CHAPTER

1

Introduction and Definition of Economics

Chapter Contents

- What Economics is All About
- Economic Activities
  - Economic and Non-Economic Activities
  - Types of Economic activities
  - Purpose of Economic activities
  - Non-Economic activities
- Definition of Economics
  - Wealth definition
  - Welfare definition
  - Scarcity definition
  - Growth-Oriented definition
- Keynes' Definition
  - Micro Economics
  - Macro Economics
  - Nature of Economics
- Importance of the study of Economics in India
- Project Work
- Review Questions
  - Short Answer Questions
  - Long Answer Questions

WHAT ECONOMICS IS ALL ABOUT ?

Economics was originally introduced as a science of state craft. It was related with the collection of revenue for the state *i.e.* Government. After Industrial Revolution in eighteenth century, it was felt that functions of the state should be specified. Thus, political economy emerged as a result of the efforts to define functions of the state or government. Moreover, wealth was identified as a source and means to satisfy human wants. So, **Adam Smith,** father of Economics, defined Economics as **'Science of wealth'.**

There is no second opinion to say that the concept of Economics as subject has been changing during different stages of development.

These stages are :

STAGES OF DEVELOPING ECONOMICS AS A SUBJECT

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- Wealth Aspect
- Welfare Aspect
- Scarcity Aspect
- Development Aspect

Later on, on the basis of these stages, different economists classified the definitions of economics.

DEFINITION OF ECONOMICS

The term **"Economics"** is originally derived from the ancient Greek word **"Oiks".** It means household and **"Nemein"** means management. Thus, it refers to managing of a household using the limited funds. The Greeks applied term to the city-state, which they called polis. The classical and neo-classical economists developed it into **'political economy'.** The great philosopher, Aristotle used the term as management of family and the state. Similarly, Indian statesman, **Kautilya** used the terms both as economic and political activities. In his famous book named **'Principles of Economics' Dr. Marshall** used the term for the first time in 1890. However, it is not so easy to define economics in a few exact words. Different economists have defined it in different ways.

"Political Economy is said to have strangled itself with definitions." —*Prof. J.M. Keynes*

"Whenever six economists are gathered, there are seven opinions." —*Mrs. Barbara Wootton*

Jacob Viner described economics in a very simple way by saying, **'Economics is what economists do'.** But keeping in view these problems, it is essential to define the subject for scientific and systematic study.

Broadly speaking, various definitions can be classified into four groups as under :

(i) Wealth definition (Adam Smith)

(ii) Welfare definition (Marshall)

(iii) Scarcity definition (Robbins)

(iv) Growth-oriented definition (Samuelson)

I. Wealth-Oriented Definition

During 18th and early of 19th century, the classical economists like **Adam Smith, J.S. Mill, J.B. Say, Walker Senior** and others were the first to give a systematic definition of Economics. **Adam Smith,** the founder of the classical school of economics, in his famous book **'An Enquiry into the Nature and Causes of Wealth of Nations'** defined economics as **"the science of wealth".** This means all that economics studies is wealth. It deals with the acquisition, accumulation and expenditure of wealth. It examines how people earn wealth and spend wealth.

"An inquiry into the nature and causes of wealth of nations" and is related to the laws of production, exchange, distribution and consumption of wealth. **—Adam Smith**

"The practical science of production and distribution of wealth". ***—J.S. Mill***

"Political economy makes known the nature of wealth." ***—J.B. Say***

"Economics is that body of knowledge which relates to wealth." ***—Prof. Walker***

"The subject treated by political economy is not happiness but wealth". **—W.N. Senior**

These definitions have, thus, made wealth as the subject-matter and the central point of economics. To them, wealth was everything. Thus, they used the word 'wealth' in a narrow sense. It is for this reason, the definition is called wealth definition.

Features of Adam Smith's Definition

The main features of wealth definition given by Adam Smith are as under :

1. Study of Wealth : According to wealth definitions given by the various economists, economics is the study of wealth only. Therefore, it deals with the activities of man related to production, consumption, exchange and distribution.

2. Only Material Commodities : This definition conveys the feeling that economics constitutes only material commodities while it ignores non-material goods as air and water.

3. Causes of Wealth : Economics is considered as study of causes of wealth accumulation which brings economic development. In order to increase wealth, production of material goods will have to be increased.

4. Much Stress on Wealth : The main aim of the political economy is to increase the riches of the economy. Thus, it gives more stress on wealth, not on anything else.

5. Economic Man : These definitions are basically based on the man who is always aware of his **'Self-interest'.** Self-interest leads to material gains. Therefore, such a man is called **Economic Man.**

Criticism

Many economists like **Carlyle, Ruskin, Charles Dicken** and **William Morris** did not agree with wealth definition of economics. They called it as the **Science of Bread and Butter, Gospel of Mammon, Dismal Science** and **Bastard Science.**

Thus, wealth definition of Adam Smith is not free from shortcomings as stated below :

1. Only Materialistic Definition. This definition explains that wealth is the sole end of all human beings. But in reality, wealth is not an end in itself. It is a mean for man's happiness and welfare.

2. Narrow view of the scope. This definition places wealth in the forefront and means in the background. It has ignored the most urgent aspect of economics *viz.* welfare. The definition is therefore, incomplete as it takes into account only wealth for study. It ignores man's welfare.

3. Concept of Economic Man : Adam Smith's wealth definition is based on the concept of economic man who works for selfish ends alone. It is not found in real life. In real practice, man's activities are not only influenced by selfish motives but also by moral, social and religious factors. Thus, economics studies a common man and not an economic man.

4. No study of the problem of Scarcity and Choice : This definition has ignored the study of economic activities namely (1) **Scarcity** (2) **Choice.** Infact, economic activities take place because not of goods and services satisfying human wants which are scarce. But they have several uses. This gives birth to the question of choice. In this way, this definition neglects both aspects.

5. Secondary Place to Man : This definition has given undue stress on wealth. Secondary place has been given to human beings. Wealth is a mean to human welfare. Thus, its subject matter does not remain a social science.

II. Welfare-Oriented Definition

Prof. Alfred Marshall in his book **'Principles of Economics'** which was published in 1890, defined as follows :

"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 material requisites of well-being. Thus, it is on one side a study of wealth; on the other and more important side, a part of the study of man." —*Prof. Marshall*

This definition implies three important aspects (a) Economics is a study of man and his ordinary business of life, (b) It examines the economic aspect of an individual and his social actions. (c) The attainment of material welfare is the end of economics. The economists like **Pigou, Cannon, William Beveridge** and **Penson** etc. also give similar definitions.

"The aim of political economy is the explanation of the general cause on which the material welfare of human beings depends." —*Prof. Canon*

"Economics is the science of material welfare." —*Penson*

Features of Welfare Definition

The main features of material welfare definition are as follows :

(i) Study of Mankind : Economics is the study of mankind rather than that of wealth. Wealth is only a mean to satisfy human wants.

(ii) Study of Ordinary Man : It studies the activities of an ordinary man who earns wealth and spends it to get the maximum satisfaction.

(iii) Study of a Real Man : Economics does not study a man who is selfish but studies a real man who possesses several qualities and is influenced by economic and non-economic factors in society.

(iv) Promotion of Welfare : It studies the material means which promote human welfare.

(v) Study of Science and Art : Material definition deals with economics both as a science and an art.

(vi) Use of Money : This definition considers material or economic welfare as a part of social welfare which can be easily measured with the measuring rod of money.

Criticism

Marshall's welfare definition, no doubt, is superior to Adam Smith's welfare definition. Prof. Lionel Robbins attacked Marshall's welfare definition on the following grounds :

(i) Impracticable. In his discussion, **Marshall** classified the activities into economic and non-economic. But such a classification is not correct because all activities in one way or the other have an economic value. **Prof. Robbins** considered the discussion of economic and non-economic improper.

