

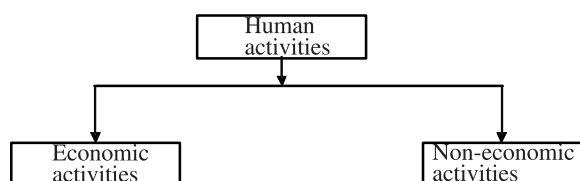
Chapter-16

Economics and Economy

1. Meaning of Economics-

Human needs are unlimited but the resources available to fulfil the needs are limited. To fulfil his needs, a man has to perform various economic and non-economic activities. The science which studies the economic activities of a society is known as Economics. In other words, Economics is the study of the economic activities of a man.

During his lifetime from birth to death a person performs various activities in his daily life from morning to night. All these human activities can be divided into two parts-



A) Economic activities -

All these activities performed by human which can be measured in Money are called economic activities. Farming by a farmer, Service rendered by a labourer in an industry, teacher teaching in a class, person working in an office etc. all are economic activities which are performed to earn livelihood.

According to the subject matter of economics the main economic activities can be classified as follows.

I. Production -

The transformation of raw material into manufactured goods which can fulfil human wants is called production. In other words production is the creation of utility. A person producing goods and services with the aim of earning profit is called a producer, for example a farmer doing farming. In this example the farmer is a producer and farming is production.

II. Consumption -

The use of goods and services to directly satisfy human wants is known as consumption, the person consuming goods and services to satisfy his wants is called a consumer. For example, the purchase of a football by sachin to play. In this example sachin is a consumer and act of purchasing a football is consumption.

III. Exchange -

The act of exchanging goods and services produced by a person with the goods and services of another person is known as Exchange in economics. In other words the buying and selling of goods and services in a market by consumers and producers is called exchange. A person rendering his services in a company and receiving remuneration in return, in the same way a person buying wheat from the market and paying the price for it etc. are examples of Exchange.

IV. Distribution -

A producer needs various factors of production to produce goods and services. There are five factors of production - land, capital, labour, management and entrepreneur. Production is possible with the joint and collective efforts. All factors of production the division of production among all factors of production is called Distribution. In other words the division of revenue received by the exchange of production among various factors of production is called Distribution.

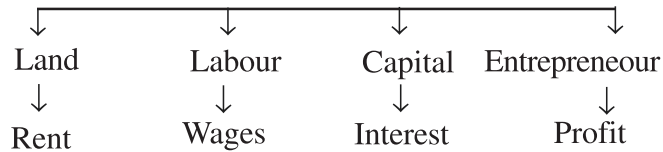
B) Non-economic activities

The activities inspired by love, affection, social and religious duties, physical needs, patriotism etc. are all non-economic activities. These types of activities are not valued in money. For example children playing, working of a housewife for her family, prayers in worship places, Contribution by a person in social work.

2. Factors of Production

Production is an important economic activity. The production of a goods undergo various stages. Various factors of productions are required in the execution of production process. The quantity of production depends upon the quantity of means of production used. We can classify these factors of productions as follows-

Means of production and their rewards



A) Land -

According to traditional view, land is a free gift of nature. In economics 'Land' does not refer only to soil or surface of earth. In it besides land surface natural resources, climate, vegetation, mountains, water, mines etc. are all included. From view point of availability, the supply of land is fixed land is an immovable factor of production as it cannot be transferred from one place to another. According to its fertility and use land is of different category. The remuneration given to the owner for the use of land in process of production is known as rent.

B) Labour

Labour is the amount of physical and mental effort done to produce goods and services. The efforts done with the aim of love, compassion or entertainment are not considered as labour in economics. Only the effort done to produce some goods and services with the hope of receiving economic return is considered to be labour. For eg. the service rendered by housewife is not considered as labour while that of a servant is labour. It is the only factor of production which is directly related to human while the other factors are not directly related. Labour is a movable factor. All labour is not productive. It is not necessary that all labour results in production as the desired result is not always achieved in a production process, the remuneration received by a labourer for his labour is called wages.

