Nowadays, understanding of economic issues has become quite indispensable for all sections in the society. Everyone wants to get rich; wants to increase their wealth holding; wants to have hold over productive resources; wants to expand their business activities. People want to earn more and more profits, and exercise control over the market and other economic system; people want to raise their living standard and enjoy more and more consumption; people want to make their future secure; everyone wants to grow from the current position; given these, people want to update their knowledge of economic issues and take advantage of that. Besides, people want to grow even in the adverse circumstances or at least survive under these circumstances. This shows that people want to become economically stronger and viable. So that they can lead a better life style. This requires proper understanding of the economic issues.

Such understandings might be developed through formal and informal methods of learning. Most of the people learn informally in the society through their experiences as they get exposed to certain real life situations. However, those who want to make a career in different dimensions, they need to learn it formally. For this, they need to learn it properly, that is possible through pursuing a formal course structure. This gives them a proper understanding of economics. They can apply this knowledge in different contexts. According to Samuelson and Nordhaus ("Economics"; sixteenth edition; 2000), “Often economics appears to be an endless procession of new puzzles, problems, and difficult dilemmas. But as experienced teachers have learned, there are a few basic concepts that underpin all of economics. Once these basic concepts have been mastered, learning is much quicker and more enjoyable.”
DEFINITION OF ECONOMICS

It is very difficult to define economics because economics is a very dynamic subject. Its scope keeps on changing rather expanding. Still, for proper understanding of any subject, it becomes necessary to define it as close as possible. We begin by a general description of economics provided by Wikipedia. It describes economics as below.

“Economics is the social science that is concerned with the production, distribution and consumption of goods and services. The term economics comes from the Ancient Greek—oikonomia, “management of household, administration” from oikos, “house” + nomos, “custom” or “law”, hence “rules of the house (hold)”. Current economic models developed out of the broader field of political economy in the late 19th century, owing to a desire to use of an empirical approach more akin to the physical science.”

“Economics aims to explain how economies work and how economic agents interact. Economic analysis is applied throughout society, in business, finance and government, but also in crime, education, the family, health, law, politics, religion, social institutions, war, and science. The expanding domain of economics in the social science has been described as economic imperialism.”

The above description of economics shows the nature of economics in modern context. It tells that economics can be used for raising the living standard of people and their welfare. However, it also wants that economic issues or economic objectives might become a tool in the hands of people, who want to exploit it for ulterior motive like separation from others. However, now we can discuss some formal definitions given by the economists over a period of time.

INITIAL DEFINITION OF ECONOMICS THAT RELATES TO WEALTH

Adam Smith is considered to be the first to provide a formal definition of economics contained in his book, “An enquiry into the nature and causes of wealth of nation” published in 1776. Because of this great contribution of Adam Smith, he is regarded as the father of economics. He defined economics as the science of wealth, that is, he regarded economics as the science that studies the production and consumption of wealth. However, another great economist J.S. Mill defines economics as the practical science of the production and the distribution of wealth. This definition of J.S. Mill
was mentioned in the concise Oxford dictionary. J.B. Say is a French economist who is a well known classical economist. He defined economics as the science which treats of wealth, that is, economics studies about the wealth.

All the above classical economists assign greater importance to the wealth as the centre of economic studies. If this definition is taken narrowly, it creates a problem. However if the concept of wealth is defined in broader perspective to take into account scarce goods and services used to satisfy wants, etc. In that case, the definition becomes more acceptable. But it appears that these economists have defined wealth in a very narrow sense. Therefore, the definition of economics becomes quite narrow. Such limited definition of economics focussing around the wealth seems to restrict the scope of economics as such.

MARSHALL’S DEFINITION OF ECONOMICS—
(SCIENCE OF MATERIAL WELFARE)

Like the earlier economist Marshall also believed that economics is highly related to politics but he emphasised on political economy. After marginalising the earlier definitions of economics focussing on wealth, it became necessary to come out with more acceptable and wider definition of economics. It is so because more knowledge was accumulated by this time with regard to economics. Alfred Marshall published his book, “Principles of Economics” in 1890. He shifted emphasis from wealth to material welfare. According to him, wealth acted only as means to attain the ends and the wealth should not be treated as end in itself. According to Marshall, “End is the human welfare.” He provided his definition of economics based on such distinction. According to Marshall, “Political economy or economics is a 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 with the use of the material requisites of well-beings. Thus it is on the one side, a study of wealth; and on the other, and more important side, a part of the study of man. (“Principles of Economics”, Macmillan, London p. 1, 8th edition). Thus, this definition focuses on human welfare through wealth.

