

Chapter 2

SUBJECT MATTER OF ECONOMICS

2.1 Wants

Wants mean desires and needs for goods and services which provide utility.

People indulge themselves in various economic activities till the time of death in order to fulfill their ever emerging wants. These economic activities produce goods and services which give some level of satisfaction.

2.2 Characteristics of Wants

1. Human wants are endless which cannot be listed.
2. Wants if satisfied appear again after sometime.
3. They compete with each other. With limited income people have to choose among wants with order of their importance.
4. Wants may be satisfied by various alternative means.
5. Their importance depends on the degree of intensity.
6. Wants complement each other. When we buy a car we need to buy petrol also.
7. Wants may become a habit. Sometimes it becomes a habit to smoke a cigarette.

2.3 Kinds of Wants

There are two kinds of wants which are given below:-

1. Economic Wants

These are wants which can be satisfied only by paying for them. If we need a haircut we have to pay for it. If hunger strikes us at school, we have to pay for eatables.

2. Non- Economic Wants

These wants can be fulfilled without paying in money terms. We want and get love, air and light without any payment. Such goods for which we do not have to pay are called free goods; For example, the air we breathe in, the sunshine, rain water, water in ocean, etc.

2.4 Degrees of Wants

The degree of wants depends on their intensity. These are given below:-

1. Necessities

These are first degree wants which are most important because these are essentials for our existence. These are food, clothing and shelter.

2. Comforts

These are second degree wants because we can live without them but their presence makes our life easier; for example, a cycle for transport, use of a fan in hot weather.

3. Luxuries

These are third degree wants which are less important for a simpler life.

These goods are expensive and have a strong element of demonstration. They make life very luxurious and comfortable. For example, a big and expensive car for transportation, a big house to live in, use of air-conditioners in hot weather.

2.5 Labour

Struggle is the main key to fulfill our wants. In order to satisfy innumerable wants, continuous effort is needed throughout our lifetime.

2.6 Kinds of Labour

There are two kinds of struggle:

1. Mental Labour

It is the struggle done with brain. We make plans to launch any economic activity to satisfy our needs and requirements through all stages of life.

2. Physical Labour

It is the struggle which is applied physically. Struggle is needed to produce any good. Although a struggle cannot be measured but profit of a producer is the outcome of his mental and physical struggle. A labourer also gets wages as a result of his physical struggle.

2.7 Goods and Services

Let us explain goods at first.

Goods

Goods are all material things that are needed by man. The common feature of all the goods is that they satisfy human wants. Utility and productivity are the general features of all the goods.

There are two kinds of goods in economics.

1. Consumer Goods

Consumer goods are those which can satisfy human wants directly. These are things such as a chair, a car, a pen, a book, etc. These goods have some utility. The more a person has consumer goods, the more he feels wealthier. The demand for consumer goods leads to the demand for producer goods.

2. Producer or Capital Goods

Producer goods are used for the production of other goods. Demand for producer goods is a derived demand, because the demand for consumer goods leads to

the demand for producer goods. This is the reason that they are called capital goods also.

There are three kinds of producer goods:-

1. Raw-material.
2. Semi-manufactured goods.
3. Manufactured goods or final goods.

There are two kinds of goods according to scarcity:-

1. Free Goods

Free goods are those, the supply of which is unlimited and are available free of cost. For example, fresh air and sunshine in winter season. This is because they do not require resources to produce them. They are the free gift of nature.

2. Economic Goods

Economic goods are those, the supply of which is limited and are not free of cost. Resources are needed to produce these goods. So these goods are available at some price.

Services

Services are indivisible goods which are in direct use by the people. Teaching by a teacher, medical treatment by a doctor and people's work for the welfare of a community, all are termed as services. Services are the actions of individuals that make possible to satisfy one another's wants. Services have values so they are bought and sold like goods.

Services may be technical and non-technical. Services of a sweeper are non-technical but services of a clerk are technical.

It is to be noted that the difference between consumer and producer goods does not depend on their nature but on their use. A good may be a consumer good at one point of time and producer good at another point of time. A car remains a consumer good until it is used as a taxi.

2.8 Utility

Generally speaking, utility means the advantage from the use of goods and services. It shows the usefulness of the commodity in use. But in economics it means the pleasure or satisfaction obtained from a good or a service. In economics utility and usefulness have different meanings. Any thing which is medically harmful may have a utility. Drugs kill a person but it gives satisfaction to the addict. Such goods have a utility but they are not useful. Therefore, goods which have utility may not be useful.

In consumer behaviour analysis we use the terms total utility, marginal utility and diminishing utility.

Let us explain these terms.

1. Total Utility

It is the total amount of satisfaction derived from consuming any given quantity of a good or a service.

2. Marginal Utility

It is equal to the amount by which total utility changes when consumption of a good or a service changes by one unit. It is calculated by dividing the change in total utility by the change in quantity consumed.

3. Diminishing Utility

It is equal to a decline in utility when an extra unit of a commodity is consumed.

