BMC 107 ECONOMICS

Content

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(BMC-107) ECONOMICS

Block: D Unit: I Lesson: 1

INTRODUCTION OF ECONOMICS

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LESSON STRUCTURE:

In this lesson we shall discus about the various introductory aspects of economics. First, we shall focus on definitions of economics. We shall discuss definitions of economics centered on wealth, welfare, scarcity, and growth. The lesson structure shall be as follows:

1.0 OBJECTIVES:

In this lesson we shall try to cover some introductory aspects of economics.

The objectives of this lesson are:

- *To Get an Introduction to Economics*
- *To Know About the various Definitions of Economics*
- *To Understand the Wealth-Centered Definitions of Economics*
- *To Know About the Welfare-Centered Definitions of Economics*
- *To Understand the Scarcity-Centered Definitions of Economics*
- *To Know About the Growth-Centered Definitions of Economics*

1.1 INTRODUCTION:

Economics is a popular, useful and significant social science. It involves economic activities of man. Economic activities are those activities, which are concerned with the efficient use money and other such scarce means. These means are used to satisfy the wants of the man. In short, Economics is the study of those activities of human beings, which are concerned, with the satisfaction of man's unlimited wants by utilizing the usually limited resources.

In this lesson we shall first focus on definitions of economics. We shall also discuss definitions of economics centered on wealth, welfare, scarcity, and growth.

1.2 PRESENTATION OF CONTENT:

The content of this lesson shall be presented as follows:

Economics- An Introduction

Defining of Economics

Wealth-Centered Definitions of Economics

Welfare-Centered Definitions of Economics

Scarcity-Centered Definitions of Economics

Growth-Centered Definitions of Economics

1.2.1 ECONOMICS: AN INTRODUCTION:

The term '*Economics*' is derived from two words of Greek language, namely, *Oikos* (household) and *Nemein* (to manage), meaning thereby *household management*.

Earlier, it used to be called as Political Economy. In fact, Indian scholar and philosopher, *Chanakya (Kautilya)* in his famous book *'Arth-Shastra'* has examined both kinds of activities, i.e. economics and political. Greek philosopher *Aristotle* had used the term economics to mean the management of '*family and the state*'.

Dr. Marshall was the first to use the term 'economics' in *1890* in his famous work "*Principles of Economics*".

Economics is barely 200 year old. *Adam Smith*, the *Founder of Modern Economics*, shaped the form in which we study Economy today. His famous book "*An Enquiry into the Nature and Causes of Wealth of Nations*", published in 1776, is still acclaimed even today.

Till the end of 18th and the mid of the 19th century (1776 – 1850), several great Economists like *Ricardo, Malthus, J. B. Say,* etc., had fully supported the thoughts of *Adam Smith*. These economists are known as classical economists. From the middle of 19th century to the first three decades of the 20th century (1850-1930) economists like *Menger, Walras, Cournot, Marshal, Pigou*, etc., had made significant contributions to the development of the study of Economics.

In 1933, Prof. *Ragnar Frisch*, a famous economist of Oslo University, Norway, divided the study of economics into two parts:

i) Micro Economics, and

ii) Macro Economics

1.2.2 DEFINING ECONOMICS:

It is difficult to give an accurate definition of economics. A good definition delimits boundaries of the subject clearly and correctly. And there are plenty of definitions of Economics. In this respect, *Barbara Wooten* once remarked, "*Whenever six* *economists gather there are seven opinions*." This remark appears to be quite pertinent.

It is worth mentioning here that many definitions of Economics are still being developed even today. In this regard *Zuethen* once said, "*Economics is an unfinished science*."

Scope of economics has not as yet been delimited. It has constantly been growing and developing. There are two distinct approaches of the economists in respect of the definition of economics:

- One school of thought says that there is no need of defining Economics.
- Another school of thought emphasizes the necessity of defining Economics.

According to some modern economists, the subject of economics has been growing continuously. It will, therefore, be improper to limit its growth to the confines of a given definition. There is no need of defining it.

According to *Gunnar Myrdal*, "*Such definitions are both unnecessary and undesirable*."

Jacob Viner says, "*Economics is what economists do*."

Mark Kasson observes, "*Economics is what economists disagree about*."

In the words of *Von Mises*, "*It is illegitimate to regard economics as definite sphere of human action*."

How ever, many of economists agree with the view that defining Economics is a must. *Eric Roll* is of the view that for a scientific study of a subject, knowledge of its definition is as much essential as the knowledge of the boundaries of a farm to be cultivated. By giving a precise definition of Economics, it becomes possible to study it scientifically and properly.

But there are so many definitions of Economics that *J. N. Keynes* was obliged to remark, "*Economics is said to have strangled itself with definitions*."

In order to facilitate their study, definitions of Economics have been broadly divided into four parts:

Wealth Definition	*Adam Smith*
Welfare Definition	*Marshall*

Scarcity Definition *Robbins*

Growth Oriented Definition *Samuelson*

Extensive and critical study of the above definitions of economies is very essential for students of this discipline. These definitions will be studied under four headings:

- *i) Definition,*
- *ii) Features,*
- *iii) Merits, and*
- *iv) Criticism.*

1.2.3 WEALTH-CENTERED DEFINITIONS OF ECONOMICS:

According to classical Economists like *Adam Smith, J. B. Saw, Walker, J. S. Mill,* etc.; Economics is a subject that studies nature of wealth and its production, consumption, exchange and distribution, etc.

WEALTH - CENTERED DEFINITIONS OF ECONOMICS:

Adam Smith:

"*Economics is an enquiry into the nature and cause of wealth of nations*."

J. B. Saw:

"*Economics is the science which deals with wealth*."

Walker:

"*Economics is the body of knowledge which relates to wealth*."

Senior:

"*The subject treated by political economics is not happiness but wealth*."

J. S. Mill:

"*Economics is the practical science of production of wealth*."

FEATURES OF WEALTH - CENTERED DEFINITION OF ECONOMICS:

Economics is a study of Wealth only: According to these definitions, Economics confines itself to the study of wealth. These Economists give primary place to the study of wealth and secondary to the study of man. According to

Adam Smith, the purpose of economics is to increase the wealth of nation. Economics includes the consumption, production, exchange and distribution of wealth.

Nature of Meaning of Wealth: The term ‘wealth’ in these definitions is used to signify those material goods, which are scarce. Material goods are those goods, which can be seen and touched and include: cloth, furniture, book, gold, silver, etc. Non-material goods or services are those, which cannot be seen or touched. For example, the services of a professor, lawyer, doctor, dancer, clerk, peon, etc., are not considered as wealth and so remained outside the scope of the study of economics for a long time.

Causes of Wealth: According to these wealth definitions Economics seeks to investigate the causes that lead to increase of wealth. There are two ways of increasing wealth:

a) By increasing the supply of goods through large-scale production,

b) By increasing the demand for goods through extension of market

Economic Man: The supporters and followers of wealth-related definition of Economics have imagined such a man who is fully aware of his self interest and who makes persistent efforts to achieve this selfish ends to the maximum. Such a man is called economic man.

MERITS OF WEALTH - CENTERED DEFINITIONS OF ECONOMICS:

The main merit of wealth-related definitions of Economics is that it has helped develop Economics as an extensive and independent study concerning problems of wealth. Economics had not developed as an independent and important study before the publication in 1776 of the famous book of *Adam Smith* titled “*An Enquiry into the Nature and Causes of Wealth of Nations*”. Previously, Economics used to be treated as a study dealing with trade and agricultural activities, and the activities of the state.

CRITICISM OF WEALTH - CENTERED DEFINITION OF ECONOMICS:

Social reformers and thinkers of the 19th century, like *Carlyle, Ruskin, Morris*, etc., severely criticized the wealth-related definitions of Economics. According to them, study of Economics turns man selfish. *Ruskin* and *Carlyle* condemned it as a "Bastard Science" and as a "Science of Bread and Butter". Bailey called it 'a mean, degrading, sordid enquiry'. Main points of criticism of wealth definition are as follows:

More Emphasis on Wealth: These definitions have given more importance to wealth than to man. Wealth takes precedence over man. In fact, wealth is a means to satisfy man. Thus many economists opine that: "Man, and not wealth, should have been given greater importance".

Narrow meaning or Wealth: According to these definitions wealth means only tangible material goods, such as, apple, furniture, desk, fan etc. Non-material goods or services have been excluded from it. Modern Economists, include in the term of wealth, both material and non-material goods. Thus, wealth-related definitions have restricted the scope of economics by interpreting material goods alone as wealth.

Concept of Economic Man: Wealth-related definitions of economics are based on the concept of economic man. What we see in actual life is that the economic activities of a man are influenced not only by his self-interests, but also by moral, social, religious and other factors. Economics, therefore, is a study of a social human being and not of an economic man.

No Emphasis on Welfare: These definitions attach no significance to the study of economic welfare of the society. It lays much emphasis on the study of wealth getting activities alone. It pays no attention to the economic well being of the society by proper use and equitable distribution of wealth. Criticizing this definition, *Sismondi* has aptly remarked, that the purpose of economic is not merely to acquire wealth but also to promote the welfare of man.

Neglect of the problem of scarcity and choice: These definitions ignore the study of two main features of economic activities, namely: *scarcity*, and *choice*.

Economic activities are undertaken because not only the goods and services satisfying human wants are scarce, but they, have also several uses. Wants being unlimited, and economic goods having limited uses, there arises the problem of choice. Wealth-related definitions have ignored both these characteristics of economic activities.

Neglect of means of attaining wealth: These definitions choose attainment of wealth as the sole purpose of economics, but it does not specify the means, which should be adopted to acquire wealth. Wealth can be obtained trough proper and lawful means and it can also be obtained through illegal and anti-social activities, like black-marketing, tax evasion, smuggling, etc. Wealth-related definitions give no clear indication as to whether wealth be obtained through legal or illegal means. As a matter of fact, Economics studies exclusively those means of wealth getting that are lawful and just.

Narrow subject matter: Wealth-related definitions have restricted the scope and subject matter of economics. In fact, Economics does not study the acquisition of material goods alone. According to *Lord Keynes*, study of Economics should embrace material goods as well as non-material services, such as that of a lawyer, a teacher a nurse etc.

In short, economics is not merely a study of wealth. Wealth-related definitions of Economics are quite vague and narrow.

1.2.4 MATERIAL-CENTERED DEFINITIONS OF ECONOMICS:

Neo-classical economists like *Marshal, J. S. Mill, Pigou, and Cannan,* etc., have included in the scope of economics those activities of man, which are undertaken to acquire material goods that promote the welfare of mankind. In the words of *Roscher*, "*The starting point and goal of our science is man*".

MATERIAL-CENTERED DEFINITIONS OF ECONOMICS:

Main material-related definitions of Economics are as follows:

In the words of *Marshall*:

"*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*".

According to *Canaan*:

"*The aim of political economy is the explanation of the general causes on which the material welfare of human beings depends*."

In the words of *Beveridge*:

"*Economics is the study of the general methods which men use to meet their material needs*."

According to *Pennon*:

"*Economics is the science of material welfare*"

In the words of *Pigou*:

"*Economics is the study of economics welfare as part of the social welfare process*."

FEATURES OF MATERIAL - CENTERED DEFINITIONS OF ECONOMICS:

The characteristics of material-centered definitions are:

Importance to the study of Man: These definitions have accorded more importance to the study of man than to wealth. Wealth is merely a means to satisfy wants of man.

Study of Social Man: In Economics, one studies the economic activities of men and the society. Individual and collective activities of men and society are studied in Economics.

Ordinary Business of Life: By '*ordinary business of life'*, Marshall means those economic activities of a man, which are mostly concerned with wealth getting and wealth spending.

Study of Real Man: Economics does not study any economic or selfish man. It studies the real man who possesses several virtues, believes in social welfare and is influenced by economic and non-economic motives.

Material Requisites: Economics studies those activities of the man, which are closely connected with the material requisites of well-being. Material goods are those, which can be seen and touched, for instance, book, chair, pen etc.

Welfare: Economics studies those material means, which promote human welfare. Economics is concerned with man's material well-being. It is most closely connected with the attainment and the use of the material requisites of well-being.

Classificatory: These definitions are considered to be classificatory as they have divided the economic activities of the man into two classes, this is, *ordinary and extra-ordinary; welfare and non- welfare; material and non-material; social and individual* etc.

Money is the measure of material welfare: According to *Pigou*, material or economic welfare is that part of social welfare which can be measured directly or indirectly with the measuring rod of money.

MERITS OF MATERIAL - CENTERED DEFINITIONS OF ECONOMICS:

Welfare-related definitions of Economics are more relevant, comprehensive and scientific than wealth-related definitions. Welfare-related definitions stress the fact that Economics does not study wealth alone rather it studies human welfare as well. Thus, welfare-related definitions have accorded Economics a status of a *superior social science*. Consequently, Economics is regarded as an "*Engine of Social Betterment*".

CRITICISM OF MATERIAL- CENTERED DEFINITIONS OF ECONOMICS:

Material welfare-related definitions of Economics have been subject to severe criticism by *Lord Robbins* of the *London School of Economics*. His main points of criticism are as under:

Regarding Ordinary Business of Life: The meaning of the term ordinary business of life in *Marshall's* definition is not clear. *Marshall* has used this term to signify economics activities, that is, activities concerned with wealth earning and wealth-spending. *Robbins* holds that *Marshall* has not clarified which economics activities are ordinary and which are extra-ordinary. Nor has he clarified why extra-ordinary activities are to be excluded from the study of economics. For instance, conditions of war, imperfect competition, and monopoly are not ordinary situations of life. Nevertheless, they constitute an important part of the study of economics. *Robbins*, therefore, considers the division of economics activities into ordinary and extra-ordinary as unfair.

Limited Scope: The definition by *Marshall* has narrowed the scope of economics. Economics need not confine itself exclusively to the study of the attainment of material goods. According to Robbins, Economics studies all sorts of economic activities irrespective of the fact whether they are concerned with material goods or non-material services.

Uncertain Concept of Welfare: According to *Lord Robbins* whatever Economics may be concerned with, it is certainly not concerned with material welfare. The concept of welfare is ambiguous, uncertain, and temporary. Study of material welfare belongs to the realm of psychology. It varies with time, place, conditions, and persons. So the study of welfare will render Economics as an uncertain science. Production of goods such as liquor, atom bombs, and armaments does not enhance welfare, yet it forms a part of the study of economics. *Robbins* is, therefore, of the view that all economic activities, whether concerned with welfare or not, should be studied under economics.

Economic is a Human Science: Welfare-related definitions place Economics as a social science. *Robbins* asserts that Economics is a human science. It studies economic activities of all human beings.

Not Analytical but Classificatory: *Marshall*'s definition is a classificatory definition because it has divided human activities into different classes, such as: '*material*' and '*non-material*'; '*economic*' and '*non-economic*'; '*welfare*' and '*non-material*', etc. This classification of economic activities is unscientific and narrow. According to *Lord Robbins*, definitions of Economics should relate to scientific analysis of economic activities and should not be classificatory. It should tell us what economic problems are about. How economic problems arise?

Economics is only a Positive Science: In terms of material welfare-related definitions, Economics is both a positive and normative science and also an art. But Lord Robbins asserts that it is merely a positive science.

Impractical: Welfare-related definitions are impractical. The assumption that those activities of man should be studied, which are concerned with his well being, is wrong. It is not a practical point of view. Whether they promote his well being or not for instance, a man can earn his income earning and income spending by man, whether they promote his well-being or not. For instance a man can earn his income either by selling the milk or by producing liquor. Both are economics activities, but the former adds to well being whereas the latter does not. Thus it is practically not possible to divide these activities into economics and non-economic activities on the basis of material welfare as these definitions seek to do.

In short, welfare-related definitions of economics are superior to wealth-related definitions. But according to *Lord Robbins* it is a classificatory and narrow definition.

1.2.5 SCARCITY-CENTERED DEFINITIONS OF ECONOMICS:

Austrian economists *Menger* and *Petter,* and English economist *Stigle* had given scarcity-related definitions of Economics But it was examined in detail by *Prof. Robbins* in his book "*An Essay on the Nature and Significance of Economic Science*", published in 1932.

Scarcity-Centered Definitions of Economics:

According to *Lord Robbins*:

"*Economics is a science that studies human behaviour as a relationship between ends and scarce means which have alternative uses*."

In the words of *Scitovosky*:

"*Economics is a science concerned with the administration of scarce resources*."

