Basic Concepts of Economics

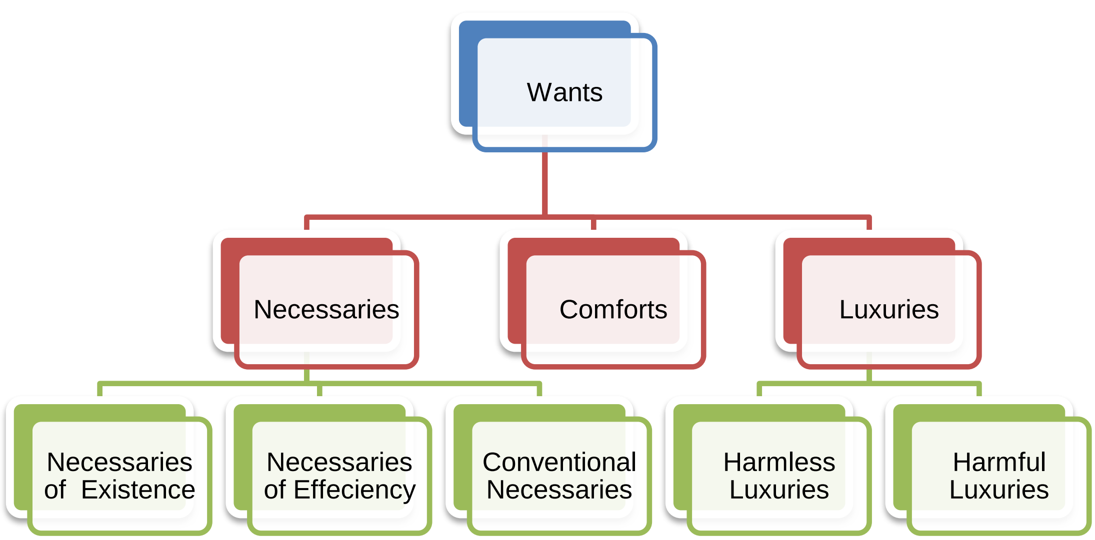
Human Wants

Human wants are countless and are of various kinds. A human is a bundle of desires, with wants infinite in variety and number. Some wants are natural such as food, air, clothing and shelter without which existence is not possible. However, with the development of social, cultural and ethical values, these wants can be controlled by humans to a certain extent.

Characteristics of Human Wants

- Human wants are unlimited: There is no limit to man’s wants. When one want is satisfied, another crops up, and thus, it becomes a never-ending cycle. Humans develop a chain of wants, which continue one after the other.
- Any particular want is satiable: If the resources are made available, it will be possible to satisfy any want.
- Wants are complementary: Many times, a single article out of a group cannot satisfy human wants by itself. It needs other things to complete its use. For example, a motor car needs both petrol and engine oil to keep working. Thus, the relationship between petrol and engine oil is complementary.
- Wants are competitive: Some wants compete with each other. Wants compete because all of them cannot be satisfied at a time, and therefore, a choice has to be made between them. Therefore, we must choose something and reject the other. Examples: Sugar and jaggery, tea and coffee
- Wants vary in urgency and intensity: All wants are not equally urgent and intense. Some wants are urgent, while some are less urgent.
- Wants are recurring: Some wants are recurring and we require these again and again. Examples: Food, water
- Wants are variable: With the advancement of civilisation, wants vary and multiply. Example: The wants of the people living in urban areas differ from those in villages.

Classification of Wants



- Necessaries
  - Necessaries of existence: The things without which we cannot exist. Examples: Water, food, clothing, shelter
  - Necessaries of efficiency: The things which increase our efficiency. Examples: Fruits, vegetables
  - Conventional necessaries: The things which we are forced to use by social customs. Examples: Dowry, parties
- Comforts: After satisfying our necessaries, we desire to have some comforts. Examples: Electric cooker, refrigerator
- Luxuries: Luxury means excessive consumption. After getting comforts, man desires luxury. Luxury articles are those which are not needed. Examples: Gold, silver, costly furniture

Basic Concepts

Goods

In Economics, goods are objects or things which can satisfy our wants. Goods can be classified on the basis of tangibility and price.

