

PRINCIPLES OF ECONOMICS

Lecture 5 NATURE OF ECONOMICS

July, 2015



ECONOMIC ACTIVITIES

- Consumption
- Production
- Exchange
- Product Pricing
- Factor Pricing

ECONOMICS AS A SCIENCE

A subject is called a science if:

- It is a systematized body of knowledge which studies the relationship between cause and effect.
- It is capable of measurement.
- It has its own methodological apparatus.
- It should have the ability to forecast.
- Economics is not a perfect science because economists do not have uniform opinion about a particular event.
- Subject matter of Economics is the economic behavior of man which is highly unpredictable.

ECONOMICS- POSITIVE OR NORMATIVE SCIENCE ?

- A positive or pure science analyses cause and effect relationship between variables but it does not pass value judgment.
- It states 'what is'.
- Example- How much is the national income of US?
 - What is the current inflation rate in India?

ECONOMICS- A POSITIVE SCIENCE

- Professor Robbins emphasized the positive aspects of science but Marshall and Pigou have considered the ethical aspects of science which are normative.
- According to Robbins, Economics is concerned only with the study of the economic decisions of individuals and the society as positive facts but not with the ethics of these decisions.
- Example- You get a limited amount of money as pocket money and you may use it for buying a dress or a movie ticket. It is entirely your decision.
- Example- A community may use its limited resources for producing machines rather than food.

ECONOMICS- A NORMATIVE SCIENCE

- As normative science, Economics involves value judgments.
- It is prescriptive in nature and described 'what ought to be'.
- Normative economics is concerned with welfare propositions.
- Example- What should be the level of national income, what should be the wage rate, how should the national product be distributed among people etc.

ECONOMICS AS AN ART

- Science teaches us to know, art teaches us to do
- Economics has the features of an art also
- Its various branches, consumption, production, public finance, etc. provide practical solutions to various economic problems.
- It helps in solving various economic problems which we face in our day-to-day life.

CONCLUSION

- Economics is both a science and an art.
- It is science in its methodology and art in its application.

Example- Study of unemployment problem is a science but framing suitable policies for reducing the extent of unemployment is an art.

THANK YOU 😊