According to *Stonier* and *Hague*:

"*Economics is fundamentally a study of scarcity and the problems which scarcity gives rise*."

In the words of *Harvey*:

"*Economics is the study of how men allocate their limited resources to provide for their wants*."

FEATURES OF SCARCITY - CENTERED DEFINITION OF ECONOMICS:

Unlimited Wants or Ends: By '*ends*' *Lord Robbins* means '*wants*' in Economics. We study those wants of man, which are concerned with goods and services. These are called *economic wants*. There is no limit to these wants. As one want is satisfied, immediately another want crops up. This chain of wants is endless. That is why it is said that wants are unlimited. They can be satisfied one by one, but to satisfy all them at one time is not possible. Economics is concerned with the satisfaction of economics wants irrespective of their being virtuous or otherwise.

Limited or Scarce Means: Most of the means of satisfying economic wants are *scarce*. Means of satisfying economic wants may be material goods or non-material services. The term *scarce* is used in a relative sense here. Those means are scarce whose demand is more than the supply.

Alternative Uses of Means: The third main reason that causes economic problems is that the scarce means have alternative uses. Milk we know, is a mean. It can be used for preparing butter, curd, cheese etc. Milk being scarce, if more of, it is used for preparing cheese, less will be available for making curd and butter.

Wants differ in urgency: Man has several wants, but at any given time one of these wants may be more urgent and important than other wants. A person wants medicine, milk, and fruit for his sick child. But he will go in for medicine first; thereafter he will buy milk and fruit.

Choice-Related Problems: It is clear from the definitions of Economics given by *Lord Robbins* that when all the four characteristics of human life; namely- a) unlimited wants, b) scarce means, c) alternative uses of means, and d) different urgency of wants: become operative, there arises the problem of choice. One has to make a choice as to which want be satisfied first and by which means.

MERITS OR SUPERIORITY OF ROBBINS' DEFINITION:

Robbins' definition has the following merits:

Positive Science: *Lord Robbins* has sought to make Economics a more certain and positive science. According to his definition, Economics is a positive science. It explains the nature of economic activities.

Study of Human Behaviour: This definition By *Lord Robbins* has made economics a study of human beings. Economics studies the economic activities of all human beings whether living in or out of society. Economics studies the behaviour of man both at individual and social level.

Analytical: *Lord Robbins* has made the study of economics analytical instead of classificatory. Economic problems of man are studied in Economics. Economic problems arise because ends (wants) of man are unlimited but the means to satisfy them are not only scarce but also have alternative uses. Man has to make a choice with regard to ends and scarce means. This definition is a scientific analysis of the origin of economics problems and there solutions.

Wider Scope: This definition has widened the scope of Economics. In Economics we study all sorts of economic activities relating to the scarce means of man. These means may be material goods or non-material services. They may or may not promote well being. Economics therefore encompasses all sorts of economic activities whether they are related to material goods or non-material services; whether they are conducive to well being or not.

Universal: *Robbins'* definition of Economics is regarded as universal. It is concerned with all types of economies- whether capitalist, socialist, or mixed economies.

CRITICISM OF SCARCITY-CENTERED DEFINITION OF ECONOMICS:

Robbins' definition, through scientific and logical, yet has been severely criticized by economists *like Ely, Durbin, Wootton, Fraser, and Boulding,* etc. They have criticized it on the following scores:

Economics is not Neutral as Regards Ends: Critics do not agree with the view that Economics cannot afford to be neutral with regard to *ends*. Economics is a social science. Economists have to pronounce their judgement as to which ends are noble and which ones are not moral and so need be discarded. In the words of *Thomas*, "*The function of economists is not only to explore and explain, but also to advocate and condemn*."

Concealed Concept of Welfare: This definition has opposed, in vain, the concept of welfare. According to critics, the concept of welfare is implied in the definition given by Robbins. This definition relates they study of Economics to allocating the scarce means into alternative uses in such a manner as to get maximum satisfaction. *Pigou* regards satisfaction as indicative of welfare. This definition, therefore, also refers to maximization of satisfaction, or welfare. In other words, the concept of welfare has entered into Robbins' definition through back door.

Not only a Positive Science: *Robbins* asserts that Economics is a positive science that concerns itself with mere choice making or valuation and that it has nothing to do with ethics or welfare or man. *Boulding* said, "*Prof. Robbins in defining economics as a valuation problem seems to deprive economics of the right to study welfare*." Criticizing *Robbins'* definition *Fraser* remarked, "*Economics is something more than a value theory or Equilibrium Analysis*." If Economics does not concern itself with human welfare then the ordinary man will have no interest in its study. It will become a dry and emotion less science.

Scarcity is not the Cause of Economic Problem: This definition is based on the wrong assumption that scarcity is the main cause of arousal of economic problems. Many important problems, such as the problems of unemployment and depression are economic problems, but they arise not due to scarcity. Their cause is abundance. Unemployment takes place when supply of labour is more than demand and depression arises when supply of goods is more than demand.

Study of Static Condition: According to this definition means and ends are assumed to be constant. Consequently, this definition has made economic a static study. In real life, means and ends are always changing. Economic growth is mainly due to continuous changes in the means. Economic means are always dynamic. Study of economics therefore necessitates study of dynamic condition.

Not fully applicable to rich countries: *Robbins'* definition does not fully apply to rich countries because in those countries many economic problems arise due to plentiful availability and not scarcity. According to *Galbraith*, in order to maintain equilibrium of the market in America, production of some commodities is deliberately kept at a low level.

Not applicable to under developed countries: *Robbins'* definition is inapplicable to less-developed economics. Problem of these economics is to make proper use of their resources. These economics do have abundant economic resources but the same are not exploited fully. They are therefore faced with the problem of economic development.

Not applicable to centrally planned economies: This definition has little relevance to centrally planned economics because the responsibility of choice making in these economics vests with the society as a whole and not with an individual. Under socialism (centrally planned economy), responsibility for mobilization of resources for the satisfaction of individuals' wants is that of the government. Under planned economies, man's economic actions are not always based on his rational behaviour, rather the same are determined by the government policies.

Complex and Abstract: This definition presents Economics as a complex and emotionless subject. It is a definition of Economics for economists. It has no utility for ordinary men.

In short, *Robbins'* definition is a scientific and analytical definition of economics. Its main defect is that it has treated Economics as mere theoretical study. It has ignored the practical or welfare content.

COMPARISON BETWEEN ROBBINS' AND MARSHALL'S DEFINITIONS:

There are many dissimilarities and some similarities in the definitions of Economics as given by *Lord Robbins* and *Marshall*.

Dissimilarities between Robbins' and Marshall's definitions:

Both the definitions of Economics have the following differences:

Nature of the definitions: *Marshall's* definition is classificatory while the one given by *Robbins'* is analytical. *Marshall* has classified man's economic activities into material and non-material; promoting well-being and not promoting well-being; ordinary business of life and extra-ordinary business of life; etc. Robbins has not made any such classificatory distinction of economic activities. Rather he has examined the causes that give rise to economic activities, that is, scarcity and problems of making choices.

Subject Matter of Economics: According to *Marshall,* the subject matter of Economics is the study of those activities of a social man, which are closely connected with his material well-being. According to *Robbins*, Economics is concerned with all human beings. It has no concern with well-being. Its subject matter is the study of human behaviour as a relationship between ends and scarce means having alternative uses. *Marshall's* definition is narrow and that of *Robbins'* is wide.

Nature of Economics: According to *Marshall*, economics is both a social science and an art. On the other hand, *Robbins* maintains that it is only a positive science and a human science.

Objectives of Economics: According to *Marshall,* the objective of the study of Economics is to promote the well-being of man. But *Robbins* holds that its objective is to study the causes and effects of economic activities.

SIMILARITIES BETWEEN ROBBINS' AND MARSHALL'S DEFINITIONS:

Despite the above differences in the respective definitions of *Marshall* and *Robbins*, they have some striking similarities as under:

More Importance to the Study of Man: Both the definitions accord greater importance to man than to wealth. In both definitions, man is primary and wealth secondary.

Scarcity: According to *Robbins*, all those means, which are scarce, are subject of study of Economics. *Marshall* holds that Economics studies those means, which are material.

In short, both these definitions are not complete; both have some shortcomings. Although *Marshall's* definition is more practical, simple and human in approach, yet it is narrow and unscientific. On the contrary, through *Robbins* definition is more scientific and logical, yet it is impractical and complete.

1.2.6 GROWTH-CENTERED DEFINITIONS OF ECONOMICS:

In the words of noble prize winner *Prof. Samuelson*:

"*Economics is the 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, it produces various commodities over time and distributes them for consumption, now or in the future, among various persons and groups in society. It analyses costs and benefits of improving patterns of resource allocation*."

According to *Benham*:

"*Economics is the study of the factors affecting employment and standard of living*."

C. E. Ferguson has defined Economics in these terms:

"*Economics is the study of the economic allocation of scarce physical and human means (resources) among competing ends, an allocation that achieves stipulated objectives by way of optimizing or maximizing*."

According to *Lipsey* and *Steiner*:

"*Economics, broadly defined concerns (i) the ways in which According society uses its resources and distributes the fruits of production to individuals and groups in the society, (ii) the way in which production and distraction change over time and (iii) the efficiencies of economics system*."

FEATURES OF GROWTH-ORIENTED DEFINITIONS OF ECONOMICS:

The salient features of growth-oriented definitions of Economics are as follows:

Economics Resources: These definitions underline the point that Economics is the study of economic resources. These economic resources refer to natural, human and physical resources, which satisfy human wants but are scarce and have alternative uses. These resources are obtained on payment of price or by making some sacrifice.

Efficient Allocation of Resources: Choice making is the main problem in Economics. Efficient allocation and use are the chief objectives of choice making.

Full Utilization of Resources: According to growth-oriented definitions, Economics is not concerned with resources only but also with their full use and utilization.

Increase in Resources: These definitions also underline the fact that the objective of Economics is to increase the quantum and productivity of resources in future. This results in an increase in the growth rate of economy, more employment and higher standards of living.

MERITS OF GROWTH ORIENTED DEFINITIONS OF ECONOMICS:

Growth-oriented definitions have the following merits:

Economics as Science and Art: According to Samuelson, Economics is oldest among arts and newest among the sciences. In fact, it is the queen of Social Sciences. These definitions concur with the statement of *Marshall* that economics is a social science and an art. It is a positive and normative science. These definitions do not subscribe to *Robbins'* definition that economics is a mere positive science. Economics has its theoretical and practical aspects.

Not neutral as regards ends: As per these definitions, economic welfare forms a major part of the study of economics. Economic welfare is that part of general welfare which is measured in terms of money. Economics studies both material and non-material means of economic welfare. These definitions are therefore wider in scope than the definition of *Marshall* in respect of the concept of welfare. Robbins maintains that Economics has nothing to do with welfare. It is not true. It is impossible to keep welfare out of the scope of Economics, and so also the wants and their satisfaction.

Practical: These definitions have rendered Economics a more practical and useful subject. Economics does not analyze economics problems only rather it also suggests measures to solve them. Study of Economics helps in the formulation of economic policies. It is not a mere practice of valuation; it offers solutions to economic problems.

Dynamic: These definitions have imparted dynamism to Economics. Study of Economics is not restricted to the present day problems relating to the consumption, production, distribution, etc. of economic resources, but it studies their future problems as well. Economics, therefore, is concerned with the dynamic problems of economic development.

Universal: These definitions of Economics are universal. These are concerned with the economic problems of all types of economies- developed or under-developed. Main problem of the developed economies is to maintain the situation of full employment. On the other hand, the main problem of the under-developed economies is to achieve the level of full employment and raise the standard of living of the people by increasing their per capita income.

WHICH OF THESE DEFINITIONS IS THE BEST?

Different economists have given different definitions of Economics. *Boulding* is of the opinion that any single concise definition of Economics will be inadequate. Of course, to define it as “a study of mankind in the ordinary business of life” is to give a very wide view of economics. If it is defined as a study of “human valuation and choice making” then it will be too wide a definition, and if it is defined as “a study of that part of man’s actions which are measured in terms of money” then it will be too narrow a definition.

According to *Adam Smith*, Economics is a study of wealth. It is a narrow and unscientific definition of Economics as it puts more emphasis on wealth than man. Actually, wealth is simply a means to satisfy man's wants. *Dr. Marshall* was of the opinion that "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". This definition of Economics is superior to the one given by *Adam Smith*, but this definition does not provide true information with regard to the nature of economic activities.

Robbins is of the view that "Economics is a science that studies human behaviour as a relationship between ends and scarce means which have alternative uses." This definition explains the true nature of economic activities. As such, the definition given by *Lord Robbins* is regarded pertinent and scientific compared to those given by *Adam Smith, Marshall,* etc. Consequently, economics has been reduced to a dull and complex subject having little utility for an ordinary man.

All the tree main definitions of Economics therefore suffer from one defect or the other. It is by combining all the three that we can construct a more appropriate definition of economics.

Picking up the term **'wealth'** from the definition of *Adam Smith*, **'welfare'** from that of *Marshall*, **'scarcity'** from that of *Robbins* and **'economic growth'** from that of *Samuelson*, an acceptable definition of Economics can be constructed in these words:

> *'Economics is a subject that studies those activities of man which are concerned with the maximum satisfaction of wants or with the promotion of welfare and economic growth by the efficient consumption, production and exchange of scarce means having alternative uses."*

1.3 SUMMARY:

- Economics is a useful and significant social science. It involves economic activities of man, which are concerned with the efficient use money and other such scarce means.

- The term ‘*Economics*’ is derived from two words of Greek language, namely, *Oikos* (household) and *Nemein* (to manage), meaning thereby *household management*.
- Dr. Marshall first used the term ‘economics’ in his famous work “*Principles of Economics*” in *1890*.
- Most of the definitions of Economics are classified as follows: *Wealth-related Definition (Adam Smith), Welfare-related Definition (Marshall), Scarcity Definition-related (Robbins), and Growth Oriented Definition-related (Samuelson).*
- Classical Economists like *Adam Smith, J. B. Saw, Walker, J. S. Mill,* etc. opine that Economics is a subject that studies nature of wealth and its production, consumption, exchange and distribution, etc.
- Neo-classical economists like *Marshal, J. S. Mill, Pigou, and Cannan,* etc., have included in the scope of economics those activities of man, which are undertaken to acquire material goods that promote the welfare of mankind.
- The supporters and followers of wealth-related definition of Economics have imagined such a man who is fully aware of his self interest and who makes persistent efforts to achieve this selfish ends to the maximum. Such a man is called economic man.
- 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.
- The aim of political economy is the explanation of the general causes on which the material welfare of human beings depends.
- Economics is a science that studies human behaviour as a relationship between ends and scarce means that have alternative uses.
- Economics is a science concerned with the administration of scarce resources.

- Economics is fundamentally a study of scarcity and the problems which scarcity gives rise.
- Economics is the 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, it produces various commodities over time and distributes them for consumption, now or in the future, among various persons and groups in society. It analyses costs and benefits of improving patterns of resource allocation.
- Economics is the study of the factors affecting employment and standard of living.
- Economics is the study of the economic allocation of scarce physical and human means (resources) between competing ends, an allocation that achieves stipulated objectives by way of optimizing or maximizing.

1.4 KEY WORDS:

Economics: Economics is the study of those activities of human beings, which are concerned, with the satisfaction of man's unlimited wants by utilizing the usually limited resources.

Definitions of Economics: Definitions of Economics are classified as follows: Wealth-related Definition (Adam Smith), Welfare-related Definition (Marshall), Scarcity Definition-related (Robbins), and Growth Oriented Definition-related (Samuelson).

Wealth - Centered Definition of Economics by Adam Smith: *"Economics is an enquiry into the nature and cause of wealth of nations."*

Wealth - Centered Definition of Economics by J. B. Saw: "*Economics is the science which deals with wealth*."

Wealth - Centered Definition of Economics by Walker: "*Economics is the body of knowledge which relates to wealth*."

Wealth - Centered Definition of Economics by Senior: "*The subject treated by political economics is not happiness but wealth*."

Wealth - Centered Definition of Economics by J. S. Mill: "*Economics is the practical science of production of wealth*."

Economic Man: The supporters and followers of wealth-related definition of Economics have imagined such a man who is fully aware of his self interest and who makes persistent efforts to achieve this selfish ends to the maximum. Such a man is called economic man.

Material-Centered Definition of Economics by Marshall: "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".

