

**AS-2606**  
**B.COM. FIRST SEMESTER EXAMINATION, 2013**  
**ELEMENTS OF ECONOMICS**

**MODEL ANSWER**

**SECTION – A**

1. Select the correct answer:
  - (i) The law of Variable Proportions has : **a) Three stages.**
  - (ii) Which of the following is not the factor of production? **d) Yield**
  - (iii) “Economics is a study of mankind in the ordinary business of life” is defined by: **a) Alfred Marshall.**
  - (iv) Adam Smith has defined Economics as a science of : **b) wealth.**
  - (v) Macro Economics is concerned with the study of the behavior of the economy as a : **a) Whole.**
  - (vi) Extension of demand occurs when: **c) decrease in price.**
  - (vii) Cardinal Utility Approach given by: **a) Marshall.**
  - (viii) It is also called Gossen’s First Law: **b) Law of diminishing Marginal Utility.**
  - (ix) Price elasticity of demand is equal to : **a) percentage change in quantity demanded/percentage change in price.**
  - (x) The term Consumer’s Surplus was first introduced by: **a) Alfred Marshall.**
2. What is Economics? State and explain the different definitions of Economics.

**Introduction to Economics**

The term ‘Economics’ owes its origin to the two Greek words, namely, “Oikos” and “Nemein”, meaning households and management respectively.

“What is Economics ?” It is a simple question to which no simple answer can be given.

Modern economics originated in the year 1776 when Adam Smith published his famous book entitled, “An Enquiry into the Nature and Causes of the Wealth of Nations”. He is rightly called the founder, the Father of Modern Economics. The book, in short known as “Wealth of Nations”, has some characteristic features, having five volumes and thirty two chapters, due to which both, the book as well as the writer became famous. The specialty of this book is given below:

It is a well known saying in Economics that where there are six Economists, there are seven opinions. It means that the definitions of Economics have been given by different Economists. Let us have a bird-eye view of some of the definitions, presented by Economists of different era.

SN.	Economists	Books (year of publication)	Issues	Supporting economists
1.	Adam Smith	Wealth of Nations (1776)	Wealth	J.S. Mill, J.B.Say, N.W. Senior, Francis Walker.
2.	Prof. Alfred	The Principles of Economics (1890)	Welfare	A.C. Pigou, Canon,

	Marshall			Penson
3.	Lionel Robbins	Essay on the Nature and Significance of Economic Science (1932)	Scarcity	Stonier, Hague, Scitovosky
4.	Paul . A. Samuelson	Economics	Growth and Development Oriented	C.E. Furguson, Benha, Lipsey,
5.	Prof. J.K. Mehta	Economics of Growth	Wantlessness	

#### A. Definitions related to Wealth:

**Adam Smith:-** “Economics is a Science of Wealth”.

**J.S. Mill:-** “Economics is the practical science of production and distribution of wealth.”

**J.B. Say:-**“Political economy makes known the nature of wealth.”

**N.W. Senior:-** “The subject treated by political economy is not happiness but wealth.”

**Prof. Francis Walker:-** “ Economics is that body of knowledge which relates to wealth.”

In the above definitions wealth becomes the main focus of the study of Economics. The definition of Economics, as science of wealth, had some merits. The important ones are:

1. It highlighted an important problem faced by each and every nation of the world, namely creation of wealth.
2. Since the problems of poverty, unemployment etc. can be solved to a greater extent when wealth is produced and is distributed equitably; the credit goes to Adam Smith (called the father of Economics) and his followers to have addressed to the problems of economic growth and increase in the production of wealth.

#### B. Definitions related to Welfare:

**Alfred Marshall:-**“Economics is a study of mankind in the ordinary business of life, it examines direct part of individual and social actions which is most closely connected with the attainment and with the use of material requisites of well being. Thus it is on one side a study of wealth; on the other and more important side is the study of man.”

**A.C. Pigou:-** “The range of our enquiry becomes restricted to that part of social welfare that can be brought directly or indirectly into relation with measuring rod of money.”

**Prof. Canon:-** “The aim of political economy is the explanation of the general causes, on which the material welfare of human beings depends.”

**Penson:-** “Economics is the Science of material welfare.”

### C. Definitions related to Scarcity:

**Lionel Robbins:-** “Economics is a science which studies human behavior as a relationship between ends and scarce means which has alternative uses.”

