

Nature of Indian Economy

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General Economics

Definition of Economics

Science of Wealth

Science of Material Well-Being

Science of Choice Making

Science of Dynamic Growth &
Development

Definition of Economics

- “An Inquiry into the Nature and Causes of the Wealth of the Nations”. – Adam Smith (1776)
- “Study of Mankind in the Ordinary Business of Life; it examines that part of Individual & Social Action which is most closely connected with the attainment & with the use of the Material requisites of Well Being.” – Alfred Marshall (1922)

Definition of Economics

- “Science which Studies Human Behaviour as a Relationship between Ends & Scarce Means which have alternative use.” – Lionel Robbins (1932)
- “Study of How Men & Society choose, With or Without the use of Money; to employ Scarce Productive Resources which could have alternative uses, to Produce Various Commodities over time & Distribute them for Consumption now & in Future amongst various People & Groups of Society.”

Economics is.....

- Study of Production, Distribution & Consumption of Wealth in Human society.
- Study of making Choices.
- Study of Human Behaving in response to having only Limited Resources to fulfill Unlimited Wants & Needs.
- Study of Trade-Offs involved when choosing between Alternate Sets of Decisions.

Scope of Economics

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graph TD; A[Scope of Economics] --> B[Micro-Economics]; A --> C[Macro-Economics]
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**Micro-
Economics**

**Macro-
Economics**

Micro-Economics

- Concerned with Microscopic Study of Various Elements of the Economic System and not with the System as a whole.
- Study the Economic Behaviour of an Individual, Firm or Industry in the National Economy.

Micro-Economics

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

- Lerner.

Micro-Economics Studies

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

Macro-Economics

- Studies the Working & Performance of the Economy as a Whole.
- Analyses Behaviour of National Aggregates including national Income, Aggregate Consumption, Savings, Investment, Total Employment, General Price Level, & Country's Balance of Payments.

Macro-Economics

As defined by **Boulding**,

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

Macro-Economics Studies

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

Nature of Economics

As a
Science
• Positive
Science
• Normative
Science

As an Art

Economics As A Science

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

Is Economics A Science?

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

Economics As a Positive Science

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

Economics As a Normative Science

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

Is Economics A Positive Science or Normative Science?

- Economics is **FUNDAMENTALLY** a Positive Science. **BUT**, as tool of Practical Application it must have some Normative Character which it Acquires from
 - The Application of Economic Theories to Examine & Evaluate the Economic Phenomena from their Social Desirability point of view, and
 - To Evaluate the Policy Actions of the Government.

Methods of Study

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graph TD; A[Methods of Study] --> B[Deductive Method]; A --> C[Inductive Method];
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**Deductive
Method**

**Inductive
Method**

Deductive Method

- Also called as Abstract, Analytical & Priori Method.
- Laws are deduced Logically.
- Conclusions & Generalizations are drawn on the Basis of Certain Fundamental Assumptions.

Steps in Deductive Method

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

Limitations of Deductive Method

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

Inductive Method

- Conclusions are drawn on the Basis of Collection & Analysis of Facts relevant to the inquiry.
- Generalisations are based on Observation of Individual Examples.

Steps in Inductive Method

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

Importance of Inductive Method

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

Limitations of Inductive Method

- Risk of hurried conclusions having being drawn from an insufficient number of facts.
- Difficulties involved in Collection of Facts.
- The Fact that Observation & Experimentation have very Limited Application in a Science that deals with Human Activities.

Central Economic Problems

- What to Produce?
- How to Produce?
- For Whom to Produce?
- What Provision should be made for Economic Growth?

Production Possibilities Frontier (PPF)