Material-Centered Definition of Economics by Canaan: "The aim of political economy is the explanation of the general causes on which the material welfare of human beings depends."

Scarcity-Centered Definitions of Economics by Lord Robbins: "Economics is a science that studies human behaviour as a relationship between ends and scarce means which have alternative uses."

Scarcity-Centered Definitions of Economics by Scitovosky: "Economics is a science concerned with the administration of scarce resources."

Scarcity-Centered Definitions of Economics by Stonier and Hague: "Economics is fundamentally a study of scarcity and the problems which scarcity gives rise."

Growth-Centered Definitions of Economics by Prof. Samuelson: "Economics is the 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, it produces various commodities over time and distributes them for consumption, now or in the future, among various persons and groups in society. It analyses costs and benefits of improving patterns of resource allocation."

Growth-Centered Definitions of Economics by Benham: "Economics is the study of the factors affecting employment and standard of living."

Growth-Centered Definitions of Economics by C. E. Ferguson: "Economics is the study of the economic allocation of scarce physical and human means (resources) among competing ends, an allocation that achieves stipulated objectives by way of optimizing or maximizing."

1.5 SELF-ASSESSMENT QUESTIONS (SAQs):

1. Discuss the importance of Economics in society.
2. Write a detailed note on wealth-related definitions of Economics.
3. Discuss the plusses and minuses of the material-related definitions of Economics.
4. Write a detailed note on scarcity-related definitions of Economics.
5. Discuss the plusses and minuses of the growth-related definitions of Economics.

1.6 REFERENCES / SUGGESTED READING:

Indian Economy (its Development Experience) by Misra; Puri;

Development Economics by Bharadwaj, Krishna; Kaviraj, Sudipta;

India's Economic Policy by Jalan;

Indian Planning at the Crossroads by Datta, Bhabatosh;

Indian Economics by Myneni, Dr.; Publisher: Allahabad Law Agency (2002)

Indian Economics (a Development Oriented Study) by Dewett, K.K.; Publisher: S.Chand & Company (2002)

Bachelor of Mass Communication (1st year)

(BMC-107) ECONOMICS

Block: D Unit: I Lesson: 2

NATURE AND SCOPE OF ECONOMICS

Writer: **Ms. Veena Sharma**

Converted into SIM format by: **Sh. M. R. Patra**

LESSON STRUCTURE:

In this lesson we shall discus about the nature and scope of Economics. But first, we shall briefly discuss the concept of Economics. The lesson structure shall be as follows:

2.0 OBJECTIVES:

In this lesson we shall try to cover some introductory aspects of economics. The objectives of this lesson are:

- *To Know About the Concept of Economics*
- *To Understand the Nature and Scope of Economics*

2.1 INTRODUCTION:

There are different views with regard to the concept of Economics. According to *Samuelson*, to describe the Economics in a few sentences is a difficult task. In this context *Mrs. Wootton* says, “Wherever six-economists gather, there are seven opinions.” This statement is fully applicable of the concept of Economics. Economists have different views with regard to the concept of Economics. Many great thinkers have given different definitions of Economics.

According to the great philosopher *Aristotle*, *Economics is the economic management of state and household*.

Here in this lesson we shall discuss about the concept, nature, and scope of Economics.

2.2 PRESENTATION OF CONTENT:

The content of this lesson shall be presented as follows:

- o *Concept of Economics*
- o *Nature and Scope of Economics*

2.2.1 CONCEPT OF ECONOMICS:

According to *Adam Smith*, *Economics is an enquiry into the nature, and (causes of wealth*).” According to *Lord Robbins,* Economics is related to (i) those efforts of human beings that they undertake (ii) to acquire scarce resources in order to (iii) satisfy their unlimited wants. As a result of these efforts they get economic goods or wealth. When with the help of these goods they satisfy one want, at once, another want crops up.

According to modern economists, like *Samuelson, Boulding, Luftwitch,* etc., Economic relates to: *Economics activities, Economic system, and Economic policies. Marshall* and other neo-classical economists have widened the concept of Economics by including in it the study of those activities of social beings, which are connected, with the material requisites of welfare.

ECONOMIC ACTIVITIES:

The concept of Economics is concerned with the study of economic activities. *Prof. Boulding* has divided economic activities into the following parts:

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

Consumption: Consumption is that economic activity which is concerned with the use of economic goods and services for the satisfaction of human wants.

Production: Production is that activity which is concerned with increasing the utility or value of the goods and services. There are five factors of production:

- *Land,*
- *Labour,*
- *Capital,*
- *Enterprise, and*
- *Organization*

Exchange: Activity relating to the buying and selling of a product is a factor of production is called exchange. This buying and selling is mostly done in terms of money. This activity is also called price determination and it is divided into two parts:

Product Pricing: It relates to the determination other price other product under different conditions of the market, viz. perfect competition, monopoly and imperfect competition.

Factor Pricing: It relates to the determination of the price of different factors of production. Price of land is rent that of labour is age, that of capital is interest and price for the services of the entrepreneur is profit. This activity is also called 'distribution'.

Chapman has rightly said, "*Economics is that branch of knowledge that studies consumption, production, exchange and distribution of wealth*."

Objectives of Economic Activities:

According to modern economist *Ragnai Frisch,* economic activities have two main objectives:

- *Proper allocation of the resources, and*

- *Efficient use of resources*

The study of economic activities is split up into two parts. Proper allocation of resources is Microeconomics and efficient use of resources is Macroeconomics.

MICRO ECONOMICS:

Micro Economics covers the following:

- *Theory of Demand,*
- *Theory of Production,*
- *Production Function,*
- *Price determination,*
- *Factor pricing or distribution, and*
- *Economic Welfare*

MACRO ECONOMICS:

Macroeconomics is the study of aggregates or average covering the entire economy. It therefore, includes:

- *National income,*
- *Full employment,*
- *Price level,*
- *Depression,*
- *International Trade,*
- *Public Finance,*
- *Money and Banking Institutions,*
- *Economic growth,*
- *Trade Cycles, and*
- *Macro Theories of Distribution of National Income*

ECONOMIC SYSTEMS:

On the basis of the organization and institutions relating to economic activities, the economic systems are divided into three parts:

Capitalism:

In this system people are free to consumer, produce and change the goods. There is no interference of the government in the economic activities of the citizens. People can accumulate private property.

Socialism:

Under this economic system, activities like consumption, production, exchange etc. are fully under the control of the government. People cannot keep private property.

Mixed Economy:

Under this system some economic activities are controlled by the government while other are managed by the people as they wish.

ECONOMICS POLICIES:

As a result of the operation of economic systems there arise several economic problems like: unemployment, price rise, poverty, depression, etc. In order to tackle these problems, study of economics examines such policies as:

- *Monetary policy,*
- *Fiscal Policy,*
- *Price Policy,*
- *Economic planning, and*
- *International Liquidity*

In short, *Anatol Murad* says, “The Economics is the description of the nature and behaviour of an economy or of an economic system and investigation of economic problems with the object offering solutions.”

2.2.2 NATURE AND SCOPE OF ECONOMICS:

In the words of *Samuelson*, “*Economics is the oldest of the art, the newest of sciences, indeed the queen of all the social sciences*.”

Economics as a Science:

The term ‘science’ means ‘to know’. Knowing a subject means understanding it and being able to explain its causes and effects. “*Science is a systematic body of knowledge concerning the relationship between causes and effects of a particular phenomenon*”. In science, we collect, classify and analyses the facts systematically. In Economics also we have to accumulate, classify and analyses economic facts systematically.

Characteristics of Science: Renowned philosopher *Bacon* had pointed out four main characteristics of science:

- *Observation of facts,*
- *Measurement,*
- *Explanation, and*
- *Verification.*

Detailed study of these facts can prove that economics is a science.

Observing and Collecting facts: To begin with, facts relating to a subject are observed. In economics, facts relating to economic activities are observed. For example, an economist observes that when price rise, ordinarily demand contracts. When a consumer buys large quantity of a commodity then its utility diminishes. In this way, the economists collect facts pertaining to economic activities.

Measurement: Facts are subjected to measurement in science. For this purpose, facts are properly classified and presented. In Economics also, facts are measured. An economist will try to measure how much demand has fallen as a result of a given rise in price. If there is unemployment in the country, what is the number of unemployed? At which rate the national income of the country is growing? With a view to measuring these facts the economist seeks the help of mathematics, statistics and econometrics.

Explanation: After observing, compiling and measuring the facts, these are explained in a systematic manner. In Economic, laws are framed by establishing a relationship between the cause and effect of a fact. For example, the *Law of Demand* is formulated in Economics on the basis of the study of the relationship between change in price (cause) and the change in demand (effect).

Verification or Validity of Laws: The final feature of science is that by applying the scientific laws to real life it is verified whether the same are valid or not. For this purpose experiments are also conducted. Validity of laws of Economics is also subjected to verification. For instance, many laws of Economics, such as, the Law of Diminishing Returns, Law of Diminishing Marginal Utility, etc., are treated as valid because they apply to the real situations in life.

It is evident from the above that Economics is a science. But some scholars do not agree with this view. They maintain that laws of Economics are not as exact and universal as the laws of physics and chemistry, etc. In reality their disagreement is not justified.

Arguments in favour of Economics being a Social Science:

Following arguments are given in favour of economics being a social science:

Systematic Study: Economics is concerned with the study of one subject alone, that is, the study of inter-related activities like consumption, exchange of wealth, production, etc., concerning with economic activities are complied and observed. The same are classified and measured.

Validity of Laws: Every science verifies the validity of its laws. If a law is based on real assumptions or its predictions come true, then it is regarded valid. Many laws of Economics like Law of Diminishing Returns, Law of Diminishing Marginal Utility are based on real experiences of life and o are treated valid. It is therefore, evident that economics is a social science. It is a systematic study of the economic activities of the human beings based on scientific practices.

Arguments against Economics being a Natural Science:

Those who hold that Economics is not a science actually mean to say that it is not as exact a science as a natural science is. They advance the following arguments against Economics being a natural science:

Exact Laws: Laws of natural sciences are almost always perfect and exact. On the other hand, laws of Economics are not exactly prefect. They are mere statements of tendencies. The Law of Demand will be valid only if there is no change in the income, fashion, etc., of the consumer.

Universal Laws: Laws of natural sciences are universal applicable. They hold good at all times and at all places. Economics laws are far from being universal. They are not applicable at all times and at every place. They are liable to change as they deal with human beings.

Verification of Truth: Natural scientists can verify the truth of the laws pertaining to their science in the laboratories through experiments. They can also make correct predictions on the basis of these laws. Economics has no laboratory to verify the correctness of its laws. The *measuring-rod of money* is the only apparatus available to it to measure economic activities but it is not exact. The value of money itself goes on changing, as such, it cannot a dependable measure.

In short, it can be maintained that economics is not a natural science. It is a social science.

Is Economics only a Positive or Normative Science?

With regard to the nature of economics, another question that arises is whether it is only a positive science or a normative science. Economists are not unanimous in this respect. According to *Robbins, Friedman* etc. economics is only a positive science. On the other hand, *Marshall, Pigou, Hawtrey* etc. are of the opinion that it is both a positive and normative science.

Economics is a positive Science Positive science is that science which studies an accurate and true description of event as they happen. In the words of R.T. Bye, “Positive science confines itself to accurate description of phenomena, it explains what is, how it works and what are its effects. “According to J.N. Keynhes, ‘Positive Science may be defined as a body of systematized knowledge concerning, what is?” Positive science confines itself to the study of: what, how and why. Its study does not tell L what ought to be. Positive science has no place for any kind of suggestions.

Eminent classical economists like Senior and modern economists like Milton Friedman, Lord Robbins etc. are of the opinion that economics is only a positive science. It studies the following:

What is?

What was? and

What will be?

Study of economics explains what is the rate of wage, How is it determined? It does not explain what ought to be the rate of wage. In the words of Boulding, “The economist studies the choice, he does not judge them. “According to Lord Robbins, “The function of economist is to explore and explain and not to advocate or condemn. “Statements relating to positive science are subject to verification.

Arguments in favour of Economics being a Positive Science:

Lord Robbins is of the opinion that if economics is restricted to a positive science, it will have the following advantages:

More Logical: Basis of positive science is *logic,* while that of a normative science is *emotion*. Being based on logic, positive science is more exact. It is by logic that the relationship between cause and effect of an act can be established. If economics confines itself to be a positive science, it can make excessive use of logic. More use of logic will render economics more exact.

More Efficiency: The positive and normative aspect of every problem is studied separately to take advantage of the division of labour. In case of division of labour a work is divided into many parts and each part is entrusted to a separate worker. As a result, each worker becomes efficient in his work. Likewise, it is suggested that it the economists concentrate on the positive aspect of economic activities and leave the normative aspect to be looked after by the politicians and social scientists, then they will do their job in a more efficient manner.

More Uniformity: If economics concerns itself with the study of realities of economic activities it will evoke less disagreement and more agreement among the economists. This will be conducive to the progress on this science. If, on the other hand, it will be studied both as a positive and normative science then the possibility of its evoking disagreement among them will increase.

More Neutrality: The economist will not stay neutral if he seeks to know both ‘what is’ and ‘what ought to be’ simultaneously. Whatever suggestions he would like to give, he would try to present the facts in that very context. Thus he would fail to present the economic activities in their true perspective. It is therefore essential to study economics as a positive science only to know the true facts.

Formulation of Theories: A theory expresses the mutual relationship between facts. For example, law of demand states the relationship between ‘price’ and ‘demand’. As a positive science, the main function of economics is to formulate economics theories. This function can be best discharged if economics restricts itself to the study of facts as they are and does not indulge in passing judgement whether the facts (or ends) are desirable or not.

Economics is also a Normative Science: Many eminent economists, like, *Marshall, Pigou, Hawtrey, Wolf,* etc. regard economics as a normative science. A normative science is one that aims at determining ‘norms’ or ‘values’ or ‘ideals’. It is a science whose object is also to assist in the solution of concrete problems. J.N. Keynes has aptly said, normative science or a regulatory science is a body of systematized knowledge relating to criteria of ‘what ought to be’ and concerned with the ideal as distinguished from the actual. The object of normative science is the determination of ideals. “As a normative science, economics offers several suggestions. For example, it counsels that there should be economic development of the country, prices should be stabilized, full employment should be achieved, income should be equitably distributed etc. Economics is not concerned with examining the facts only but it has to set economic norms as well. In the words of *Pigou*, “Economics is chiefly valuable neither as an intellectual gymnastic nor even as a means of winning truth for its own sake, but as a handmaid of Ethics and a servant of practice, “Economics is therefore not concerned with mere collection of facts. It is not enough for the economist to explain and analyze the problem. He has to offer suggestions for the solution of concrete problems. He has to pronounce judgements and tender advice on economic issues. *Wootton* rightly says, “*It is very difficult for economists to divest their discussion completely of all normative significance*.” Normative statements are not verifiable.

Arguments in favour of Economics being a Normative Science:

Following arguments are offered in favour of economics being a normative science:

More Practical: Economic studies the economic activities of man. Economic activities are based not only on logic but also on emotions. If economics is to made more useful and practical, then along with logic, care must also be taken of man’s emotions. In that event, economics must decide, ‘what ought to be’ and ‘what ought not to be’. As a normative science, it will prove more practical.

More useful: Economics is a social science. It should suggest ways and means to promote economic welfare of man. It can become more useful if it is not only "light-bearing", but also "fruit-bearing". Economics should not merely analyse and examine economic activities but also offer suggestions to render them more useful. Economics can be of great service to mankind as a normative science.

More Economical: If the economist synchronizes the analysis of economic problems with concrete economic policies he would save ti.e It will be a huge waste of time, if economic facts are to be analysed by the economist as an armchair academician and economic decisions are to be made and implemented by another person. Propriety demands that the person who explores the explains the economic phenomenon should also take concrete decisions regarding the economic objectives and suggest measures to achieve them.

More Realistic Approach: From the very beginning economic growth has been the subject of study of economics. In the modern era, study of problems concerning economic planning and economic growth has become the main Conceptof economics. In reality, economics studies subjects like economic welfare, economic development and proper allocation of resources etc. Study of these subjects has made economics a normative science.

In short, Prof. Wagner has rightly said, "*Economics is both a positive and normative science*".

Is Economics an Art?