2.9 Characteristics of Utility

1. Utility depends upon the intensity of a human desire. Thus it varies from an individual to individual.
2. Utility of a commodity increases with its multiple uses. Electricity and natural gas have great utility because they are used for many purposes.
3. Utility depends on the use of a good by a particular consumer. For an uneducated person, a pen has no utility whereas for a student it has utility.
4. Utility of good changes with the changed nature of that good. The log of a wood in a jungle has no utility but when it changes into furniture it has utility.
5. Utility changes with the change in the environment or weather. In summer season, woolen clothes have no utility whereas in winter season they have utility.
6. Utility arises with a shift of a commodity from a useless place to a useful place. Sand beside the river has no utility but when it is transferred to cities for construction purposes it has utility.
7. Utility is a subjective term which cannot be measured directly from brain. It is a relative term and estimated measure.
8. Utility depends on information and technology. When Sui-gas was not found it had no utility.
9. Utility provides a base for demand. Only that good or service is demanded which has a utility.
10. Although all useful things possess utility but all things that have utility may not be useful.

2.10 Scarcity

Scarcity arises due to the lack of available human and non-human resources to produce all goods and services that are desired by all human beings. Scarcity does not mean that available goods are small in quantity. It means that it is less to meet all the

demands of human beings. It is a relative term. It relates to the extent of people's wants to their ability to satisfy those wants. Scarcity is the basic reason for any economic problem. Human wants are unlimited but resources are limited which causes economic problem.

A person has to make a choice among various wants in order to achieve maximum satisfaction out of his limited income.

Economic resources and the output of goods and services are limited. Therefore, production of each good and service involves cost. Thus, each good and service is supplied at a price. So, scarcity is directly related to the price of a commodity. The scarcer is a good the higher the price it has. Scarcity is also related to economic goods. Non-economic good (like air) is never scarce. Scarcity gives importance to economics.

In fact, scarcity is a fundamental problem for every one; poor or rich. Scarcity implies that people have to make choice to achieve a higher level of satisfaction.

2.11 Value and Price

The word 'value' is a relative term and used in two ways:-

1. Value-in-use

It means ability of a thing to satisfy human wants. It is similar to the meaning of utility.

2. Value-in-exchange

It is the purchasing power of a thing which makes exchange of things possible. It is the value of a good with which other goods can be exchanged. All things which possess the features of providing satisfaction have value-in-exchange. But they have value-in-exchange only when they are transferable and scarce.

2.12 Determinants of Value

1. If a good has utility it has a value. Utility and value are positively related. The higher the utility, the higher is the value.
2. Free goods have no value, only scarce goods have value. Diamonds are scarcer than gold so they are more valuable than gold. Gold is scarcer than silver so gold is more valuable than silver.
3. Those goods that have mobility are valuable. They must be able to transfer from one person to another. Any thing that cannot be transferred to another person may have utility but no value.

Price of a thing represents its value. When money was not invented, goods were exchanged for goods in a barter economy. In the modern society, now money serves the function of medium of exchange. Changes in the level of prices bring changes in the economy.

2.13 Relationship between Price and Value

A good with higher value will have higher price. In fact, utility of anything represents its value. Therefore, in economics there is a close relationship among utility, value, and price.

2.14 Wealth

In economics 'wealth' is used in a broader sense. It means all those things which have a capacity to satisfy human wants and which are limited in supply.

It includes the following features:-

1. It has utility.
2. It is scarce.
3. It is transferable.

There are four kinds of wealth. These are given below:-

1. Individual Wealth

It includes all material things that a person possesses. For example, a person's car, clothes, house, etc.

2. Public Wealth

It is the property of a country, such as, government buildings, roads, railways, etc.

3. National Wealth

These are the natural resources, which include rivers, mountains, minerals, natural gas, etc.

4. International Wealth

These are air, ocean, space, etc.

Exercise

Q.1. Each question has four possible answers. Tick (✓) the best answer.

1. Due to scarcity society is forced to:
(a) Make roads. (b) Save resources.
(c) Make choices. (d) Stop operating.
2. Scarcity exists in every society because:
(a) Wants are limited and resources are unlimited.
(b) Wants are unlimited and resources are unlimited.
(c) Wants are unlimited and resources are limited.
(d) Limited information and technology.
3. The word 'economics' refers to something that:
(a) is scarce. (b) is limited.

- (c) commands a price. (d) all of the above.
4. An economic good is one which:
 (a) is sold at profit. (b) has a price.
 (c) has high quality. (d) is produced efficiently.
5. The term 'marginal' in economics means:
 (a) more. (b) the minimum unit.
 (c) additional (d) None of the above.

Q.2. Complete the following statements by filling in the missing words or phrases.

1. Marginal utility of a good _____ with an additional unit.
2. Economic _____ produces goods and services.
3. If value of a good is high its _____ is also high.
4. Food, clothing and shelter are _____ goods.
5. Demand for producer's goods is called _____ demand.

Q.3. Match the statement in column A with column B. Choose the correct answer from column B and write in column C.

A	B	C
For economic goods	Expenditures are undertaken	
For non-economic goods	It must have a feature of satisfaction	
For goods and services	Money is spent	
For consumer goods	Money is not needed	
For demand of a good	Producer goods are needed	

Q.4. Answer the following questions in three sentences:

1. What are economic goods?
2. What does 'free goods' mean?
3. What is the meaning of utility?
4. What is the meaning of scarcity?
5. Write four kinds of wealth.

Q.5. Answer the following questions in detail:

1. Define human wants. Also explain their degrees and kinds.
2. Explain the meaning of utility in economics and write a note on its importance.
3. What is the meaning of value? Explain the factors that determine it.
4. Relate value with price.