Journal of Advances in Economics and Business Management
p-ISSN: 2394-1545; e-ISSN: 2394-1553; Volume-7, Issue-4; October-December, 2020 pp. 8-12

http://www.krishisanskriti.org/Publication.html

Economics: Nature and Scope

Saroj Kumar Singh

Associate Professor, Department of Rural Economics
B. N. Mandal University, Madhepura, Bihar (S.N.S.R.K.S. College, Saharsa)
drsaroj999@gmail.com

***Abstract:** The term economics is derived from two words economy and science meaning the science of the economy or the science of proper utilization of resources. This chapter focuses on the nature and scope of economics. To understand the subject matter of economics, we tried to look at its different definitions by different scholars. The basic concepts of economics are discussed in other to give a better understanding of the definitions. There is also the need to understand the basic economic problems of any society because other problems revolve around these problems.*

1. INTRODUCTION

Economics is a very interesting subject because it analyses how human beings make choices in an effort to maximize utility. It also analyses how a society seeks to allocate their limited resources in other to achieve growth. The term economics is derived from two words economy and science meaning the science of the economy or the science of proper utilization of resources. This chapter focuses on the nature and scope of economics. To understand the subject matter of economics, we tried to look at its different definitions by different scholars. The basic concepts of economics are discussed in other to give a better understanding of the definitions. There is also the need to understand the basic economic problems of any society because other problems revolve around these problems. The various definitions of economics is grouped under different headings as discussed below:

1.1 The Classical View of Economics

The Classical economists viewed economics as a science of wealth. Adam Smith, the father of economics, in his book titled: 'An Enquiry into the Nature and Causes of Wealth of Nations', defined economics as the science of wealth. According to Adam Smith, economics makes inquiries into the factors that determine the wealth and growth of a nation. So to Adam Smith what forms the subject matter of economics is the production and expansion of wealth. However, Ricardo shifted emphasis from wealth production to wealth distribution. According to a French classical economist, J. B Say, economics is the science of production, distribution and consumption of wealth. Other classical economists such J.S. Mill, defines economics as the law that governs mankind in the production of wealth. The wealth definition means that wealth was considered to be an end in itself.

1.2 Critical Evaluation of the Classical Economists View

The classical economists narrowed the scope of economics by defining it as the science that deals with only material wealth. They do not regard the services of those who produce non-material goods because their services do not relate to production of tangible goods. This view or conception by the classical economists attracted a lot of criticisms. Critics pointed out that economics studies not only material goods and wealth, but also includes non-material goods such as services of teachers, doctors, lawyers. These services provided by human resources fulfill human wants and should be regarded as part of wealth.

Secondly, the classical economists emphasized the importance of wealth rather than human beings in economic life. The critics observed that wealth was given primary role while human life was given secondary role, but on the contrary, human life should play a primary role and so cannot be sacrificed for wealth.

According to the classical economists, wage to labour is the only source of wealth to a nation, but the critics are of the view that there are other sources of wealth such as natural resources, human resources and capital resources.

1.3 The Neo- Classical View of Economics

The neo-classical economists led by Alfred Marshal gave economics a respectable place among social sciences. Marshall defined economics as the study of mankind in the ordinary business of life; it examines that part of individual and the social action which is most closely connected with the attainment and use of material wellbeing Wealth was regarded not as an end in itself but a means to an end because it was seen as the source of human welfare.

Major propositions of Marshall's welfare definition are economics is the science of material welfare. Secondly, economics is a social science because it is a study of men as they live and move and think in the ordinary business of life and thirdly that economics is the study of rational behavior of people as they maximize their material welfare This means that Economics is concerned with economic activities that promote material welfare but excludes all non-economic activities that are socially undesirable like stealing, prostitutions, etc.

1.4 Critical Evaluation of the Neo-Classical Economists View

The neo-classical definition of economics was criticized by Lionel Robbins because of the distinction between material and non-material activities. According to Robbins, the use of the word 'material' narrows down the scope of economics because there are many things in the world which are immaterial, but are useful for promoting human welfare. Robbins regards all goods and services which command a price as economic activity whether they are material or non-material. To say services are non–material is misleading because services have value. Their definition of Economics from the material point of view is a misrepresentation of the science of Economics.

To the neo-classical economists, economics is concerned with material welfare. According to Robbins, the word welfare should not be used along with material activities because there are many activities which are regarded as economic activities but they do not promote human welfare. For example, the production and sale of tobacco, drugs and alcohol are economic activities but harmful to human health.