There is a controversy among the economists as to whether economics is an art or not. According to Walras, Cournot, Robbins, etc., economics is not an art. But Marshall, Pigou, etc are of the view that economics is not only a science, it is also an art. Before enterning into further discussion it is pertinent to know what is an art? According to Cossa, science is concerned with 'knowing' and art is concerned with 'doing'. "Art is the practical application of knowledge for achieving definite ends." In the words of Wagner, "Art is the examination of ways and means for attaining a definite aim." In this context J.N. Keynes says, "An art is a system of rules for the attainment of given ends." Eminent Italian economist

Cossa also says, “Art directs, art imposes, predicts or proposes rules. It solves general problems.” J.N. Keynes has used the term ‘Applied Economics’ in place of the term ‘art’. Modern economists substitute the term ‘Economic Policy’ for ‘art’. As an art, economics helps us in the solution of our practical problems. Its study enables us to know the best methods of achieving economic objectives.

Arguments in favour of Economics being an Art:

Economics is regarded as an art of the following counts:

Solution of the Problems: Economics can be a more useful subject for the people if it can help in the solution of their economics problems. Economics tells us how an economy can make most efficient and optimum use of its scarce resources. In this connection *Pigou* says, “Economics is not only light-giving but also fruit-bearing”.

Realistic Situation: The realistic situation with regard to the study of economics is that an economist spends most of his time in solving the real economic problems of life, such as, inflation, unemployment, depression, economic development, etc. According to Stigler, more than ninety percent of economists spend more than half of their time in solving practical problems through economics. It is an art that economics chalks out policies relating to the promotion of economics welfare of the people.

Practical basis of Assumptions: We can remove the doubts that arise with regard to the real nature of economic laws by dividing economics into science and art. For instance, many laws of economics are based on the assumption of perfect competition. It can therefore, be concluded that formation of Trade Unions will violate economic laws. But when economics as an art suggests the organization of Trade Unions to ameliorate the conditions of the labourers, then such unions will not be opposed in principle.

Verification of Economic Theories: Study of economics as an art facilitates the verification of economic theories. It is through art that their validity can be verified. For example, it is an economic principle that devaluation promotes exports. The validity of this principle can be verify by putting g in into practice. If in practice it proves otherwise, then a new principle will have to be explored.

Arguments against Economics being an Art:

Following arguments are advanced against economics being an art:

Different Nature of Science and Art: Science and art differ in their respective nature. If economics is a science then it cannot be an art. On the contrary, if it is recognized as an art then it will have no claim on economics.

Nature of Economic Problems: Economic problems are not purely economic. They are very much influenced by situation of political, social and religious nature. It will therefore not possible for the economists to tackle the problems from economics point of view alone.

Uncertainty: If economics is treated as an art then different economists will frame different policies and suggest different measures to solve diverse economic problems. These suggestions may be contradictory. This will impart an element of uncertainty to economics.

Lack of Immediate Solution: Economics cannot be made use of to seek immediate solution of economic problems. In the words of J.M. Keynes, "The theory of economics does not furnish a body of settled conclusions immediately applicable to policy. It is a method rather than (1 doctrine, an apparatus of the mind, technique of thinking, which helps its possessor to draw correct conclusion.

In short, economics is both a science and an art. In the words of *Cossa*, "Science requires art, art requires science, each being complementary to the other." It has also been suggested that as a science it should be called "*economics*" and as an art it should be called "*economy*".

Regarding the nature of economics, *Chapman*, has aptly said, "*Economics is a positive science dealing with economic facts as they are, a normative science inquiring facts as they ought to be and an art finding out the ways and means by which the desired ends can be reached*."

2.3 SUMMARY:

- Economics deals with the economic activities of real man and not economic man as suggested by classical economists. An economic man is one who works for self-interest.

- Economics is concerned with the study of an average man. It does not deal with extra-ordinary persons like, criminals, misers, lunatics etc. These days, anti-social and illegal economic activities like, black marketing, black money and smuggling, etc. operate to the detriment of the economy. So the analysis of these activities also forms a part of the study of economics.
- There has been a difference of opinion among the economists regarding the type of men to be studied under economics. Some are of the opinion that we should study the activities of such men who from a part of the society. Others hold that it should include the activities of all human being irrespective of the fact whether they are a part of the social frame or have an existence outside it.
- Economics should concern itself with those activities of the men who are related to scarce means or wealth. Robbins holds that study of economics should embrace all sorts of activities concerning scarce means whether material or non-material.
- Economic is a social science and an art. As a social science, it is both a positive and a normative science. But economists do not set the norms. Politicians or the social reformers set these norms.
- Economics' laws, though scientific, are not as exact as the laws of natural sciences.

2.4 KEY WORDS:

Study of Real Man: Economics deals with the economic activities of real man and not economic man as suggested by classical economists. An economic man is one who works for self-interest.

Study of Average Man: Economics is concerned with the study of an average man. It does not deal with extra-ordinary persons like, criminals, misers, lunatics etc. These days, anti-social and illegal economic activities like, black marketing, black money and smuggling, etc. operate to the detriment of the economy. So the analysis of these activities also forms a part of the study of economics.

Study of Social Man: There has been a difference of opinion among the economists regarding the type of men to be studied under economics. Some are of the opinion that we should study the activities of such men who from a part of the society. Others hold that it should include the activities of all human being irrespective of the fact whether they are a part of the social frame or have an existence outside it.

Study of Economic Activities: Economics should concern itself with those activities of the men who are related to scarce means or wealth. Robbins holds that study of economics should embrace all sorts of activities concerning scarce means whether material or non-material.

Science and Art: Economic is a social science and an art. As a social science, it is both a positive and a normative science. But economists do not set the norms. Politicians or the social reformers set these norms.

Economics Laws: Economics' laws, though scientific, are not as exact as the laws of natural sciences.

2.5 SELF-ASSESSMENT QUESTIONS (SAQs):

1. Write a detailed note on the concept of Economics.
2. Discuss in detail the concepts of micro-economics and macro-economics.
3. Is Economics a science? Discuss in detail.
4. Is Economics an art? Discuss in detail.
5. Write a detailed note on the nature and scope of Economics.

2.6 REFERENCES / SUGGESTED READING:

Indian Economy (its Development Experience) by Misra; Puri;

Development Economics by Bharadwaj, Krishna; Kaviraj, Sudipta;

India's Economic Policy by Jalan;

Indian Planning at the Crossroads by Datta, Bhabatosh;

Indian Economics by Myneni, Dr.; Publisher: Allahabad Law Agency (2002)

Indian Economics (a Development Oriented Study) by Dewett, K.K.; Publisher: S.Chand & Company (2002)

Bachelor of Mass Communication (1st year)

(BMC-107) ECONOMICS Block: D Unit: II Lesson: 3

BASIC FEATURES OF INDIA ECONOMY

Writer: **Ms. Veena Sharma**

Converted into SIM format by: **Sh. M. R. Patra**

LESSON STRUCTURE:

In this lesson we shall discus about the basic features or characteristics of Indian Economy. The lesson structure shall be as follows:

3.0 OBJECTIVES:

In this lesson we shall try to cover some introductory aspects of economics.

The objectives of this lesson are:

- *To Get an Introduction to Indian Economy*
- *To Know About the various Characteristic Features of Indian Economy*

3.1 INTRODUCTION:

Economics is the social science concerned with the production, distribution, exchange, and consumption of goods and services. Economists focus on the way in which individuals, groups, business enterprises, and governments seek to achieve efficiently any economic objective they select. Other fields of study that contribute to this knowledge are psychology, ethics, history, and sociology. Psychology and Ethics try to explain how objectives are formed; History records changes in human objectives; Sociology interprets human behaviour in social contexts.

Economics can be divided into two major fields. The first, price theory or microeconomics, explains how the interplay of supply and demand in competitive markets creates a multitude of individual prices, wage rates, profit margins, and rental changes. Microeconomics assumes that people behave rationally. Consumers try to spend their income in ways that give them as much pleasure as possible. As economists say, they maximize utility. For their part, entrepreneurs seek as much profit as they can extract from their operations.

The second field, macroeconomics, deals with modern explanations of national income and employment. British economist John Maynard Keynes first gave the concept of Macroeconomics in his book, *The General Theory of Employment, Interest, and Money* (1935). His explanation of prosperity and depression centres on the total or aggregate demand for goods and services by consumers, business investors, and governments. Because, according to Keynes, inadequate aggregate demand increases unemployment, the indicated cure is either more investment by businesses or more spending by government, and consequently larger budget deficits.

In this lesson, we shall try to get an introduction to Indian Economy. We shall mainly try to know about the various characteristic features of Indian Economy.

3.2 PRESENTATION OF CONTENT:

The content of this lesson shall be presented as follows:

- *Indian Economy- An Introduction*
- *Characteristic Features of Indian Economy*

3.2.1 INDIAN ECONOMY- AN INTRODUCTION:

India has a mixed economy in which both the central and state governments pay a leading role—as regulators, planners, and through ownership of public enterprises. Large-scale government involvement in the economy began in the 1950s as a reflection of nationalism and of the socialism of the first post-independence government led by Jawaharlal Nehru—and with the aim of speeding up economic development and growth to meet the needs of India's rapidly growing population.

The first of India's five-year economic plans was launched in 1951. During the decades that followed the state took over certain key sectors and invested heavily in others, while the private sector was subject to wide-ranging controls. Tariff, and other, barriers were erected to protect domestic industries, and various agrarian reform programmes were initiated.

The results were generally positive, especially when compared with many other developing countries. Economic growth, except during times of severe drought such as 1979 and 1987, was steady; it averaged 3.6 per cent a year in real terms (that is, after taking into account population growth) between 1965 and 1980, and more than 5 per cent a year during the 1980s. Inflation and the national debt were generally kept low. Agricultural output rose significantly and the fear of mass famine was eliminated. The basis of a modern industrial state was laid.

However, growth levels were still too low to have more than a marginal impact on the income of the majority of Indians. In 2003 India's gross national product (GNP) was about US$ 570,760 million, giving an income per head of just US$ 540. In addition, more than 60 per cent of under-fives were malnourished, while access to clean water and sanitation was still available only to a minority of the population.

In 1991 P. V. Narasimha Rao became prime minister and instituted a significant change in economic policy. Many of the controls over the private sector have been abolished and the state monopoly in certain areas, such as air transport, was loosened. The economy generally was opened up by the reduction of tariff controls and by the encouragement of foreign investment.

These changes were partly brought about by the need to sustain higher growth rates. However, the government also needed to cut public spending and to reduce inflation, debt repayments, and the balance of payments deficit—which had all risen sharply as a result of problems created by the Gulf War and by government borrowing in the late 1980s. In 1991 and 1992 real economic growth dropped to 1.1 per cent; by 1996 it was above 6.5 per cent.

Changes at national level have also been reflected at state level. The states have significant control over internal policy and interpret national policy in different ways. Some, like West Bengal, have far greater government control of the economy than average; others, like Maharashtra, have traditionally been more market-oriented. Since 1991, however, almost all the states have opened their doors to foreign investment, reduced controls over the private sector, and allowed some privatization of state companies.

Some states have been more successful in this regard. Five major states, which together constitute one third of India's population—Andhra Pradesh, Gujarat, Karnataka, Maharashtra, and Tamil Nadu—have secured two thirds of private investment proposals since 1991 and 60 per cent of commercial bank credit.

In contrast, seven states, which together constitute 55 per cent of the population, have secured only 30 per cent of private investment proposals during the same period. These are the states of Assam, Bihar, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh, and West Bengal. This disparity may lead to instability in the future.

RICE FARMING IN INDIA:

Rice is the principal crop grown in India, and the country ranks second only to China in terms of world rice production. Much of the crop is used to feed the domestic population, as rice is the dietary staple for many Indians. These agricultural workers harvest rice by hand, as is done in most developing countries.

In terms of land uses, 54 per cent of India's land is used for arable agriculture, 3 per cent for crops, and 4 per cent for pasture. About two thirds of

India’s population depends on the land to make a living. Agriculture generates an estimated 22 per cent of gross domestic product (GDP). Most farms are very small—the average size of holdings nationally is 2.63 hectares (6.5 acres), but more than one third of holdings are considered too small for the subsistence needs of a farming family. In terms of area sown the leading crop is rice, the staple food of a large section of the Indian population.

Wheat ranks next in importance to rice, and India is also among the leading producers in the world of sugar cane, tea, cotton, and jute. Annual production of these commodities in 2004 was sugar cane, 245 million tonnes; rice, 124 million tonnes; wheat, 72.1 million tonnes; cotton, 7.20 million tonnes; jute, 2 million tonnes; and tea, 845,000 tonnes. Other important crops are sorghum, millet, maize, barley, chickpeas, bananas, mangoes, rubber, coffee, linseed, peanuts, and various seeds and spices.

The raising of livestock, particularly horned cattle, buffalo, horses, and mules, is a central feature of the agricultural economy. In 2004 India had about 186 million cattle, substantially more than any other country in the world. These animals, like buffaloes, horses, and mules, are utilized primarily as beasts of burden. Although the vegetarianism associated with Hindu custom is followed by few, especially in north India, Hindus will not eat beef. Lack of pasture and water supplies means most Indian cattle are of poor quality. The country’s 97.7 million buffalo are largely raised in the delta regions. In the dry regions of Punjab and Rajasthan camels (0.64 million) are the principal beasts of burden. Sheep (62.5 million) and goats (120 million) are raised mainly for wool.

Although much farming is still by traditional methods, there has been a significant change in the technologies available since independence. The area under canal irrigation systems financed by the government has expanded enormously; there has been an even greater expansion in the area watered by well-based systems. By 2002 about 571,980 sq km (220,843 sq mi) was irrigated. The demand for chemical fertilizers and high-yielding seed varieties has increased markedly, particularly since the much-publicized “Green Revolution” of the 1960s and early 1970s—which particularly benefited richer farmers in wheat-growing areas like Uttar Pradesh and Punjab states.

The forestlands in India cover about 22 per cent of the total land area. Commercial forestry is not highly developed and is largely restricted to the northern highlands, Assam, and the regions bordering on the Himalaya. However, forests are used to provide fuelwood and charcoal, the main energy source for most Indians, as well as valuable fruits and nuts, fibres, oils, gums, and resins. The annual timber harvest was about 321 million cu m (11.3 billion cu ft) in 2003.

Although largely undeveloped commercially, fishing remains vital in certain regions, such as the Ganges delta in Bengal and along the south-western coast. In recent years the government has been encouraging deep-sea fishing by constructing processing plants and underwriting ocean-going fleets and vessels. In 2001 the country's annual catch totalled more than 5.97 million tonnes, of which about 2.30 million tonnes was the marine catch. Kerala, Tamil, Nadu, and Maharashtra are the main fishing states, accounting for about half of the national catch. Overfishing is becoming a problem in some areas.

MINING IN INDIA:

India ranks among the world leaders in the mining of iron ore and coal, and produces significant amounts of bauxite, manganese, mica, ilmenite, copper, petroleum, asbestos, chromium, graphite, phosphate rock, zinc, gold, and silver. This varied mineral base was a key factor in India's economic development following independence—underpinning the establishment of a diversified manufacturing sector.

Nationalization during the 1950s has given the government a dominant role in the sector. Annual production figures in 2003 included coal (356 million tonnes), iron ore (67.5 million tonnes), bauxite (10 million tonnes), manganese (620,000 tonnes), aluminium (2,500,000 tonnes), zinc concentrates (162,000 tonnes), copper ore (28,400 tonnes), silver (53.6 tonnes), and gold (3,100 kg). Oil production is concentrated in Gujarat and Assam states, and offshore in the Khambhāt (Gulf of Khambhāt). In 1997 output amounted to about 243 million barrels, or about 60 per cent of India's needs; output of natural gas was 25 billion cu m (883 billion cu ft).

MANUFACTURING IN INDIA:

India has a very diversified manufacturing sector that contributes about 16 per cent of GDP. The modern sector, which has some very large concerns—particularly in the iron and steel sector—dominates in terms of output. However, small-scale, family-owned craft-based concerns are most important in terms of employment. Textile manufacturing—especially cotton textiles—is one of the longest established and still one of the most important sectors.

Most cities have at least one cotton mill; output of cotton cloth in the mid-1990s was more than 17.0 billion m (55.8 billion ft). The iron and steel industry expanded greatly after the 1950s; in the mid-1990s output of finished steel products was more than 17.8 million tonnes.