(ii) Unscientific. According to **Prof. Robbins,** this definition is unscientific. Marshall explains one kind of behaviour a1s distinct from another in a haphazard manner. This makes the subject-matter highly indefinite and uncertain.

(iii) Welfare is very Vague. Generally people refer welfare as the material happiness. But in reality welfare is a mental make-up of a person which depends much upon his psychological feelings. Thus, it is highly subjective. It cannot be defined, measured and compared at all.

(iv) Only Materialistic Aspect. According to **Marshall,** welfare is attainable only by material means. But **Robbins** observed that it is not proper to say that material means alone promote welfare. The services of doctors, teachers, lawyers, domestic servants etc., also do promote welfare. These services have nothing to do with material gains.

(v) Limited Scope. Marshall narrows down the scope of economics by making it a mere study of material means of welfare. If economists were to study the material means of welfare to the exclusion of non-material means, economics would definitely become narrow in its scope.

(vi) Economics is not concerned with Ends. Assuming economics as a normative science, **Marshall** made welfare as the end of economics. This implies that economics is concerned with ends. As such it makes judgement whether an end is noble or desirable or undesirable and so on.

(vii) No Proper Explanation. This definition fails to explain the main economic problem *viz.* the problem of how to satisfy the unlimited wants with limited means which have alternative uses.

Comparison of Adam Smith's and Marshall's Definitions

Wealth Definition (Adam Smith)	Welfare Definition (Marshall)
1. Adam Smith regarded wealth as a subject-matter of economics.	1. Marshall regarded human welfare as a subject-matter of economics.
2. Adam Smith provided more importance to wealth.	2. Marshall provided more importance to man.
3. Wealth is both means and an end.	3. Wealth is only a mean.
4. Adam Smith has given more emphasis on production of wealth.	4. Marshall has given more emphasis on consumption of wealth.
5. Economics is a study of economic man.	5. Economics is a study of real man.

III. Scarcity-Oriented Definition

Lionel Robbins formulated a new definition in his book **'Essay on the Nature and Significance of Economic Science'** published in the year 1932.

"Economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses."
—Lionel Robbins

"Economics is fundamentally a study of scarcity and the problems which scarcity gives rise to."
—Stonier and Hague

"Economics is a science concerned with the administration of scarce resources."
—Scitovosky

Thus, many economists like Stigler, Samuelson, Oscar Lange, Scitovosky have supported Robbin's scarcity definition of economics.

Features of Robbins Definition

Prof. Robbins' definition has the main features as :

(i) Numerous wants or unlimited wants. According to **Prof. Robbins,** human wants are various and numerous. When one want is satisfied, another want takes its place. Since human wants are unlimited, man is compelled to select the most urgent wants for immediate satisfaction.

(ii) Scarcity of Means. Human wants are unlimited and means to satisfy them are limited. The means refer to goods and services which we use to satisfy our wants. The means are scarce at our disposal. If these means are abundant like free goods, there would be then no economic problem. But they are scarce and one is forced to postpone some of one's wants according to priority.

(iii) Alternative use of Means. The scarce means are capable of alternative uses. They can be used for several purposes. For example, land which is scarce can be used for cultivation, house construction, playground etc. Similarly all the economic means or resources may be put to alternative uses. Therefore, all goods can be put to alternative uses.

(iv) Economic Problem. The multiplicity of wants and the application of scarce means for the alternative uses impose an economic problem. The problem is how to satisfy unlimited wants with limited means which have alternative uses. **Robbins** describes this problem as the problem of economising scarce resources.

(v) Science of Choice. The problem of economising resources leads to another problem *viz.* the problem of choice. Since wants are numerous and means are scarce, we have to choose the most urgent wants from the numerous. In this way, the scarcity of means makes the choice necessary. That is why, Economics is described as a **"Science of choice"**.

Superiority/Merits of the Definition

Robbins' definition is superior to Marshall's welfare definition on the basis of the following arguments :

1. More Scientific. Prof. **Robbins** explains economics as an exact science. Thus, he calls economics as positive science. This science has nothing to do with goodness or badness of economic activity. It is only concerned with unlimited wants and limited sources. It does not make any difference between economic and non-economic, material and ordinary and extra-ordinary business of life.

2. Scarcity Definition is More Wide. Marshall in his definition limits the scope of economics to the material means of welfare. But **Robbins** studied behaviour connected with the problem of scarcity. Thus it makes its scope wider.

3. Study of Human Behaviour. This definition gives clear cut view of human behaviour. It studies the human behaviour of an individual as well as of the society.

4. Universal. Robbins' definition is a universal definition of economics. It is applicable to all individuals, groups, and society. Moreover, it deals with the problem of unlimited wants and scarce means. This problem is common every where.

5. More Logical Explanation of Economic Problem. Robbins' definition is more logical in explaining the economic problem. According to this definition, economic problem arises due to scarcity of means in relation to their demand.

Criticism

Robbin's scarcity definition is more scientific than welfare definition. It has its own shortcomings. Robbin's definition has the following drawbacks :

1. Robbins' Definition is too Wide. Robbins' definition of economics extends the scope to all activities of mankind that are related to the problem of choice. The problem of choice as such is found not only with social beings but also with non social beings like Sadhus.

2. Only Abstract. When economics is not concerned with ends, economics becomes both theoretical and abstract.

3. Economic Problem not always arises from Scarcity : Some critics are of the opinion that economic problem also arises from the abundance of goods as well. For example, during the great depression of 1930's it was not the scarcity but abundance of goods in U.S.A. that created the econome problem in the world.

4. Impractical. Following **Robbins'** version, economics becomes merely an intellectual exercise. But in a practical life, man is always interested to solve many problems. In this way, Robbins' definition s a departure from reality.

5. Not Applicable to Rich Countries. It is also argued that **Robbins'** definition is not applicable to highly rich countries who have plentiful resources. In other words, there is no scarcity of resources.

6. Inapplicable in Socialist Countries. Prof. Maurice has criticised **Robbins'** definition on the ground that in socialist countries, this definition is not applicable. In socialist set up, government is responsible for providing basic necessities of the people.

Comparison of Marshall's and Robbins' Definition

Marshall's Definition	Robbins' Definition
(1) Unscientific definition because it explains one kind of behaviour as distinct from another.	(1) Scientific definition as it explains any behaviour under one aspect.
(2) Limits the scope as it lays emphasis on material means of welfare.	(2) Wider in scope as it connects any behaviour with scarcity.
(3) Based on value judgement and therefore leads to confusion.	(3) Considers economics as neutral between ends. Therefore free from any confusion.
(4) It is not of universal character.	(4) It is universal in nature as it is applicable to all individuals, groups and society. It deals with limited resources and unlimited wants.
(5) Economics is both a science (positive as well as normative) and an art.	(5) Economics is only a positive science.
(6) Marshall's definition is classificatory.	(6) Robbins' definition is analytical.

Similarities and Dissimilarities between Marshall's and Robbin's Definition

Similarities

1. Main Focus on Man : Marshall and **Robbins** have mainly focussed on the study of man. **Marshall** says that it is on the one side a study of wealth as well as a relationship between ends and scarce means which have alternative uses. Thus, both focus on the study of man.

2. Rational behaviour of the Man : Both definitions are based on the assumption of rational behaviour of the man. **Marshall** assumes that the man always aims at maximising his welfare while **Robbins** that rational man tries to maximise his satisfaction.

3. Wealth and Scarce Means : Marshall considered wealth as material welfare where as **Robbins** used scarce means in place of wealth. However, both the words convey the same meaning.

4. Normative and Positive Science : Marshall considers economics as normative science and **Robbins** calls it positive science. Thus both economists consider economics as a science.

Dissimilarities

1. Distinction between Social and Human Science : In the opinion of **Marshall,** economics is a science which studies normal social human beings. But for **Robbins,** it is a human science aiming at the economic activities *i.e.* ordinary or extra-ordinary.