C) Capital

All goods and human qualifications which

are useful in production of goods and services and which have monetary value are called wealth. Some portion of wealth lies unused while some is used to produce more wealth. Capital is that part of human wealth which is used to produce more wealth. Capital is a part of production which is acquired by human by using it along with natural resources. Capital is also known as human equipment of production. Machine, equipments, factories, means of transport are examples of capital.

D) Entrepreneur

The person organising land, labour and capital in production function is called an entrepreneur. An entrepreneur determines the appropriate ratio of all the factors in production process. He bears all the risk in a production process. Production is not possible without taking risk thus. The work of entrepreneur is to initiate the production process and to bear the risk. He is also called as manager and organiser. The remuneration of an entrepreneur is that part of production which is left after paying all other factors of production. It is called profits but it is not fixed. An entrepreneur can both earn profit or can bear loss.

3. Economy

In every country a person is engaged in various types of economic activities to earn his livelihood whether it is a farmer or a labourer, industrialist or a shopkeeper, teacher or a doctor all are working to earn one's livelihood. There is a need of a well organised system or an organisation for the proper execution of all the economic activities performed by various economic groups. Such a system or an organisation is known as economy. To conclude it can be said that a system or an organisation by which people earn their livelihood is called an economy.

Economy is structure wherein mutual cooperation or understanding is developed amongst the producers of various goods. It is a system in which the economic activities like production, consumption, Exchange, and distribution take place continuously. Generally it can be said that a system under which the economic activities of a particular area are carried

on is called an economy . For eg. sugar is produced by sugar mill, for the production of sugar a producer gets sugarcane from a farmer, machines and equipments from industries and electricity from power plants. Means of transports (trains, trucks, ships etc) are needed to transport the produced sugar to different parts of the country. Thus his structure of mutual co-operation and understanding between different producers for the production of sugar is an economy.

The economy of your village or town

Study of the economic activities of all residents of the whole village or town.

The economy of Rajasthan

The study of the economic activities of the residents of Rajasthan.

The economy of India

The study of the economic activities of the residents of the whole country.

4. Types of Economy

Production, Consumption, Exchange, Distribution and other economic activities of a country depend upon the form of an economy. What will be the amount of interference of the state in conducting the economic activities in a country? what will be the aim of conducting economic activities? etc. are the bases on which we can divide the economies of the world in three following group

- A) Capitalistic economy
- B) Socialistic economy
- C) Mixed economy

A) Capitalistic Economy

Meaning - By a capitalistic economy we mean by such economy where the factors of production are owned and controlled by private individuals. The aim of the economic activities is private welfare and profit. The government does not interfere in the conducting of economic activities.

Capitalistic economy is also known as 'open market economy', 'Market economy' and 'open economy'. This type of economy originated between 1760 to 1820 during industrial revolution. Today capitalistic economy cannot be found in its pure form in any of the world's economies but on basis of

conduction and control of economic activities, the economies of united states of America, Germany, Canada, Italy, Japan, France, Australia etc. are called capitalistic economy.

Features of Capitalistic Economy

The features of this economy are as follows -

(i) Right of Private property -

All the means of production like land, mines, factories etc. under private ownership the owner of these means are free to use them according to his wish. People are free to keep, increase and use the property.

(ii) Independence of consumers choice -

In capitalistic economy a consumer is a sovereign i.e. a producer produces according to the expenditure and wish of a consumer. This is called as consumer sovereignty. In this economy a consumer is free to spend his income. A consumer is called 'King of Market' as he enjoys the supreme position in this economic system.

(iii) Freedom of entrepreneurship -

Every Person can perform any economic activity according to his will. He has full freedom to produce, select a technique and establish industry. It is also called as an 'free entrepreneurship economy' due to no interference of government.

