"An enquiry into the nature and causes of wealth of na-
tion". According to him the acquisition of wealth is the main
objective of human activit.. Therefore, it is necessary and
important to study how wealth is produced and consumed. In
short, according to Smith economics *is a study of* **wealth**.
Following Adam Smith almost all the classical economist
defined economics as the science of Wealth J.B.Say, defined
"The aim of the political economy is to show the way in which
wealth is produced, distributed and consumed".
J.S.Mill defined, "Political economy professes to teach or
investigate the nature of wealth and the laws of its production
and its distribution. F.A.Walker defined "Economics is that
body of knowledge which relates to wealth".
The most appreciable point in Adam Smith definition is
"It proposes to enrich both the people and the sovereign".

Criticism of wealth definition:

This definition of Adam Smith was not accepted by the people at that time. The term "Wealth" was interpreted in a very narrow sense to mean riches or abundance of money. So Adam Smith's definition become the target of attack and criticism. The following are the important criticism against the wealth definition.

1. Carlye, Ruskin, Russel and other philosophers called economics the "Gospel of Mammon" (Mammon is the greek god of greed) and "A Dismal Science". They feared that economics would make people selfish. So they condemned Adam Smith and his definition of economics, Ruskin characterised economics as a bastard science, the science of getting rich.

2. Another criticism is that it tend to restrict or narrow down the scope of the subject.

3. There is no mention of man in Adam Smith's definition.

4. The definition gives an impression that wealth is the end of all human activities. Wealth is only a means to an end and not an end in itself. Wealth is the means to the welfare of humanity.

5. The main drawback in wealth definition of economics has been its undue emphasis on wealth producing activities. It neglected other things.

The wealth definition was considered unsatisfactory in view of these criticism. It has been discarded towards the close of the 19th century. To avoid the criticisms of this philosophers, Marshall defined economics in such a way as to give more emphasis upon man than upon wealth.

2. Critically examine Marshall's definition of Economics.

WELFARE DEFINITION-MARSHALL

Towards the end of the 16th century Alfred Marshall evolved a new definition. He shifted, the emphasis from "Wealth to welfare". As Marshall puts it, Economics is on the one side a study of wealth and on the other and more important side a part of study of man. He formulated his definition of economics strictly in accordance with his ideas of human welfare.

Marshall's Definition:

Marshall has given his definition of economics in his book Principles of economics. His definition runs as follows:

"Political economy or Economics is a study of mankind in the ordinary business of life: it examine that part of individual and social action which is most closely connected with the attaintment and with the use of the material requisities of well-being".

The implications of the definition:

1. It is the study of human beings.
2. It studies the economic aspects of human being.
3. It studies human welfare especially material welfare.
4. It makes a study of both individual and social action aimed at promoting economic welfare of the people.

In his definition of economics, Marshall takes into account only the material things that are capable of promoting welfare of the people. Hence Marshall's definition is known as the 'welfare' definition of economics.

Besides Marshall, economists like pigou and cannan have defined economics in welfare terms. According to Edwin Cannan, The aim of political economy is the explanation of the general causes on which the material welfare of human beings depends.

To pigou, "Economic welfare is the subject-matter to economic science. "Economic welfare being that part of social welfare that can be brought directly or indirectly into relation with the measuring rod money".

Marshall's welfare definition marks an improvement over Smith's wealth definition. Marshall gave a respectable place to economics. He laid emphasis on man and his welfare.

Criticism of **welfare definition**

The welfare definition has been criticised on several grounds.

1. *Prof.Robbins* has criticised the welfare definition on the ground that it ignores non-material things from its analysis. It includes only material things. This is not correct.

2. Robbins object the use of the word material welfare. Robbins says there are certain material activities which do not promote welfare. For Example, the production of alcoholic drinks and opium are certainly economic activities. But they are not condupive to welfare.

3. The welfare definition is criticised on the ground that welfare cannot be quantitatively measured. The notion welfare differs from one person to another, from one country to another, and from one period to another. A definition of economics based on such ambiguous concept cannot be accepted.

4. It is classifactory than analytical. It classifies economic phenomena into material and non-material things.

5. The welfare definition is also criticised on the ground that it makes economics a purely social science. Robbins regards economics as a human science.