2. Difference between Economic and Non-Economic Activities : According to **Marshall,** economic activities are those which are related to material goods and those promoting welfare are non-economic activities. **Robbins** says that all human activities are economic activities where there is a problem of choice. In this way, **Robbins'** definition is more wider in scope as it includes all material and non-material goods in economic activities.

3. Normative and Positive Science : According to **Marshall,** economics is a normative science as it values the welfare of human beings. But **Robbins** considers it as a positive science. He remarked that the function of an economist is to explain, not to condemn. In this way, there is a sharp difference in two opinions.

4. Classificatory and Analytical : According to **Marshall,** human activities can be classified in ordinary—special ; material—non-material and welfare—non-welfare. But **Robbins** considers it analytically as to why does economic problem arise ? Thus **Robbin's** definition is certainly superior to that of **Marshall's.**

5. Economic Welfare : Marshall held the view that economic welfare may be increased in the society but according to **Robbins,** economics has nothing to do with welfare.

6. Practical and Theoretical : Marshall's definition is more real and fruitful for making economic policies while in contrast, **Robbins'** is more technical and of an abstract nature.

KEYNES' DEFINITION

The earlier economists have studied economic activities/problems at individual level (micro level). They ignored significant aspect that economic problems are also related to the society as a whole. But, economic concepts have changed altogether during last fifty years. **Keynes' "General Theory of Employment, Income and Interest"** has made remarkable contribution in this regard. He considers that economic activities must be dealt with individual and a whole (macro level).

"Economics is a study of administration of scarce means and the determination of employment and income." —*Keynes*

Therefore the economic problems must be dealt at micro and macro level. **Keynes classified Economics into two parts :**

(a) Macro Economics

(b) Micro Economics

Macro Economics

The word macro has been derived from the Greek word "makros". It means large. As name suggests, it covers the study of the whole economy. It is that branch of economics which studies the behaviour of not one particular unit, but of all the units taken together such as national income, aggregate supply etc.

"Macro economics deals not with individual quantities as such, but with aggregates of these quantities, not with individual income but with national income, not with individual price, but with price level, not with individual output but with national output." —*Boulding*

It must be remembered that according to **Keynes,** an individual is a part of society. By following economics on macro and micro level, we can widen the subject-matter of economics.

Micro Economics

Micro economics is the branch of elements of economic activities. It studies the economics actions and behaviour of individual units and small groups of individual units.

"Micro economics is the study of particular firm, particular household, individual price, wages, income, industry and particular commodity." —*Boulding*

In short, micro economics deals with an individual, a household, firm or prices of various goods and services. Here, it must be noted that an individual is the part of a society and final goal is the welfare of society.

IV. Growth-oriented Definition

Robbins' definition of scarcity took static view of economic problem. It was only positive aspect *i.e.* analysing the economic problem arising out of scarcity. But modern economists feel that economics should also suggest how scarce means are used to satisfy more wants and to attain optimum utilization of resources. This aspect has been dealt with the growth-oriented definition.

"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 distributing them for consumption, now or in the future, among various persons and groups in society. It analyses costs and benefits of improving patterns of resource allocation."

—Prof. Samuelson

Main Features of Samuelson's Definition

The growth-oriented definition of economics has the following features :

(i) Economic Resources : This definition deals with the economic resources which are natural, human or physical. They are used to satisfy human wants. They are scarce but have alternative uses.

(ii) Efficient Allocation of Resources : As the resources have alternative uses but the main problem lies in making choice. Therefore, alternative means should be utilised efficiently for maximum welfare of the society.

(iii) Full Utilization of Resources : Prof. Samuelson has included the time element. Thus, it makes efforts for full utilisation of resources.

(iv) Increase in Productivity : Another feature of this definition is that it must increase productivity resulting in an increase in economic growth, employment and higher standard of living. In short, Prof. Samuelson's definition of economics is comprehensive to earlier definitions given by **Adam Smith, Marshall** and **Prof. Robbins.** It is because it highlights the important issue of economic development of modern world. Again this world is dynamic which goes on changing over time.

Nature of Economics

In order to understand the nature of economics, we shall have to examine the basis of approaches adopted by Marshall and Robbins in detail. Marshall considers economics as the study of man's activities in relation to wealth. It is the study of how man earns and spends.

'Economics is a social science. It does not study individuals who are isolated or cut off from society'. —*Marshall*

"Economics is concerned with the utilisation of scarce means, having alternative uses, for attaining multiple ends." —*Robbins*

He, therefore, further added :

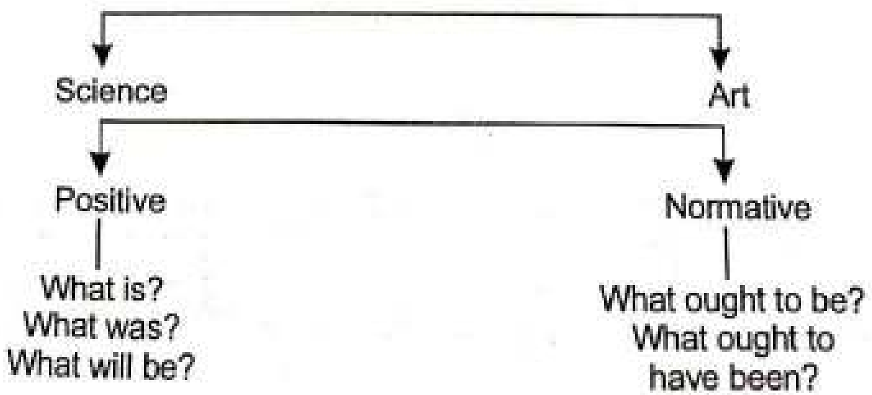
"Economics is the oldest of the arts, the newest of science—indeed the queen of all the social sciences."

Keeping these facts in mind, Prof. Robbins called it a social science rather than human science. According to him, economics is a systematic study of human behaviour. In brief, economics is both **Science as well as an Art.** The question whether economics is a science or an art, there are different views. The English economists of the classical school hold the view that economics is a science. But the economists of Continent Europe, Germany and India regard economics as an art.

"Economics is the oldest of the arts, the newest of sciences—indeed the queen of all the social sciences." —*Prof. Samuelson*

Let us discuss the views of both and see exactly what economics is.

NATURE OF ECONOMICS



Economics as an Art

Art is completely different from science.

"A science teaches us to know; an art teaches us to do. In other words, science explains and expounds; art directs, art imposes precepts or proposes rules." —*Cossa*

"An art is a system of rules for the attainment of a given end." —*J.M. Keynes*

The object of an art is the formulation of precepts applicable to policy. This implies that art is practical. In fact, the word art denotes doing something well.

For example, the theory of consumption guides the consumer to obtain maximum satisfaction with his given income (means). In this sense, economics can be considered as an art in the wider sense. It means creation or practical application of knowledge. It is for this reason, we treat economics as an art.

In nutshell, we can conclude the discussion that economics is both a science and art.

Economics as a Science

The term science has been defined as the science of systematic body of knowledge about a particular branch of the universe. It presents the relationship between cause and the effect. This implies that a science is a study of a branch of learning and not of the whole universe.

Applying this to our subject, we find that economics is built upon facts, examined and systematised by economists. Further, economics like other sciences deduces conclusions or generalisation after observing, collecting and examining facts. Thus, it deals with (i) Observation of facts, (ii) Measurement (iii) Explanation (iv) Verification. In short, it formulates economic laws about human behaviour.

"Economics is therefore a science pure and applied rather than a Science and an Art." —*Marshall*

The economics as a science can be divided into two parts *i.e.*

(a) Positive science and

(b) Normative science.

I. Economics is a Positive Science : A positive science establishes a relation between cause and effect. It tells us that if we do a certain thing, same result will follow. It shows the real picture of facts without any comments.

