Nature of Indian Economy

General Economics
Definition of Economics

Science of Wealth

Science of Material Well-Being

Science of Choice Making

Science of Dynamic Growth & Development
Definition of Economics

• “An Inquiry into the Nature and Causes of the Wealth of the Nations”. – Adam Smith (1776)

• “Study of Mankind in the Ordinary Business of Life; it examines that part of Individual & Social Action which is most closely connected with the attainment & with the use of the Material requisites of Well Being.” – Alfred Marshall (1922)
Definition of Economics

• “Science which Studies Human Behaviour as a Relationship between Ends & Scarce Means which have alternative use.” – Lionel Robbins (1932)

• “Study of How Men & 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 & Distribute them for Consumption now & in Future amongst various People & Groups of Society.”
Economics is........

• Study of Production, Distribution & Consumption of Wealth in Human society.

• Study of making Choices.

• Study of Human Behaving in response to having only Limited Resources to fulfill Unlimited Wants & Needs.

• Study of Trade-Offs involved when choosing between Alternate Sets of Decisions.
Scope of Economics

- Micro-Economics
- Macro-Economics
Micro-Economics

• Concerned with Microscopic Study of Various Elements of the Economic System and not with the System as a whole.

• Study the Economic Behaviour of an Individual, Firm or Industry in the National Economy.
Micro-Economics

“Micro-Economics consists of looking at the economy through a Microscope, as it were, to see how the Million of Cells in Body Economic – the Individuals or Households as Consumers and the Individuals or Firms as Producers – play their part in the Working of the Whole Economic organism.”

- Lerner.
Micro-Economics Studies

- Product Pricing;
- Consumer Behaviour;
- Factor Pricing;
- Economic Conditions of a Section of the People;
- Study of Firms;
- Location of an Industry
Macro-Economics

• Studies the Working & Performance of the Economy as a Whole.

Macro-Economics

As defined by Boulding,

“Macro-Economics is the study of the Nature, Relationship & Behaviour of Aggregates & Averages of Economic Quantities.”
Macro-Economics Studies

• National Income & Output;
• General Price Level;
• Balance of Trade & Payments;
• External Value of Money;
• Savings & Investment;
• Employment & Economic Growth
Nature of Economics

- As a Science
  - Positive Science
  - Normative Science

- As an Art
Economics As A Science

• A Subject is Considered Science if:
  – It is a Systematised Body of Knowledge which studies the Relationship between Cause & Effect.
  – It is Capable of Measurement.
  – It has its own Methodological Apparatus.
  – It should have the Ability to Forecast.
Is Economics A Science?

• Economics is no doubt a Science
  BUT, not a Perfect Science Since:
  – Economists do not have Uniform Opinion about a Particular Event.
  – Subject Matter of Economics is the Economic Behaviour of Man which is highly Unpredictable.
  – Money used as Measurement Figure is itself a Dependent Variable.
  – Not Possible to make Correct Predictions about Behaviour of Economic Variables.
Economics As a Positive Science

• Analyze Systematically & Explain Economic Phenomena as they actually happen.
• Find Common Characteristics of Economic Events.
• Brings out the Cause & Effect Relationship between Economic Variables, if any
• Generalizes this Relationship in the form of a Theoretical Proposition.
• No Value Judgement.
Economics As a Normative Science

- Concerned with Ideal Economic Situation, not with what actually happens.
- Involves Value Judgement.
- Deals with questions like ‘What ought to be?’ & whether ‘What happens’ is good or bad from society’s point of view?
Is Economics A Positive Science or Normative Science?

• Economics is **FUNDAMENTALLY** a Positive Science. **BUT**, as tool of Practical Application it must have some Normative Character which it Acquires from

  – The Application of Economic Theories to Examine & Evaluate the Economic Phenomena from their Social Desirability point of view, and

  – To Evaluate the Policy Actions of the Government.
Methods of Study

Deductive Method

Inductive Method
Deductive Method

• Also called as Abstract, Analytical & Priori Method.

• Laws are deduced Logically.

• Conclusions & Generalizations are drawn on the Basis of Certain Fundamental Assumptions.
Steps in Deductive Method

1. Perception of the Problem
2. Defining the Technical Terms & making appropriate Assumptions.
3. Deducing Hypothesis
4. Testing of Hypothesis Deduced.
Limitations of Deductive Method

• Assumptions generally turn out to be Untrue or Partially True.
• Valid Conclusions cannot be drawn in the absence of Proper Knowledge of the whole situation.
• Dangerous to Claim Universal Validity for the Economic Generalisations so Deduced.
Inductive Method

• Conclusions are drawn on the Basis of Collection & Analysis of Facts relevant to the inquiry.