In view of these critisam, Marshalls welfare definition is not accepted now. Robbins introduced his own Scarcity definition of economics.

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

SCARCITY DEFINITION-LIONEL ROBBINS

During the early periqds of the 20th century, Lionel Robbins introduced a new definition. His definition is popularly known as 'Scarcity definition'.

Robbins Definition:

Lionel Robbins has gives his definition in his book, "The nature and significance of economic science". Robbins definition runs as follow:

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

Meaning:

This definition is based on certain fundamental propositions. They are:

1. Ends: Ends here refers to human wants. They are unlimited in number. The satisfactions of one want immediately give rise to another. In view of the multiplicity of wants, all the wants are not fully satisfied.

Since wants are unlimited in number, we have to choose between less urgent wants and more urgent wants.

2. Scarce Means: The means that are available to satisfy these wants are strictly limited. The time and resources are limited, they are scarce in relation to their requirements. This definition emphasis that economic activity arises only so long as means are scarce. The scarcity of means give rise to choice.

3. Alternative uses: The scarce means are capable of bei ng put into alternative uses. They can be utilised for different purposes. For example land can be used either for the cultivation of different crops or for building of playground etc.

Since the limited resources are capable of alternative uses we have to choose between one use of the resources and another use of the resources. So the economic problem essentially is the problem of choice according to Robbins.

Features of Robbins Definition: Following are the main features of this definition.

1. Robbins definition enjoys universal application. It is applicable to capitalist America and to communist Russia. Prof Machlup remarks, "What he has said cannot be recast. To me it appears final in its scope.

2. It studies the relationship between unlimited wants varying in their importance and scarce means that are capable of alternative uses.

3. Economics is the science of choice.

4. Economics is neutral between ends. Economics is not at all concerned with ends. They may be noble or ignoble, good or bad. The economist would study all situations where the ends are multiple and means are scarce, but the economist have nothing to do with the selection of ends.

Criticism of scarcity definition: The scarcity definition is also not free from criticism. The various points of criticism are as follows.

1. There is no explicit reference to man and his welfare in this definition. *Ely* says, that human touch, is entirely missing in this definition.

2. Many economists do not agree Robbins view that Economics is neutral between ends. In their view Economics is not only a positive science but also a normative science.

3. The scarcity definition converts economics into a pure science. It has nothing to do with practice. Robbin's definition is defective as a social science.

4. Robbins conception of economics is essentially micro analysis and it fails to emphasis the macro economic charac-

ter of economics.

5. Economic problem arise not only due to scarcity but also due to plenty. During the Great Depression on the 1930s it was not scarcity but abundance of goods that had created economic problems.

6. The theory of economic growth has recently become a very important branch of economics. But Robbins definition does not cover it.

Inspite of its defects, the scarcity definition of economics has become very popular. Most of the modern economists use his definition.

Watson: "How to get more and how to make the best use of what is available is the economic problem the everlasting problem of every family, every business firm and every unit of government."

Stonier and Hague observe that economics is fundamentally a study of scarcity and of the problem to which scarcity gives rise.

Generally Acceptable Definition: The scarcity definition of Robbins is at present the generally acceptable definition of economics.

1. It has correctly laid down conditions under which the economic problems emerges.

2. It is analytical and scientific.

According to *Wicksteed* "Robbins definition is like the law of life itself".

According to *Briggs and Jordan*, "It is universal in its conception".

Now Robbins definition gradually yielding place to the growth-oriented definition given by P.A.Samuelson.

GROWTH DEFINITION - SAMUELSON

4.Explain the growth oriented definition given by Samuelson.

Samuelson's definition recognised the dynamic changes taking place in the economy. Therefore it has been rightly termed as the growth-oriented definition in his book Economics. The definition runs as follows

Economics is the study of how men and 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, and distribute them for consumption now and in the future among various people and groups of society".

The various implications of this definition are as follows:

1. Like Robbins, Samuelson has also stressed the problem of scarcity means in realation to unlimited ends.

2. Samuelson has made his definition dynamic by including the element of time in it. It includes within its purview the problem of growth.