A positive science explains things as they are. For this reason, it is called as descriptive science.

(ii) Economics is A Normative Science : Marshall and **Pigou** put the argument that economics is a normative science.

"Economics is a normative science because it has a norm *viz.*; welfare." —**Marshall**

Therefore a normative science describes what should be done and what should not be done.

From this, we can say that economics is both positive and normative science. It deals with **'what is'** and **'what ought to be'.** Therefore, it not only focusses why certain things happens, it also conveys whether it is the right thing to happen. Therefore, being normative, it suggests ways and measures to be adopted for the betterment of the society.

Economics, Both a Science and an Art

Many economists consider that *Economics* is not an art. Its function is to merely investigate, explore and explain the various inter-related aspects. Thus, it has to do nothing in solving the practical problems.

But the careful study shows that *Economics* does help in solving practical problems and so has the practical utility also. Thus, it can rightly be said that *Economics is a science as well as an art.*

> **"Economics has given us light (*i.e.*, knowledge) and also fruit. It is light bearing (as such, it is a science) and also fruit bearing (as such, it is an art). Economics is not a science only or an art only, but it is both a science and an art."** —*Pigou*

IMPORTANCE OR SIGNIFICANCE OF ECONOMICS

In these days, economics touches every corner of human activities. According to **Mrs. Barbara Wootten,** one cannot be a good citizen unless one is an economist to some extent. Therefore, importance can be classified into two parts. (A) Theoretical Advances (B) Practical Advances.

Theoretical Advantages

1. It helps to Promote Welfare. Economics is the only science that has direct and primary concern with the welfare of masses. According to **Marshall,** the aim of studying economics is the attainment of material welfare.

2. Economics gives us an Intellectual Value. Economics is mainly concerned with economic problems. Some of the problems like determining wage, interest and profit are very simple. The other problems like currency, finance and of foreign exchange are complex. When we analyse these problems in terms of cause and effect, then it provides intellectual value.

3. It provides Correct Judgement. The study of economic teaches us to draw correct conclusions from the experience of the past and to formulate proper economic policies. Thus, it gives us correct judgement of every event.

4. Economics gives Cultural Value. The study of economics reveals actual working of economic systems like capitalism, socialism and mixed economy. Thus, study enables the individuals to know their role as producers or as consumers or as workers etc. In turn, it gives us cultural value of such economic systems.

Practical Advantages

The practical advantages of economics are stated below :

(i) Useful to the Consumer. The foremost practical use of economics is to the consumer. A consumer wants to spend his income in such a way that he attains maximum satisfaction. Thus, laws of consumption explain the method of getting maximum satisfaction from a commodity.

(ii) Useful to the Producers. Like consumer, the study of economics is significant for producers also. Every producer is interested to earn maximum profit. Thus, from economics, we learn how to raise the profit either by increasing production or by reducing the cost of production. It also helps producers to fix the price of their commodity.

(iii) Helpful to Business Community. The study of economics is helpful to business community. A good knowledge of economic laws helps him to become an efficient and moderate entrepreneur.

(iv) Solution to Economic Problems. Economics has a leading role to solve many problems, like population, unemployment, unequal distribution of income and wealth, poverty and regional disparities etc.

(v) Helpful to Workers. A worker is benefitted by the study of economics. A worker comes to know how wages are determined. The study also provides the knowledge as to how their efficiency can be raised or how exploitation can be stopped.

(vi) Helpful in Price Determination. The study of economics is helpful in the determination of price under different market conditions. For example, Law of Demand and Supply are crucial laws to determine the prices.

(vii) Useful for Economic Planning. The economic planning, in modern times, is a deliberate or systematic way of organising and utilizing resources to the maximum. Thus, it helps to fix up the targets and formulate economic policies for the betterment of society.

(viii) Useful for Social Workers. The study of economics is useful for social workers. They understand economic problems properly. The study of economics thus becomes most essential.

"The main objective of economics is to find a solution to the social problems."

—Dr. Marshall

(ix) Helpful to social Welfare Activities. The knowledge of economics is also helpful in social welfare activities of an economy. In these days, governments adopt certain welfare schemes to give benefits to the weaker section of the society.

(x) Useful for All. The study of economics is useful for all individuals. It is the study of every one and for all.

IMPORTANCE OF THE STUDY OF ECONOMICS IN INDIA

Our country is passing though a stage of economic development. About 65 per cent of population is engaged in agriculture. But agriculture productivity is very low. Industrial development has also been stagnant in spite of heavy capital investments under various five year plans. The per capita income is also very low because of low rate of capital formation. The vast resources of minerals and human force are not properly utilized. Rapid growth of population is posing a great threat to socio-economic progress. These problems are a great threat to economic prosperity. In order to achieve desired goals of benefits, raising standard of living of the people, betterment of the society and for making the country and the people more prosperous, the study of economics is significant. The government has implemented five year plans for this purpose since 1951.

The main objects of various schemes are given below :

(i) Increasing the national income and per capita income.
(ii) Rapid industrialisation
(iii) Self-sufficiency in foodgrains and raw materials.
(iv) Reducing inequalities of income and wealth.
(v) Redressing economic imbalance.
(vi) Attainment of full employment.
(vii) Attainment of economic stability.
(viii) Achieving sustained economic growth.
(ix) Reducing the gap between haves and have nots.
(x) Modernisation of the economy.
(xi) Self-sufficiency.

Recent measures for liberalisation of economy have been announced to avail of the advantages of modern technological developments for economic progress. But these aspirations can be fulfilled only when every concerned person is acquainted with economics and its fundamental principles.

MICRO ECONOMICS

Micro economics is that branch of economics which studies the economic actions and behaviour of individual units and small groups of individual units. In other words, in micro economics we study how the various units of the economy do their economic activities and reach their equilibrium states.

According to **Boulding :**

"Micro economics is the study of particular firm, particular household, individual price, wage, income, industry and particular commodity."

To quote **Edward Shapiro** :

"Micro economics deals with small parts of the economy."

Scope of Micro Economics

The scope of micro economics can be discussed under the following heads :

1. Theory of Demand : Micro economics studies how the demand for a commodity is determined. Theory of demand indicates the consumer's demand and his maximum satisfaction. It shows how consumers distributes his limited income in different goods and services at different prices.

2. Theory of production : It also analyses the theory of production. A firm carries output with the help of factors of production. Micro economics under theory of production studies production function and laws of production.

3. Theory of Factor Pricing : Income earned by the sale of goods is distributed among factors of production for their services in the process of production. How price of each factor of production is determined is a problem that deals with distribution of income. It is only due to this reason, it is studied under micro economics.

4. Optimum Allocation of Resources : Micro economics also deals with the optimum allocation of resources. In other words, it studies how efficiently resources are distributed among producers and consumers. A firm will be in equilibrium at a point of optimum allocation of resources. Therefore, it studies the conditions necessary for achieving equilibrium.

5. Welfare Economics : It also studies welfare economics, welfare economics spells an ideal economy. It deals with the welfare of the people.

Importance of Micro Economics

The microeconomics is useful in several ways as :

1. Operation of an Economy. Micro economics explains the functioning of a free enterprise economy. It explains how millions of consumers and producers in an economy take decisions about the allocation of productive resources among millions of goods and services.

In the words of **Watson :**

"Micro economics has many uses. The greatest of these is the understanding of the operation of the economy."

2. Economic Policies. The study of micro economics helps in the formulation of economic policies calculated to promote efficiency in production.

3. Predictions. Micro economics helps us to describe the actual economic situation and enable us to predict and suggest policies which would bring about the desired results.

4. Economic Welfare. The objective of the study of micro economics is the allocation of scarce resources in such a manner that maximum benefits may be flowed to all those engaged in the process of production.

5. Solving Specific Problems. The study of micro economics helps to resolve the problems that are individual in nature such as adjustment of cost structure or sales. In such cases, micro economics helps us not to waste time on collective study.