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

Assumptions to PPF

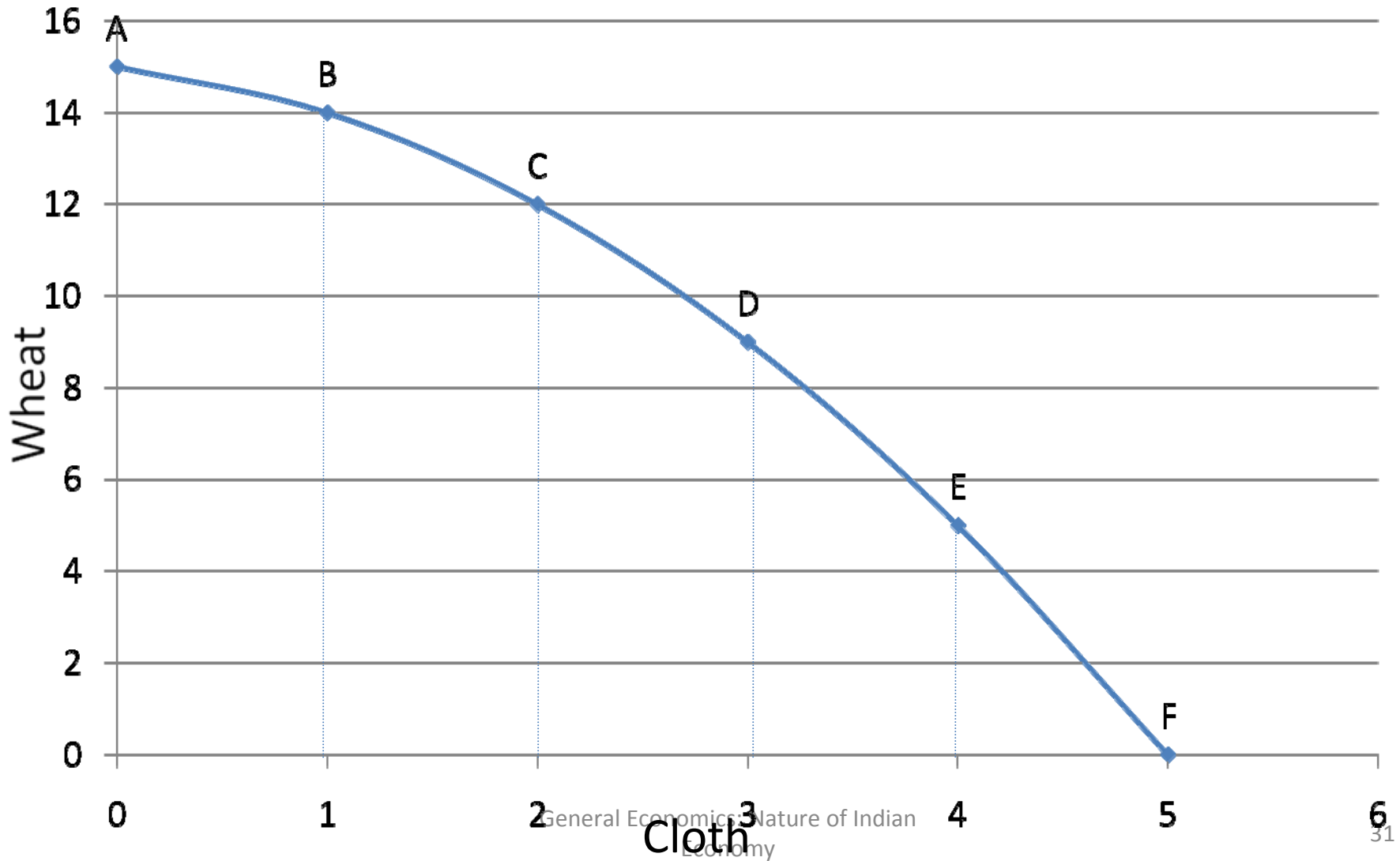
1. There is a given amount of Productive Resources & they remain Fixed.
2. Resources are neither Unemployed nor Underemployed.
3. Technology does not Change.
4. Country produces only 2 Goods – Food & Clothing

Production Possibilities Frontier

Alternative Production Possibilities

Alternative	Cloth (thousand meters)	Wheat (thousand quintals)	Opportunity Cost
A	0	15	
B	1	14	1
C	2	12	2
D	3	9	3
E	4	5	4
F	5	0	5

Production Possibility Frontier



Notes to PPF

- Since the Resources are Limited & we assume that they are Fully Employed, Economy has to give up something of one good to obtain some more of the other known as Opportunity Cost.
- Since the Given Resources are fully employed & utilized, the Combination of 2 Goods produced can lie anywhere on PPF.

Notes to PPF

- Principle of Increasing Opportunity Cost makes the PPF concave to the origin.
- When the Economy makes progress in Technology, the PPF will Shift Outward & to the Right showing that more of both Goods can be Produced than before.