3. Samuelsons definition is wider in scope. It is applicable even to barter economy. Pharses like now or in the future with or without the use of money give scope for analysis.

4. Samuelson definition deals with the problem of choice in its dynamic setting. Human wants are highly dynamic in character. They not only change but also multiply over a period of time. Change in tastes fashions outlook etc, change the quantity and quality of wants and correspondingly the resources. Hence resources have to be stepped up to keep pace with the dynamic nature of wants. Economics is therefore rightly considered as the study of the allocation of scarce resources in relation to unlimited ends and of the determination of income, output, employment and economic growth.

An example may be helpful to illustrate this definition. suppose a society wishes to produce goods like paddy,cotton textiles, aeroplanes and musical instruments. To produce these goods they have inputs like land, machinery, equipment,technology etc. But they are scarce in relation to their demand. So there is competition between producers to obtain the inputs.Therefore the available factors of production or inputs have to be allocated among the competing lines of production. This forces the community also to choose between various wants and the uses of available resources. Thus economics studies how a society makes these decisions or choices. This is the general definition of economics.

1. *"Economics is a study of wealth" Discuss*

ADAM SMITH'S WEALTH DEFINITION

Of these four definition of Economics Adam Smith's wealth definition is the earliest one. According to Adam smith economics is the study of "the nature and causes of wealth of Nations". Adam Smith book published in 1776 was entitled.

2

SCOPE OF ECONOMICS

1. Explain the scope and the subject matter of economics.

To define accurately the scope and the subject-matter of any discipline is very difficult. It is more in social science like Economics. Economics has many different definitions. From the varied definitions given to economics, we will be able to have a good understanding of the nature and scope of economics. Here are few of the important definitions.

Adam Smith-Wealth definition: "An enquiry into the nature and causes of the wealth of nations".

J.S.Mill: "The practical science of the production and distribution of wealth"

Marshall-Welfare definition: "A study of mankind in the ordinary business of life. It examines that part of individual and social action connected with the attainment of the material requisities of well being. It is on the one side a study of wealth, on the more important side a part of the study of man".

Robbins-Scarcity definition: "The science which studies human behaviour as a relationship between ends and scarce means which have alternative uses".

The nature and scope have been defined differently by different economists. It is yet to acquire a single generally-accepted definition. It is a mixture of sociology, psychology, philosophy, ethics, history, politics, mathematics, jurisprudence and commonsense. It has the nature of many different sciences. It has technical and abstract concepts. It has large nu-

mber of theories and laws.

The scope of economics is vexed questions and economists differ widely in their views. The continuous growth in the subject matter of economics has led to divergent views about the scope of economics.

Subject matter of Economics: "Wants-efforts - satisfaction" is a complete circle describing the subject matter of economics. *Bastiat* has pointed out that science of economics centres around, "Wants - efforts - satisfaction". This is called Bastiat's circle of economics".

As seligman has remarked, "The starting point of economic activity is the existence of human Wants. Wants gave rise to the various kinds of economic activity. The farm labourer, the factory worker, teacher, doctor, dancer all of them are engaged in economic activities. They make efforts in order to earn money. Money they earn in order to satisfy their wants like food, cloth, housing etc.

Thus wants make people work. That is wants gave rise to the various kinds of economic activity. Goods that satisfy our wants are to be produced. They are produced with the help of resources available. But their availability are limited and scarce. The numerous human wants are to be satisfied by utilising the limited resources available. How this can be done form the subject matter of economics. That is why it is said that *"wants efforts - satisfaction"* is a complete circle describing the subject matter of economics.

2. Is Economics a Science?

ECONOMICS AS A SCIENCE AND AN ART

The study of the scope of economics includes whether economics is a science or an Art. In order to decide whether economics is a Science or an Art, we have to understand the meaning of the terms "Science" and Art.

Economics-A Science: Science is a systematised body of knowledge which traces the relationship between causes and

Economic dynamics: The method of dynamics deals w... an evolutionary progress in a dynamic manner. In dyna... analysis there is no assumption of other things remain t... same. Dynamic is a method which takes into account ... changes, lags, sequences, expectations and elements of tim... It presents a continuing picture of working of the economy.