Limitations

No doubt, micro economics has certain advantages but side by side it suffers from the following drawbacks :

1. Unrealistic Assumptions. The foremost limitation of micro economics is that it is based on many unrealistic assumptions like full employment and existence of perfect competition. But in reality, such assumptions do not hold good in the practical life.

2. Static Analysis. Many critics of micro economics have opined that it is static in nature because it assumes many economic factors are given. For instance, if we know consumer's preferences, only then we can know when the total output from given inputs would be maximum.

3. Wrong Conclusions. Micro economics can not give an idea of the functioning of the economy as a whole. An individual industry may be flourishing while the economy as a whole may be in a bad shape.

4. Abstract Nature. The micro economics is too abstract to explain welfare as the best is achieved only under perfect competition. But, what will happen under dynamic conditions of economic growth is not clear.

MACRO ECONOMICS

The word macro has been derived from the Greek word **"makros"** which means large. Hence, macro economics is concerned with the economic system as a whole. It is that branch of economics which studies the behaviour of not one particular unit, but of all the units taken together such as national income, aggregate demand, aggregate supply etc. It is only due to this that it is known as aggregate economics.

"Macro economic theory is the theory of income, employment, prices and money."
—Roberston

"Macro economics deals not with individual quantities as such, but with aggregates of these quantities, not with individual income but with national income, not with individual price, but with price level not with individual output but with national output." ***—Boulding***

Scope of Macro Economics

The scope of macro economics has been explained as under :

1. Theory of National Income : Macro economics studies the concept of national income, its different elements, methods of its measurement and social accounting.

2. Level of Output and Employment : We analyse the factors that determine the level of national output and employment, National output is a function of employment of resources. In the short run, output varies with employment of labour. Output and employment rise or fall together. At such times unemployment of labour mounts up. At times the economy reaches near full employment level. Keynes analysed the factor that determine the level of output and employment in the economy in the short run.

3. Theories of Distribution : There are macro economic theories of distribution. These theories try to explain how the national output is distributed among the factor of production.

4. Economic Development : UDCs are blessed with mass poverty and low per capita income curve for economic development. Economic development is a long run process. In it, we analyse the problems and theories of development.

5. Theory of International Trade : It also studies principles determining trade among different countries. Tarriffs, protection and free-trade policies fall under foreign trade.

6. Theory of Money : The changes in demand and supply of money effect level of employment. Therefore, under macro economic functions of money and theories relating to money are studied.

7. Theory of Business Fluctuations : It also deals with the fluctuations in the level of employment, total expenditure and general price level.

8. Theory of General Price Level : A continuous rise in the general price level's called inflation. Inflation hits where it hurts. It distorts production. It increases inequalities in the distribution of income and wealth. The common man is injured by inflation. Deflation is the opposite of inflation. The general price level falls continuously. Output and employment levels fall. Macro economies provides explanation for the occurrence of inflation and deflation.

Importance of Macro Economics

From the following points, we can easily evaluate the importance of macro economics.

1. Working of the Economy. Macro economics is helpful in understanding the functioning of a complicated economic system. It gives a bird's eyeview of the economic world.

2. Formulation of Economic Policies. Macro economic analysis is of utmost importance for the significance of economic policies. The modern governments depend upon the aggregates of economic variables like national income, total employment etc. for the preparation of economic policies.

3. Solution of Economic Problems. In the pursuit urgent economic problems, this analysis occupies an important place. These problems relate to aggregate output, employment and national income. Economic theory seeks to explain fluctuations in the level of national income, output and employment. Thus, we are able to study the economy in its dynamic aspect.

4. Changes in Price Level. During twentieth century, general price level has undergone wide fluctuations. Rise in price level is called inflation and fall in price level is called deflation. In order to control the changes in the general price level, economists have to seek the help of macro-economic analysis.

5. Study of Trade Cycle. Trade cycles constitute an important economic problem. They relate to economic fluctuations over a period of time in an economy which are due to the fluctuations in total savings, total production etc. Thus, in order to control these trade cycles, the study of macro economics becomes essential.

6. Helpful in Economic Planning. Almost all the under-developed countries of the world lay great stress on the importance of economic planning. Macro economic analysis makes it possible to adopt proper policies and techniques concerning economic planning and to enforce the same.

Interdependence between Micro Economics and Macro Economics

Micro and **Macro** economics are the two sides of a coin. There is close interdependence between the two. We cannot analyse the individual behaviour without the knowledge of aggregate. Likewise aggregate cannot be effective unless individual variables are kept under consideration. Micro economics contributes towards macro economics in a number of ways as :

1. Basis of Economic Laws. Micro economics acts as a basis of macro economics because macro is the aggregate of individual units. Similarly, macro theories are used by micro economists.

2. Study of Economic Fluctuations. Business cycles which are universal in every sector, are influenced by both individual and aggregate factors. Unless we review both micro and aggregate variables, we cannot provide a reasonable solution to business cycle.

3. Role in International Trade. In international trade both the approaches are used. Economists have developed their theories on the basis of micro economic theory presuming full employment of resources and mobility of factors of production. However, modern economists looked on the economy as a whole. It recognises the role of aggregates. So general equilibrium is nothing but an extension of equilibrium of micro economics.

4. Balance of Payments and Interdependence. Balance of payments problem is also a burning problem for the economy. An individual sector may have favourable balance of payments. On the other hand, the overall position of an economy is to be assessed from aggregate position of all sectors.

5. Impact of Micro Economics on Keynes Economics. Keynes is known as the father of Macro economics. Even Keynes has used micro economic theory to explain the rise in prices as a result of increase in the money supply of the country. Not only macro depends upon micro but also micro depends upon macro. The determination of the rate of profit and the rate of interest are both micro and macro in character. Rate of interest and rate of profit have most effectively been defined by macro economics.

Thus, it is clear, both **micro and macro economic tools** have to be applied to understand economic problems.

In short, micro and macro economics are interdependent and both contribute to each other. Though they deal with different subjects, yet there is a good deal of interdependence between them. **Professor Samuelson** has remarked that there is really no opposition between micro and macro economics.

Differences between Micro Economics and Macro Economics

The main points of differences between micro and macro economics are summarised below

	Basis	Micro Economics	Macro Economics
1.	Degree of Aggregation	Micro economics deals the individual units of economy, like a firm, an industry, etc.	Macro economics studies with the aggregates of the economy, such as national income, total employment, general price level, etc.
2.	Objective	The objective of micro economics is to study the principles, problems, policies how to attain optimum allocation of resources.	The objective of macro economics is to study the problems, policies and principles relating to full employment of resources in the economy.
3.	Method of Study	Under micro, laws and principles are formulated by taking *'other things being equal'*. This method of study is called *'partial equilibrium analysis'*.	Under micro, mutual interdependence of different economic variables are studied. This method of study is called *'general economic analysis'*.
4.	Paradox	Micro decisions may not hold true for the whole economy if an individual saves, only he will be benefited.	As macro economics deals with whole society, if it starts saving, it will reduce consumption → demand → income, etc. This paradox causes difference between micro and macro economics.
5.	Alternative Name	It is also known 'Price Theory'.	It is also known the 'Income Theory' or 'Employment Theory'.

Project Work

A. Suppose you are living in a small village which is situated near industrial town. Make a visit around and mention what type of economic and non-economic activities are there. Justify your answer with arguments.

B. In modern times, the subject of economics is very important. On the basis of your experience/ knowledge of the subject, give your view with reasons on :

(a) Theoretical uses of Economics.

(b) Practical uses of Economics.

(c) Uses of Economics for Individual/Society.

(d) Uses of Economics for Indians.

C. Collect data after meeting twenty five households regarding their basic wants within the period of one month/three months.

(i) On the basis of information, show which wants they have fulfilled and which remained unfulfilled due to scarcity of resources.

