# Class-11th (Microeconomics- 1)(Notes)

**Economics is a science that studies human behavior which aims at allocation of scarce resources in such a way that consumer can maximise their satisfaction, producers can maximise their profits and society can maximise its social welfare. It is about making choice in the presence of scarcity.**

Scarcity means shortage of goods and resources in relation to their demand.

Scarcity is the root of all Economic problem.

Father of Economics Adam Smith provided wealth definition of economics( Book- The Wealth of Nations, 1776):- Economics is an enquiry into the factors that determine the wealth of a country.

Scarcity definition given by Lionel Robbins(1932):- Economics is a science that studies human behaviour as a relationship between ends and scarce means which have the alternative uses.

Growth definition given by Paul A samuelson:- Economics is the study of how man and the society chooses with or without the use of money, to employ scarce productive resources which could have the alternative uses to provide various commodities overtime and distribute them for consumption now and in future among various people and the groups of the society.

Resources are :

(a) Scarce/limited and

(b) Have alternatives uses

Types of Activities:

1. Economic Activities

a. Production

b. Consumption

c. Investment

d. Exchange

e. Distribution

2. Non-Economics Activities

a. Social

b. Religious

c. Political

d. Charitable

e. Parental

Economic activities are those activities which are related to earn money and wealth for life. These activities generate new income and increase the flow of goods and services. For example production, consumption, investment, distribution.

Non-economic activities are those activities which are not related to earn money and wealth. These activities neither generate income nor increase the flow of goods & services. For example, a teacher teaching his own son.

Consumer: Consumer is an economic agent who buys the goods and services to satisfy his wants.

Producer is one who produces goods and services for the generation of income.

Service holder: A person who is in job and gives his services as a factor of production and is getting paid for it. E.g. Govt. Teacher.

Service Provider: A person who provides services to other for a payment. E.g. transporter, auto driver.

**Differentiate between micro economics and macro economics?**

Microeconomics is the study of particular markets, and segments of the economy. It looks at issues such as consumer behaviour, individual labour markets, and the theory of firms.

Macro economics is the study of the whole economy. It looks at 'aggregate' variables, such as aggregate demand, national output and inflation.

Micro-macro-economics

Micro economics involves

Supply and demand in individual markets.

Individual consumer behaviour. E.g. Consumer choice theory

Individual labour markets – e.g. demand for labour, wage determination.

Externalities arising from production and consumption. E.g. Externalities

Macro economics involves

Monetary / fiscal policy. E.g. what effect does interest rates have on the whole economy?

- ***Difference between Positive & Normative Economics***

| Positive Economics | Normative Economics |
|---|---|
| (i) Positive economics deals with economic issues (or economic behaviour) related to past, present and future. | (i) Normative economics deals with opinions of the economists related to economic issues or economic problems. |
| (ii) Statements of positive economics relate to 'what was', 'what is' and 'what would be'. | (ii) Statements of normative economics relate to 'what ought to be'. |
| (iii) Statements of positive economics are not necessarily the statements of truth. These may be true or false.<br>**Example:** Somebody says population of India is more than the population of China, it is definitely a positive statement. But, it is wrong. One can verify it. | (iii) Normative statements cannot be termed as true or false. These statements involve opinions only.<br>**Example:** Somebody says that old-age pensions should be stopped. It is just an opinion. |
| (iv) Facts and figures (as elements of positive economics) are verifiable for truth. | (iv) Normative statements are not verifiable at all. |
| (v) Positive economics does not involve value judgement. | (v) Normative economics involves value judgement. |

- ***<u>Difference between controlled, market and mixed economy</u>***

| Controlled or Centrally Planned Economy | Free Economy or Market Economy | Mixed Economy |
|---|---|---|
| *(i) These are the economies where the economic activities (production consumption, investment and exchange) are firmly controlled by the government or some central authority.* | *(i) These are the economies where the economic activities are controlled by the market forces.* | *(i) These are the economies where the economic activities are governed by the free play of market forces but are regulated by the government.* |
| *(ii) Economic decisions are driven by the motive of social welfare.* | *(ii) Economic decisions are driven by the motive of profit maximisation.* | *(ii) Economic decisions are driven by the motive of both profit maximisation and social welfare.* |
| *(iii) The consumer is not sovereign (the central authority decides what goods are to be produced for the people).* | *(iii) The consumer is sovereign. The consumer buys goods according to his choice.* | *(iii) The consumer is sovereign. However, PDS (Public Distribution System) ensures the supply of essential goods to the consumers.* |
| *(iv) Most resources are controlled (or owned) by the government. The government decides at what price the goods are to be sold in the market.* | *(iv) Most resources are controlled (or owned) by the people. The market determines the prices of goods and services.* | *(iv) Resources are controlled both by the government and by the people. Prices are determined by the market. But, the government regulates/ controls the prices of essential goods.* |
| *(v) Public sector dominates the economic activity.* | *(v) Private sector dominates the economic activity.* | *(v) Both public and private sectors dominate the economic activity.* |