Dynamic is the study of movements and changes in eco... nomic system. The pioneers in the field of economic dynami... were Frisch, Tinpergen, Hansen, Harrod and others.

Dynamic analysis can be explained in terms of micro an... macro dynamic equilibrium models. One of the best examp... of micro dynamic analysis is the cob-web theorem. On t... other hand macro dynamic refers to rates of change of macr... variables. Example Keynesian process of income propagation (i.e) Multipier.

The problems of economic dynamics are those which are connected with equilibrum conditions involving the element of time. It is used in the following problems.

1. The theory of trade cycle 2. The theory of interest. 3. The theory saving and investment 4. The theory of profits, 5. Marshall's concept of quasi rent. 6. The theory of economic growth.

All the above problems are directly associated with time element and as such they belong to economic dynamics.

Distinction between static and dynamic Analysis:

1. *Economic static is the study of relations between vari-ables at a point of time where economic dynamics explains the relationship of economic variables through time.*

2. *In a static state there is a movement but no change in economic phenomena, while in a dynamic state the funda-mental forces themselves changes.*

3. *The static analysis studies movement around the point of equilibrium, the dynamic analysis studies both from one point of equilibrium to the other both backward and forward.*

4. Kurihara, in his book. An introduction to Keynesian ...ynamic has compared statics and dynamics. Statics a still ...cture economy. Dynamics the motion picture of the economy.

It should be realised that both dynamic and static meth-...ds are indispensable for the progress and development of ...conomics. Both are complimentary. There are certain prob-...ms which can be studied by the aid of dynamic, while there ...e other problems which can be studied by the aid of static ...alysis. Thus statics and dynamic are both needed for the ...lution of economic problems.

"Theory is the systematic description of reality, (Watson) ...xamine this statement.

ECONOMIC THEORY AND PRACTICE

According to *Watson,* theory is the systematic descrip-...n of reality" A theory can be accepted only after it is testi-...d by facts or when it is applied to practice. Economic theory ...ovides a guide to rational approach to the businessman, the ...nsumer, the labourer, the trade union leader and policy mak-...s. Equilibrium of the firm, Economics of scale, Returns to ...ale, cost of production, pricing etc. are the relevant tools ...at facilitates practical application.

The main practical object in undertaking the study of eco-...mics is the formation of judgement as employers, employee, ...nister or a citizen. In fact reality is more complex than the ...onomist's theory. However we cannot say that economic ...eory is unrealistic. It takes into account only the essential ...d relevant element of economic life. *Boulding* says, that "Eco-...mic analysis is not a perfect picture of economic life. It is a ...p of it". Just as we do not expect a map to show every ...e, every bush and every house, we could not expect eco-...mic analysis to take into account every detail of real eco-...mic behaviour.

The proper contrast is therefore not betweem theory and ...actice. As *Watson* said, "the proper contrast is between ...od theory and bad theory, between useful theory and irrel material, draw generalisations and verify conclusion.

Deductive and inductive method: The above analysis le to the conclusion that there is no point in arguing one meth against the other. The two methods have to be used to ach the required objective. The inductive and deductive meth are not competitive but complementary in nature. Neither in duction nor deduction alone can do the purpose. The conse sus opinion now is that the two methods should be blen together for the purpose of economic analysis and investiga tion.

Marshall supported and quoted *Schmoller*: "Induction a deduction are both needed for scientific thought as the rig and left foot are needed for walking".

The above quotation from schmoller is perfectly corr and express the truth about the methodology of economi Thus the true progress in any scientific enquiry can be ma only by a wise combination of deduction and induction.

6 (a). Explain static-equilibrium.

(b). Discuss the concept of economic dynamics.

STATICS AND DYNAMICS IN METHODOLOGY

Statics and Dynamics are the term used in physical sc ence. In physics, statics means a state of rest. Where the is no movement. Dynamics means a situation where there movement. In economic analysis, the two terms are used in slightly altered sense.

J.S.Mill, was first to use these terms in economics. the early days the writings of economists were mostly stati Since 1956 dynamic technique has been used in the fields o economic theory. English economist like Robertson, Keyne Haberler laid great stress on dynamic analysis.