(ii) On the basis of your experiences, show which activities are economic and non-economic.

Review Questions

A. SHORT ANSWER QUESTIONS

Q. 1. What is economics ?

Ans. "Economics is that body of knowledge which relates to wealth".

"Economics is practical science of production and distribution of wealth".

Q. 2. Give Adam Smith's definition of Economics.

Ans. According to **Adam Smith,** Economics is concerned with **"an inquiry into the nature and causes of wealth of nations."** It is related to the laws of production, exchange, distribution and consumption of wealth.

Q. 3. Explain Dr. Marshall's definition of Economics.

Ans. "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 material requisites of well being.

Q. 4. Discuss Prof. Robbins' definition of Economics.

Or

Discuss scarcity definition of Economics given by Prof. Robbins.

Ans. According to **Prof. Robbins, "Economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses."**

Q. 5. Give Prof. Samuelson's definition of Economics.

Or

Give growth oriented definition of Economics.

Ans. "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 distributing them for consumption, now or in the future, among various persons and groups in society. It analyses costs and benefits of improving patterns of resources allocation."

Q. 6. Give characteristics of Adam Smith's definition of Economics.

Ans. Main Characteristics of **Adam Smith's** definition are, study of wealth, causes of wealth, study of material commodities and economic man.

Q. 7. Explain main features of Marshall's definition of Economics.

Ans. The main features of material welfare definition are study of mankind, study of ordinary man, study of individual man and study of a real man.

Q. 8. Give main elements of Robbins' definition of Economics.

Ans. The main elements of Robbins' definition are : multiplicity of ends of unlimited wants, scarcity of means, alternative use of means, economic problem and science of choice.

Q. 9. State Keynes' definition of economics.

Ans. According to Keynes, "Economics is a study of administration of a scarce means and the determination of employment and income."

Q. 10. Point out the main features of growth-oriented definition of Economics.

Ans. The main features of growth oriented definitions are economic resources, efficient allocation of resources, full utilization of resources and increase in productivity.

Q. 11. Is Economics a Positive Science ?

Ans. Positive science refers itself to accurate description of phenomenon, it explains what is, how it works and what are its effects. It means it studies What, How and Why ? Thus, the economist studies the choice, he does not judge them. On this ground, economic laws are verifiable.

Q. 12. Is Economics a Normative Science ?

Ans. According to Dr. Marshall, Pigou and many others, economics is a normative science. It means a regular science or a body of systematised knowledge relating to criteria of what ought to be and concerned with the ideal as distinguished from the actual. The object of normative science is the determination of ideals.

Q. 13. Give the importance of Economics.

Ans. The importance of economics is of two types *i.e.* Theoretical and Practical. Theoretical uses of economics implies as it helps to promote welfare, correct judgement, cultural value and useful to politicians and statesmen. It is also practically useful for consumer, producer, worker and business community.

Q. 14. What is the nature of Economics ?

Ans. The nature of economics means whether its subject-matter is science or art. It can be both. If it is science, then it is both positive and normative.

Q. 15. Is Economics a Science ?

Ans. According to some economists, economics is a science because it always tries to know the causes and effects of a particular phenomenon. It is a systematic study which makes observation, measurement, explanation and verification.

Q. 16. What is Micro Economics ?

Ans. The word micro has been taken from Greek word 'Mikros' which means 'small'. According to Prof. Boulding, 'Micro economics is the study of particular firm, particular household, individual price, wage, income, industry and particular commodity'.

Q. 17. Give the importance of Micro Economics.

Ans. The importance of micro economics holds as operation of the economy, economic policies, economic welfare and managerial decision.

Q. 18. Give the scope of micro economics.

Ans. The scope of micro economics can be assessed from the point of view of theory of demand production factor pricing, optimum allocation of resources and welfare of the society.

Q. 19. Point out the limitations of Micro Economics.

Ans. The limitations of micro economics are the followings : it fails to provide the complete picture of the economy, not very useful in the formation of policies, unrealistic assumptions of full employment, not useful to understand complex problem and lack of predictions.

Q. 20. Define Macro Economics.

Ans. The word macro has been taken from Greek word 'Makros' which means 'large'. Prof. Shapiro defined macro economics "which deals with the functioning of the economy as a whole."

Q. 21. Explain the importance of Macro Economics.

Ans. The concept of macro economics is useful for understanding of the functioning of the economy changes in general price level, study of national income, helpful in the study of micro, and the study of economic paradoxes.

Q. 22. Mention the limitations of Macro Economics.

Ans. The main limitations of macro economics are the heterogeneity of aggregates, too much generation, misleading aggregates and difficulty in measurement of aggregates.

B. LONG ANSWER QUESTIONS

1. (a) Examine Adam Smith's wealth defintion of economics.
   (b) Give the shortcomings of Adam Smith's definition.
2. 'Economics is the study of mankind engaged in the ordinary business of life'. Discuss the statement.

   Or

   Discuss Marshall's welfare definition of economics. Give its main features.
3. Compare the definitions of economics given by Adam Smith and Marshall.
4. Compare and contrast the defintions of Marshall and Robbins.
5. 'Economics is the Science of Choice or Scarcity.' Explain.
6. Explain growth-oriented definition given by Prof. Samuelson. Give its merits.
7. Explain (i) Theoretical and (ii) Practical significance of Economics.
8. Explain Economics
   (a) As science (b) As an art.
9. Explain the terms micro and macro giving their relative scope.
10. Explain the following :
    (a) Importance of micro economics.
    (b) Importance of macro economics.
11. Give interdependence of micro and macro economics.
12. Distinguish between micro and macro economics.

CHAPTER

2

Human Activities and Sectors of An Economy

Chapter Contents

- Introduction
- Types of Human Activities
- Types of Economic Activities
- Difference Between the Two
- Review Questions
  - Short Answer Questions
  - Long Answer Questions
- Business Sectors
- Primary Sector
- Secondary Sector
- Tertiary Sector
- Difference Between the Three Sectors

INTRODUCTION

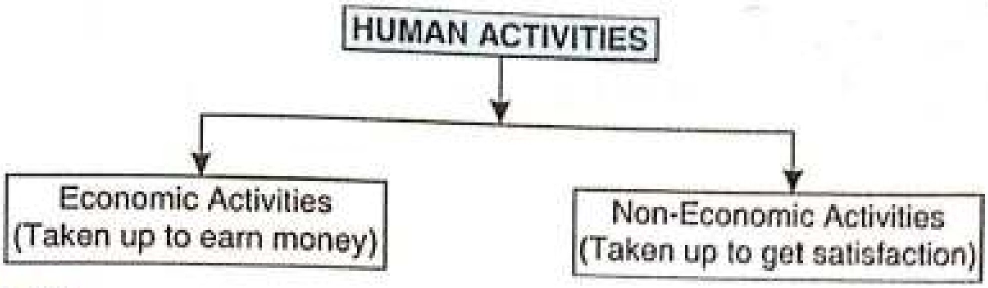
Work is an essential part of human life. Work is done to satisfy human wants. With the expansion of science and technology, human activities have increased substantially. The activities performed by human being to satisfy their wants are known as *Human Activities.* Some activities are undertaken to earn money, while some are taken up to achieve personal satisfaction.

TYPES OF HUMAN ACTIVITIES

All human beings engage themselves in some activities to satisfy their basic needs. For example, a farmer works in a field, a worker works in a factory, a professional (doctor, advocate or chartered accountant) is busy in his profession.

Human activities, depending on wants, many broadly be classified into two categories:

1. Economic Activities
2. Non-economic Activities



Economic Activities

Economic activities ***refer to those activities which are undertaken to earn money or earn a living*****:**

For example, a worker working in a factory, a farmer attending to agriculture work, a doctor attending to patients.

- All there activities are undertaken to earn a living.
- Economic activities are concerned with production of wealth, exchange and consumption of goods and services, which are not available free of cost.

