

## Definition of Economics:

13 The word 'Economics' has been derived from two Greek words, oikos and Nomos, Economics explains how a household and a society manage with limited funds in an economical manner.

## Scope of Economics:

\* The scope of Economics means the limits of its subject matter. It refers to the field of study included under Economics. From the definition we can understand the scope of Economics.

\* It studies man in the ordinary business of life and how he earns his income and how he satisfies his wants.

\* It is concerned not with individual action but with social actions.

\* It studies how wealth is produced with limited resources in order to satisfy human wants.

\* It studies about problems arising out of multiplicity of wants and scarcity of resources which satisfy these wants.

\* It studies how wealth is produced, consumed, exchanged and distributed.

It can be understood that the subject matter of economics revolves around human activities. The human activities are basically production and consumption of wealth. While studying about these basic activities one should deal with production, productivity, employment, location of firms, the size of firms, market structure, price determination, factor reward determination, taxation, imports, exports etc. Based on the "subject matter" of this science, Economics is divided into the following divisions. The subject matter of economics encompasses a very broad field of study. All the divisions of economics are inter-related and interdependent.

#### A(B) Importance of and dignification of the study of Economics.

(From the subject matter and scope of economics we can understand the importance of the subject. No subject of the present study is so important as economics. Economics governs the life of the individual, society and the modern states. The subject plays a significant role in the international affairs, helps in solving many problems and has partial advantage.

\* Economics studies the virtual question of satisfying human wants with scarce resources.

\* The knowledge of economics is essential to conquer poverty of the millions of people and to raise their standard of living.

\* The subject tells how the complex forces work in the economic systems and how the action in one sector affects the other sector.

\* Without the knowledge of the working of the economic systems administrations will not be effective and it may even be impossible.

\* In real life the subject helps the business man the industrialist and the bankers the labour leaders and others in making use of the modern methods of production at low cost.

\* Economics is useful to the household in utilising the little income to get the maximum satisfaction by proper budgeting and careful spending.

\* Helps in discovering new factors that may lead to increase the national wealth by proper planning.

\* The knowledge of economics is very essential for the finance minister in

the first system of taxation for formulating  
the budget for development and  
for removing unemployment.

\* Supply of money, effective credit system  
and efficient working of the banking system  
can be held in the country only be  
having a thorough knowledge of  
economics by the people who administer  
these sectors.

\* The knowledge of economics is very  
essential for the legislators and  
Parliamentarians to frame effectively.

\* As citizens and voters and people  
electing the representative the knowledge  
of economics will be much helpful  
to understand many economic  
programmes presented by the politicians  
and judge the truth of the statements.

### Slope of Business Economics

5B Business Economics is a developing  
science which generates the counters  
problems to determine the slope is a  
clear cut way. From the following  
fields we can examine the slope of  
business economics.

### Demand Analysis and forecasting:

The foremost aspect regarding slope  
is this. A firm must decide  
its total output before preparing its  
production schedule and deciding on the  
resources to be employed.

Demand forecast serves as a guide to the management for maintaining its market share in competition for with its rivals, thereby securing its profit. It deals with Demand Determinants, Distributions forecasting etc.,

### Cost and Production Analysis.

A firm's profitability depends much on its cost of production. A wise manager would prepare cost estimates of a range of output. Identify the factors causing variations in costs and choose the cost minimize output level taking also into consideration the degree of uncertainty in a production and calculation process. Under the charge of engineers but the business manager works to carry out the production function analysis in order to avoid wastages of materials and time. It deals with cost concepts cost-output relationships cost controls etc.,

### Profit Management.

It is profit which provides the chief measure of success of a firm. Economic's day that profit are the reward for uncertainly bearing and risk taking. The successful manager not only estimates the cost and revenue at different levels of output but also reduces the uncertainties. Therefore profit planning and measurement constitute most challenging] 58.

