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# Agricultural Economics & Trade

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# Economics

- The English term 'Economics' is derived from the Greek word 'Oikonomia'. Its meaning is 'household management'.
- Economics was first read in ancient Greece. Aristotle, the Greek Philosopher termed Economics as a science of 'household management'



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# Economics

The word "economics" is derived from a Greek word "okionomia", which means "household management" or "management of house affairs" -i.e., how people earn income and resources and how they spend them on their necessities, comforts and luxuries



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# Definition

Economics is a social science that deals with the production, distribution, and consumption of goods and services

Economics is the study of how society uses its limited resources

The branch of knowledge concerned with the production, consumption, and transfer of wealth.

Economics is the science of analysing the production, distribution, and consumption of goods and services.



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# Economists Definitions

"Political Economy or Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of material requisites of well-being".

----- Alfred Marshall

Economics as the study of the nature and causes of nations' wealth or simply as the study of wealth -----

Adam Smith



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# Meaning & Scope

The **nature and scope of economics** are related to the study of wealth or human behaviour or of scarce resources. The **scope** is very wide and includes the subject matter of **economics** whether **economics** is a science or an art or whether it is positive or normative science.

## Scope of Economics

The continuous growth in the subject matter of economics has led to divergent views about a scope of economics. It includes Subject matter of Economics, Economics is a science or an Art, or is it a Positive or Normative science.



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# Subject Matter of Economics

The subject matter of economics is the study of grounds of material interests or as the science of wealth. Men who are sensible beings and take action under the active social, legal and institutional group

It consists of the study of the exertion of consumption, production, exchange and distribution of wealth, as well as the fortitude of the values of goods and services the amount of employment and the determinants of fiscal development.

Further it comprises the study of grounds of poverty, unemployment, under employment, inflation etc. and actions for their elimination.



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# Economics as a Science

Economics is a science since its laws have widespread soundness such as the law of diminishing returns, the law of diminishing marginal utility, the law of demand etc. It is called as a science since its self-remedial nature.

Hence Economics is a science like any other science that has its own generalisations, theories or laws of economics which traces out a casual relationship between two or more phenomena.





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# Economics as an Art

The practical application of scientific techniques is the Art of Economics. Some economists consider economics as a science and art while few others as science and applied science. It is considered as newest of science and oldest of arts and the queen of all the social sciences.



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# Economics as a Positive Science

As per the nineteenth century experts, economics is a positive science. Since it seeks to explain what has actually happened but not what is ought to happen.

According to J.N.Keynes, Positive science is defined as "A body of systematised knowledge concerning what ought to be and concerned with the ideal as distinguished from the actual."



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# Normative Economics

With contrast to the Positive Science, Normative Science deals with the "what is ought to happen" cases. That is predictions of future economic development with regards to the present conditions are discussed in this.

The postulations on which economic laws, theories or principles are based relate to man and his problems. If we attempt to test and forecast fiscal actions on their basis the subjectivity elements always penetrates. Therefore, the laws of economics are at best propensities.



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# Economics

## Micro-Economics

Microeconomics is the study of economics at an individual, group or company level

## Macro-Economics

Macroeconomics, on the other hand, is the study of a national economy as a whole



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# Difference

The **micro economics** is the study of an economic behaviour of a particular individual, firm, or household, i.e. it studies a particular unit. On the other hand, **macro economics** is the study of the economy as a whole i.e., not a single unit but the combination of all, firms, households, nation, etc.



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## Key Differences between Micro and Macro Economics

Microeconomics studies the particular market segment of the economy, whereas Macroeconomics studies the whole economy, that covers several market segments.

Micro economics stresses on individual economic units. As against this, the focus of macro economics is on aggregate economic variables.

While microeconomics is applied to operational or internal issues, environmental and external issues are the concern of macro economics.

Microeconomics deals with an individual product, firm, household, industry, wages, prices, etc., while Macroeconomics deals with aggregates like national income, national output, price level, etc.



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# Diff...

Microeconomics covers issues like how the price of a particular commodity will affect its quantity demanded and quantity supplied and vice versa while Macroeconomics covers major issues of an economy like unemployment, monetary/ fiscal policies, poverty, international trade, etc.

Microeconomics determine the price of a particular commodity along with the prices of complementary and the substitute goods, whereas the Macroeconomics is helpful in maintaining the general price level.

While analysing any economy, micro economics takes a bottom-up approach, whereas the macroeconomics takes a top-down approach into consideration.



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# Rationality Assumption

**Rational** choice theory is an **economic** principle that states that individuals always make prudent and logical decisions. These decisions provide people with the greatest benefit or satisfaction — given the choices available — and are also in their highest self-interest.

This is the assumption that persons act as if they are rational.❖ This means that they would not intentionally make decisions that would leave them worse off.





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# Rationality

A **rational** behavior decision-making process is based on making choices that result in the most optimal level of benefit or utility for the individual. Most conventional **economic** theories are created and used under the assumption all individuals taking part in an



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# Goods & Services

**Goods** are items that are tangible, such as pens, salt, shoes, hats and folders and **Services** are activities provided by other people, such as doctors, lawn care workers, dentists, barbers, waiters, or online servers.



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# Comparison

## Basis for Comparison

## Goods

## Services

Meaning

Goods are the material items that can be seen, touched or felt and are ready for sale to the customers.

Services are amenities, facilities, benefits or help provided by other people.

Nature

Tangible

Intangible

Transfer of ownership

Yes

No

Evaluation

Very simple and easy

Complicated

Return

Goods can be returned.

Services cannot be returned back once they are provided.

Separable

Yes, goods can be separated from the seller.

No, services cannot be separated from the service provider.

Variability

Identical

Diversified

Storage

Goods can be stored for use in future or multiple use.

Services cannot be stored.

Production and Consumption

There is a time lag between production and consumption of goods.

Production and Consumption of goods occurs simultaneously.



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# Basic Concepts

**Need** : require (something) because it is essential or very important rather than just desirable.

**Want**: have a desire to possess or do (something); wish for.

**Demand**: an insistent and peremptory request, made as of right.

**Utility**: Pleasure or satisfaction (value for money) derived by a person from the consumption of a good or service or from being in a particular place, and for the maximization of which all economic actions are motivated

**Price** is the amount a customer pays for that product or service. **Cost** is an amount that has to be paid or spent to buy or obtain or produce something.



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# Basic Concepts

**Wealth:** a great quantity or store of money, valuable possessions, property, or other riches:

**Capital:** wealth in the form of money or other assets owned by a person or organization or available for a purpose such as starting a company or investing.

**Income:** Consumption that, at the end of a period, will leave an individual with the same amount of goods (and the expectations of future goods) as at the beginning of that period. Therefore, income means the maximum amount an individual can spend during a period without being any worse off.

**Welfare:** the health, happiness, and fortunes of a person or group.



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