Economic Statics: Economic statics refer to that type o

analysis where we establish functional relation between two varibles whose values relate to the same point of time or to the same period of time. Static analysis assumes certain fundamental condition to be given and known.

According to **clark**, it is a state where five kinds of changes assumed to remain unchanged. The size of the population, the supply of capital, methods of production, forms of business organisation and wants of the people remain constant, but the economy continues to work at a steady pace. Static economy is timeless economy where no changes occur.

Economist explain static analysis in terms of micro and macro static equilibrium models. In the *micro-static* model, supply and demand relationships determine price at a point of time. The price is constant through time.

Macro-static analysis explains the static equilibrium position of the economy. In the macro-static model, the object is shown as a 'still picture' of the economy as a whole. In the Keynesian model, the level of national income is determined by the interaction of aggregate supply function and aggregate demand function. It is the best example for macro-static analysis.

Problems in Economic statics: The problem of Economic statics are those connected with equilibrium conditions which do not involve any change in the time element. It is the case of other things remaining the same. Examples.

1. The functional relationship between price and demand. 2. The law of diminishing marginal utility. 3. The doctrine of comparative cost 4. The theory of rent. 5. The marginal analysis.

These are some of the areas which belong to economic statics. In addition such assumptions as the existence of perfect competition, perfect knowledge and perfect mobility of factors are considered essential for the working of static analysis.

material, draw generalisations and verify conclusion.

Deductive and inductive method: The above analysis, leads to the conclusion that there is no point in arguing one method against the other. The two methods have to be used to achieive the required objective. The inductive and deductive method are not competitive but complementary in nature. Neither induction nor deduction alone can do the purpose. The consensus opinion now is that the two methods should be blended together for the purpose of economic analysis and investigation.

Marshall supported and quoted *Schmoller*: "Induction and deduction are both needed for scientific thought. as the right and left foot are needed for walking".

The above quotation from schmoller is perfectly correct and express the truth about the methodology of economics. Thus the true progress in any scientific enquiry can be made only by a wise combination of deduction and induction.

6 (a). Explain static-equilibrium.

merely explore and explain but also advocates and condemns. It not only investigates fact and discovers truth, but is also prescribes rules of life and passes judgement as to what is right and what is wrong. We may thus conclude that economics is not only a positive science but also a normative science.

4. Explain the deductive method of economic investigation.

DEDUCTIVE AND INDUCTIVE METHOD

There are two methods of scientific study. They are deductive and inductive methods. While induction proceeds from particular facts to general , deduction proceeds from general to particular. According to *Gee. Wilson*, Deduction is the progress of reasoning or inference from general to particular. Induction is the process of reasoning from particular to general". Both method come from logic.

The deductive method: This methods is also known as the analytical, abstract and priory method. It was strongly advocated and made use of by the classical economist. *Bacon* described deduction as a decending process in which we proceed from a general principle to its consequences.

For example the law of diminishing marginal utility states the larger the stock of a commodity, the lower shall be the utility derived from it. The larger the stock of money with a person, the lower shall be the utility of money. The inference here is that richer people derive a lower amount of utility from fixed stock of money than the poorer people. As such the richer people should be taxed progressively. The principle of progressive taxation is derived from the law of diminishing utility through deductive reasoning.

A complete form of deductive method involve three stages.

1. The formulation of assumption on the basis of which facts are to be analysed.

2. The process of deductive reasoning and inferences.
3. Verification of conclusions from inferences.

If the conclusions agree with observed facts, we get economic laws or generalisations.

The use of deductive method in economics was made by Smith, Ricardo, Senior, J.S. Mill, Robbins etc. Ricardo, was the first economist who applied deductive method in his investigations. Deductive method of reasoning is in very wide use in modern economic analysis. As *Nevin* observes. The bulk of theorising in economics is based on this type of process.

5. Explain the inductive method of economic investigation.

The inductive method: The inductive method is the process of reasoning from particular facts to general principles. Bacon describes it as an ascending process in which we collect facts arrange and then draw general conclusions. The inductive method was adopted by the German Historical School. It is also called as historical of empirical or statistical method.

