

**WELLAND GOULDSMITH SCHOOL**

**ECONOMICS**

**CLASS 11**

**CHAPTER – DEFINITION OF ECONOMICS**

**ANSWER KEY**

**ANSWER 1:** According to the wealth definition of Economics - Economics is defined as a science which enquires into the nature and causes of wealth of Nations.

**ANSWER 2: The two features of Marshall's definition of economics are:**

- **Study of mankind:** Marshall placed primary emphasis on the study of mankind. He agreed with the classical economist that economics is concerned with wealth, as wealth constitutes material requisites of wellbeing. Wealth provides the means for existence, comfort and enjoyment of life. He believed that wealth is not an end by itself, but only a means to human welfare. Thus, according to Marshall, it is the study of man which occupies the central place in the study of economics.
- **Study of ordinary business of life:** Economics is a study of ordinary business of life. An individual has several aspects of life, namely economic, social, religious and political. Economics is concerned only with the economic aspect of human life. Economics, according to Marshall, is not concerned with the social, religious and political aspects of man's life. The ordinary business of life is concerned with the income earning and income spending activities of mankind.

**ANSWER 3:** The main criticism against welfare definition of economics are:

- **Economics regarded as a social science only:** Marshall has been criticized for treating economics as a social science rather than a human science. Social science studies the actions of the individuals living in organised communities as members of the society, whereas a human science studies the human being irrespective of whether he is living as a member of an unorganised community or living in isolation. Thus, welfare definition restricts the scope of Economics to the study of persons living in organised communities only.
- **Impractical classification of activities:** In Marshall's definition the distinction between economic and non economic activities is unscientific , illogical and illusionary since all human activities have an economic aspect. Moreover, welfare is composite and it is very difficult to separate material welfare from the total welfare.

**ANSWER 4: Scarcity definition of economics:**

According to Robbin's, "Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses."

**Two features of scarcity definition of economics are:**

- **Unlimited wants:** A fundamental fact of economic life is that human wants are unlimited. Human wants are not only large in number, but they tend to multiply overtime. As one want is satisfied, another wants crops up. In view of multiplicity of wants and the increase in their number overtime it is not possible to satisfy all the wants. However, an important fact about human wants is that all wants are not of equal intensity. Since wants are unlimited we have to make a choice between the more important and the less important wants.
- **Scarce means:** Means to satisfy human wants are unlimited. Means refer to various productive resources such as land, labour capital etc., which are needed to produce and procure goods needed to satisfy human wants. Resources are said to be scarce in the sense that the supply of resources is limited as compared to their demand. It should be noted here that the term scarcity is used not in the absolute sense but in the relative sense, that is in relation to demand. All the supply of resources has increased over time yet the demand for resources has always outpaced their supply. Thus, resources are limited. Since the resources are scarce, all the wants cannot be satisfied. Hence, we have to decide which of the wants can be fulfilled and which ones should be left unfulfilled for the time being. Scarcity is at the root of most of the human economic problems.

**ANSWER 5:** Robbin's definition of economics is generally and widely accepted by the economists in a number of ways:

- **Logical explanation of economic problem:** Robbins' definition very clearly brings out the root cause of economic problem, which forms the foundation of economics as a social science. According to Robbins definition, economic problems arise due to scarcity of means in relation to their demand.
- **Universal nature:** The scarcity definition of economics emphasizes the universal nature of the subject in the sense that scarcity of means in relation to ends is a universal problem – everywhere and at all times. Rich as well as poor traditional as well as modern economies face the problem of choice.

**ANSWER 6:** According to samuelson, "Economics is the study of how people and society uses with or without the use of money, to employ the scarce productive resources, which have alternative uses, to produce various commodities overtime and distribute them for consumption now or in the future among various people and groups in the society."

**ANSWER 7:**

Microeconomics studies the economic behaviour of individual economic units and individual economic variables.

Macroeconomics deals with the functioning of the economy as a whole.

**ANSWER 8: Microeconomics and macroeconomics differ from each other in the following important ways:**

- **Unit of study:** Microeconomics and macroeconomics differ from each other in terms of the unit of study. Microeconomics studies the economic behaviour of individual economic units. It is concerned with how the individual units make decisions and what affects these decisions. The

main individual economic units are individual households, firms, industries and individual markets. The unit of study in macroeconomics, on the other hand, is the entire economy rather than a part of the economy. Microeconomics is concerned with the behaviour of the economy as a whole.

- **Focus of study:** Microeconomics deals with the determination of price and quantities in individual markets. It is concerned with allocation of resources among individual forms and industries. It examines how the output produced is shared among various resource owners who cooperate in the production of this output. Macroeconomics on the other hand, deals with broad economic aggregates like national income, total employment, aggregate consumption, aggregate savings and investment, general price level, economic growth and balance of payments.

**ANSWER 9:** The problem of economising of scarce resources means the problem of making a choice in using the scarce resources in producing different goods in such a way as to maximize the gains (in the form of more goods) from the use of these resources that is optimal allocation of resources.

**ANSWER 10: The wealth definition of economics has been criticized on the following grounds:**

- **Too much emphasis on materialism:** Economists alleged that by defining economics as a science of wealth, classical economists have ignored the higher values of life such as happiness, love, affection, etc. They emphasized that happy living, and not getting rich, should be the end of human efforts. What matters most is a happy life and not wealth.
- **Narrow view of wealth:** wealth according to the classical economist consists of material or tangible goods. They have excluded non material goods or services like health and education from the definition of economics. By taking such a restricted definition of wealth, the classical economists have narrowed down the subject matter of economics to material goods only.
- **Secondary place to man:** Wealth definition has given undue emphasis on wealth and in the process, has reduced man to a secondary place in the study of economics. In fact, the ultimate objective of economics is to promote human and social welfare and wealth is only a means to achieve this end.