Other important industries include the processing of tea, grains, oil seeds, sugar, tobacco, and other agricultural products, printing and publishing, oil-refining, and the manufacture of electrical and electronic equipment, motor vehicles, paper, footwear, chemicals, tiles and bricks, leather and metal goods, and railway equipment. The computer industry, in particular the development of software, has expanded considerably in recent years. Bangalore, in southern India, has been termed "India's Silicon Valley".

ENERGY SECTOR IN INDIA:

About 84 per cent of India's electricity is produced in thermal facilities using coal or oil products. Another 12 per cent is generated by hydroelectric facilities, and 3 per cent is produced in nuclear power plants, including ones at Kota and near Mumbai. In 2002 India generated a total of 547.2 billion kWh. Although capacity is continuously being expanded, output is unable to keep up with demand and power shortages are a problem—particularly to the manufacturing sector. India plans to provide electricity in every village by 2009.

CURRENCY AND BANKING:

The Reserve Bank of India, founded in 1934 and nationalized in 1949, operates as the central bank and sole bank of issue. A series of nationalizations brought the majority of commercial banking into the public sector. Although there were 300 scheduled commercial banks in the early 1990s, more than 85 per cent of deposits and credits were accounted for by the 27 public-sector banks.

Money lending practices in rural India have led to problems of widespread indebtedness. Credit societies and cooperative banks have been set up to try to overcome these problems and have become increasingly important—particularly in the provision of credit to farmers to enable them to purchase seeds, fertilizers, and other agricultural inputs.

COMMERCE AND TRADE IN INDIA:

Mumbai is the financial centre of India and the city's stock exchange is the largest of the country's more than 20 stock exchanges. Founded in 1875, it is the oldest in Asia. Because of the high level, until recently, of protectionism, the volume of foreign trade relative to the size and diversity of the Indian economy has been low. In addition, there has been a persistent trade deficit, caused by imports of oil, raw materials, consumer goods, jewels, chemicals and fertilizers, and aggravated by a high level of smuggling.

The export trade is very varied, and is dominated by textiles, garments, jewellery and gemstones, leather goods, tea, engineering goods, and basic chemicals. The United States, in the mid-1990s, received about 19 per cent of India's yearly exports and supplied about 10 per cent of its imports. Other leading trading partners are Germany, Japan, the United Kingdom, Saudi Arabia, Belgium, the Commonwealth of Independent States, France, Australia, the Netherlands, etc.

TRANSPORTATION IN INDIA:

At independence in 1947, India had one of the best-developed transport networks of any colony—particularly its railway system, which had been established during British rule. Since then it has built on this base, increasing the length of roads and establishing a comprehensive internal air transport network. However, the country's broad network of state-owned railway lines continues to carry the bulk of goods traffic. The total length of operated railway track was 63,140 km (39,233 mi) in 2002 of which 17 per cent was electrified.

Three different gauges (widths) of track are in use. There were more than 2.5 million km (1.6 million mi) of roads of which about half were surfaced. In 1995 there were an estimated 3.8 million cars in India; in 1996 there was a ratio of approximately 6 cars for every 1,000 people.

Cargo carriers and passenger liners operating to all parts of the world reach the major Indian ports, including Kolkata, Mumbai, Chennai, and Vishakhapatnam. The civil aviation network was nationalized in 1953, with Air India operating the long-haul international routes and Indian Airlines domestic and regional routes.

Since 1991 some domestic routes have been opened to the private sector. The networks and volume of traffic is expanding rapidly and air routes now connect not only the major cities and towns but also remote areas in the Himalayas and northeast India. There are an estimated 290 airports in India.

COMMUNICATIONS IN INDIA:

Despite the poverty of much of the population, limiting the development of the communication system, India's telephone network has expanded significantly in recent years, gaining from the liberalization of the economy. By 2000 there were some 19 million telephone-lines registered with the state-owned Telecommunications Department and in 2003 more than 17 million mobile telephones were in use.

The state-owned All India Radio broadcasts to about 116 million radio sets. Programmes are broadcast in 24 principal languages and many dialects. Television serves some 79 million receivers, many of them owned communally. Since the late 1980s the state-owned terrestrial service has been augmented by a variety of satellite services, which have exposed many ordinary Indians to television programmes from the West for the first time.

The printed media is still very important. In the mid-1990s there were more than 33,612 newspapers and periodicals with a total circulation of more than 67.6 million. The 3,740 daily newspapers had a combined circulation in excess of 18.8 million. The press is free and often very critical of the government and politicians.

The Hindu, The Times of India, and the Indian Express are among the influential English-language dailies.

HEALTH AND WELFARE IN INDIA:

Since independence, the government has paid particular attention to India's endemic health problems. But despite vigorous efforts in areas of preventive medicine, sanitation, and nutrition, health conditions remain marginal among the poor—although epidemics of cholera, dysentery, and elephantiasis are no longer common. Much of the population, however, continues to suffer from malnutrition. Progress has been made in combating malaria and plague and in controlling tuberculosis.

Overall life expectancy at birth was about 64.3 years in 2005, compared with 32 years in 1941. The infant mortality rate declined from 151 to 91 per 1,000 live births between 1965 and 1989. In 2005 the infant mortality rate was 56 deaths per 1,000 live births.

In 1993 some 410,875 doctors were practicing in government hospitals and private clinics, providing an approximate ratio of one doctor for every 2,462 people. The country was served by over 642,100 hospital beds, in approximately 15,000 hospitals. Much of the rural population lacks ready access to professional services.

Social-welfare programmes have been particularly in evidence in such areas as family planning, various kinds of emergency relief, and care for the Dalits, who are protected by law but still subject to much harassment.

3.2.2 CHARACTERISTIC FEATURES OF INDIAN ECONOMY:

Indian economy has the following main characteristic features:

- *Stagnant Per Capita Income*
- *Low Level of Per Capita Income*
- *Low Standard of Living*
- *Unequal Distribution of Income and Wealth*
- *Backward Agriculture in an Agricultural Dominated Economy*
- *Lack of Proper Industrialization*

- *Lack of Proper Banking Facilities*
- *Less Development of Means of Transport*
- *Pressure of Population*
- *Unemployment and Under-employment*
- *Lack of Capital*
- *Unexploited Natural Resources*
- *Shortage of Able Eminent and Efficient Entrepreneurs*
- *Outdated Social Institutions*
- *Low Grade Human Capital*
- *Low Level Technology*

STAGNANT PER CAPITA INCOME: For about 50 years prior to Independence (19901-1951), per capita income in India rose by less than 1 percent per annum. After Independence, although Indian economy got a fillip under Five Year Plans yet the rate of increase in per capita income has not been satisfactory. Between the period 1951-2002 annual rate of increase has been 2.1 percent at 1993-94 constant prices. Stagnant per capita income indicates that Indian Economy is an underdeveloped economy.

LOW LEVEL OF PER CAPITA INCOME: According to Prof. Kurihara, "Low per capita real income is the chief characteristic of an underdeveloped economy". Per capita income of India is less than most of the countries of the world in 2001-2002. It was estimated to be Rs. 17978 at the current prices. In India per capital per day income is less than one dollar. In USA per capita per day income is 68 dollars. As against India per capita income in USA is 68 times more, in UK it is 50 times more and in Japan 75 times more.

LOW STANDARD OF LIVING: On account of low per capita income in India, level of consumption of necessary goods like food, clothing, shelter etc. is also low. In India, a person gets in his food just 2415 calories and 59 grams of protein. As against it, in developed countries a person gets, on an average 3150 calories and 97 rams of protein. Thus, because of low standard of living of the people, their productivity is also low.

Unequal Distribution of Income and Wealth: In India, on the one hand, per capita income is 10 and on the other, there is wide disparity in the distribution of wealth and income. According to World Development Report, in India, the poorest 10% of population gets s3.5% share in the national income. As against it, the richest 1000 people enjoy 33.5% of national income. It may be noted that due to unequal distribution of wealth and income rich people of many countries like, Japan, America, England etc. had saved a large part of their income and used it to augment capital formation. But India rich people squander away their wealth in luxurious life style.

Backward Agriculture in an Agricultural Dominated Economy: Agriculture is the main source of employment and liging of 70% of population in India also. Although during the period of planning. State of secular stagnation in Agricultural sector has come to an end and our country is last heading for self-sufficiency in food grains by virtue of Green Revolution and new strategy of Agricultural development yet the nature of Indian Agriculture, even today, continues to be backward.

Despite the fact that 64 % of the population is engaged in agriculture, yet the contribution of agriculture to the national income in barely 26.5 percent. As against it, 36 percent of population engaged in non-agricultural sector is contributing 73.5% share to the gross domestic product. It clearly proves that the productivity of Indian agriculture is very low. In India, per hectare production of wheat, rice, sugarcane, cotton, pulses, oilseeds, etc. is less than one-third of the average production in developed countries. Besides, dependence of agriculture on monsoon, out-moded techniques of production, predominance of food crop in production, poverty of the farmers, etc., are the facts that speak of the backwardness of Indian agriculture.

Lack of Proper Industrialization: The pace of industrial development in India has been quite slow. No doubt, since independence many consumer goods industries like cloth sugar, pharmaceuticals etc. have made an appreciable progress, but basic and capital goods industries like machine-building industry, fertilizer and chemical industries etc. could not develop satisfactory. Although large-scale industries were installed about 100 years ago, yet these industries could provide employment to only 75 lakh people. It constitutes just 4 percent of the total employment. In the year 2001-2002, manufacturing industries, electricity, construction activities, etc. had contributed only 25 percent to the national income. In China industries contribute 49 percent, in Japan 36 percent and in Russia 38 percent to gross national income.

Lack of Proper Banking Facilities: One of the reasons of India being under-developed is the less development of banking and credit facilities, especially in rural areas. Most of the India population depends on agriculture and small industries. But poor and small farmers and petty entrepreneurs fail to get loans in proper amount and at proper time at low rate of interest.

They are forced to borrow from indigenous bankers or moneylenders who charge exorbitant rate of interest. As a result of it, large part of the income of the small farmers and poor entrepreneurs is used to payoff debts. The have, therefore, no capacity to save. For want of saving they make no investment. Thus neither the agriculture nor the village industry makes any headway.

Less Development of Means of Transport: The present position of means of transport like railways, roads, waterways, airways in a vast country like India is far from satisfactory. Insuffciency of these means adversely affect the mobility of men and material in the country. In India, there are just 24 kms of railway lines per one lakh population as against 1163 kms of railway lines in Canada. Again in India, there are 3141 kms long roads for one lakh population. It amply proves that compared to developed countries, the length of railway lines is $1/50^{th}$ and that of roads is about $1/10^{th}$ in India.

Pressure of Population: About 16.7% of world population lives in India. However, India has only 2.4% of world area. Thus, per capita availability of land in India is just 1.9 hectares. One the one hand, per capita availability of land is very low and on the other, the pressure of population on land is very high. No wonder, average size of holding is 1.68 hectares in India as against 122 hectares in America. Because of small size of holding, large chunk of the income of the small and marginal farmers is spent on the bringing up of their ever exdpanding size of the families. Their power to save and the amount of investment made by them drops to zero. They are incapable of making any improvement in their lot. Not only the size of population in India is very large but the growth rate of population, i.e. 1.9% is also very high. On account of high growth rate of population, problems of good grains, unemployment, etc., raise their ugly head.

UNEMPLOYMENT AND UNDER-EMPLOYMENT: Large-scale unemployment and under-unemployment is found in India. It is estimated that 8.2% of labourers are unemployment in the country. Because of unemployment there is wastage of manpower and the volume of production falls low per capita income leads to low rate of saving. Low rate of saving means low investment and low investment results in low production and low level of employment.

LACK OF CAPITAL: Capital formation plays an important role in the economic development of country. According to Kuznets, "Low ratio of capital formation cause low growth rate of national product. In India about 10 percent of the gross national income of 1950-51 was saved. Level of investment was almost the same. Question arises, why the level of saving was so low in India? Many causes were responsible for it e.g., low per capita income, expenditure on luxury goods by the rich classes of India, lack of banking organizations and also lack of investment facilities. Presently, the level of investment has risen to about 24 percent as against 29%, in Japan, 26% in Sweden and 24% in Sri Lanka.

UNEXPLOITED NATURAL RESOURCES: Although India is endowed with large amount of natural resources like water, soil, minerals, forests etc. but the same have not been fully exploited. Hardly, 14% of the water resources are being exploited. As a result, on the one hand, the agricultural and industrial productions have been adversely affected and, on the other, the country has to face calamities like flood. India has not been able to exploit its mineral resources like, iron, coal, petrol, mica, etc. Lack of proper exploitation of natural resources is one of the main causes of the under-development of the country.

SHORTAGE OF ABLE EMINENT AND EFFICIENT ENTREPRENEURS: Eminent economist Prof. Schumpeter is of the view that able and efficient entrepreneurs are needed the most for economic development. India suffers shortage such of from however, suffers from acute shortage of such entrepreneurs. Most of the entrepreneurs are keen to get-rich quick by indulging the speculative activities, rather than taking risk and setting up diverse industries in the country. That is the reason why development of Indian industries has not taken place to an appreciable extent.

OUTDATED SOCIAL INSTITUTIONS: Main social institutions like caste system joint family system, laws of inhertitance, customs, religious institutions etc. serve as a stumbling block to economic development. Because of their influence people do not like to abandon their traditional way of doing things. Rather they are averse to new methodology based on scientific principles. The result is that modern technology is not so readily adopted and thus the scarce resources of the country go waste.

LOW GRADE HUMAN CAPITAL: Modern economists treat labourer also a kind of capital. They call it human capital. Under developed nature of Indian economy is due to and is a result of the low grade of human capital. When the standard of living of the labourers is low, they are ignorant and have poor health. Their efficiency is bound to be low. It leads to high cost and poor quality of production. All this means low income of the labourers and their remaining entrenched in the vicious circle of poverty.

LOW LEVEL TECHNOLOGY: In several Indian industries and in a very large sector of agriculture low level of technology is being practiced. Old and out-dated machines are still in operation in industries like textile, sugar, etc. Production with such obsolete machinery not only adds to the cost of production but it is also of poor quality. Our industries fail to compete with the products of foreign countries in the international market. Our exports are, therefore, adversely affected. Even in the agricultural sector, modern tools and equipments, better qualities of seeds etc. are being used over a very limited area. Low level of technology causes low productivity and poor exploitation of resources.

3.3 SUMMARY:

- Economics focusses on the way in which individuals, groups, business enterprises, and governments seek to achieve efficiently any economic objective they select.
- Economics can be divided into two major fields. The first, price theory or microeconomics, explains how the interplay of supply and demand in competitive markets creates a multitude of individual prices, wage rates, profit margins, and rental changes. Microeconomics assumes that people behave rationally. Consumers try to spend their income in ways that give them as much pleasure as possible. As economists say, they maximize utility.
- The second field, macroeconomics, deals with modern explanations of national income and employment.
- India has a mixed economy in which both the central and state governments pay a leading role—as regulators, planners, and through ownership of public enterprises. Large-scale government involvement in the economy began in the 1950s as a reflection of nationalism and of the socialism of the first post-independence government led by Jawaharlal Nehru—and with the aim of speeding up economic development and growth to meet the needs of India's rapidly growing population.
- India ranks among the world leaders in the mining of iron ore and coal, and produces significant amounts of bauxite, manganese, mica, ilmenite, copper, petroleum, asbestos, chromium, graphite, phosphate rock, zinc, gold, and silver. This varied mineral base was a key factor in India's economic development following independence.
- India has a very diversified manufacturing sector that contributes about 16 per cent of GDP. The modern sector, which has some very large concerns—particularly in the iron and steel sector—dominates in terms of output. However, small-scale, family-owned craft-based concerns are most important in terms of employment.
- The Reserve Bank of India, founded in 1934 and nationalized in 1949, operates as the central bank and sole bank of issue. A series of

nationalizations brought the majority of commercial banking into the public sector. Although there were 300 scheduled commercial banks in the early 1990s, more than 85 per cent of deposits and credits were accounted for by the 27 public-sector banks.