Another economist A.C. Pigou has also defined economics in terms of human welfare. A.C. Pigou defines economics as the range of our enquiry becomes restricted to that part of social welfare that can be brought directly or indirectly into relation with the measuring rod of money. According to Edwin Cannan, “The aim of political economy is explanation of the general causes on which the material welfare of human beings depends.” Thus,
group of economists like Marshall, Cannan, Pigou, etc. put the economic or material welfare of the people at the centre of study, where role of money also becomes important. Such definitions are also subject to criticism. Robbins criticised welfare definition on the ground that it includes within its purview material things alone. It ignores non-material things. He considers that in real life, the distinction between material and non-material things is quite blurred. Secondly, although the welfare approach emphasises upon material welfare yet it is curious that they have adopted non-material definition of productivity. The material welfare approach suffers from many other criticism.

Robbins’s definition of economics (economics is the science of scarcity): This is a further improvement over the preceding definition of economics. Lionel Robbins provides his idea of economics in his book, “An essay on the nature and significance of economic science” published in 1932.

Robbins has defined economics as, “The science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.” This definition seems to emphasise on three basic issues—ends, scarce means, and alternative applications. Here in this definition ‘ends’ refer to human wants. It is known that wants are unlimited as some of the wants are satisfied, others become important. This is unending process. Therefore, people prioritise their wants to satisfy the most important want first.

Unlike the unlimited wants, scarce means are available but its supply is quite limited. Therefore, the scarcity of goods available needs to be matched with unlimited wants. This is a big challenge for the economic science. Since scarce resources are limited in supply, according to Robbins definition, such scarce resources might be put for alternative uses. It is implied here that the alternative uses to which the commodity can be put should be of varying degrees of importance, so that, it becomes possible to select the use or the uses to which the commodity is to be put. The scarcity definition has sharply defined the scope of economics. It has delimited the field of economics by building a boundary wall around it. There can now be no misconception or haziness about the sphere of economics. Any problem marked by scarcity of means and multiplicity of ends, becomes ipso facto an economic problem, and as such, a legitimate part of the science of economics.

Samuelson has also given similar but somewhat different definition of economics as given by Robbins. He has emphasised upon the twin themes of economics—scarcity and efficiency. According to Samuelson and Nordhaus (1998);
“Economics is the study of how societies use scarce resources to produce valuable commodities and distribute them among different people.”

“Behind this definition are two key ideas in economics: that goods are scarce and that society must use its resources efficiently. Indeed, economics is an important subject because of the fact of scarcity and the desire of scarcity”. (Economics” 16th edition, 2000, p. 4).

Positive and Normative Economics

We observe that there are different types of people or stakeholders who use economics in different ways. For example, a practising economist or a policy practitioner uses economic tools and information to make any suggestion or critical analysis. Generally, such people use economic theories and tools for proper understanding and specific forecasting of economic variables. It is because use of economic sciences is generally for proper decision making and accuracy in economic forecasting. Thus, positive statements are about facts. They state what the reality is. To be specific, economics is strictly positive in character and is concerned with merely positive statements. Since positive statements are about facts, any disagreement over such statement or analysis can be handled properly only by use of facts and their analysis. Thus, positive economics is one that deals with the real life situations or the facts or evidences. Any inferences are derived and disputed based upon such facts and analysis only.

Normative economics is based on the normative statements. Normative statements are concerned with what are to be? In this case, economics is not concerned with real life experiences rather, it is concerned with, how things should operate. As against the positive economics, the normative economics can not be challenged based upon any fact. For example, if a political leader projects his party’s vision in election that the unemployment rate should be brought down to 2.0 per cent, this statement is not based upon any analysis or fact, rather it is desire or the wish or the norm applied by the particular political party. Now, if the political party comes to the power the policy maker must tune the system to realise this target.