Robbins has also objected to the word 'welfare' in the neo-classical definition. Welfare is a subjective thing and varies from person to person, from age to age. According to Robbins, it cannot be said in objective term which things will promote welfare and the ones that will not. Robbins believes that economics is not concerned with welfare rather he explains economics as the problem that have arisen because of scarcity of resources.

1.5. Scarcity and Choice Definition by Lionel Robbins

Robbins criticized Marshall's definition and provided his own definition in his book, "An Essay on the Nature and Significance of Economic Science" in 1932. According to Robbins, economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses. This means that economics is a human science. It involves maximizing satisfaction from scarce resource and the means available for satisfying these ends (wants) are scarce or limited in supply. Also the scarce means are capable of alternative uses, that is, the use of scarce resource for one end prevents its use for any other purpose at that point in time. The ends are of varying importance which necessarily leads to the problem of choice in selecting the uses to which scarce resources can be put to. It is the various alternative uses of the resources that we have to decide on the best allocation of resources.

It should be noted that Robbins definition stands on three major facts namely: Unlimited wants, scarcity of resources and alternative uses of the resources. Robbins economics studies man's activities in regards to all goods and services, without distinguishing them as material and non-material; provided they satisfy human wants. In other words, economic problem is one of allocating scarce means in relation to numerous ends.

1.6 Critical Evaluation of Robbins Definition

Robbins definition is no doubt popular among economists because it points out the basic economic problems confronting the society. But Robbins definition has also been criticized on several grounds. According to the critics, Robbins definition also talks about welfare which he formally criticized. In fact in Robbins definition the idea of welfare is present because it involves the allocation of resources to maximize satisfaction. But this maximum satisfaction is nothing but welfare.

Also Robbins assumption fails to explain fully the nature of 'end' and the difficulties associated with it. The idea of definite ends is also not acceptable because immediate ends many act as intermediariesop to further ends. It is difficult to separate ends from means because immediate ends may be the means to the achievement of further ends.

Robbins definition is also criticized for not analyzing the theory of economic growth and development rather it talks about the theory of product and factor pricing. The theory of economic growth and development studies how national income and per capita income increase and what causes the increase. Robbins takes the resources as given while the theory of economic growth is concerned with reducing the scarcity of resources through accumulation of capital and wealth. Therefore, Robbins definition though applicable to fully employed economy is not realistic for analyzing the economic problems of the real world. Economic problems arise not only due to scarcity but due to under, miss or over utilization of resources.

1.7 Samuelson's Growth Oriented Definitio

The present trend in the world is the establishment of welfare states and improvement in the standard of living through reduction in poverty, unemployment and income inequality. In line with this trend Samuelson has given a definition of economics based on growth aspects. According to Samuelson, "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 produce various commodities over time and distribute them for consumption, now or in the future, among various person or groups in the society". Samuelson's definition is an improvement over Robbins scarcity definition based on the following facts

1. Samuelson regards economics as a social science which emphasized the problem of scarce resources and the idea of alternative uses of resources.

2. He emphasized on the consumption and distribution of various commodities for the present and future economic growth thereby highlighting the study of macro economics.

3. Samuelson lays emphasis on the use of modern technique of cost-benefit analysis to evaluate the development programme for the use of limited resources.

4. Samuelson's definition of economics has superiority over that of Robbins because of the inclusion of time element thereby making the scope of economics dynamic.

From the above discussion, it is clear that economics cannot adequately be defined in one sentence. No definition of economics has been generally accepted as being satisfactory because every single definition has been followed up with criticism. Even though there are different definitions as there are different scholars, we will summarize economics as a social science concerned with how human beings allocate their limited resources in order to achieve a given end over time. That is, it analyses how households, firms, and society as a whole try to maximize their gains from their limited resources and opportunities now and in the future. A better understanding of the subject matter of economics needs a probe into the scope.

1.8 The Scope of Economics

Economics as a subject is experiencing continuous growth. The frontier of the subject has been widened after Alfred Marshall separated it from the term Political Economy. A discussion on the scope of economics includes the definition of economics, whether economics is an art or a science and whether it is a positive or a normative science.

1.9 Economics as an Art and a Science

There have been numerous questions whether economics is an art or a science. Economics is an art as well as a science. Economics is an art because different theories and laws are explained with the help of graphs, figures, tables, equations. Also economics make use of assumptions which helps to define the conditions for the application of theories, laws and relationship between economic variables.

Economics is a science because it is a systematized body of knowledge in which economic facts are studied and analyzed. Economics just like science have laws and theories which trace out a causal relationship between two or more phenomena. For instance the law of demand tells us that, all things being equal, a fall in price leads to an increase in demand and vice versa. A rise or fall in price is the cause while the decrease or increase in demand is its effect.

