MODERN APPROACH

Microeconomics and Macroeconomics

As against the traditional approach, modern approach treats microeconomics and macroeconomics as the two basic divisions of economics.

The term "microeconomics" has been derived from the Greek word "MICROS" meaning small. In other words micro means a millionth part. It is otherwise known as price theory. It focuses on price determination. Microeconomics fundamentally deals with economic behaviour of individual economic units such as consumers, resource owners and business firms. It is concerned with the flow of goods and services from business firms to consumers and also the flow of resources or their services from resource owners to business firms. Microeconomics covers theory of consumer behaviour, theory of value (product pricing and factor pricing) and theory of economic welfare. Microeconomics is somewhat abstract because it cannot include all the economic activities of real world.

The term macroeconomics has been derived from the Greek word "MAKROS" meaning large. Macroeconomics otherwise is called income theory. It treats the economic system as a whole, rather than treating the individual economic units of which it is composed. Macroeconomics is concerned with the value of the overall flow of goods and the value of the overall flow of resources. Thus, it covers, theory of income and employment, theory of money and prices, banking, theory of economic growth, macro theory of distribution, general equilibrium analysis, policy formulation and analysis, *etc*. Thus, it is concerned with the study of aggregates.

Though distinction exists between microeconomics and macroeconomics, both are essential for a thorough understanding of the economy.

DEFINITIONS OF ECONOMICS

The word economics has been derived from the Greek word "*OIKONOMICAS*" with "*OIKOS*" meaning a household and "*NOMOS*" meaning management. It is understood that the beginning was made by the Greek Philosopher, Aristotle who in his book "*Economica*" focussed that the field of economics deals with household management. The economists in defining the term, economics followed several approaches and concepts. The concepts on which various definitions of economics given are 1) Wealth 2) Welfare 3) Scarcity and 4) Growth.

'Wealth' Definition of Economics

Adam Smith (1776) who is regarded as "*Father of Economics*" in his book, entitled "*Wealth of Nations*" defined economics as "*An enquiry into the nature and causes of the wealth of nations*". J.S. Mill, another classical economist* defined economics as "*The practical science of production and distribution of wealth*".

Here, the term, economics is defined as the field of science concerned with wealth. Wealth in this context refers to abundant supply of money or affluence. These definitions invited the criticism of Carlyl as he called economics as a 'dismal science'.

'Welfare' Definition of Economics

Alfred Marshall came out with a new concept in the definition of economics towards the end of 19^{th} century. He defined economics as "*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 the material requisites of well-being*".

This definition of economics has received the acceptance of a number of economists, as it considered that wealth was not the end itself but a means of achieving welfare, *i.e.*, it is a source of attaining human welfare. However, the idea of Marshall was condemned by Lionel Robbins on the points that economics was treated as a social science rather than a human science; and the term "human science" is more apt on the ground that any individual either as a member of a society or in isolation does have economic problems. Secondly, emphasis on material requisites of well-being was objected, as demarcation was created between material and non-material activities, when both are equally important. Thirdly, his approach of economics is limited to the study of mankind in the ordinary business of life, leaving the human life in the extra-ordinary business of life such as famines, wars, *etc*., is another point of criticism.

'Scarcity' Definition of Economics

Lionel Robbins opposing the Marshall's definition putforth the following definition based on the scarcity concept. "*Economics is the science which studies human behaviour as*

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* Classical school: The economists who wrote on economics during the period 1750-1850, often known as the classical economists and who formulated a systematic body of economic principles for the first time. The principal members of the school were Adam Smith, Malthus, Ricardo, Nassau Senior, James Mill, John Stuart Mill and Bentham.

a relationship between ends and scarce means which have alternative uses" according to Robbins. In this definition 'ends' indicate human wants. 'Means' are the resources with which wants are fulfilled. Though the resources are scarce, they have numerous alternative uses. This definition examines as to how an individual either as a consumer or a producer or a businessman, *etc.*, shortlists the unlimited wants in the light of limited available resources. Indeed, this is an important aspect of human behaviour.