In induction attempt is made to arrive at conclusions from the known facts of actual life. Suppose, if we study the relationship between quantity of money in circulation and price level in all economies of the world; if our study reveals that whenever there was an increase in money supply in any country there was a rise in price and vice versa, We can conclude that change in money supply cause changes in price level. This conclusion is after a study of the experience of all the countries in the world. It is based on the inductive method.

Engel adopted inductive method to formulate his law of family expenditure. The inductive methods involves four stages.

1. Observation. 2. Formulation of hypotheses. 3. Generalisation and 4. Verification.

The inductive method expects the economist to be primarily an economic historian who should first collect historical al trade.

7. The entire structure of welfare economics has been built upon micro economics.

Limitations or assumptions of micro economics: Though micro economic analysis is very useful in economics, it has its own limitations:

1. It assumes full employment. This is highly unrealistic assumption.

2. It cannot give an idea of the function of the economy as a whole.

3. It fails to give guidance to govt. in the formulation of economic policies.

4. Micro analysis may lead to wrong conclusions. What is true in the case of individual unit may not be true in the case of aggregates.

5. It studies only parts of the economy and ignores total aspects of the economy.

2. Distinguish between micro and macro economics.

MICRO AND MACRO ANALYSIS

Modern economic analysis has been divided into micro economics and macro economics. It is concerned with the behaviour of the economic units which work both individually and collectively. The study of individual units is known as micro economics. The study of collective units is known as macro economics. The terms micro and macro were coined by Prof. *Ragnar Frisch* of oslo university in 1933.

Prof. *M. Dobb* has introduced a slight variation in the use of the terms by renaming them as Micro-Scopic and Macro-Scopic.

From the various definitions of the two approaches it is clear that micro economics deals with parts of the economy and macro economics deals with the economy as a whole.

It is necessary to understand how micro economics differs from macro economics:

1. Micro economics is the converse of macro economics.

2. Micro analysis is the study of particular, while macro economic analysis is the study of general.

3. Micro economics studies the individual and parts of an economy, while macro economics studies the economy as a whole.

4. Micro economics studies the individual parts that are mortal while macro economics studies the community that is immortal.

5. To use a metaphor micro economics studies character of an individual tree, while macro economics studies the character of the entire forest.

6. Micro economics is simply a pure theory dealing with the mechanism of prices and values, while macro economics is a system of national policies dealing with savings, investment and employment activities.

7. Micro economics is concerned with an open economy while macro Economics is concerned with a closed economy.

8. Prof. J.K. Mehta says that micro economics is a study of individual in respect of their behaviour, while macro economics is a study of the community in respect of its behaviour.

9. Micro economics is otherwise called price theory. Macro economics is otherwise called as income theory.

10. Marshall's famous book "Principles of economics" is an outstanding example of Micro economics. Keynes' famous book "General theory of employment interest and money" is an outstanding example of macro economics.

11. Micro economics assumed full employment. No such assumption in Macro economics.

12. Marshall and other neo-classical writers were interested in micro analysis. Keynes and other modern economists were interested in macro analysis.

13. The concept of equilibrium is made use of in micro as well as in macro economics. In micro analysis it is partial equilibrium and in macro analysis it is general equilibrium.

14. Micro analysis is static analysis while macro analysis is a dynamic one.

3

Methods of Economic Analysis

1. Examine the scope and meaning of micro-economics.

MICRO ANALYSIS

The word 'micro' means millionth part. 'Micro' in Greek means small. In micro economics small parts or components of the whole economy is being studied. For example, the price of a particular product, behaviour of an individual consumer and individual firm comes within the purview of micro economics.

Definition of Micro economics: According to *Prof. Boulding*, "Micro-economics is the study of particular firms, particular households, individual prices, wages, incomes, individual industries and particular commodities".

According to *Prof. J.K. Metha*, "Micro economics is the study of small units as it were and it analysis as to how a particular unit would behave".

According to *Prof. Leftwich*, "Micro economics as the name implies concerned with parts of the economy rather than with the economy as a whole".

According to *Prof. Lerner*, "Micro economics consists of looking at the economy through microscope".

According to *Gardener Ackley*, "Micro economics deals with division of total output among competing uses. It considers problem of income distribution its interest is in relative prices of particular goods and services".