• Generalisations are based on Observation of Individual Examples.
Steps in Inductive Method

• Perception of the Problem
• Collection, Classification & Analysis of Data by using appropriate Statistical Techniques.
• Finding out the Reasons for the Relationship established through Statistical Analysis & to Set Rules for the Verification of the Principles.
Importance of Inductive Method

• Statistical Induction leads to Precise, Exact & Measureable Conclusions.
• Underlines the Importance of Relativity of Economic Laws.
• Shows that Generalisations are Valid only under certain conditions.
Limitations of Inductive Method

• Risk of hurried conclusions having being drawn from an insufficient number of facts.

• Difficulties involved in Collection of Facts.

• The Fact that Observation & Experimentation have very Limited Application in a Science that deals with Human Activities.
Central Economic Problems

• What to Produce?
• How to Produce?
• For Whom to Produce?
• What Provision should be made for Economic Growth?
Production Possibilities Frontier (PPF)

• Production Possibilities refer to the Alternative Combinations of Goods & Services that a Society is Capable of Producing with its given Resources & State of Technology.
Assumptions to PPF

1. There is a given amount of Productive Resources & they remain Fixed.
2. Resources are neither Unemployed nor Underemployed.
3. Technology does not Change.
4. Country produces only 2 Goods – Food & Clothing
### Production Possibilities Frontier

#### Alternative Production Possibilities

<table>
<thead>
<tr>
<th>Alternative</th>
<th>Cloth (thousand meters)</th>
<th>Wheat (thousand quintals)</th>
<th>Opportunity Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>0</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>14</td>
<td>1</td>
</tr>
<tr>
<td>C</td>
<td>2</td>
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</tr>
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<td>D</td>
<td>3</td>
<td>9</td>
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</tr>
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<td>E</td>
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<td>4</td>
</tr>
<tr>
<td>F</td>
<td>5</td>
<td>0</td>
<td>5</td>
</tr>
</tbody>
</table>
Production Possibility Frontier

Wheat

Cloth
Notes to PPF

• Since the Resources are Limited & we assume that they are Fully Employed, Economy has to give up something of one good to obtain some more of the other known as Opportunity Cost.

• Since the Given Resources are fully employed & utilized, the Combination of 2 Goods produced can lie anywhere on PPF.
Notes to PPF

• Principle of Increasing Opportunity Cost makes the PPF concave to the origin.

• When the Economy makes progress in Technology, the PPF will Shift Outward & to the Right showing that more of both Goods can be Produced than before.
Types of Economies

Capitalist  Socialist  Mixed
Capitalist Economy

- Right of Private Property
- Freedom of Enterprise
- Freedom to Choice by the Customers
- Profit Motive
- Competition
- Inequalities of Income
Socialist Economy

• Controlled, Managed & Regulated by Govt.

• Means of Production owned by Society.

• Guiding Factor for Economic Activities is Social Welfare.

• Freedom of Choice for the Consumers & Producers is Curbed.

• Role of Market Forces & Competition is eliminated by Law.
Mixed Economy

• 3 Sectors of Industries exists:
  – Private Sector
  – Public Sector
  – Combined Sector

• Planned Economy

• Balanced Regional Development

• Dual System of Pricing
Q 1.

• Who expressed the view that “Economics is neutral between end”?

a) Robbins  
b) Marshall  
c) Pigou  
d) Adam Smith
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Q 2.

• What implication(s) does resource scarcity have for the satisfaction of wants?

  a) Not all wants can be satisfied.
  b) We well never be faced with the need to make choices.
  c) We must develop ways to decrease our individual wants.
  d) The discovery of new natural resources is necessary to increase our ability to satisfy wants.
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Q 3.

- Which of the following does not suggest a macro approach for India?

  a) Determining of GNP of India.
  b) Finding the causes of failure of X and Co.
  c) Identifying the causes of Inflation in India.
  d) Analyse the causes of failure of Industry in providing Large Scale Employment.
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Q 4.