(iv) Competition -

In a capitalistic economy producers compete to sell their products and consumers compete to buy goods to fulfil their demands. This increases the efficiency of the market. Advertisement, gifts, decrease in prices etc. methods are adopted for competition.

(v) Private welfare and profit -

In a capitalistic economy every person takes a decision to work or produce a good keeping profit motive in mind i.e. what and how much will be the profit in doing a work? In the same way a consumer too consumes goods for private welfare.

(vi) Class Struggle -

In a capitalistic economy society is divided into two classes. On one side there are resourceful rich people called capitalist and on other side is the deprived class called labourers. The aim of increasing profit and aim of labourers to avoid being exploited give birth to class struggle.

(vii) Inequality of income -

The gulf between rich and poor is increasing due to unequal distribution of property.

We can analyse capitalist economy as follows-

A) Merits

- (i) Increase in production capacity and efficiency
- (ii) More satisfaction to consumers
- (iii) Optimum use of resources
- (iv) Development of technology
- (v) Increase in the living standards
- (vi) Economic liberty
- (vii) Development of research

B) Demerits

- (i) Disparity of income and property
- (ii) Regional inequalities
- (iii) Economic instability
- (iv) Rise of monopolies
- (v) Misuse of production resources
- (vi) Unlimited and unethical consumption
- (vii) Downfall of moral values

B. Socialistic Economy

Meaning - Socialistic economy means such economy where the whole society owns the means of production through the government and all economic activities are controlled by a central authority with the motive of collective welfare.

Socialistic economy is also called as 'equal economy' or 'Centrally planned Economy'

The socialistic economy originated after the Russian revolution of 1917, which was influenced by socialism developed by Karl Marx.

After Russia, Czechoslovakia, Bulgaria, China, Yugoslavia, Vietnam etc. adopted this economic system. But at present all other countries except China and North Korea have abandoned this system.

Features of socialistic Economy

The important features of socialistic economy are as follows-

(i) Collective ownership of Resources -

In this economy the physical means of production i.e. Land, forest, factories, capital, mines etc. are owned and controlled by government or society. As a result economic activities do not have

any private welfare or profit motive.

(ii) End of the choice of consumers -

In this the sovereignty of consumers choice is limited to only those goods which are produced as directed by the government. The quantity to be consumed by the consumers is also determined by the government.

(iii) Centralized or Economic Planning -

In a socialistic economy there is a central authority to determine and achieve social-economic objectives. All important decisions such as what to produce? and how to produce? are taken by the central authority.

(iv) Motive of social welfare -

In socialistic economy all important economic decisions are taken by the central authority, keeping maximum social and collective welfare in mind and not private profit motive.

(v) Economic equality -

Socialistic economy works on the principle of equal wages for equal work. Hence there is no place for class struggle in this economic system. Besides due to lack of opportunity to acquire private property, the inequality in income is also less.

Analysis of Socialistic economy

Merits -

- (i) Equal distribution of income and wealth
- (ii) Equality of opportunities
- (iii) Planned Economy
- (iv) End of class struggle
- (v) End of economic ups and downs (economic stability)
- (vi) Right to work
- (vii) Assurance of minimum standard of living

Demerits -

- (i) Bureaucracy and Red Tapism
- (ii) Constraints on individual liberty
- (iii) Decrease in production
- (iv) Lack of economic inspiration
- (v) Decrease in the freedom of consumer
- (vi) Encroachment of rights (Right to Private Property)

C) Mixed Economy

Meaning - This economic system tries to include the ideal features of both capitalism and socialism in

other words this system is the mid way of Capitalism and socialism.

In mixed economy both private and public sectors coexist. It supports private enterprises and private profits, but also considers the existence of government to protect the interests of society as a whole. In mixed economy it is seen that both private and public enterprises work collectively in such a way that the economic welfare of all classes of the country increases and the possibility of a country's progress and development expands. After independence India has adopted this economic system.