Economics is also a science because its laws possess universal validity such as the law of demand, law of diminishing marginal utility, etc. Some people do not regard economics as a science because there is no scope for experimentation. Science involves collections of facts and testing them by experimentation. Economic phenomena are complex because they relate to man who acts irrationally as a result of tastes, habits, social and legal institutions in the society. Although economics deal with statistical, mathematical and econometric methods for testing, but they are not so accurate to judge the true validity of economic laws and theories. As a result, exact quantitative prediction becomes impossible. For instance, a rise in price may not lead to a reduction in demand rather may increase demand because people are scared of shortages in future.

But this does not mean that economics is not a science. It is rather classified as a social science because it deals with human beings whose actions are so filled with uncertainty.

1.10 Economics as a Positive and Normative Science

According to J.N Keynes, a positive science may be defined as a body of systematized knowledge concerning what it is; while a normative science is a body of systematized knowledge, relating to the criteria of what ought to be. The objective of a positive science is the establishment of scientific laws; while the objective of a normative science is the determination of the ideals. A positive science is concerned with what is. According to Robbins, economics is a science of what is which is not concerned with moral or ethical questions. The positive science of economics makes it devoid of value or ethical judgment, that is, it relates and describes facts without saying whether they are good or bad. For instance, statements such as 'Growth creates pollution' or Growth gets rid of pollution' are called positive statements –assertions of facts that can be tested.

Normative economics involves value judgment or what are simply known as value. It is concerned with the question of what ought to be. It makes distinction between good and bad depending on ethics and beliefs of the people rather than on scientific laws and principles. For instance, positive economics is concerned with how aggregate consumption and investment, how the national income and employment, and how the general price leves are determined; it does not go into the question of what should the prices be, what should be the savings rate, etc. these questions of what should be and what ought to be, falls within normative economics.

Economics is both a positive and normative science because positive economics sets about to discover what is true about the economy, while normative economics evaluates whether the facts found are good or bad.

1.11 Basic Economic Concepts Scarcity: -

Scarcity means limited in supply. According to Thomas Sowell, the first lesson of economics is scarcity. There are three categories of economic resources: Land, labour and capital. Each of these resources exists in a finite, limited quantity. People have unlimited wants and since we have a limited amount of resources it means we can only produce a limited amount of goods and services, that is, the limited resources cannot produce enough to satisfy everyone's unlimited wants. This gives rise to the study of economics for better allocation of scare resources among competing and insatiable needs so as to maximize welfare.

Choice: A choice is a comparison of alternatives. The problem of scarcity leaves us in a situation in which we must constantly choose which of our wants we will seek to satisfy. For instance, an individual consumer must choose among the types of goods and services to consume because of his limited income. He must also choose between spending on present consumption and saving for future consumption.

The firm with its limited capital must decide what to produce and what not to produce. A situation where the firm wants to produce two commodities, the choice to produce more of one would mean a resolve to produce less of the other.

The government is also forced to make a choice on the nature of public goods to provide for the citizens. The government has the task of utilizing the scare resources effectively in order to improve the welfare of the people. Scarcity gives rise to choice and making a choice creates a sacrifice because alternatives must be given up leading to the loss of the benefits which the alternative would have provided.

Scale of Preference: - In economics, it is assumed that man is rational in his choice making, that is, if a man has to choose between one thing and another, it is expected that he will always choose the alternative that will yield the greatest satisfaction. Similarly a firm faced with how to make a choice between production of one product and another, will choose the product that will yield the greatest profits. Scale of preference presents a list of wants arranged in order of importance with the most pressing want listed first, followed by the second most pressing need and so on.

Opportunity Cost: - Opportunity cost means forgone alternative. People must make choices because of limited resources. Every choice has an opportunity cost and so the satisfaction of one want involves forsaking the other. Therefore the real cost of satisfying any want is the alternative forgone or the opportunity cost. For instance, suppose a community uses a land and other resources to build a school instead of a factory, the opportunity cost of choosing the school is the loss of the factory and what could have been produced by building the factory. Also if a student misses his lecture on economics because he wants to go to the cinema, the cost to him is the lectures that he decides to miss. Opportunity cost of any choice is the value of the best alternative forgone in making it and not simply the amount spent on that choice.