- Mumbai is the financial centre of India and the city's stock exchange is the largest of the country's more than 20 stock exchanges. Founded in 1875, it is the oldest in Asia. Because of the high level, until recently, of protectionism, the volume of foreign trade relative to the size and diversity of the Indian economy has been low. In addition, there has been a persistent trade deficit, caused by imports of oil, raw materials, consumer goods, jewels, chemicals and fertilizers, and aggravated by a high level of smuggling.
- Since independence, the government has paid particular attention to India’s endemic health problems. But despite vigorous efforts in areas of preventive medicine, sanitation, and nutrition, health conditions remain marginal among the poor—although epidemics of cholera, dysentery, and elephantiasis are no longer common. Much of the population, however, continues to suffer from malnutrition. Progress has been made in combating malaria and plague and in controlling tuberculosis.
- Indian economy has the following main characteristic features: Stagnant Per Capita Income, Low Level of Per Capita Income, Low Standard of Living, Unequal Distribution of Income and Wealth, Backward Agriculture in an Agricultural Dominated Economy, Lack of Proper Industrialization, Lack of Proper Banking Facilities, Less Development of Means of Transport, Pressure of Population, Unemployment and Under-employment, Lack of Capital, Unexploited Natural Resources, Shortage of Able Eminent and Efficient Entrepreneurs, Outdated Social Institutions, Low Grade Human Capital, and Low Level Technology.
- For about 50 years prior to Independence (19901-1951), per capita income in India rose by less than 1 percent per annum. After Independence, although Indian economy got a fillip under Five Year Plans

yet the rate of increase in per capita income has not been satisfactory. Stagnant per capita income indicates that Indian Economy is an underdeveloped economy.

- In India, a person gets in his food just 2415 calories and 59 grams of protein. As against it, in developed countries a person gets, on an average 3150 calories and 97 rams of protein. Thus, because of low standard of living of the people, their productivity is also low.
- Agriculture is the main source of employment and liging of 70% of population in India also. Our country is heading for self-sufficiency in food grains by virtue of Green Revolution and new strategy of Agricultural development yet the nature of Indian Agriculture. But even today, continues to be backward.
- The pace of industrial development in India has been quite slow. No doubt, since independence many consumer goods industries like cloth sugar, pharmaceuticals etc. have made an appreciable progress, but basic and capital goods industries like machine-building industry, fertilizer and chemical industries etc. could not develop satisfactory.
- The present position of means of transport like railways, roads, waterways, and airways in a vast country like India is far from satisfactory. Insufficiency of these means adversely affect the mobility of men and material in the country.
- About 16.7% of world population lives in India. However, India has only 2.4% of world area. Thus, per capita availability of land in India is just 1.9 hectares.
- Although India is endowed with large amount of natural resources like water, soil, minerals, forests etc. but the same have not been fully exploited. Hardly, 14% of the water resources are being exploited. As a result, on the one hand, the agricultural and industrial productions have been adversely affected and, on the other, the country has to face calamities like flood. India has not been able to exploit its mineral resources like, iron, coal, petrol, mica, etc.

- India suffers shortage of able and efficient entrepreneurs. Most of the entrepreneurs are keen to get-rich quick by indulging the speculative activities, rather than taking risk and setting up diverse industries in the country. That is the reason why development of Indian industries has not taken place to an appreciable extent.
- Main social institutions like caste system joint family system, laws of inhertitance, customs, religious institutions etc. serve as a stumbling block to economic development. Because of their influence people do not like to abandon their traditional way of doing things.

3.4 KEY WORDS:

Mixed Economy: India has a mixed economy in which both the central and state governments pay a leading role—as regulators, planners, and through ownership of public enterprises. Large-scale government involvement in the economy began in the 1950s as a reflection of nationalism and of the socialism of the first post-independence government led by Jawaharlal Nehru—and with the aim of speeding up economic development and growth to meet the needs of India's rapidly growing population.

Rice Farming in India: Rice is the principal crop grown in India, and the country ranks second only to China in terms of world rice production. Much of the crop is used to feed the domestic population, as rice is the dietary staple for many Indians. These agricultural workers harvest rice by hand, as is done in most developing countries.

Mining in India: India ranks among the world leaders in the mining of iron ore and coal, and produces significant amounts of bauxite, manganese, mica, ilmenite, copper, petroleum, asbestos, chromium, graphite, phosphate rock, zinc, gold, and silver. This varied mineral base was a key factor in India's economic development following independence—underpinning the establishment of a diversified manufacturing sector.

Manufacturing in India: India has a very diversified manufacturing sector that contributes about 16 per cent of GDP. The modern sector, which has some very large concerns—particularly in the iron and steel sector—dominates in terms of output. However, small-scale, family-owned craft-based concerns are most important in terms of employment. Textile manufacturing—especially cotton textiles—is one of the longest established and still one of the most important sectors.

Energy Sector in India: About 84 per cent of India's electricity is produced in thermal facilities using coal or oil products. Another 12 per cent is generated by hydroelectric facilities, and 3 per cent is produced in nuclear power plants, including ones at Kota and near Mumbai. Although capacity is continuously being expanded, output is unable to keep up with demand and power shortages are a problem—particularly to the manufacturing sector. India plans to provide electricity in every village by 2009.

Commerce and Trade in India: Mumbai is the financial centre of India and the city's stock exchange is the largest of the country's more than 20 stock exchanges. Founded in 1875, it is the oldest in Asia. Because of the high level, until recently, of protectionism, the volume of foreign trade relative to the size and diversity of the Indian economy has been low. In addition, there has been a persistent trade deficit, caused by imports of oil, raw materials, consumer goods, jewels, chemicals and fertilizers, and aggravated by a high level of smuggling.

Communications in India: Despite the poverty of much of the population, limiting the development of the communication system, India's telephone network has expanded significantly in recent years, gaining from the liberalization of the economy. By 2000 there were some 19 million telephone-lines registered with the state-owned Telecommunications Department and in 2003 more than 17 million mobile telephones were in use.

Characteristic Features of Indian Economy: Indian economy has the following main characteristic features: Stagnant Per Capita Income, Low Level of Per Capita Income, Low Standard of Living, Unequal Distribution of Income and Wealth, Backward Agriculture in an Agricultural Dominated Economy, Lack of Proper Industrialization, Lack of Proper Banking Facilities, Less Development of Means of Transport, Pressure of Population, Unemployment and Under-employment, Lack of Capital, Unexploited Natural Resources, Shortage of Able Eminent and Efficient Entrepreneurs, Outdated Social Institutions, Low Grade Human Capital, and Low Level Technology.

Stagnant Per Capita Income: For about 50 years prior to Independence (1901-1951), per capita income in India rose by less than 1 percent per annum. After Independence, although Indian economy got a fillip under Five Year Plans yet the rate of increase in per capita income has not been satisfactory.

Unequal Distribution of Income and Wealth: In India, on the one hand, per capita income is 10 and on the other, there is wide disparity in the distribution of wealth and income. According to World Development Report, in India, the poorest 10% of population gets s3.5% share in the national income. As against it, the richest 1000 people enjoy 33.5% of national income.

Backward Agriculture in an Agricultural Dominated Economy: Agriculture is the main source of employment and liging of 70% of population in India also. Although during the period of planning. State of secular stagnation in Agricultural sector has come to an end and our country is last heading for self-sufficiency in food grains by virtue of Green Revolution and new strategy of Agricultural development yet the nature of Indian Agriculture, even today, continues to be backward.

Lack of Proper Banking Facilities: One of the reasons of India being under-developed is the less development of banking and credit facilities, especially in rural areas. Most of the India population depends on agriculture and small industries. But poor and small farmers and petty entrepreneurs fail to get loans in proper amount and at proper time at low rate of interest.

Less Development of Means of Transport: The present position of means of transport like railways, roads, waterways, airways in a vast country like India is far from satisfactory. Insuffciency of these means adversely affect the mobility of men and material in the country. In India, there are just 24 kms of railway lines per one lakh population as against 1163 kms of railway lines in Canada.

Unemployment and Under-employment: Large-scale unemployment and under- unemployment is found in India. It is estimated that 8.2% of labourers are unemployment in the country. Because of unemployment there is wastage of manpower and the volume of production falls low per capita income leads to low rate of saving.

Unexploited Natural Resources: Although India is endowed with large amount of natural resources like water, soil, minerals, forests etc. but the same have not been fully exploited. Hardly, 14% of the water resources are being exploited. India has not been able to exploit its mineral resources like, iron, coal, petrol, mica, etc. Lack of proper exploitation of natural resources is one of the main causes of the under-development of the country.

Outdated Social Institutions: Main social institutions like caste system joint family system, laws of inhertitance, customs, religious institutions etc. serve as a stumbling block to economic development. Because of their influence people do not like to abandon their traditional way of doing things. Rather they are averse to new methodology based on scientific principles.

Low Level Technology: In several Indian industries and in a very large sector of agriculture low level of technology is being practiced. Old and out-dated machines are still in operation in industries like textile, sugar, etc. Production with such obsolete machinery not only adds to the cost of production but it is also of poor quality. Our industries fail to compete with the products of foreign countries in the international market.

3.5 SELF-ASSESSMENT QUESTIONS (SAQs):

1. Write a detailed note on Indian Economy and its main features.
2. What are the main features of the Indian Economy? Discuss with examples.
3. What are the main positive features of the Indian Economy? Discuss in detail.
4. What are the main negative features of the Indian Economy? Discuss.
5. Write a detailed note on the various facets of Indian Economy.

3.6 REFERENCES / SUGGESTED READING:

- **Indian Economy (its Development Experience)** by Misra; Puri;
- **Development Economics** by Bharadwaj, Krishna; Kaviraj, Sudipta;
- **India's Economic Policy** by Jalan;
- **Indian Planning at the Crossroads** by Datta, Bhabatosh;
- **Indian Economics** by Myneni, Dr.; Publisher: Allahabad Law Agency (2002)
- **Indian Economics (a Development Oriented Study)** by Dewett, K.K.; Publisher: S.Chand & Company (2002)

Bachelor of Mass Communication (1st year)

(BMC-107) ECONOMICS Block: D Unit: II Lesson: 4

PLANNING PROCESS

***Writer:* Ms. Veena Sharma**

Converted into SIM format by:

LESSON STRUCTURE:

In this lesson we shall discus about the various introductory aspects of economics. First, we shall focus on the Introduction to the Planning Process. We shall also briefly discuss the Main Features of Economics Planning, Planning by Objectives, the Process of Planning, and the Pre-requisites of Successful Planning. The lesson structure shall be as follows:

4.0 OBJECTIVES:

In this lesson we shall try to cover some introductory aspects of economics.

The objectives of this lesson are:

- *To Get an Introduction to the Planning Process*

- *To Understand the Main Features of Economics Planning*
- *To Know About Planning* by *Objectives*
- *To Understand the Process of Planning*
- *To Know About Pre-requisites of Successful Planning*

4.1 INTRODUCTION:

Today we are living in an era economic planning. No country in the world can achieve rapid rate of economics growth on the basis of the economic activities undertaken by the private sector alone. Rapid rate of economics growth implies government participation in the economics development of the country in a planned manner. Almost all underdeveloped economics have been making strides on the road to economics development by taking recourse to planning. In the words of Durbin, "We are all planners Now." Economics planning is a process under which attempts are made to achieve given targets of economics development within a specified period of time. Spectacular economics progress made by socialist government of Russia through the process of economics planning during inter-world war period, evoked the interest of all countries of the world in economics planning. Economics planning refers to that method under which (i) a central planning authority (ii) keeping in view the resources of the country (iii) seeks to control economics factors (iv) in order to achive pre-determined objectives within a specified time period.

In this lesson we shall discuss: Introduction to the Planning Process, Main Features of Economics Planning, Planning by Objectives, the Process of Planning, and the Pre-requisites of Successful Planning.

4.2 PRESENTATION OF CONTENT:

The content of this lesson shall be presented as follows:

- *Introduction to the Planning Process*

- *Main Features of Economics Planning*
- *Planning by Objectives*
- ***Process of Planning***
- ***Pre-requisites of Successful Planning***

4.2.1 PLANNING PROCESS: AN INTRODUCTION:

Economics Planning is the making of major economics decisions what and how much is to be produced and to whom it is to be allocated aby the conscious decision of a determining authority on the basis of a comprehensive survey of economics system as a whole.

Planning is a purposive adoption of resources of social ends.

Economics Planning may be described as the conscious efforts of a central organization to influence, direct, and in some case, even control changes in principal economic variables (e.g. GDP, consumption, investment, saving etc.) of a certain country or region over the course of time in accordance with a pre-determined set of objectives.

Economics Planning is rational, deliberate consistent and coordinated economic policy.

4.2.2 MAIN FEATURES OF ECONOMIC PLANNING:

Some salient features of economic planning are as under:

Central Planning Authority: Under economic planning, there is a Central Planning Authority appointed by the State. All central economic decisions like, what to produce, how much to produce, for whom to produce and how to produce, are taken by it. This Authority surveys physical and human resources of the country and formulated a comprehensive plan to achieve set objectives. In India Planning Commission performs this function.

Set Objectives: Economics Planning has some set objectives, like raid industrialization, raising of the standard of living of the people, full employment, reduction in the inequalities of wealth and income, etc. Generally, the main objective of economic planning is to maximize national and per capital income.

Government Control: Economics Planning is under the direction of the government. Planning Authority prepares the Plan and presents the same to the government. The latter executes it. Government has control over, every economic activity, namely production, exchange, distribution, consumption, investment, saving prices, foreign exchange, trade etc.

Formulation of Programme: Before putting economic planning into practice, each programme is discussed in detail. A comprehensive draft of each sector of production is prepared. Outlay on each project and capital output ratio are determined well in advance.

Technical co-ordination: While framing the plan, it is essential to take into account the amount of output, that one sector gives to the other and also receives from the other. According to the principle of input-output, proper co-ordination among the means of different sectors is a must.

Complete Development: All sectors like agriculture, industry, trade, transport, mining etc., are developed through economic planning. Since all sectors are inter-dependent balanced growth in achieved by developing each one.

Definite Time: Each Plan is of a definite time period. For instance, each plan in India is of five years period. Planning is a process. One plan succeeds the other.

4.2.3 PLANNING BY OBJECTIVES:

Main objectives behind economic planning may be divided into:

- *Economics Objectives*
- *Social Objectives*
- *Political Objectives*

PLANNING BY ECONOMICS OBJECTIVES:

Each plan has the following economic objectives:

Increase in National Income and Per Capita Income: In order to increase output and national income economic planning aims at developing different sectors of the economy like agriculture, industry etc. Simultaneously it seeks to reduce the growth rate of population so that per capita income is increased.

Increase in per capita income leads to increase in investment, which will cause the production to increase. This will set in motion the spiral of rising nation income.

Reduction of Inequality in Income: Each welfare economy aims at reducing economic disparities. Economic inequalities give rise to class struggle. As a result, an unjust economic system comes into being. Economic growth with social justice is therefore an important objective of economic planning.

Reduction in Regional Inequalities: Regional imbalances are sought to be reduced through economic planning. Special attention is paid to the development of backward and under-developed regions of the country. Specific facilities are provided for the development of industry and agriculture in these regions.

Price Stability: Another objective of planning is to bring about economic stability. Attempts are made to prevent violent changes in prices and insulate the economy from inflation and deflation.

Economic Development: Main objective of economic planning in underdeveloped economics is to achieve all round development of the economy by removing obstacles in the way of economic development. In order to break the "vicious circle of poverty" prevailing in these countries it becomes necessary to have balanced growth of the economy. Al sectors of the economy, viz, agriculture, industry, etc. are sought to be developed.

Full Employment: Another objective of economic planning is to augment the opportunities of employment. Full utilization of manpower is a desirable and possible target of each country. Every plan seeks to provide employment to maximum number of people.

Full Utilization of Available Resources: Chief objective of economic planning is full utilization of country's natural resources. Every country is endowed with large number of natural proper use of the available resources is possible by the government through the mechanism of economic planning.

Self Sufficiency: Almost all countries of the world are inter dependent. But too much dependence on the other countries can be detrimental. Hence, one of the objective of economic planning is to attain self-sufficiency in economic sector. To that end, increasing of production to meet the needs of the country is imperative. Economic planning also aims at achieving favourable balance of payments.

Reconstruction: Another significant objective of economic planning is to reconstruct the war ravaged economy or an economy disrupted by natural calamities.

PLANNING BY SOCIAL OBJECTIVES:

In reality, the objective of planning is the economic, social and political development of man. Many objectives of planning are therefore related to social welfare. Main social objectives of the planning are:

Social Security: In capitalist countries the feeling of social insecurity haunts poor people. They live under the perpetual fear of unemployment, accident, disease etc. The affluent class of the society exploits them. One of the main objectives of economic planning is to provide social security to the poor and exploited class of the society. To achieve this objective social insurance and social assistance programmes are introduced.

Social Equality: Economic planning also aims at providing social equality to the people. Because of social equality every citizen enjoys equal opportunities for his or her development and progress.

