodity can be easily transferable only if it is external to human body.
e.g. Furniture, Jewellery, bag etc.

5. Marketability :- A commodity can be easily buy and sell in the market in terms of money.

Q: 10. Explain the basic concepts of Macro Economics. (8m)

(A) Macro Economics :- Macro means large or Aggregate. Word Macro is derived from Greek word Makro which means large. Thus Macro economics is the study of entire economy
e.g. National Income, National Out Put, Total Saving, Total Investment, Aggregate Demand, Aggregate Supply etc.

(B) Meaning :-

According to K. Boulding :-

" Macro Economics deals not with individual quantity but with Aggregate quantities, not with the individual income but with national income, not with individual prices but with the general price level, not with individual out put but with the national out put"

(C)

Basic Concepts of Macro Economics

1. National Income :- National Income means the total income of a country. It shows the total economic performance of nation.

In Economic Sense → "National Income is total money value of all the goods and Services Produced in a country during a Year"

According to National Income Committee :-

"A national estimate measures the volume of goods and services turned out during a given Period without duplication"

2. Saving :-

$$\text{Saving} = \text{Total Income} - \text{Total Exp.}$$

"Saving is that Part of income which is not spent on consumption"

Saving is set aside to satisfy future needs of life.

3. Investment :-

"Investment means net addition to Capital assets"

(e.g) Machinery, equipments etc.

4. Trade Cycles :-

"Fluctuations in business is called Trade cycles".

Trade cycles are ups and downs in the overall economic activities. (e.g) Inflation and depression will result in Trade Cycles

5. Economic Growth :-

"Economic Growth means an increase in real national income of a country over a long Period of time".

Economic Growth is narrow and quantitative concept.
It is measured in terms of National Income &
Per capita Income.

6. Economic Development :- "Economic development implies (shows) economic growth plus progressive changes in certain important variables which determine well-being of People"
e.g Education, health etc.

$$\text{Eco. Development} = \text{Eco. Growth} + \text{Progressive changes}$$

Q.11. Define →

1] Personal Income :- "Income Received by a Person from all sources is called Personal Income."

2] Personal Disposable Income (PDI) :-

$$PDI = \text{Total Income} - \text{Direct Taxes}$$

"It is that Part of Income which is left over after the Payment of Direct Taxes"

(e.g) Income Tax, Wealth Tax etc.

Q.12

Eco. Growth

Eco. Development.

1) <u>Meaning :-</u> Economic Growth means an increase in real National income of a country	1. "Economic Development means economic growth plus progressive changes in certain important variables which determine well-being of the people."
2) <u>Scope :-</u> It has narrow scope.	It has wider scope.
3) <u>Concept :-</u> It is Quantitative concept.	It is Qualitative concept.
4. <u>Possibility :-</u> Eco. Growth is possible without Eco. Development.	Eco. Development is not possible without Eco. Growth.
5. <u>Natural / Deliberate :-</u> Eco. Growth is natural and reversible	Eco. Development is Deliberate and Irreversible
7) <u>Measured :-</u> Eco. Growth growth is measured in terms of National Income and Per Capita Income.	Eco. Development is measured in terms of agricultural Productivity Industrial Productivity etc.
8) <u>Formula :-</u> Eco Growth = real increase in output	$\text{Eco. Development} = \text{Eco. Growth} + \text{Progressive changes.}$
9) <u>Dimension :-</u> It is Unidimensional concept	It is multi-dimensional concept

Q.13

Q.B

Micro Economics

1. Meaning :-

"It is the study of the behaviour of individual units like - Individual Firm, consumer, Price of commodity etc."

2. Origin :-

It is derived from Greek word "Mikro" which means 'Small'

3. Scope :-

It has limited & narrow scope.

4. Importance :-

It is important for better resource Utilisation and taking business decisions.

5] Popular by :-

It is popularised by - Alfred Marshall.

6) View

It has worm's View

7) Approach

It has microscopic approach

8) Basic concepts :-

wants, Utility, Wealth, Personal Income etc.

Macro Economics

"It is the study of the behaviour of the economy as whole".

It is derived from Greek word 'Makro' which means 'Large'

It has wider scope

It is important for making Economic & Fiscal policies for the development of economy.

It is popularised by - J. M. Keynes.

It has birds eye View.

It has Telescopic approach.

National Income, Saving, Investment, Trade cycles etc.

Objectives - I

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Q-14 Choose the correct option :-

1. statements related to Economics :-

- a) Economics is a Social Science.
- b) Concept of economics is derived from Greek word 'Oikonomia'
- c) Economics is related to the study of Human economic behaviour.
- d) Economics is related to management of the household

Ans: - 4 - a, b, c and d.

2) statement incorrect with reference to Adam Smith's definition :

- a) Adam Smith is a classical economist
- b) Wealth of Nations is authored by Adam Smith.
- c) Economics is a science of wealth.
- d) Economics studies common man.

Ans: 1 - d

3. Key points in Lionel Robbins's definition :-

- a) Wants are Unlimited
- b) Means are Limited.
- c) Wants are not gradable
- d) Means have alternative uses

Ans: - 3 - a, b and d.

4. Statement related to wealth :

- a) wealth means anything which has market value and can be exchanged for money.
- b) It is external to human being.
- c) wealth has no utility.
- d) wealth is scarce and exchangeable

Ans: 1 - a, b and d.

5. Aspects considered in National Income :-

- Final goods and services are included in National Income
- Produced goods and services in a financial year are included in National income
- Double counting is avoided.
- Value is considered as per market Price

Ans: 4- a, b, c and d.

Q: 15 Complete the Correlation :-

1. Natural Sciences : Exact Sciences :: Social Sciences :

Abstract/behavioural science.

2. Physics : Natural Science :: Psychology : Social Science

3. Arthashastra : Kautilya :: Wealth of Nation : Adam Smith

4. Necessity : Food/clothing :: Comforts : Washing machine

5. Free goods : Value-in-Use :: Economic goods : Value-in-Exchange

Q: 16 Identify and explain the concepts from given illustrations?

1. My Father Purchased a two wheeler Vehicle . This helps to fulfil my travel needs .

Ans:- Comfort wants.

Explanation :- Comforts wants make our life comfortable.

Two wheeler Vehicle will help every individual to travel from one place to other easily.

2. A Study of the annual income of the family of Ramesh.

Ans:- Personal income

Explanation Q: 11 - 2nd Point

14.

3. As per the data for financial year 2018-19, the country's production of goods and services increased by 20%.

Ans: Economic Growth. Explanation. Q:10 - 5th Point

4. Karuna's mother saves ₹1000 every month out of his given salary.

Ans: Saving. Explanation - Q:10 - 2nd Point

5. Ram's father utilised his Provident Fund amount to set up grocery store

Ans: Investment. Explanation - Q:10 - 3rd Point.