



Nature of Economics and its Basic Problems

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Abstract:

Economics is an idea which makes a relationship between scarce means and unlimited wants. In this paper the researcher concern is with some basic preliminary concepts: (1) Importance or consequence of the study of economics (2) Subject matters of economics (3) The basic problem of a economy.

Keywords: *Economics, Environment, Nature, Problems*

1. Introduction

There is no end of people wants. When one or two wants is satisfied, more new wants are felt successively. But the means or resources are limited. People do not get sufficient resources which are needed to satisfy the unlimited wants. So the resources are always scarce in relation to the wants of the individuals, state or the government. Under this situation we have to choose the more urgent wants.

2. Objectives

1. Describe the nature of economics;
2. Distinguish between microeconomics & macroeconomics; and
3. State the basic problem of an economy.

3. Nature and Scope of Economics

People are confronted with innumerable wants from the cradle to the grave. If one want is satisfied, other wants emerge in succession. To satisfy these wants people are engaged in different activities in the society. But the means are limited in relation to unlimited wants. So people are constantly striving to satisfy unlimited wants with limited means. The science of Economics has emerged as a discipline to discuss how people are engaged in different activities to earn money and how do they endeavor to satisfy unlimited wants with limited means. The knowledge of economics is indispensable to know about how best to solve the manifold economic problems by the proper utilization of resources in the society.

4. Definition of economics

The English term 'Economics' is derived from the Greek word 'Oikonomia'. Its meaning is 'household management'. Economics was first read in ancient Greece. Aristotle, the Greek Philosopher termed Economics as a science of 'household management'. But with the change of time and progress of civilization, the economic condition of man changes. As a result, an evolutionary change in the definition of Economics is noticed. Towards the end of the eighteenth century Adam Smith, the celebrated English Economist and the father of Economics, termed Economics as the 'Science of Wealth'. According to him, "Economics is a science that enquires into the nature and causes of the wealth of nations". In other words, how wealth is produced and how it is used, are the subject-matter of economics. In the subsequent period Alfred Marshall defined Economics by saying, 'Economics is a study mankind in the ordinary business of life'. In other words, according to

Marshall, Economics studies not only the wealth but also the activities centering the wealth. In modern times more realistic definitions have been given to economics. In social life human wants are unlimited, but the means to satisfy those wants are scarce. Economics studies how to use the limited resources to satisfy the unlimited wants of men. In the words of Lionel Robins, the modern economist, 'Economics is a science which studies human behavior as relationship between ends and scarce means which have alternative uses'. So, Economics as a social science studies how people perform economic activities and how they try to satisfy unlimited wants by the proper use of limited resources. Economics is the study of how societies use scarce resources to produce valuable commodities and distribute them among different people.

5. Scope of economics

Economics is a social science. The subject matter of economics deals with the analysis of economic problems of people in the society and the satisfaction of their wants. With the evolutionary changes of the society and its civilization, the subject matter scope of economics has expanded. Scope of economics is discussed below:

1. As social science economics deals with the economic activities of human being. One person day to day money earning and money spending activities constitute the subject matter of economics. For example, parents' affection and nursing service for their children are not the subject matter of economics.
2. Resources are needed to satisfy people's wants. So, the availability of resources and their use are important subject matter of economics. Adam Smith has termed economics as the "Science of Wealth".
3. People's wants are unlimited. But the resources to satisfy the wants are scarce. Economics discusses how men can get the maximum satisfaction by using the scarce means to satisfy wants on the basis of priority. So, as subject matter of economics, the scarcity of resources is considered very important.
4. People's wants are related to production, exchange, distribution and consumption. Again, currency, banking system, public finance, trade etc is also parts of economic activities. Economics discuss these issues also. Besides, how economic development of the country is achieved through the means of economic planning is also included in the subject matter of economics.
5. Economics discusses the economic problems and economic activities and indicates proper solution to these problems. Economics also discusses about the value judgment of human actions and behavior.

6. Importance of the study of economics

In modern times the importance of the study of economics is infinite. It is not only provides us knowledge, but also helps to solve the different problems in real life. The importance of economics in different areas of human life is discussed below:

In the daily life of people: People are confronted with manifold wants in their daily life. But the resources to satisfy those wants are limited. By studying economics we can know the use of limited resources to satisfy alternative wants on the basis of priority.

In the proper use of resources: We can learn about the use of resources with the knowledge of economics. Study of economics helps us to understand about how to produce the maximum output by the proper use of limited resources.