**Stonier and Hague:-** “Economics is fundamentally a study of scarcity and the problems which scarcity gives rise.”

**Scitovsky:-** “Economics is a science concerned with the administration of scarce resources.”

### D. Definitions related to Growth and Development:

**Paul A. Samuelson:-** “Economics is a study of, how people and society end up choosing with or without the use of money, to employ scarce productive resources that could have alternative uses to produce various commodities over a period of time and distributing them for consumption, now or in the future, among various persons and groups in the society. It analyses costs and benefits of improving patterns of resource allocation.”

**Benham:-** “Economics is the study of the factors affecting employment and standard of living.”

**C.E. Ferguson:-** “Economics is a study of economic allocation of scarce, physical and human means among competing end, and allocation that achieves a stipulated optimizing or maximizing objects.”

**Lipsey:-** “Economics broadly defined concerns the ways in which a society uses its resources and distributes the fruits of production to individuals and groups in the society; the way in which production and distribution change over time and the efficiencies of economic systems.”

### E. Definitions related to Wantlessness:

**Prof. J.K. Mehta:-** “Economics is the science that studies human behavior as a means to the end of wantlessness.”

According to him, maximization of satisfaction could be achieved to minimization of wants.

Maximisation satisfaction is not maximization of real happiness.

Maximum happiness can be derived by reducing wants to the barest minimum level, therefore the concept of happiness by J.K.Mehta, is different from the concept of happiness by Robbins.

**J.K.Mehta** emphasizes happiness at pleasure level or level of pleasure whereas, **Robbins** relates to the feeling level.

3. Discuss the merits and demerits of Inductive and Deductive methods.

- Meaning of Inductive method: The historical school of economic thought as developed by a group of German Economists in the 19<sup>th</sup> century, was critical of the classical school which followed the deductive method of making hypothetical premises, deducing conclusions from them and making no attempt to verify the results. Schumpeter called this procedure 'the Ricardian vice'.
- In the case of the inductive method, premises are formulated or generalizations are made on the basis of collected facts, that is, empiricism. Such premises or generalizations are tested against other empirical data. Deductive reasoning proceeds from general to the particular, whereas inductive procedure goes from the particular facts to the general premise. If we take the example given above in the case of deductive method, the procedure for inductive reasoning would be like the one given below:
  - Ram dies.
  - Shyam dies.
  - Raju dies.
  - So all men die.
- In this case the general premise is derived from observations of particular cases. Such generalization involves an inductive leap – a leap in the dark. It is possible to test the validity of this generalization by further observations of particular cases.
- Merits: i) The inductive method can be applied to check the validity of generalization derived from deductive reasoning. ii) It is often argued that economic phenomena are very complex to lend themselves to deductive reasoning. iii) It is more suitable and useful in the formulation of economic policies for a particular economy.
- Demerits: i) It is likely that inductive generalizations might be based on insufficient facts or insufficient observations. ii) Inductive method is subject to the danger of bias or partiality of the investigator. iii) Inductive reasoning not aided by analytical judgment is a not suitable basis for prophecy.
- Deductive Method: It is also called analytical method, abstract method or A Priori method. It is first assumed that mortality is universally true about all living things, including human beings. On this assumption, then, we draw conclusion about a particular person and say that he too will die.
  - All men are mortal.
  - Ram is a man.
  - So Ram is mortal.
- Merits: i) In the case of complex economic phenomenon, cause and effect are inextricably mixed up. Deductive method is useful in the analysis of such cases. ii) if the assumptions or premises are correct, conclusions drawn must also be true. It is the great merit of this method that it is free from the bias of the investigator. iii) It is very simple and easy to apply. There is no need to collect detailed statistical information. iv) Economics is a social science and its subject matter is human behavior.

- Demerits: i) Deductive method is simple, effective and certain provided the assumptions are correct. ii) Economists agreeing deductively assume that their laws are universally true at all times and all places. It is certainly a wrong assumption. Iii) conclusions of deductive reasonings are not verifiable.
- Conclusion.
  4. Explain the Diminishing Marginal Utility theory with the help of diagram and table.
  5. State and explain the Law of demand and illustrate it with the help of a diagram schedule and a demand curve.
  6. Distinguish between 'Increase in demand' and 'extension of demand' with the help of diagram.
  7. Explain the laws of returns to the scale with the help of diagrams.
  8. Write note on "Capital".