- On the basis of tangibility
  - Tangible goods: These are goods which can be seen and/or touched. Examples: Book, furniture, table
  - Intangible goods: These goods cannot be seen or touched. However, they can be felt by our senses. Examples: Services, goodwill
- On the basis of price
  - Free goods: Free goods are those goods which exist in plenty and are freely available. They are a gift of nature and one need not pay a price for the same. Examples: Air and sunshine. Therefore, these goods do not have an exchange value.
  - Economic goods: Economic goods are scarce and can be obtained only on payment. They are limited and generally manmade. Therefore, these goods have an exchange value.
- On the basis of use
  - Consumer goods: Consumer goods are used by people to satisfy their wants. Examples: Cloth, watch, rice
  - Producer goods (intermediate goods, capital goods): Producer goods are those goods which are used in the production of other goods and services. Examples: Materials, fuels, factory buildings
  - Intermediate goods: Intermediate goods are used for the production of other goods. Examples: Raw materials, electricity
  - Final goods: Final goods are produced for final consumption and investment. Example: Wood used as fuel.
- On the basis of ownership
  - Private goods: A private good is one which is consumed by one individual and cannot be simultaneously used by another.
  - Public goods: Public goods are used by a group of individuals.

Utility

In Economics, utility is defined as the capacity of a commodity or service to satisfy human wants. In simple words, it can also be called the want-satisfying capacity of a commodity or service.

- Forms of utility
  - Form utility: This is created by changing the shape of goods. It acquires value when the shape of a commodity is changed as desired.
  - Place utility: This is created by transferring goods from one place to another place where it is more valuable.
  - Time utility: This is created when the goods are stored in a particular period of time when their value is low. These goods are stored with the expectation that their value will increase in the future.
  - Service utility: This is created by performing services. They are useful to society and people want such services.

- Marginal utility refers to additional utility on account of the consumption of an additional unit of a commodity.
- Total utility is the total of the satisfaction received by the consumer after consuming all the units of a particular commodity.

Value and Price

Value is the utility of a commodity. However, in Economics, it is explained in two senses—value-in-use and value-in-exchange. Value-in-use means the satisfaction obtained from a commodity. Value-in-exchange means the amount of goods and services which can be obtained from the market in exchange of a particular thing.

Price is the amount of money required to buy a specific unit of a commodity. It does not depend on time and place.

Wealth

The term wealth means money, properties and gold. In Economics, wealth is used to describe all things which have value and possess utility, scarcity and transferability.

- Characteristics of wealth: Wealth possesses utility. It is scarce. Supply is less than its demand. It is transferable which means the change of ownership. Externality is another quality of wealth.
- Kinds of wealth
  - Personal wealth: It is possessed by individuals such as land and building.
  - National wealth: It includes wealth of all individuals of the community and public property such as roads and parks.
  - International wealth: Wealth which belongs to all nations is called international wealth such as IMF and UNO.

Welfare

It is the well-being or satisfaction by a human for possessing wealth. Human welfare is classified as economic welfare and non-economic welfare. Economic welfare shows the part of human welfare which can be measured in terms of money. Non-economic welfare is the one which cannot be measured in terms of money such as environment, law and order, and social relations.