Despite there being differences between positive economics and normative economics, economics is a science having both positive and normative aspects. It is more so because economics is a social science. According to Ross D. Eckert and Richard H. Leftwich, (1988), “Economic policy-making—conscious intervention in economic activity with the intent of altering the course that it will take—is essentially normative in character.
But if economic policy-making is to be effective in improving economic well-being, it must obviously be rooted in sound positive economic analysis. Policy-makers should be cognized of the full range of consequences of the policies they recommend.” (“The Price System and Resource Allocation”, New York, 10th edition, p. 10)

According to Samuelson and Nordhaus, (2000), positive and normative economics may be interpreted as under.

“Positive economics deals with questions such as: why do doctors earn more than janitors? Does free trade raise or lower wages for most Americans? …Although these are difficult questions to answer, they can all be resolved by reference to analysis and empirical evidence. That puts them in the realm of positive economics.”

“Normative economics involves ethical precepts and norms of fairness. Should poor people be required to work if they are to get government assistance? Should unemployment be raised to ensure that price inflation does not become too rapid? … There are no right or wrong answers to these questions because they involve ethics and values rather than facts. They can be resolved only by political debate and decisions, not by economic analysis alone.” (ibid., p. 8)

METHODOLOGY OF ECONOMICS

Economics is also like a science but it is a social science. It deals mainly with the human behaviour. Therefore, many economists argue that economics can not be as precise a science as the natural sciences like physics, chemistry etc. The latter can be studied in the laboratory conditions where variables can be easily controlled during experiments. However, social sciences like economics can not be easily controlled. Still over a period of time economic sciences have gained maturity to develop its methodology which is proving now to be quite efficient and such methodologies can be used for efficient analysis of the economic relationships and predictions can be made with sufficient accuracy that generate a sense of confidence and faith. There are two broad methods used in the economic sciences.

1. The deductive method
2. The inductive method

1. *The deductive method*: This method involves going from general to particular. Certain hypotheses or postulates regarding human behaviour are taken to be true and then with the help of logical reasoning and examination,
we try to figure out the cause and effect relationship between the factors under consideration. The following steps are involved in the deductive method.

I. Firstly, a problem needs to be identified and then it should be properly specified for the study.

II. The assumptions required in the study should be clear. Appropriate assumptions are crucial in economic analysis.

III. After specifying the assumptions, hypotheses should be clearly framed. The hypothesis formulation requires likely relationship among the different economic variables.

IV. In the last phase, hypotheses should be tested through different tools like mathematical economics and econometrics.

V. Based on the above analysis proper inference needs to be derived for specific economic decision making.

2. The inductive method: Although deductive method has strong points of merit to depend upon, this methodology seems to suffer from certain weaknesses. Therefore, economists belonging to the historical school and many other economists have favoured the inductive or empirical method.

The method of induction involves going from particular to general. Here the appeal is to facts, rather than reasoning and an attempt is made to arrive at conclusions from the known facts of actual life. The inductive method required the following steps:

I. The first step, as under the deductive method, is selecting and specifying the problem that is to be studied.

II. The second step involves collection of data pertaining to the problem selected for study.

III. The stage of collection is followed by classification and then analysis of the data by appropriate statistical techniques.

IV. The fourth stage is that of ‘inference’, i.e. drawing conclusions from the statistical analysis conducted. The conclusions are presented in the form of economic generalisation.

ECONOMIC GOALS

Any science moves with certain goals to be achieved. Economics has become now a crucial branch of knowledge. Being a social science it keeps on revising its goals from time to time. The list might be quite large, but we would like to focus only on certain major goals of economics as given under:
1. **A low rate of unemployment**: People willing to work should be able to find jobs reasonably quickly. Widespread unemployment is demoralising and it represents an economic waste. Society forgoes the goods and services that the unemployed could have produced.

2. **Price stability**: It is desirable to avoid rapid increases—or decreases—in the average level of price.

3. **Efficiency**: When we work, we want to get as much as we reasonably can take out of our productive efforts. For this, efficient technology becomes quite useful.

4. **An equitable distribution of income**: When many live in affluence, no group of citizens should suffer stark poverty. Given this, developing countries are strategizing goals like participatory growth and inclusive growth.

5. **Growth**: Continuing growth, which would make possible an even higher standard of living in the future, is generally considered an important objective.

6. **Economic freedom and choice**: Any economy should grow and develop in such a manner that people should get more choices and there should not be any outside pressure on their choices.

7. **Economic welfare**: Economic policies should be pursued in such a manner that welfare of the people or the social benefits get maximised.

