

INTRODUCTION.

What is Economics?

Economics is the study of how individuals and societies choose to use the scarce resources that nature and previous generations have passed to them. Economics is the science which studies how scarce resources are employed for the satisfaction of the needs of men living in society. On one hand, it deals with the essential operations of production, distribution and consumption of goods, and on the other hand, it also deals with the institutions and activities whose object is to facilitate these operations.

The key components of the subject matter of economics are:

- i) The presence of scarcity,
- ii) The behaviour of individuals who are faced with scarcity,
- iii) The interaction of individuals who are faced with scarcity and
- iv) The existence of and operation of institutions to facilitate the interaction of individuals who are faced with scarcity.

So the presence of scarcity is the central defining feature of the subject matter of economics.

Scarcity:

Scarcity is defined as the limited availability of economic resources relative to society's unlimited demand for goods and services. Scarcity is a situation in which the needs and wants of an individual or group of individuals exceed the resources available to satisfy them. In the presence of scarcity, choices have to be made for those wants which can be satisfied.

Human activities are mainly related to production, distribution, consumption and exchange of goods and services. The scientific study of various problems arising out of these economic activities is called economics. These economic activities would not arise if men did not want more than what they can produce. But human wants are unlimited and the means to satisfy these wants are limited. These limited means are capable of alternative uses and hence there is a need of satisfying maximum wants with minimum resources or means. The study of the attempts to do this is the subject matter of economics.

Scarcity of resources forces all societies to answer three basic fundamental questions —

- i) What to produce
- ii) How to produce
- and iii) For whom to produce

What to produce implies that the society must determine by some method what kinds of goods and services should be produced and how much in each category. Amongst the consumption goods, it will have to decide on the allocation of necessities versus luxuries.

How to produce entails decisions on the appropriate combinations of different resources for producing a commodity. It actually refers to the technique of production to be adopted. Each technique has a different combination of machine and labour. A country with a large population will prefer labour intensive techniques more than a country with a limited population.

Lastly, a society must also decide how goods and services must be shared by different members of society. The distribution of income is as important as its generation. Income of a society generates from its production activities. The organization of the productive system determines how the produced goods or income will be distributed among the different members of the society.