Establishment of Socialistic Pattern of Society: Economic planning seeks to establish socialistic pattern of society in the country. This society refers to a system based on equality wherein minimum needs of the people are fulfilled and there is no exploitation of man by man.

PLANNING BY POLITICAL OBJECTIVES:

Establishment Peace: One of the main objectives of economic planning is establishment of peace. It is now a common belief that poverty in any part of the world constitutes a major threat to the prosperity in other parts of the world. Developed countries are therefore offering large assistance to under developed countries to remove poverty, unemployment, backwardness etc.

Defence: Another aim of economic planning is to strengthen the defence and freedom of the country. Economic planning, development and defence are treated as supplementary to one another. Economic planning helps in making a country strong economically and self sufficient in matters of defence.

4.2.4 PROCESS OF PLANNING:

In order to make the Plan, the Planning Authority has to pass through several stages. The stages refer to process of planning. The process of planning has the following constituents:

Formulation: First stage of economic planning is to formulate the plan. This function is performed by the Planning Commission in India. Planning Authority prepares the draft of the physical targets and financial resources. It is called draft of the plan. It should be comprehensive and detailed. In democratic countries, before preparing the draft, the planning authority prepare an Approach Paper to Plan in order to elicit public opinion. In India, Planning Commission published Approach to Seventh Plan.

Adoption: The draft Plan is adopted by the Government of the country. After its adoption it becomes a legal document. The responsibility for its execution lies on the government.

Execution or Implementation: After the adoption of the Plan, responsibility of its execution rests with different departments of the government. These departments implement the Plan with Cooperation of Planning Commission. Indeed, it is a difficult task calling for a competent, able and honest administration. Success of the Plan depends more on its execution than formulation.

Supervision: Implementation of the Plan must be monitored properly to ensure whether the objectives are being materialized or not. Shortcomings of the Plan be accounted for. In India, the changes are made in the Plan.

4.2.5 PRE-REQUISITES OF SUCCESSFUL PLANNING:

Significant pre-requisites of successful planning are as follows:

Reliable Statistical Data: Success of the Plan is pre-conditioned by the availability of reliable statistical data pertaining to the different sectors of the economy. Super-structure of planning can be created on the foundations of dependable statistics. In the words of Baykov, “Every act of planning pre-supposes a preliminary investigation of existing conditions.” Such an investigation is necessary to collect statistics relating to physical, capital and human resources of the economy. In fact, success of the plan depends to a large extent on the availability of reliable statistical data.

Suitable Economic Organization: Success of the plan necessitates an economic organization having a significant public sector. It should not be purely capitalistic economy and should also contain the characteristics of socialism. The worlds of Charles Bettlheim, “That for genuine economic planning, socialization of the means of production is needed.” Successful planning calls for nationalization of important means of production.

Political Stability: Economic planning to be a success requires a strong and permanent government, in other words, political stability in the country. Political stability imparts continuity to the process of planning. Absence of political stability result in frequent changes in the process of planning and the same will not be implemented properly.

Efficient and Honest Administration: According to Arthur Lewis secret of successful planning is efficient and honest administration. Such an administration alone can implement planning successful and remove obstacles in its way. It will make objective appraisals of the plans and suggest corrective measures.

Fixation of Targets and Priorities: Success of plan implies that the targets relating to per-capital income agricultural and industrial production should be fixed in such a manner as to make their achievement possible. Priorities should be fixed in accordance with the short-term and long term needs, keeping in view the available physical, financial and technical resources of the country. Greater priority should be accorded to those jobs, which are more significant and helpful in removing the poverty.

Proper Balance: A successful plan is never one sided. It must strike a proper balance among different sector of the economy, i.e. between agriculture and industry, consumer goods and producer goods, private sector and public sector, foreign trade and internal trade etc.

Public Co-operation: Plan must enjoy full support of the public. When people Co-operate with the government in the execution of its policies, it becomes easier to implements successful the plan. In the words of Arthur Lewis, "Popular enthusiasm is both the lubricating oil of planning and the petrol of economic development, a dynamic force that makes all things possible."

A Theory of Consumption: Galbraith is of the view that a special kind of Consumption Theory is needed for the success of planning in an under developed economy. According to this theory people of under developed countries should not initiate the consumption patter of the people of developed countries. They should not spend on such luxury items as colour TVs, costly cars, VCRs etc. They should confine their consumption to necessaries of life. This way they would be able to save more and accumulate large capital for economic planning.

4.3 SUMMARY:

- Economics Planning is the making of major economics decisions what and how much is to be produced and to whom it is to be allocated aby the conscious decision of a determining authority on the basis of a comprehensive survey of economics system as a whole.
- Economics Planning is rational, deliberate consistent and coordinated economic policy.
- Before putting economic planning into practice, each programme is discussed in detail. A comprehensive draft of each sector of production is prepared. Outlay on each project and capital output ratio are determined well in advance.
- While framing the plan, it is essential to take into account the amount of output, that one sector gives to the other and also receives from the other.

According to the principle of input-output, proper co-ordination among the means of different sectors is a must.

- All sectors like agriculture, industry, trade, transport, mining etc., are developed through economic planning. Since all sectors are inter-dependent balanced growth in achieved by developing each one.
- Each Plan is of a definite time period. For instance, each plan in India is of five years period. Planning is a process. One plan succeeds the other.
- Main objectives behind economic planning may be divided into: Economics Objectives, Social Objectives, and Political Objectives.
- Another objective of planning is to bring about economic stability. Attempts are made to prevent violent changes in prices and insulate the economy from inflation and deflation.
- Chief objective of economic planning is full utilization of country's natural resources. Every country is endowed with large number of natural proper use of the available resources is possible by the government through the mechanism of economic planning.
- Almost all countries of the world are inter dependent. But too much dependence on the other countries can be detrimental. Hence, one of the objective of economic planning is to attain self-sufficiency in economic sector. To that end, increasing of production to meet the needs of the country is imperative. Economic planning also aims at achieving favourable balance of payments.
- First stage of economic planning is to formulate the plan. This function is performed by the Planning Commission in India. Planning Authority prepares the draft of the physical targets and financial resources. It is called draft of the plan. It should be comprehensive and detailed.
- The draft Plan is adopted by the Government of the country. After its adoption it becomes a legal document. The responsibility for its execution lies on the government.
- Success of the Plan is pre-conditioned by the availability of reliable statistical data pertaining to the different sectors of the economy. Super-

structure of planning can be created on the foundations of dependable statistics.

- Economic planning to be a success requires a strong and permanent government, in other words, political stability in the country. Political stability imparts continuity to the process of planning.
- The secret of successful planning is efficient and honest administration. Such an administration alone can implement planning successful and remove obstacles in its way. It will make objective appraisals of the plans and suggest corrective measures.
- Success of plan implies that the targets relating to per-capital income agricultural and industrial production should be fixed in such a manner as to make their achievement possible. Priorities should be fixed in accordance with the short-term and long term needs, keeping in view the available physical, financial and technical resources of the country.
- Plans must enjoy full support of the public. When people Co-operate with the government in the execution of its policies, it becomes easier to implement the plans.
- It is said that people of under developed countries should not initiate the consumption patter of the people of developed countries. They should not spend on such luxury items. They should confine their consumption to necessaries of life. This way they would be able to save more and accumulate large capital for economic planning.

4.4 KEY WORDS:

Economic Planning: Economics Planning may be described as the conscious efforts of a central organization to influence, direct, and in some case, even control changes in principal economic variables (e.g. GDP, consumption, investment, saving etc.) of a certain country or region over the course of time in accordance with a pre-determined set of objectives. Economics Planning is rational, deliberate consistent and coordinated economic policy.

Set Objectives: Economics Planning has some set objectives, like raid industrialization, raising of the standard of living of the people, full employment, reduction in the inequalities of wealth and income, etc. Generally, the main objective of economic planning is to maximize national and per capital income.

Formulation of Programme: Before putting economic planning into practice, each programme is discussed in detail. A comprehensive draft of each sector of production is prepared. Outlay on each project and capital output ratio are determined well in advance.

Technical co-ordination: While framing the plan, it is essential to take into account the amount of output, that one sector gives to the other and also receives from the other. According to the principle of input-output, proper co-ordination among the means of different sectors is a must.

Complete Development: All sectors like agriculture, industry, trade, transport, mining etc., are developed through economic planning. Since all sectors are inter-dependent balanced growth in achieved by developing each one.

Definite Time: Each Plan is of a definite time period. For instance, each plan in India is of five years period. Planning is a process. One plan succeeds the other.

Planning by Objectives: Main objectives behind economic planning may be divided into: Economics Objectives, Social Objectives, and Political Objectives.

Price Stability: Another objective of planning is to bring about economic stability. Attempts are made to prevent violent changes in prices and insulate the economy from inflation and deflation.

Full Utilization of Available Resources: Chief objective of economic planning is full utilization of country's natural resources. Every country is endowed with large number of natural proper use of the available resources is possible by the government through the mechanism of economic planning.

Self Sufficiency: Almost all countries of the world are inter dependent. But too much dependence on the other countries can be detrimental. Hence, one of the objective of economic planning is to attain self-sufficiency in economic sector. To that end, increasing of production to meet the needs of the country is imperative. Economic planning also aims at achieving favourable balance of payments.

Reconstruction: Another significant objective of economic planning is to reconstruct the war ravaged economy or an economy disrupted by natural calamities.

Social Equality: Economic planning also aims at providing social equality to the people. Because of social equality every citizen enjoys equal opportunities for his or her development and progress.

Establishment of Socialistic Pattern of Society: Economic planning seeks to establish socialistic pattern of society in the country. This society refers to a system based on equality wherein minimum needs of the people are fulfilled and there is no exploitation of man by man.

Formulation: First stage of economic planning is to formulate the plan. This function is performed by the Planning Commission in India. Planning Authority prepares the draft of the physical targets and financial resources. It is called draft of the plan. It should be comprehensive and detailed.

Adoption: The draft Plan is adopted by the Government of the country. After its adoption it becomes a legal document. The responsibility for its execution lies on the government.

Reliable Statistical Data: Success of the Plan is pre-conditioned by the availability of reliable statistical data pertaining to the different sectors of the economy. Super-structure of planning can be created on the foundations of dependable statistics.

Political Stability: Economic planning to be a success requires a strong and permanent government, in other words, political stability in the country. Political stability imparts continuity to the process of planning.

Efficient and Honest Administration: The secret of successful planning is efficient and honest administration. Such an administration alone can implement planning successful and remove obstacles in its way. It will make objective appraisals of the plans and suggest corrective measures.

Fixation of Targets and Priorities: Success of plan implies that the targets relating to per-capital income agricultural and industrial production should be fixed in such a manner as to make their achievement possible. Priorities should be fixed in accordance with the short-term and long term needs, keeping in view the available physical, financial and technical resources of the country.

Theory of Consumption: According to this theory people of under developed countries should not initiate the consumption patter of the people of developed countries. They should not spend on such luxury items. They should confine their consumption to necessaries of life. This way they would be able to save more and accumulate large capital for economic planning.

4.5 SELF-ASSESSMENT QUESTIONS (SAQs):

1. Write a detailed note on economic planning.
2. Discuss the main features of economic planning.
3. Write a detailed note on the process of economic planning.
4. Write a detailed note on economic planning by objectives.
5. Discuss the main pre-requisites of economic planning.

4.6 REFERENCES / SUGGESTED READING:

- **Indian Economy (its Development Experience)** by Misra; Puri;
- **Development Economics** by Bharadwaj, Krishna; Kaviraj, Sudipta;
- **India's Economic Policy** by Jalan;
- **Indian Planning at the Crossroads** by Datta, Bhabatosh;
- **Indian Economics** by Myneni, Dr.; Publisher: Allahabad Law Agency (2002)
- **Indian Economics (a Development Oriented Study)** by Dewett, K.K.; Publisher: S.Chand & Company (2002)

B. A. Mass Communication (1st year)

(BMC-107) ECONOMICS Block: D Unit: II Lesson: 5

DEVELOPMENT AND GROWTH

Writer: **Ms. Veena Sharma**

LESSON STRUCTURE:

In this lesson we shall discus about the various introductory aspects of development and growth with relations to economics. First, we shall focus on economic development. We shall also discuss economic growth. The lesson structure shall be as follows:

5.0 Objectives

5.1 Introduction

5.2 Presentation of Content

5.2.1 Economic Development

5.2.2 Economic Growth

5.2.3 Differences between Economic Development & Economic Growth

5.3 Summary

5.4 Key Words

5.5 Self-Assessment Questions (SAQs)

5.6 References/Suggested Reading

5.0 OBJECTIVES:

In this lesson we shall try to cover some introductory aspects of economics.

The objectives of this lesson are:

- *To Know About Economic Development*
- *To Understand Economic Growth*
- *To Know About the Differences between Economic Development & Economic Growth*

5.1 INTRODUCTION:

In his famous treatise, ***The Wealth of Nations***, Adam Smith argued that private competition free from regulation produces and distributes wealth better than government-regulated markets. Since 1776, when Smith produced his work, his argument has been used to justify capitalism and discourage government intervention in trade and exchange. In Smith's words, private businessmen seeking their own interest organize the economy most efficiently "as if by an invisible hand".

Economic issues have occupied people's minds throughout the ages. Aristotle and Plato in ancient Greece wrote about problems of wealth, property, and trade. Both were prejudiced against commerce, feeling that to live by trade was undesirable. The Romans borrowed their economic ideas from the Greeks and showed the same contempt for trade. During the Middle Ages the economic ideas of the Roman Catholic Church were expressed in the canon law, which condemned usury (the taking of interest for money loaned) and regarded commerce as inferior to agriculture.

Economics as a subject of modern study is distinguishable from moral philosophy and politics.

In this lesson we shall discus about the various introductory aspects of development and growth with relations to economics.

5.2 PRESENTATION OF CONTENT:

The content of this lesson shall be presented as follows:

- *Economic Development*
- *Economic Growth*
- *Differences between Economic Development & Economic Growth*

5.2.1 ECONOMIC DEVELOPMENT:

Economic development is of utmost significance to all economics. Economic development is necessary for under developed countries because they can solve the problems of general poverty, unemployment, backwardness and low standard of living through it. On the other hand, economic development is equally significant to developed economies as it help them to maintain their existing growth rate. Although Adam Smith, the father of modern economics, had examined the problem of economic development two hundred years ago, yet it is only for the last sixty years that economists took great interest in the study of the problems of undeveloped countries.

According to Meier and Baldwin, “A study of poverty of nations has even more urgent that a study of the wealth of nations.”

Economic development studies the causes and cures of general poverty. Economic development refers to that process by which per capita income and economic welfare of a country increase over-rime. It may be noted that the terms “Economic Development” and “Economic Growth” are used interchangeably. But economists make a distinction between them. Economic development is something more than economic progress. Economic development means growth with change and increase in welfare.

Classification of Global Economies

There are number of different ways in which the economies of the world are categorized. The World development Report has classified economies of the world on the basis of their per capita income in the following three categories: (i) High income economies are those with a per capita income of 9265 dollars or more. (ii) Middle income economies are those with a per capita income of more than 755 dollars but less than 9265 dollars. (iii) Low income economies are those with a per capita income of 755 dollars or less. The low income economies are also referred to as under developed economies. About two-third of world’s population lives in these countries. These are characterized by poverty, ignorance and disease. On the other hand, high income countries are termed as advanced countries. Only one fourth of world’s population lives in these economies. These are characterized by high standard of living, universal education and high expectancy of life.

However, the above mentioned economics of the world have been called by many different names. One is backward and advanced economies or

Traditional and Modern ones. The ‘Backward’ economy is traditional in economic relations and static. But the term ‘Backward’ was treated as derogatory. It implied cultural backwardness. But some of the underdeveloped economies like India have much rich cultural heritage compared to most advanced countries of the world. Many economists, Bauer, Meier and Baldwin, in particular, have used the terms ‘Poor’ and ‘Rich’. But against, poverty reflects only one characteristic of these economies viz., low per capita income.

Another classification is based on the degree of development. On the basis of their development, they may be Underdeveloped and Developed Countries, or Developing and Developed Countries. Another expression, which is in current use, is that of South for less developed countries and North for advanced nations of the world. This refers to the fact that most of the rich countries fall in the Northern Hemisphere while the poor in the Southern. However, Australia and New Zealand which are in Southern Hemisphere do not fit into this classification. One of the broadest classifications is that of the three worlds. The First World consists of advanced economies, the Second World is the former communist economies and the Third World refers the underdeveloped economies. In this book, we tend use the expression ‘Underdeveloped’ or Developing Economies to refer to the poor economies of the world.