Non-Economic Activities

Non-economic activities ***refer to all those activities which are pursued for social, religious, cultural, psychological or sentimental reasons.***

- Non-economic activities have no economic motive and are performed for self satisfaction.
- These activities are voluntary in nature and are undertaken at the pleasure of the person pursuing them.

Basis for Classifying Economic and Non-economic Activities

- If the activities are performed to earn money or a living then these are economic activities.
- In case the activities are undertaken without the aim of earning money then these are non-economic activities.

Same activity can be economic as well as non-economic. **For example,** a doctor attending to a patient is an economic activity because doctor will charge fee for this work but when the same doctor is attending to his ailing daughter, this will become a non-economic activity. Similarly, a house wife preparing food at home is a non-economic activity and same woman preparing food at a restaurant is an economic activity, because this is done for a monetary gain.

Economic and Non-Economic Activities

- Mr. Ganesha is a lecturer at Punjab University, he gets ₹ 57,000 per month as remuneration for his work.
- Ms. Sushila is working as a doctor in a hospital. She also attends to patients in the evening at a clinic started by an NGO for the benefit of poor people. She does not charge any fee for this work and does it as a part of social service.

- Mr. Rohit is a Chef at a Restaurant and is paid a salary for his work while at home he cooks for the members of the family also.
- Ms. Suchitra, a school teacher, teaching her son at home.

1. Teaching in a University by Mr. Ganesha refers to which type of human activity ?

Ans. Economic activity.

2. What type of human activity Ms. Sushila is doing at the hospital ?

Ans. Economic activity, since she is getting a salary to earn a living.

3. What type of activity Ms. Sushila is doing at the clinic run by an NGO and why ?

Ans. Non-economic activity, she is doing it as a social service and driving mental satisfaction out of it.

4. What type of human activity Mr. Rohit is doing at a restaurant ?

Ans. Economic Activity.

5. Cooking at home by Mr. Rohit will be covered under what type of human activity and why?

Ans. Non-economic activity, since he is doing it for love and affection of family.

6. What type of human activity Mr. Suchitra is doing and why ?

Ans. Non-economic activity, Suchitra is doing it for the welfare and concern for her son.

Difference between Economic Activities and Non-Economic Activities

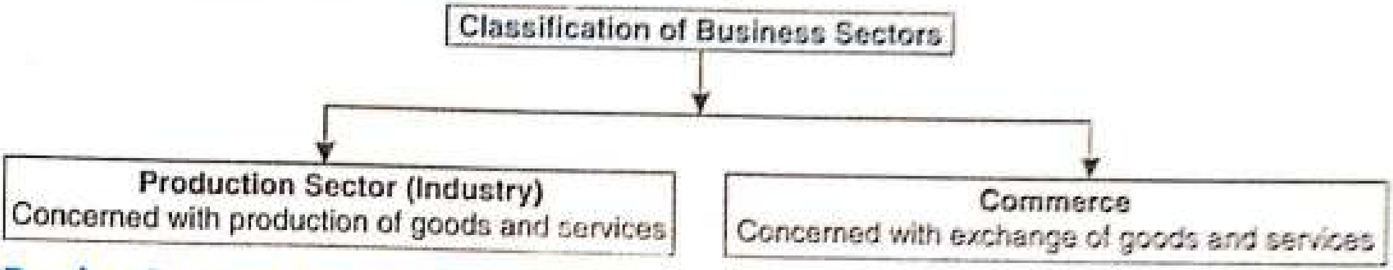
Basis	Economic Activities	Non-Economic Activities
1. Objective	The main objective is to earn money	The main objective is to get some sort of satisfaction
2. Expectation	Expectation is to earn money-or profit	Expectation is to satisfy social, psychological, emotional needs
3. Money Measurement	These activities are measured in money or money's worth	These activities are not measured in money
4. Duration	These are performed regularly during the working life of a person	These are performed during spare time or leisure, the period is limited.
5. End Result	These activities produce goods and services	These activities satisfy mental or emotional needs
6. Examples	Worker working in a factory, doctor attending to patients or advocate attending the court.	A teacher teaching his own son, a lady cooking for the family, a doctor doing social service.

ECONOMY

It is a system, which provides all goods and services to people, which satisfy human wants directly or indirectly.

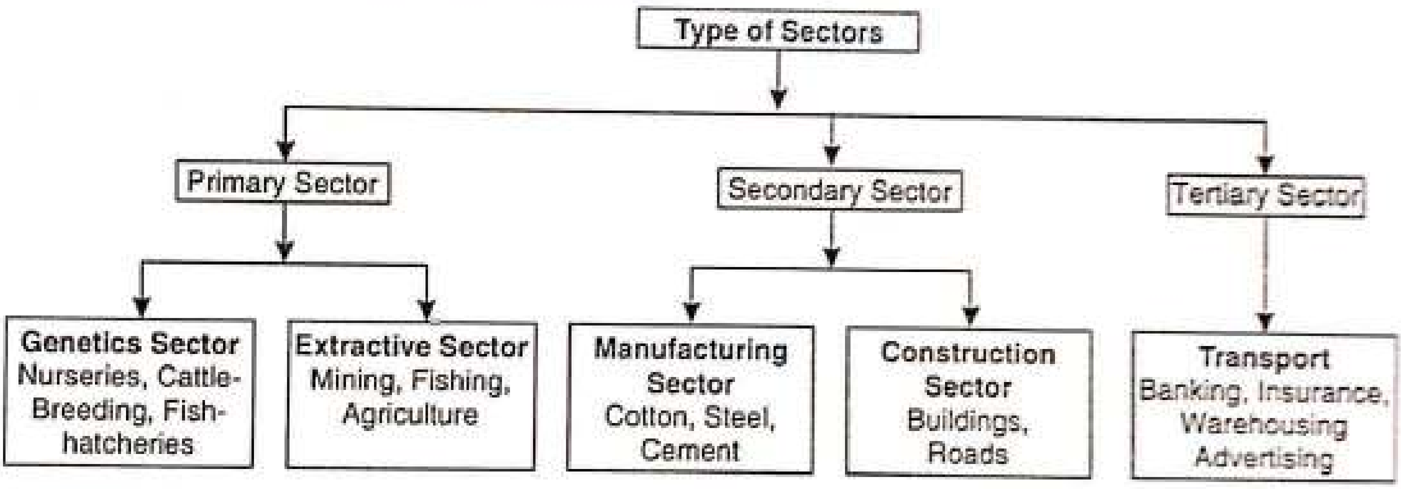
CLASSIFICATION OF BUSINESS SECTORS

Business Sectors are classified into two categories:



Production Sector (Industry)

Industry or Production Section (refers to those economic activities which are concerned with production of goods and services. It includes all those activities through which the raw materials are converted into finished goods. The term industry is also used to mean the group of firms which are producing similar or related goods. For example iron and steel industry refers to all those manufacturing firms which are producing iron and steel items. Similarly, electronics industry will include all the firms producing electronic goods.



TYPES OF SECTORS

Industries may be divided into three categories.

A. Primary Sector B. Secondary Sector C. Tertiary Sector

A. Primary Sector

Primary sector relates to all those activities which are connected with the extraction, production, processing of natural resources and reproduction of living species.

Its organs are agriculture, forestry, mining, fisheries etc.

These Sectors (industries) may be classified as

1. Genetic Industry; and
2. Extractive Industry

1. Genetic Industry

Genetic industry is related to the re-producing and multiplying of certain species of animals and plants with the object of earning profits from their sale.

Nurseries, cattle-breeding, fish-hatcheries, poultry farms, are all covered under genetic industry. The plants are grown and birds and animals are reared and then sold on profit. No doubt nature, climate and environment play an important part in these industries, but human skill is also important.

2. Extractive Industry

The extractive industry is engaged in raising some form of wealth from the soil, climate, air. water or from beneath the surfare of the earth.