(Methods: Micro and Macro)

2(B) Before 1930, there was only one "economic" prof. Ragnar Frisch of Oslo university coined the words 'micro' and 'macro' in 1933 to denote the two branches of economics theory. Namely Micro economics and Macro economics since then these terms have attained Popular in economic terminology.)

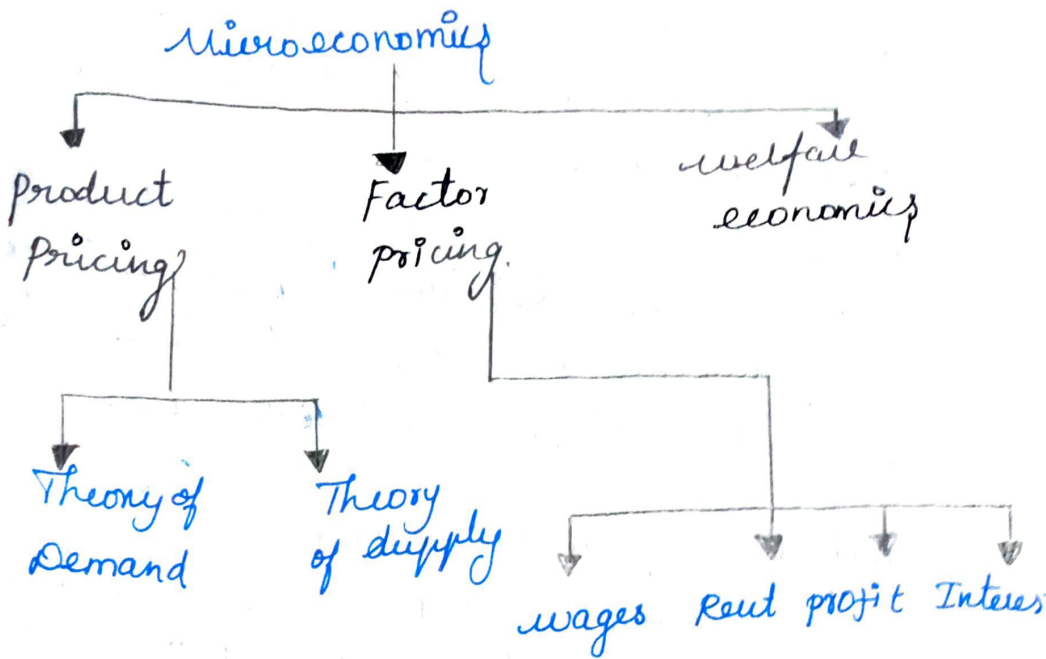
\* Micro economics:

Meaning and scope of micro economics.

Q The word "micro" is derived from the Greek word mikros meaning small. Micro economics deals with small segments of the society. Microeconomics is defined as the study of behaviour of individual decision-making units such as consumers, resource owners and firms it is also known as price theory since its major subject matter deals with the determination of price of commodities and factors.

According to prof Mc Connell; in micro economics we examine the gross not the forest. Microeconomics is useful in achieving a worm's-eye view of some very specific component of our economic system.

microeconomics has both theoretical and practical importance. It solves the three central problems of an economy. What, how and for whom to produce. scope of microeconomics is vast and includes the following topics as shown in the figure.



### Importance of Microeconomics.

\* It has both theoretical and practical importance. It is clear from the following points.

\* Microeconomics helps in formulating economic policies which enhance productivity in formulating economic efficiency and results in greater social welfare.

\* It explains the working of a capitalist economy where individual units, producers and consumers are free to take their own decisions.

- \* It describes how in a free enterprise economy, individual attains equilibrium position.
- \* Helps the government in formulating correct price policies.
- \* It helps in efficient employment of resources by the entrepreneurs.
- \* It helps business economists to make conditional predictions and business forecasts.
- \* It is used to explain gains from trade, disequilibrium in the balance of payment position and determination of international exchange rate.