Robbin's definition is superior to 'wealth' and 'welfare' definitions because 'welfare' aspect is embodied in the definition and 'wealth' is represented as means which is always scarce. However, some limitations were pointed out with Robbin's definition. 'Scarcity' is not the problem always and 'abundance' also gives rise to problems which was not recognized by Robbins. His definition treats economics as a positive science only without touching normative aspects of economics. It has not taken into account the growth aspect of the economy, the dynamic nature of adjustment, etc.

'Growth' Definition of Economics

According to Samuelson, *"Economics is the study of how men and society choose, with or without money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time, and distribute them for consumption now and in future among various people and groups of society"*.

Keynes defined economics as *"The study of the administration of scarce resources and of the determinants of employment and income"*.

IS ECONOMICS A SCIENCE OR AN ART?

By definition science is a systematized body of knowledge having an empirical correspondence. Analogous to science, an art is also systematized body of knowledge. It directs through a system of procedures to attain a given objective or goal. It tells us how to do a thing.

Treating economics as a science, a given theory is formed through conduct of experiments, recording observations, analysis of data recorded, drawing the conclusions and finally testing them. In economics also the same procedure is followed to present any principle or theory. Hence economics is as good as any science. Only the question is regarding precision. The scientific experiments are conducted under laboratory conditions, while economic theories are subjected to several causal factors that influence human behaviour. The situation of controlled experiments in economics is not a possibility, since it deals with human behaviour, which is unpredictable. This indicates the fact that the degree of precision of economics as a science is less, when compared with the pure sciences, but nonetheless economics is a science.

As an art, economics shows solutions to the problems. It helps us how to do a thing. The role of economics as an art can be found in any sphere of economic activity. For example, it advocates how to maximize the profits of a firm given the resource constraints. Given a problem, the field of economics guides us to solve the same. Thus, the field of economics has the attributes of science and art. Economics therefore is a science as well as an art.

ECONOMICS–A SOCIAL SCIENCE

Economics studies human beings as members of the society participating in the economic activities. It does not study humans as isolated individuals. He is interdependent. Thus economics is a social science.

needed for scientific investigation, as neither deduction nor induction alone is suffice to formulate and test theories, hypotheses and economic laws.

ECONOMIC LAWS

Economic laws are the principles that govern the actions of the individuals in their economic activities. Just like any law of science, economic laws too are conditional *i.e.*, applicable when certain conditions are fulfilled. What economists do is that they consider the basic factors into account while developing a theory, keeping other factors influencing the theory as constant. This implies that for developing a theory in economics some kind of abstraction is necessary. There is an important role for assumptions.

"Economic laws are statements of uniformities, which govern human behaviour concerning the utilization of limited resources for the achievement of unlimited ends (Robbins)".

Characteristics of Economic Laws

1. *Economic Laws are not the Governmental Laws:* The laws of Government are very stringent and any violation of these laws amounts to punishment. Economic laws, on the other hand, are applicable, only if certain conditions are satisfied.
2. *Economic Laws are Merely the Statements of Tendencies:* These are based on the tendencies of humans who behave in a particular way to a given phenomenon. This is the expected behaviour. This expected behaviour, however may not be found, for certain reasons. This leads to unpredictable character of economic laws. Certainty is one thing, which is not guaranteed with regard to economic laws.
3. *Economic Laws are Hypothetical:* These hold good under the assumption of a number of things. Economic laws are characterized by the phrase *ceteris paribus* (other factors are held constant).
4. *Economic Laws are Positive but not Normative:* They only describe the economic phenomenon but do not prescribe how it should be.
5. *Some Economic Laws are Axiomatic in Character:* It means that they are self-evident as that of law of diminishing marginal utility and generalizations drawn are universally valid.
6. *Economic Laws Lack Exactness of the Laws of Science:* This prompted Marshall to compare the economic laws to the laws of tides rather than the simple laws of gravitation.