These industries are classified into two categories.

- **In the first category,** workers merely collect goods already existing. Mining, fishing and hunting are covered in this category.
- **In the second category,** the goods are to be produced by the application of human skill, *i.e.,* agriculture and forestry. Extractive industries, supply basic raw materials that are mostly the products of the soil. Products of these industries are usually transformed into many useful products by manufacturing industries.

B. Secondary Sector

Secondary sector is related to the processing of materials which have already been produced by primary sector.

For example, the mining of iron ore is a primary sector but manufacturing of steel is a secondary sector.

Secondary sector may further be divided into: manufacturing and construction industries.

1. Manufacturing Industries: This industry is engaged in the conversion of raw materials into semi-finished or finished goods. This industry creates form utility in goods by making them suitable for human use. Most of the goods which are used by consumers are produced by manufacturing industries. These industries supply machines, tools and other equipment to other industries too. The products of extractive industry are generally used as raw materials by manufacturing industry.

Manufacturing industries produce two types of goods:

(i) **Consumer goods:** These are the goods which are directly consumed by the consumers for meeting day-to-day needs. For example, bead, toothpaste, soap, oil, clothes, etc.

(ii) **Industrial goods:** The goods which are produced for manufacturing consumer goods are known as industrial goods. For example, machinery, equipment, tools are required to manufacture consumer goods. These are industrial goods.

Manufacturing industries may further be sub-divided as follows:

(i) **Analytical Industry:** In this industry, a product is analysed and many products are received as final products, in the processing of crude oil, we will get kerosene, petrol, gas and diesel, etc.

(ii) **Processing Industry:** In this industry a product passes through various processes to become a final product. The finished product of one process becomes the raw material of the receiving process and soon, the final process produces the finished goods. In case of cotton textiles, cotton passes through ginning, weaving and dyeing processes to become cloth. Sugar industry and paper industry are other examples of processing.

(iii) **Synthetic Industry:** In this industry, many raw materials are brought together in manufacturing process to make a final product. In manufacturing cement, rocks, gypsum, coal, etc., are required. Soap-making, paints are the other examples of synthetic industry.

(iv) **Assembly Industry:** This industry assembles different components to makes new product, as in the case of television, cycle, car, computer etc.

2. Construction Industry: This industry is engaged in the creation of infrastructure for smooth development of the economy. It is concerned with the construction, erection or fabrication of products. These industries are engaged in the construction of buildings, roads, dams, bridges, and canals. These industries use the products of other industries such as cement, iron, bricks, wood, etc. Engineering and architectural skills play an important part in construction industry. Engineering and construction firms are organised for undertaking operations of construction industry.

C. Tertiary or Service Sector

Tertiary or service sector deals with all those activities which smoothen the flow of goods and services from the manufacturers/producers to those who use them.

Service industry supplements the activities of primary and secondary industries. Service industry is the backbone of all business activities.

These activities include:

1. Transport **2. Banking** **3. Insurance** **4. Warehousing** **5. Advertising.**

(Details of these will be discussed in coming chapters)

- **Sectors in Terms of Employment and Share in GDP**

Sectors	Employment	Share in GDP (%)
Primary	63%	17%
Secondary	14%	28%
Tertiary	23%	55%

- **Sectors of the Indian Economy**

Sector	Basis of Classification
Primary **Secondary** **Tertiary**	The nature of production process
Organized **Unorganized**	The nature of employment
Public **Private**	On the basis of ownership

Difference between Primary, Secondary and Tertiary Sectors

Sl. No.	Primary Sector	Secondary Sector	Tertiary Sector
1.	This deals with the resources provided by nature.	This deals with the use of natural resources.	This deals with the efforts of the human beings.
2.	This includes agriculture fisheries, forestry, Aquaculture etc.	This includes every type of Industry.	This includes services in commerce, like communication, banking, insurance etc.
3.	Products are tangible	Products are tangible products	Products are intangible
4.	This sector's development started from earliest times.	This sector flourished especially after industrial revolution.	This sector existed since barter system but developed recently very fastly.

Project Work

A. (a) Go around on a holiday and note the activities those are being done by individuals.

(b) Make a list of about 20 activities.

(c) Also note the activities in a market.

(d) Now make two lists of activities as (i) economic and (ii) non-economic.

B. (i) Make a list of the persons working in various organisations or private profession or a shop.

(ii) Make three different lists and divide those professions in primary, secondary or tertiary sector.

Review Questions

A. SHORT ANSWER QUESTIONS

Q. 1. Define economy.

Ans. Economy is a system which provides people all goods and services which in turn, directly or indirectly, satisfy human wants.

Q. 2. Explain economic activity.

Ans. Economic activity refers to the activities of earning and spending money. It is also called the study of human activities in relation to wealth.

Q. 3. Give types of economic activities.

Ans. Economic activities can be divided on the basis of (i) Production (ii) Consumption (iii) Distribution and (iv) Exchange.

Q. 4. What is the purpose of economic activities ?

Ans. As we know economic activity refers to those activities which are concerned with utilisation, production, exchange and wealth. Thus, all economic activities aim at satisfying the human wants.

Q. 5. Differentiate between economic and non-economic activities.

Ans. The differeces between economic and non-economic activities are as follows:

(1) Difference in Objectives : The economic and non-economic activities differ in their objectives. If an activity is performed for acquiring wealth, it is called an economic activity. As against it, if the same activity is performed for entertainment, religion, love, mercy, patriotism, social service, etc., it will be a non-economic activity.

(2) Measurement in money terms : Economic activities are those activities which can be measured in terms of money. Contrary to it, non-economic activities are those activities which cannot be measured in terms of money.

(3) Legal : Economy activities are the wealth related activities according to the law of the land. Non-economic activities can be both legal and illegal.

Q. 6. What are the causes of the emergence of economic activities ?

Ans. There are two causes of emergence of economic activities as given below :

(1) Unlimited Wants. Man's wants are unlimited. No man can satisfy all his wants fully. Wants of all members of a society cannot be fully satisfied at any given time.

(2) Limited or Scarce Means. The goods and services satisfying human wants are limited or scarce. These goods are called scarce as their demand is greater than their supply. For example, milk is a scarce commodity. It can be used for preparing cheese, ice cream, rasgullah, etc. Generally, people have to undertake economic acitvities on account of unlimited wants and limited means.

Q. 7. What are different sectors of an economy ?

Ans. (a) Primary Sector (Agriculture, Forestry, Mining etc.)

(b) Secondary Sector (Industry)

(c) Tertiary Sector (Services)

Q. 8. What is Primary sector ?

Ans. Primary sector relates to all those activities which are connected with the extraction, production, processing of natural resources and reproduction of living species. Its organs are agriculture forestry, mining, fisheries etc.

Q. 9. What is Secondary sector ?

Ans. Secondary sector is related to the processing of materials which have already been produced by primary sector. For example, the mining of iron ore is a primary sector but manufacturing of steel is a secondary sector. Secondary sector may further be divided into: manufacturing and construction industries.

Q. 10. What is Tertiary sector?

Ans. Tertiary or service sector deals with all those activities which smoothen the flow of goods and services from the manufacturers/producers to those who use them. Service industry supplements the activities of primary and secondary industries. Service industry is the backbone of all business activities.

These activities include:

1. Transport, 2. Banking, 3. Insurance, 4. Warehousing, 5. Advertising.

B. LONG ANSWER QUESTIONS

1. What are different types of human activities? Give two examples of each.
2. What are different sectors of an economy? Explain each of them.
3. Define Primary, Secondary and Tertiary sectors of an economy. What is the difference between these sectors?
4. Explain Economic activity. Give its main purpose.
5. What do you mean by an Economy ? Point out economic and non-economic activities.
6. Explain the following :
   (1) Economy (2) Economic activities
   (3) Non-Economic activities
7. Write a vast essay on different sectors of an economy.