Features of Mixed Economy

Some of the important features of Mixed economy are as follows -

(i) Co-existence of private and public sectors -

The most important features of mixed economy is the co-existence of private and public enterprises. The government has monopoly over the important industries like drinking water, electrification, power generation, internal and external security etc. The heavy and basic industries are run and developed by the government, while agriculture and cottage industries are under private sectors. Beside this joint sector also exists.

(ii) Administrative price -

In mixed industry dual price determination system prevails. The price of goods produced in private sectors is determined independently by the market but the government reserves the right to fix the price of necessary goods which are consumed by common public. For example in India the price of petroleum, diesel, LPG etc are determined by the government.

(iii) Economic Planning -

Mixed economy is a planned economy, where the government determines social and economic policies through complete planning in accordance to these policies it does social welfare work like rivers valley projects for provision of drinking water, irrigation, tourism, fisheries, electricity generation to ensure social welfare of the common public.

(iv) Regional Balance-

As the government controls all the important sectors it implements the planning process in such a

way that there is an equal development of all regions for example expansion and development of facilities like education, health, road, transport, drinking water etc.

(v) Individual liberty -

In mixed economy private sector has the liberty of production, consumption exchange and distribution. But this freedom is partially controlled by the government to avoid any adverse effect on social interest and welfare. For instance prohibition of smoking and drinking at public places, child marriage, feast after death, opulent marriage ceremony etc.

Analysis of Mixed Economy

Merits-

- (i) Inclusion of the merits of both capitalism and socialism
- (ii) Preservation of individual liberty (business and consumption)
- (iii) Lack of class struggle
- (iv) Lack of mutual disparities
- (v) control over economic cycles
- (vi) Balanced development of under- developed countries

Demerits -

- (i) Difficult to manage (lack of coordination)
- (ii) Temporary profit
- (iii) Medium pace of economic development
- (iv) Encouragement to formalities and partiality (lack of production efficiency)

Important Points

1. Economics is the study of the economic activities of man and society.
2. Those activities of man which can be measured in money are known as economic activities.
3. The creation of utility is called production.
4. The use of goods and services to satisfy human wants is called consumption.
5. There are four types of factors of production Land, Capital, Labour, Management or entrepreneur.
6. The operation of economic activities of a specific area under a specific system is called an economy.
7. An economic system where the factors of

production are owned and controlled by private individuals is known as Capitalistic economy.

8. An economic system in which all means of productions are owned and controlled by the whole society through government is called a Socialistic economy.

9. An economy where there is co-existent of both private and public sector is known as Mixed economy.

Objective Questions

- Which of the following is an economic activity-
(a) the friendly match played by two classes of a school
(b) the care of children by parents
(c) the teaching of teacher in school
(d) the prayer assembly in school
- The form of Indian economy is -
(a) capitalism (b) socialism
(c) mixed (d) none
- Which of the following economic systems provide the right of private property-
(a) capitalism
(b) socialism
(c) both capitalism and socialism
(d) none
- Which of the following is not the feature of a mixed economy -
(a) guardian of personal liberty
(b) Lack of class struggle
(c) More satisfaction to consumer
(d) Control over economic cycles

Very Short Answer Questions

- What is economy?
- State the meaning of economics.
- Write the names of types of economy.
- Write the names of factors of production.
- What is Production?
- Define Consumption.
- Give one example each of production and producer.

8. Write the meaning of distribution.

9. What is labour ?

10. Write meaning of socialistic economy.

Short Answers Questions

- What are economic activities ? Explain with examples ?
- Differentiate between wealth and capital ?
- Explain the concept of economy with examples.
- What is the difference between a socialist and capitalist economy ?
- Explain the relationship between production and consumption.
- Mention the properties of mixed economy.

Essay type Questions

- Explain the difference in economic activities and non economic activities.
- Explain the major means of creation.
- Mention the main features of the capitalist economy.
- Mention the major symptoms of mixed economy.

Answer of objective questions

- (c)
- (c)
- (a)
- (c)