Types of Economies

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graph TD; A[Types of Economies] --> B[Capitalist]; A --> C[Socialist]; A --> D[Mixed];
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Capitalist

Socialist

Mixed

Capitalist Economy

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

Socialist Economy

- Controlled, Managed & Regulated by Govt.
- Means of Production owned by Society.
- Guiding Factor for Economic Activities is Social Welfare.
- Freedom of Choice for the Consumers & Producers is Curbed.
- Role of Market Forces & Competition is eliminated by Law.

Mixed Economy

- 3 Sectors of Industries exists:
 - Private Sector
 - Public Sector
 - Combined Sector
- Planned Economy
- Balanced Regional Development
- Dual System of Pricing

Q 1.

- Who expressed the view that “Economics is neutral between end”?
 - a) Robbins
 - b) Marshall
 - c) Pigou
 - d) Adam Smith

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Q 2.

- What implication(s) does resource scarcity have for the satisfaction of wants?
 - a) Not all wants can be satisfied.
 - b) We will never be faced with the need to make choices.
 - c) We must develop ways to decrease our individual wants.
 - d) The discovery of new natural resources is necessary to increase our ability to satisfy wants.

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Q 3.

- Which of the following does not suggest a macro approach for India?
 - a) Determining of GNP of India.
 - b) Finding the causes of failure of X and Co.
 - c) Identifying the causes of Inflation in India.
 - d) Analyse the causes of failure of Industry in providing Large Scale Employment.

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Q 4.

- Identify the Correct Statement:

- a) In Deductive Method logic proceeds from the Particular to the General.
- b) Micro and Macro-Economics are independent.
- c) In a Capitalist Economy, the Economic Problems are solved by Planning Commission.
- d) Higher the Prices, Lower is the Quantity Demanded of a Product is a Normative Statement.

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Q 5.

- In a Free Market Economy the Allocation of Resources is determined by
 - a) Votes taken by Consumers.
 - b) A Central Planning Authority.
 - c) Consumer Preference.
 - d) The level of Profits of firms.

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Q 6.

- The Central Problem in Economics is that of
 - a) Comparing the Success of Command versus Market Economies.
 - b) Guaranteeing that Production occurs in the most Efficient Manner.
 - c) Guaranteeing a Minimum Level of Income for every citizen.
 - d) Allocating Scarce resources in such a manner that Society's Unlimited Needs or Wants are satisfied as well as possible.

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Q 7.

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

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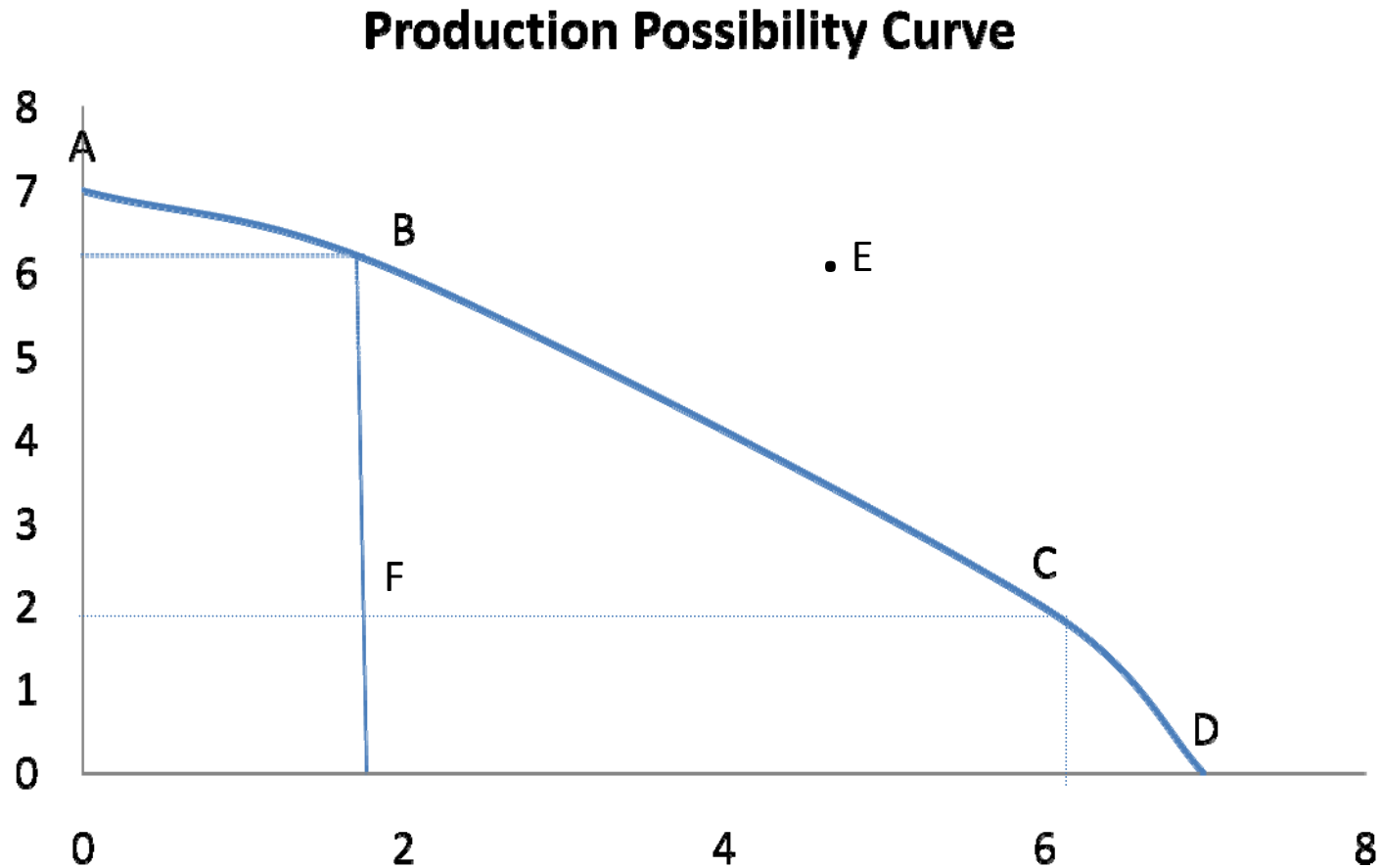
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- In a Mixed Economy,
 - a) All Economic Decisions are taken by the Central Authority.
 - b) All Economic Decisions are taken by Private Entrepreneurs.
 - c) Economic Decisions are partly taken by the State & partly by the Private Entrepreneurs.
 - d) None of the Above.