8. **Sustainable development**: It has become a major challenge for economists to carry on the process of economic growth in such a manner that the resources are optimally utilized not only for inter-generational equity but also for sustainable development in quite long run.

**SCOPE OF ECONOMICS**

The horizon of economics is gradually expanding. It is no more a branch of knowledge that deals only with the production and consumption. However, the basic thrust still remains on using the available resources efficiently while giving the maximum satisfaction or welfare to the people on a sustainable basis. Given this, we can list some of the major branches of economics as under:

1. **Microeconomics**: This is considered to be the basic economics. Microeconomics may be defined as that branch of economic analysis which studies the economic behaviour of the individual unit, may be a person, a particular household, or a particular firm. It is a study of one particular unit rather than all the units combined together. The
microeconomics is also described as price and value theory, the theory of the household, the firm and the industry. Most production and welfare theories are of the microeconomics variety.

2. **Macroeconomics**: Macroeconomics may be defined as that branch of economic analysis which studies behaviour of not one particular unit, but of all the units combined together. Macroeconomics is a study in aggregates. Hence it is often called Aggregative Economics. It is, indeed, a realistic method of economic analysis, though it is complicated and involves the use of higher mathematics. In this method, we study how the equilibrium in the economy is reached consequent upon changes in the macro-variables and aggregates. The publication of Keynes’ General Theory, in 1936, gave a strong impetus to the growth and development of modern macroeconomics.

3. **International economics**: As the countries of the modern world are realising the significance of trade with other countries, the role of international economics is getting more and more significant nowadays.

4. **Public finance**: The great depression of the 1930s led to the realisation of the role of government in stabilising the economic growth besides other objectives like growth, redistribution of income, etc. Therefore, a full branch of economics known as Public Finance or the fiscal economics has emerged to analyse the role of government in the economy. Earlier the classical economists believed in the *laissez faire* economy ruling out role of the government in economic issues.

5. **Development economics**: As after the second world war many countries got freedom from the colonial rule, their economics required different treatment for growth and development. This branch developed as development economics.

6. **Health economics**: A new realisation has emerged from human development for economic growth. Therefore, branches like health economics are gaining momentum. Similarly, educational economics is also coming up.

7. **Environmental economics**: Unchecked emphasis on economic growth without caring for natural resources and ecological balance, now, economic growth is facing a new challenge from the environmental side. Therefore, Environmental Economics has emerged as one of the major branches of economics that is considered significant for sustainable development.
8. *Urban and rural economics*: Role of location is quite important for economic attainments. There is also much debate on urban-rural divide. Therefore, economists have realised that there should be specific focus on urban areas and rural areas. Therefore, there is expansion of branches like urban economics and rural economics. Similarly, regional economics is also being emphasised to meet the challenge of geographical inequalities.

There are many other branches of economics that form the scope of economics. There are welfare economics, monetary economics, energy economics, transport economics, demography, labour economics, agricultural economics, gender economics, economic planning, economics of infrastructure, etc.

**OBJECTIVE TYPE QUESTIONS**

1. Who is known as father of economics:
   (a) Keynes  
   (b) Samuelson  
   (c) Marshall  
   (d) Adam Smith

2. Which of the following economist is credited for growth of macroeconomics:
   (a) Adam Smith  
   (b) Keynes  
   (c) J.S. Mill  
   (d) Karl Marx

3. In ‘Science of material welfare’ formed the basis of defining economics by:
   (a) Adam Smith  
   (b) Marshall  
   (c) Robbins  
   (d) Samuelson

4. ‘General Theory’ authored by J.M. Keynes was published in:
   (a) 1919  
   (b) 1930  
   (c) 1936  
   (d) 1956

5. Which of the following economist is identified with welfare economics:
   (a) A.C. Pigou  
   (b) Edwin Cannan  
   (c) Robbins  
   (d) Samuelson

**ANSWER**

1. (d)  
2. (b)  
3. (b)  
4. (c)  
5. (a)

**SHORT ANSWER TYPE QUESTIONS**

1. Give the definition of economics given by Adam Smith.
2. Differentiate between Microeconomics and Macroeconomics.
3. What are the different goals of economics?
4. Differentiate between positive economics and normative economics.

**LONG ANSWER TYPE QUESTIONS**

1. How different economists have defined economics over a period of time?
2. Discuss the methodology of economics.
3. Throw light on goals and scope of economics.