1.12 Central Economic Problems of any Economy

All modern economies have certain fundamental or basic economic problems to deal with. The limited resources have led to the problem of how to assign the scare resources in order to achieve maximum satisfaction. There is the need to economize and utilize these resources in the most efficient manner in order to satisfy the welfare of the society. These problems are called central economic problems because other problems revolve around them. They are:

What to produce: - This has to do with the problem of allocation of resources among different goods and services. It involves selection of what should be produced and in what quantity in order to satisfy consumer wants as best as possible using the available resources. The society has to choose among different kinds of goods and decide on how to allocate resources among them, for instance whether to produce capital goods or consumer goods. The society also needs to determine the specific quantity of each type of good to be produced. In a market economy, the choice of what to produce is made by the buyers in other to fulfill their needs. Government can through its laws determine what to produce in a given economy. But the production of one good means a reduction in the production of another.

How to Produce: - This problem refers to selection of appropriate technique of production, that is, how to combine resources in other to produce goods and service in a more efficient way and at a minimum cost. A combination of resources (factors) implies a technique of production. The technique of using a combination which involves less capital and more labour is known as labour-intensive mode of production while a combination of more capital and less labour is capital-intensive mode of production. The decision on which resource combination to use depends on availability of factors and their relative prices. Therefore, it is in the interest of the society that factors should be combined in a manner that maximum output can be produced at minimum cost, using least possible scarce resources.

For whom to produce: - This economic problem focuses on how the national product is to be distributed among the members of the society, that is, how the consumer goods and capital goods will be distributed. The society has to decide who receives the outputs produced in the economy because human wants are unlimited. Should the economy produce goods for those with high incomes or for those with low income? What demographic group should production be targeted at? The money income of the people determines the distribution of output in the society. The greater ones money income, the greater the quantity of goods the person will purchase from the market. Sometimes the supply of goods are in short supply leading to government intervention through price legislation, rationing or through quotas.

1.13. What provision should be made for economic growth?

This problem deals with how to decide on how much saving and investment should be made for future economic growth. No society or individual would like to use all its scarce resources for only current consumption or else future production will remain stagnant leading to a decline in the levels of living. The society should devote a part of its resources for the production of capital goods and for the promotion of research and development activities. Capital and technological progress achieved in this way will lead to production of consumer goods in the future and increase standard of living.

1.14 Microeconomics and Macroeconomics

Economics is divided into two major areas – Microeconomics and Macroeconomics:

Microeconomics: - The word micro is derived from the Greek word mikros meaning small. Microeconomics is a branch of economics that is concerned with the behavior of individual consumers, firms, industries, commodities and prices. It studies how decisions made by individuals and businesses affect the prices of goods and services. The main objective of microeconomics is to maximize utility and minimize cost. It is also known as the price theory. The major drawback of microeconomics is the unrealistic assumption of full employment condition in an economy and it deals with the part of the economy instead of the whole economy.

Macroeconomics: - The word macro is derived from the Greek word makros meaning large. It is that branch of economics that focus on the impact of choices on the total or aggregate level of economic activities. Macroeconomics is the study of aggregates of individuals, firms, prices and outputs. In other words, it studies the economy as a whole. It analyses issues such as aggregate level of employment, the general price level, aggregate savings and investment in the economy. The main objectives of macroeconomics are full employment, economic growth, favourable balance of payment and price stability. The major limitation of macroeconomics is that it ignores the welfare of individuals in an economy and it takes into account only aggregate variables, which may not clearly explain economic conditions.

Microeconomics differs from macroeconomics in that while microeconomics maps up close how individuals make decisions and how these decisions affect the price and output of various goods and services, macroeconomics analyses not individuals but aggregates of the economy. While microeconomics studies how an individual firm employs its labours, macroeconomics studies the total employment in a given economy. While microeconomics is particularly concerned with the relative prices of goods and service; macroeconomics studies total prices of all goods and services in the economy.

The division between microeconomics and macroeconomics is not rigid, they are interrelated. What affects the part affects the whole while the whole is made up of the parts. For instance, national income is the sum of the incomes of individuals, households, firms and industries. Also aggregates that are studied in macroeconomics are nothing but individual quantities which are studied in microeconomics. Moreover, modern macroeconomics is based upon the study of microeconomics. Therefore, microeconomics and macroeconomics cannot be isolated from each other.

REFERENCES

[1] Adebayo, A. (1994). *Economics a Simplified Aproach*. Lagos: Harmony Publishers

[2] Ahuja, H. L. (2008). *Modern Economics: Analytical Study*. New Delhi: S. Chand & Company, Ltd.

[3] Iyoha, M. A; Oyefusi, S. A. & Oriakhi, D. E. (2003). *An introduction to Modern Microeconomics.* Benin: Mindex Publishing.

[4] Jhingan, M. L. (2010).*Microeconomic Theory*. Delhi:Vrinda Publicstions (P) Ltd.