Capital

It is all those goods which are used for further production of wealth. There are various types of capital as follows:

- Fixed capital and circulating capital: Capital goods which can be used in the production process again and again constitute fixed capital such as machines, furniture and factory buildings. On the other hand, capital goods which are totally used up in a single round of production constitute circulating capital such as raw materials of production and fuel.
- Sunk capital and floating capital: Capital which has already been invested in a manner that it must continue to be used for a particular purpose is called sunk capital. It cannot be transferred to any other use. On the other hand, capital which can be easily transferred between alternative uses is called floating capital.
- Money capital and real capital: An amount of money is called money capital if it is used for purchasing capital goods. On the other hand, real capital is the real goods and services. One can purchase real capital with the help of money capital to use them as capita inputs in the production process.
- Material and personal capital: Material capital consists of capital which is in tangible form and can be transferred from one person to another such as stationery and machines. On the other hand, personal capital comprises all those energies, faculties, habits which contribute to make people more efficient such as the art of singing and painting.
- Production and consumption capital: Production capital includes all those things which help labour directly in production such as raw materials and machines. Consumption capital consists of those goods which indirectly help the process of production such as food and clothes to workers.

Money

Money is anything which acts as a medium of exchange, a measure of value, a standard of deferred payments and a store of value. It consists of currency and demand deposits.

Income

Income is the result of capital used in production. Production of goods and services generates income.

Production

Production refers to the creation of wealth or utility. It is an activity which results in the creation of goods and services to satisfy human wants. It is a process in which some materials are transformed from one form to another. Examples: Wheat is used for producing bread; wood is used for making furniture.

Every productive activity involves the use of certain basic or primary resources. These resources are known as factors of production. In other words, 'Anything which helps in the process of production of a commodity or service is called a factor of production'. Factors of production are classified as

- Land includes not only the surface of the Earth but also all the other gifts of nature. As land is a gift of nature, it does not have any cost of production. It is readily available for any use. However, other agents of production are available at a cost. Supply of land is fixed by nature. It is a basic factor of production because it cannot produce anything by itself. It can be used for alternative uses such as cultivation, dairy or poultry farming, rearing of livestock, building of houses and playgrounds.
- Labour is the aggregate of all human physical and mental efforts used in the creation of goods and services. Labourers are rewarded suitably in the form of wages for their productive work. Labour can move from one place to another or from one use to another use. Generally, the mobility of labour depends on the education and skill of labourers, wage difference between different sectors and social customs. It is possible for any labour to engage itself in different fields of work.
- Capital is produced means of production. Capital is produced by humans with the help of natural resources and it is not a gift of nature. It is a means of production which is not consumed directly. It increases the productivity of land and labour.
- Organisation refers to the services of entrepreneurs who set up production units for the production of goods or services and sell them to consumers. An organisation hires labourers, rents land and borrows capital to organise the whole production process.

Consumption

Consumption refers to the destruction or lessening of the utility of goods and services for satisfying human wants. Therefore, it is said that consumption is the beginning and end of all human activities. Different types of consumption:

- Final consumption: When the consumption is of commodities consumed directly for the satisfaction of human want, it is known as final consumption or direct consumption. Examples: Consumption of food articles, stationery, toys
- Productive consumption: When a commodity is used in the production of another commodity, the consumption is known as productive consumption or indirect consumption. Example: Consumption of fatty acids and caustic soda used in the production of soap production.
- Slow consumption: Consumption of a commodity

which gives satisfaction for a longer period of time is regarded as slow consumption. Example: Consumption of consumer durables such as air conditioner and television.

- Quick consumption: The consumption of a commodity whose utility is finished the moment it is consumed by the consumer is known as quick consumption. Example: Consumption of all single-user goods such as a cup of coffee or tea.
- Wasteful consumption: Consumption of a commodity whose utility is lost without satisfying any want is called wasteful consumption. Example: Mishandling of a new glass container or mirror causing it to break.

Basic Economic Agents in an Economy

The three basic economic agents in an economy are households, firms and the government.

Micro and Macro Economics

The term ‘micro’ was derived from the Greek word ‘mikros’ which means ‘small’. Microeconomics studies the economic relationships or economic problems of an individual firm, household or consumer. It is concerned with the determination of output and price for an individual firm or industry.

The term ‘macro’ is derived from the Greek word ‘macro’ which means large. Macroeconomics studies economic relationships or economic problems of the economy as a whole. It is concerned with the determination of the aggregate output and general price level in the economy as a whole.