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Use the Figure to Answer Question 9 - 11



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- Which point on the PPF shows a “Productive Efficient” Level of Output?
 - a) A
 - b) B
 - c) C
 - d) All of the Above.

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Q 10.

- Which of the following clearly represents a movement toward Greater Productive Efficiency?
 - a) A movement from point A to point B.
 - b) A movement from point C to point D.
 - c) A movement from point F to point C.
 - d) A movement from point E to point B.

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Q 11.

- Which of the following illustrates a Decrease in Unemployment using the PPF?
 - a) A movement down along the PPF.
 - b) A rightward shift of the PPF.
 - c) A movement from a point on PPF to a point inside the PPF.
 - d) A movement from a point inside the PPF to a point on PPF.

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Q 12.

- If PPF is linear, i.e., a Straight Line, which of the following is true?
 - a) As the Production of Good Increases, the Opportunity Cost of that Good Rises.
 - b) As the Production of a Good Increases, the Opportunity Cost of that Good Falls.
 - c) Opportunity Cost are Constant.
 - d) The Economy is not at Full Employment when operating on PPF.

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

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Q 16.

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

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- Which of the following is not the Micro-Economic subject matter?
 - a) The Price of Mangoes.
 - b) The cost of producing a Fire truck for the Fire Department of Delhi, India.
 - c) The Quantity of Mangoes produced for the Mangoes Market.
 - d) The National Economy's Annual Rate of Growth.

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Q 18.

- Which of the following is not one of the four Central Questions that the Study of Economics is supposed to Answer?
 - a) Who Produces What?
 - b) When are Goods Produced?
 - c) Who Consumes What?
 - d) How are Goods Produced?

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Q 19.

- During Presidential Election Campaigns, Candidates often promise both more “Gun” & more “Butter”, if they are Elected. Assuming Unemployment is not a Problem, What possible Assumption are they making but not revealing to their audience?
 - a) There will be a sufficient increase in the Supply of Natural Resources used to produce “Guns” & “Butter”.
 - b) That there will be an improvement in the technology of both “gun” & “butter”.
 - c) That there will be an increase in the Labour Force.
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Q 20.

- From National Point of View which of the following indicates Micro Approach?
 - a) Per Capita Income of India.
 - b) Underemployment in Agricultural Sector.
 - c) Lock out in TELCO.
 - d) Total Savings in India.

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THE END

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