It is clear from the above definitions that micro economics is that branch of economic analysis which studies the economic behaviour of the individual unit. It is a study of one particular unit rather than all the units combines together.

An important tool used in micro economics is that of marginal analysis. Most of the important laws have been derived from marginal analysis, e.g. marginal productivity theory of distribution, Law of diminishing marginal utility, marginal returns etc.

Another noteworthy feature of micro economics is the assumption of the existence of full employment in the economy. Marshall and other neo-classical economists were concerned with micro economics. They studied individual prices, output and employment and ignored general prices, output and employment.

Scope of Micro economics: The area of study of micro economics are as follows:

1. Theory of product pricing.
2. Theory of factor pricing.
3. Theory of economic welfare.

Micro economics is also called as price theory.

Importance of Micro economics: Micro economics occupies a very important place in the study of economic theory. It has both theoretical and practical significance.

1. It explains the working of a free enterprise economy.
2. It explains how resources are allocated among competing uses.
3. It explains how goods and services are produced and distributed in the community.
4. It helps to formulate economic policies.
5. It tells us how the economy should operate to promote general welfare.
6. Micro economic analysis is applicable to the various branches of economics such as public finance and internation

Importance of Economics

The following are some of the views expressed by economist about the importance of the concepts and ideas to economic science.

wootten: No one today can claim to be a citizen of his or her country in the real sense if he or she is not an economist to some degree.

Keynes: The ideas of economist and political philosophers both when they are right and when they are wrong are more powerful than is commonly understood; indeed the world is ruled by a little else.

Marshall: The aims of the study are to gain knowledge for its own sake and to obtain guidance in the practical conduct of life.

The study of economics is useful for the following reasons:

1. It is an intellectual discipline: The study of economics facilitates clear thinking. According to *Robertson* the main practical object in undertaking the study of economics is the formation of judgement. Study of economcs is of very great value in sharpening connected with value, foreign exchange currency etc., serves as an excellent mental gymnastic.

2. It teaches the facts of economic life: Economics deals with matter of every day importance. The citizen of a democratic state must be aware of the economic process. *Hentry clay* remarks that, some study of economics is at once a practical necessity and national obligation.

3. The study of economics enlightens us about the working of the economic system. We can understand how the economic system function.

4. It is useful to businessmen and professional people.

Every businessmen is in some degree an economist because he should know the practical art of making money. He learn the principles of business organisation.

5. To the statesmen the knowledge of economic gives better grasp of the political problems that face us.

6. To the Finance minister the knowledge of economics is indisensable, otherwise the tax systems will not be a sound one.

7. To the labour leader economics is of great help to solve the labour problems.

8. The study of economics help as to lay down certain policy prescriptions. The policy regarding taxation, tariffs, loans and subsidies are to be taken into account.

9. The study of economics is of great practical importance to all the underdeveloped countries. The theory of economic growth helps the country to accelerare its development. Thus economics is useful to the consumer, producer, worker and the government.

Such is the importance of the study of economics.

15. Since micro-study takes into consideration of
units, this method is also referred to as "Slicing
Macro economists studies the macro-quantities
the economy into sectors, or big lumps. Hence this
also referred to as "*lumping method*"

16. Micro-economics is useful in achieving a
view of some of our economic system. Macro econo
useful in achieving a *bird's eye view* of some of our eco
system.

Economist have emphasised differently these
nomic analysis in different periods. The distinction
micro and macro economics is not very clear cut and
approaches must be studied simultaneously.

What is needed now is a proper integration of macro
micro approaches. As pointed out by Prof. *Ackley* "
general theory of the economy would clearly embrace
To reach meaningful results macro economic problems
be approached with micro economic tools and micro
problems with macro economics tools. "Therefore it is
to have a matrimonial integration of two approaches
analysing the economic problems and in prescribing
policy measures".

In the words of Prof. *Samuelson*, "There is really
position between micro and macro economics. Both are
lutely vital. You are less than half-educated if you unders
the one while being ignorant of the other".

3. Is economics a positive or normative science ?

POSITIVE VS NORMATIVE ECONOMIC ANALYSIS

A study on the methods of economic analysis
a controversial points. Is Economics a positive or
science. This controversy is as old as economics itself.