### Limitation of microeconomics.

Microeconomics fails to explain the functioning of an economy as a whole. It cannot explain unemployment, poverty, illiteracy and other problems prevailing at the country level.

### \* Macroeconomics:

#### Meaning and scope of Macroeconomics.

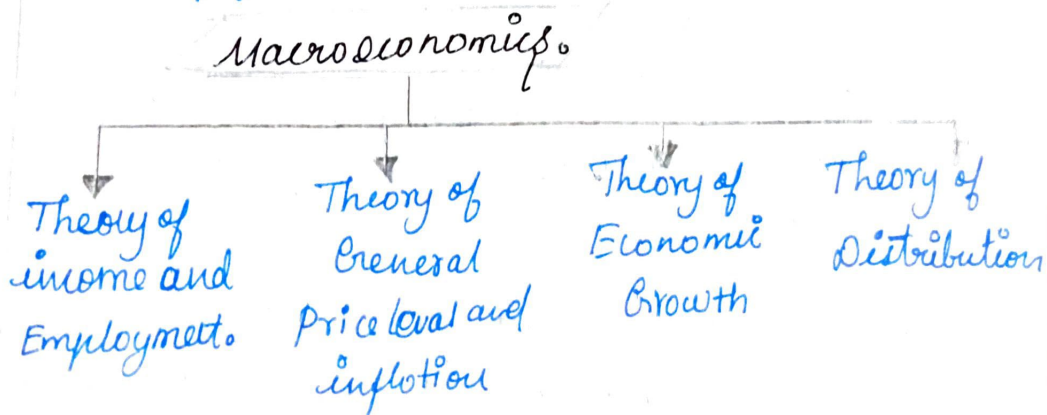
The world macro is derived from the Greek word makros meaning large. Macroeconomics deals with aggregate economic phenomena, such as employment, GNP & savings, investment, economic growth etc... It is



also known as Theory of Income and Employment since its major subject matter deals with the determination of income and employment. It is like studying the forest as a whole it gives a bird's eye view of an economy. It is often called as "Aggregative Economics". Macroeconomics studies the macro variables by splitting the economy into sectors or big lumps. Hence this method is also called 'method of lumping'.

The study of macroeconomics is used to solve many problems of an economy like monetary problems, economic fluctuations, general unemployment, inflation, disequilibrium, balance of payment position etc...

The scope of macroeconomics include the following topics as shown in the figure:



## \* Importance of macroeconomics:

Macroeconomics has emerged as the most challenging branch of economics. In the words of Samuelson, 'no area of economics is today more vital and controversial than macroeconomics'. The importance of macroeconomics on theoretical and practical reasons is clear from the following points.

It gives an overall view of the growing complexities of an economic system.

It provides successful items to explain the working of the complex economic system.

It provides the basic and logical framework for formulating appropriate macroeconomic policies.

(e.g.) for equalisation society unemployment to direct and regulate economy towards desirable goals.

It helps in analysing the reasons for economic fluctuations and provide remedies.

## \* Limitation of macroeconomics.

Macroeconomics ignores structural changes in an individual unit of the aggregate. The conclusions drawn on the basis of aggregate variables may be misleading.

As Hicks puts it "Most of macroeconomics which figure do largely is economic discussions all subject to errors and ambiguities".

### Interdependence of micro and macroeconomics:

The difference between the two can be summarised as follows.

No	Microeconomics	Macroeconomics.
1.	It studies individual economic units. eg: a) consumer Demand b) for capital Demand	It studies aggregate economic units eg: a) Aggregate demand b) National Income
2.	It may assume full employment.	It does not assume full employment.
3.	It is also called price theory.	It is also called Theory of Income and Employment.

It is difficult to differentiate between micro and macroeconomics. "What is macro from an economy's point is micro is the content of the world". It is difficult to say which is more important. Both have their own significance. Knowledge of the both is absolutely vital and there is no competition between micro and macroeconomics. Both are complementary and should be fully utilised for proper understanding of an economy.