In state management: The knowledge of economics is indispensable to manage the economic and development activities of a state. For this reason the politicians and the govt. officers need to have proper knowledge of the currency system, banking system, tax system, industrial and trade policy, budgeting etc. The knowledge of economics helps in managing the state affairs.

To social workers: Economic causes lie at the roots of maximum social problems. The social workers need to have knowledge of economics to diagnose and solve the problems of poverty, unemployment, illiteracy, excessive growth of population, lack of housing and medical facilities etc.

To the labor leaders: The leaders of the workers should have the knowledge of economics for improving their bargaining capacity in respect of the formation of trade unions, the increase of wage and other benefits, the improvement of their working conditions etc. In economic planning: It is necessary to have sound knowledge of the economic problems and the available resources for the formulation and implementation of economic plans for the country. For this reason the knowledge of economics is indispensable.

Acquisition of knowledge of international issues: The knowledge of economics is necessary to know and understand the socio economic events of different countries, international relationship, commerce etc.

7. Basic economic problem

In the previous section we have learned about the scarce means of a economy and the unlimited wants of people. Because an economy's production is limited by its resources and technological knowledge, every society, no matter how rich or poor, makes choices; between health care and yachts, between highways and tanks, between education and restaurant meals. That means every society must have a way of determining what goods are produced, how these goods are made, and for whom these goods are produced.

8. Three problems of economic organization

Every society must have to determine *what* goods are produced, *how* these goods are made, and *for whom* these goods are produced. These three fundamental questions of economic organization- *what*, *how* and *for whom* are as crucial today as they were at the dawn of human civilization. Now we know details about them.

What goods are produced and in what quantities? A society must determine how much of each of the many possible goods and services it will make, and when they will be produced. Will we produce paddy or jute in our field? A few high-breed paddy or much more local paddy will be produced? will we use scarce resources to produce manu consumption goods? will we produce fewer consumption goods and more investment goods. Every society has to face this type of questions or problem. We may call this problem as problem of choice.

How are goods produced? A society must determine who will do the production, with what resources, and what production techniques they will use. Is electricity generated from natural gas, coal, or solar power? This problem is called to be technological problem.

For who are goods produced? One key task for a society is to decide who gets to eat the fruit of the economic efforts. Or, how is the national product divided among different households? Are many people poor or rich? Do high incomes go to teacher, doctor, businessman or landlords? This type of problem is called to be problem of distribution.

9. Proper Utilization of Resources

In every society the resources are scarce in relation to demand. The scarce resources should be utilized in such a way as to maximize the welfare of the society. In production, resources should be employed in such a way that they give maximum output at a minimum cost. This is called the proper utilization of resources. Proper utilization of resources is necessary for solving the economic problems of the society. Even in personal life, scarce resources should be used for meeting the necessities of high priority in order to get the highest satisfaction.

10. Economic System

One key task for Economics is to study & explain the different ways that a society can answer the questions what, how and for whom. Different societies are organized through alternative economic systems and economic studies the different mechanism that a society can use to allocate its scarce resources. Different type of Economic systems prevails in different countries of the world. They are: 1.market economy 2.command economy 3.mixed economy.

11. Market Economy

A market economy is one in which individual and private firms make the major decisions about production and consumption. In this market consumer are sovereign. Firms produce the commodity that yield the highest profit. From here you can get answer of the question *what*. Firms use the techniques of production which are least costly. From here you can get answer of the question *how*. Consumption is determined by individuals' decisions about how to spend the wages and property ownership. We get the answer of question *for whom*. Like United States most of the democratic countries, most economic questions are solved by the market.

12. Command Economy

A command is one in which the government makes all decisions about production and distribution. Soviet Union during most of this century, the government owns most of the means of production (land and capital); it also owns and directs the operations of enterprise in most industries; it is the employer of most workers and tells them how to do their jobs; and the government in a command economy decides how the output of the society is to be divided among different goods and services. In this economy, the government answers the major economic questions through its ownership of resources and its power to enforce decisions.

13. Mixed Economy

In recent time no contemporary society falls completely into either market economy or command economy. Rather all exception of two or three societies are mixed economies with element of market and command. Like market economy, here the private ownership of property, earning of profit and individual initiative prevail. But, there is also govt. control over the economic activities at the private level. Besides, some large scale and basic industries and important commercial venture are run in the public sector.

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