• **Identify the Correct Statement:**

a) In Deductive Method logic proceeds from the Particular to the General.

b) Micro and Macro-Economics are independent.

c) In a Capitalist Economy, the Economic Problems are solved by Planning Commission.

d) Higher the Prices, Lower is the Quantity Demanded of a Product is a Normative Statement.
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• In a Free Market Economy the Allocation of Resources is determined by

  a) Votes taken by Consumers.
  b) A Central Planning Authority.
  c) Consumer Preference.
  d) The level of Profits of firms.
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- The Central Problem in Economics is that of
  a) Comparing the Success of Command versus Market Economies.
  b) Guaranteeing that Production occurs in the most Efficient Manner.
  c) Guaranteeing a Minimum Level of Income for every citizen.
  d) Allocating Scarce resources in such a manner that Society’s Unlimited Needs or Wants are satisfied as well as possible.
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Q 7.

• An Economy achieves ‘Productive Efficiency’ when:
  a) Resources are employed in their most Highly Valued uses.
  b) The best Resources are employed.
  c) The Total Number of Goods produced is Greatest.
  d) Goods & Services are produced at least Cost & No Resources are Wasted.
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Q 8.

• In a Mixed Economy,
  a) All Economic Decisions are taken by the Central Authority.
  b) All Economic Decisions are taken by Private Entrepreneurs.
  c) Economic Decisions are partly taken by the State & partly by the Private Entrepreneurs.
  d) None of the Above.
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Use the Figure to Answer Question 9 - 11

Production Possibility Curve

A
B
C
D
E
F

0 2 4 6 8

0 1 2 3 4 5 6 7 8
Q 9.

• Which point on the PPF shows a “Productive Efficient” Level of Output?

a) A
b) B
c) C
d) All of the Above.
Q 9.

• Which point on the PPF shows a “Productive Efficient” Level of Output?
  a) A
  b) B
  c) C
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Q 10.

• Which of the following clearly represents a movement toward Greater Productive Efficiency?

a) A movement from point A to point B.
b) A movement from point C to point D.
c) A movement from point F to point C.
d) A movement from point E to point B.
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Q 11.

Which of the following illustrates a Decrease in Unemployment using the PPF?

a) A movement down along the PPF.
b) A rightward shift of the PPF.
c) A movement from a point on PPF to a point inside the PPF.
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• If PPF is linear, i.e., a Straight Line, which of the following is true?

a) As the Production of Good Increases, the Opportunity Cost of that Good Rises.

b) As the Production of a Good Increases, the Opportunity Cost of that Good Falls.

c) Opportunity Cost are Constant.

d) The Economy is not at Full Employment when operating on PPF.
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Q 13.

- **Capital Intensive Technique would get Chosen in a**
  
  a) Labour Surplus Economy.
  b) Capital Surplus Economy.
  c) Developed Economy.
  d) Developing Economy.
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Q 15.

• Larger Production of ___________ goods would lead ___________ to higher production in future.

a) Consumer Goods.
b) Capital Goods.
c) Agricultural Goods.
d) Public Goods.
Q 15.

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  a) Consumer Goods.
  b) Capital Goods.
  c) Agricultural Goods.
  d) Public Goods.
Q 16.

- The Branch of Economic Theory that deals with the Problem of Allocation of Resources is
  
a) Micro-Economic Theory.
b) Macro-Economic Theory.
c) Econometrics.
d) None of the Above.
Q 16.

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• Which of the following is not the Micro-Economic subject matter?

a) The Price of Mangoes.
b) The cost of producing a Fire truck for the Fire Department of Delhi, India.
c) The Quantity of Mangoes produced for the Mangoes Market.
d) The National Economy’s Annual Rate of Growth.
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Q 18.

• Which of the following is not one of the four Central Questions that the Study of Economics is supposed to Answer?

  a) Who Produces What?
  b) When are Goods Produced?
  c) Who Consumes What?
  d) How are Goods Produced?
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Q 19.

During Presidential Election Campaigns, Candidates often promise both more “Gun” & more “Butter”, if they are Elected. Assuming Unemployment is not a Problem, What possible Assumption are they making but not revealing to their audience?

a) There will be a sufficient increase in the Supply of Natural Resources used to produce “Guns” & “Butter”.

b) That there will be an improvement in the technology of both “gun” & “butter”.

c) That there will be an increase in the Labour Force.

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Q 20.

• From National Point of View which of the following indicates Micro Approach?

  a) Per Capita Income of India.
  b) Underemployment in Agricultural Sector.
  c) Lock out in TELCO.
  d) Total Savings in India.
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THE END

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