5.2.2 ECONOMIC GROWTH:

The concept of economic growths refers to quantitative changes. It is a process of growth in the national and per capita income. Two related definitions of economic growth are commonly offered.

DEFINITIONS:

In the worlds of McConnell,

> *“Economic growth may be defined as an increase in the economy real gross national product or real national income.*

An expanding real output means that the economy is growing. Stable or declining output means that the economy is static or declining. This definition refers to real and not money output. The production of a larger amount of goods and services signifies growth. The increase in money income due to increase in prices is not growth.

Criticism: The above definition reveals that economic growth is that process whereby there is continuous increase in national income. However, this definition does not inform whether per capita income is rising or falling. Despite the fact that the net national income of a country is rising, but if the rate of population growth is higher than that of the rise in national income, per capita income may be falling instead of rising. It will not be correct to refer such a situation as economic growth.

In the words of Samuelson,

"Economic growth is the process whereby per capita real income increases."

This definition correctly recognizes that the standard of living of an economy is best measured in terms of real output per person. The actual standard of living could decline in an economy if the population Increased at a faster rate than the : volume of real output.

Which of this definition is the best? It depends upon our objective. If our aim to know only about the production capacity or economies of scale of a country or its military potential, then national income is the appropriate index and definition one of economic growth is the more appropriate. On the other hand, if our aim is to find out the standard of liking of the people definition two is the more suitable.

The concept of economic development is something more than of the economic growth. It refers to growth in real per capita income as well as structural and institutional change and increase in economic welfare or well being of the people. The main objective of economic development is the removal of poverty.

In the post 1970 period, economists began to realize that despite increase in per capita income increase in economic welfare was not taking place. It was therefore, considered essential to define economic development in terms of economic welfare or in terms of the satisfaction of the basic necessities of the people. Economic development is that process by which poverty unemployment, inequality of income are reduced. Some of the definitions of economic development are as follows:

According to Meier,

> *"Economic development may be defined as the process whereby the real per capita income of the country increases over a long period of time-subject to the stipulations that the number of the people below an absolute poverty line does not increase and that the distribution of income does not become more unequal."*

According to these definitions, four main elements of economic development are:

(i) Process

In this definition, the term process mean long-term changes in the economy. The effect of these changes is on the supply of the resources and the factors affecting the demand for goods. Main changes in the supply of resources are:

(1) Exploring of additional resources,

(2) Capital accumulation,

(3) Increase in population,

(4) New and improved techniques of production,

(5) Improvement in the efficiency of labour, and

(6) Institutional and Organizational modifications

Along with change in supply there are changes in demand as well, viz.

(1) Size and age structure of the population,

(2) Distribution of Income,

(3) Taste of the consumers,

(4) Other institutional and organizational changes.

As a result of economic development, there are several changes, as mentioned above, in the nature of demand and supply. These changes are both causes and effect of economic development. The limit of economic development depends on the time and speed of these changes. After all, economic development is a dynamic concept. It refers to continuous increase in production.

(ii) Real Per Capita Income: The objective of economic deve is increase in per capita income. It is estimated by dividing r. income by population.

$$\text{Per Capital Income} = \frac{\text{National Income}}{\text{Population}}$$

Mere increase in national income is not an index of economic development. The reason being that if the rate of growth of population is higher than the rate of growth of national income, per capita income is likely to fall. Economic development can, therefore, be estimated on the basis of increase in per capita real income. *Real income refers to the calculation of a country} money income at constant prices.*

It means that increase in money income not a real index of economic development.

(iii) Long Period: According to this definition of economic development, there should be continuous increase in net national income. If national income increases for a short time, it may not be called economic development. For instance, if there is a bumper crop in a given year and as a result national income increases, then this temporary increase in national income will not be treated as economic development; Economic development refers to that state in which? National income increases continuously for a period of at least 25 years.

(iv) No Increase in Poverty and Inequality: In accordance with this definition, in a state of economic development per capita real income should increase in such a way that there should be no increase in the number of people living below the poverty line. Along with it, there should be no increase in the inequality in the distribution of income. Thus, along with increase in per capita real income its equitable distribution.

In fact Prof. Meier is of the opinion that alleviation of poverty and increasing the standard of living of the people are the main characteristics of economic development.

In the words of Colin Clark,

> *"Economic development is simply an increase in economic welfare"*

In the words of Kindleberger and Herrick,

> *"Economic development is generally defined to include improvement in material welfare especially for the persons with the lowest incomes, diseases and early death".*

According to Prof. Todaro,

> *"Economic development is a multidimensional process involving major changes in social structures, popular attitudes and national institutions as well as the acceleration of economic growth, the reduction of inequality and the eradication of absolute poverty".*

Goulet has given economic welfare definition of economic development in these words:

> *"The wider "meaning of development is self subsistence, self esteem and freedom."*

This definition has three uniformly important aspects:

(i) Life-subsistence: Economic development is that process by which people are lifted from the level of poverty and simultaneously their basic needs are satisfied. A country cannot be called developed one till it satisfies the basic needs like, food, clothing, housing, primary education and health of all its people : The first element of economic development is to raise the standard of living of people, viz., their income, consumption level, medical services, education, etc. through suitable process.

(ii) Self-esteem: By self esteem is meant self respect and freedom. If a economy is exploited by others and it has not the right to deal with others on equal footing, then it is not treated as developed one underdeveloped countries are keen to develop themselves for the sake of self esteem. They want to rid themselves of the inferiority complex. They want to be self reliant and free. These second aspect of economic development is to create such conditions as a result of which people's self respect is enhanced. To achieve that goal, underdeveloped countries establish such social, political and economic institutions as may promote human respect.

(iii) Freedom: Freedom refers to freedom from three evils, namely, poverty, ignorance and squalor, so that people may decide their own future. No man can be regarded as free if he has not the freedom of choice/ if he is below the poverty line, if he is illiterate and his economic condition is not satisfactory. Economic development gives people freedom of skilful choice and their economic condition improves. They become literate and skilful. Thus, the third aspect of economic development is to diversify the production of consumer goods and extend the range of choice.

According to Prof. A P Thirwal, In short, we can say that development has "occurred when there has contributed to a great sense of self esteem for the country and individuals within it and when material advancement has extend the range of choice of individuals."

In short we can conclude with Dr. Omen, that economic development refers to the raising of people from in-human elements like poverty, unemployment, ill-health, etc, and make them more human. We may define economic development it terms of humanization.

FEATURES OF DEVELOPED ECONOMIES:

The following are the main features of developed economic:

Higher Per Capita Real Income: Developed economies are economies having high per capita income. According to the World Atlas, the per capita yearly income in developed economies is around 9,000 dollars or slightly higher. The per capita income of these economic around 30 times the per capita income of underdeveloped economies.

High Rate of Growth: In developed economies, not only is the per capita yearly "income high but the rate of growth is also comparatively higher using the years 2001-2002 the average rate of growth of developed countries was 3.2 per cent whereas in the majority of underdeveloped countries, it was only 2.5 per cent. Developed countries are able to sustain the, rise in their rate of growth.

High standard of Living: People living in developed countries enjoy a high standard of living. Apart from satisfying their basic needs of food, clothing and shelter, they are also able to consume a large number of comfort and luxury goods. For example, in USA, which is a developed economy, there are 800 television sets, 2122 radio and 130 mobile phones per 1000 persons.

In comparison, in a country like India, the respective figures are only 70,130 and 0.1. In a developed country, the per person per day intake of food is around 3,700 calories whereas in underdeveloped countries, on an average, only 2,400 calories are consumed by a person every day. The Human Development Index for developed countries is usually – between 0.8 and 0.9, whereas for underdeveloped countries, - it is between 0.3 and 0.4.

HIGH RATE OF CAPITAL FORMATION AND LOW CAPITAL OUTPUT RATIO:

Developed countries enjoy a high rate of capital formation. The income of the people in these countries is quite high and hence they have higher saving capacity. They are also able to invest their savings in profitable areas since, in developed countries, there are more facilities available for making investment.

Due to the high amount of investment, the rate of capital formation also increases. The average rate of capital formation in developed countries is around 30-35 per cent. A high rate of capital formation signifies that production can be undertaken on a large scale. There are two main methods of increasing production, namely:

Capital Deepening: This method aims at providing better machines, proper training and trying to improve the capability of the workers. This results in an increase in the national income as well as the per capita productivity.

Capital Widening: This method aims at the installation of new machines and equipment in order to provide employment to a greater number of the workers of the country.

Many industries, such as steel, mining, electronics, etc., require very large amount of capital. Both the methods of Capital Widening and Capital Deepening should be followed side by side. Since sufficient capital is available in developed countries, both the methods can be employed. Developed countries also enjoy a low capital output ratio. As a result of this, even a small investment can lead to a large increase in production, meaning that capital is more productive in these countries.

DEVELOPED HUMAN CAPITAL:

Developed – nations have a well developed human capital. Human capital is the skill and knowledge embodied in the minds and hands of the population. The development of human capital requires investment in the field of providing education, health, training facilities, etc., to the people. Such investment yields more returns as compared to material investment. Human capital has many different forms, such as :

Good Health and Long Life of the Workers: This results is an increased in their productivity, a decrease in absenteeism, and increase in their standard since less money is spent on account of their sickness. The workers in developed economies are usually quite healthy.

Training and Education of Workers: This result in an increase in an increase the productivity and efficiency of workers, and makes them capable handling the latest machines. It also results in an increase in the tendency towards modernization. Almost 90 per cent of the workers in developed economies" are educated.

Innovations: Another form of human capital is the increase in the innovative capabilities of workers. Innovation is the use of new inventions. This results in an increase in productivity and productive capacity of workers. The cost of production goes down and new products are produced.
Therefore, human capital is the base for economic development. According to Schultz, "Development of human capital is the main aim of developed economies".

LOW GROWTH "RATE OF POPULATION:

The rate of growth of population is very low in developed economies, since they are usually passing through the fourth stage of demographic transition. The fourth stage of demographic transition is characterized by a low birth rate and a low death rate, leading to stationary population growth at a low rate.

This is also known as the Stationary Population Stage. In this stage, the people enjoy a very high standard of living due to economic development. The social outlook of people also undergoes a change due to factors such as urbanization, industrialization and the spread of education.

After the first child, people start giving priorities to material things and facilities, such as cars, refrigeration, telephones, etc. In this stage the attitude of people towards children is: 'One is happiness, two forms a crowd and three are unmanageable'. In this stage, both the birth rate and the death rate remain at very low: levels, resulting in a very low population growth rate, and the population is almost constant.

For example, in Germany the population growth rate is 0.3 per cent; in Italy and UK, it is only 0.2 per cent; and Japan, it is 0.3 per cent; in USA, it is 1.2 per cent and in Ireland 0.8 per cent and in Hungary, it is negative.

TECHNICAL PROGRESS:

Developed countries are very progressive as far at technology is concerned. According to Lipsey, technical progress occurs because of innovation. He says, "Technical progress is brought about by innovation, which is introducing new products, new ways of manufacturing products and new forms of business organization. It is because of technological development that in developed countries, production keeps on increasing even when other factors of production such as capital are constant.

The main reason behind the fast economic development in Japan and Germany is their scientific and technological progress. Scientific research is very essential for industrial development and improvements in agriculture. Country cannot develop commodity without technical development. Prof. Schumpeter has considered innovations to be very necessary for economic development. The industrialists in developed economies can use the latest technique of production to a very large extent. Technical progress results in their production possibility survey shifting upwards, which shows that the production can be increased even if the various factors f reduction remain constant.

OCCUPATIONAL STRUCTURE:

In developed countries, a major part of the operational, capital is concentrated in the tertiary and secondary sectors. Only a very small part of the operational capital is invested in the primary sector, such as agriculture. However, the agriculture in these countries is very well developed. For example, in the USA, only 4 per cent of the total population is dependent upon agriculture for their livelihood.

However, due to the high level of development of agriculture, it is not only able to meet the food requirements of USA but also to export surplus produce to other countries. On the other hand, in India, 64 per cent of the population is engaged in agriculture, but because of the backwardness of agriculture, it is barely able to meet the food requirements of India. The industries in developed countries are also very well developed and a major part of the national income is contributed by the industries.

GROWTH ORIENTED ECONOMIC AGENCIES:

There are sufficient growth-oriented agencies to be found in developed countries. These agencies are necessary in order to achieve fast economic growth at minimum cost. Some such agencies are: bans, financial and investment organizations, planning agencies, etc. These agencies encourage savings, channel investment and ensure smooth implementation of development schemes.

Developed countries have a cohesive and efficient banking system, and stable money and capital markets. These, in turn, provide short-term and long-term loans to industry and agriculture at reasonable rates of interest. The government also, in some ways, is an important agency for economic growth. It makes important contributions in providing infrastructure for development, investing in heavy industries and industries having high risk and making public u ties available at low prices. The fiscal and monetary policies of the government are also important determinants of economic development. The monetary policies of developed countries are conducive to economic development.

This means that the supply of money is as per the demand, and the rates of interest are low; Prices tend to go up as a result of economic development, and it is necessary that the increase in prices is kept within limits. In fact, financial stability is an important characteristic of economic development. The fiscal policies are used to affect favourably changes in the savings and investment structure of the economy.

ADVANCED FOREIGN TRADE:

The foreign trade in developed economies is highly advanced. These countries export more as compared to their imports and hence have a favourable balance of payment. Since their foreign trade is developed, these countries produce a lot more. The increase in production results in an increase in employment, which regulates in an increase in the standard of living and expansion of the market. Developed countries play an important role in the export-import trade through the world. The foreign exchange reserves of these nations are also quite high.

DEVELOPED NATURAL RESOURCES:

Developed economies are successful in using their natural resources efficiently to a large extent. As per the UNS, “A natural resource is all things found by man in his natural environment that be may, in some way, utilize for his own benefit. : These include land, climate, water, forests, minerals sources of fuel such as petrol, gas, etc. According to Richard T. Gill, “Natural resources play a vital role in limiting or encouraging economic development.”

The productivity of agriculture and the people of the country depend upon the nature of its land and the climate. Rivers provide us with facilities for irrigation, electricity and transpiration. Forests provide us with fuel, building wood and raw materials for industries such as Paper, Petrol, Coal, Gas etc. provide us with energy. In the same manner, minerals such as iron, brass, tin, gold, silver, gems, etc. are also very important for the economic development” of the country. Majority of the economically developed countries such as America, Great Britain, Canada, etc. are very rich in natural resources.

However, the availability of natural resources keeps on fluctuating, and scientific and technological developments and new inventions result in the discovery of new resources. For example, after the Second World War, Arab nations have been able to become quite rich because of the discovery of oil reserves there. However, the mere existence of natural resources is not sufficient for economic development and it is necessary that they are used and developed properly.

For example, many countries in Africa are very rich from the point of view of natural resources, but they are not economically developed because they have not been able to use and develop their natural resources properly. Therefore, developed countries, through the use of efficient techniques, have been able to put their natural resources to proper use and thus increase their rate of economic development.

Wider size of Market:

The size of the market in developed countries is very wide. The large size of the market has made division of labour and specialization possible, which further results in an increase in efficiency and the productivity of the factors of production. The increase in the size of the market also results in an increase in the scale of production which makes a variety of internal and external economies possible. This further results in an increase in the quantity of production and a decrease in the cost of production. Therefore a wider market is one of the prerequisites to economic development.

5.2.3 ECONOMIC DEVELOPMENT & ECONOMIC GROWTH DIFFERENTIATED:

Generally, the terms economic development and economic growth are taken as synonym. For a long time, the term's economic development, economic growth and economic progress have been used as synonyms. **Schurnpeter**, in his book **"The Theory of Economic Development"** (1911) clarified the distinction between economic development and economic growth. Besides, Ursula Hicks, Alfred Kindleberger, etc have also laid stress on the different meaning of these terms. Robert Clower, in his book about Liberian Economy titled "Growth without Development', has proved that despite growth of an economy it is possible that it may not have any development. Thus, economists distinguish between these two concepts. Main differences between them are as under:

Single dimensional and Multi-Dimensional: Economic growth is single dimensional. It is concerned with increase in national and per capita income. On the other hand, economic development is multidimensional. It is concerned both with income and structural changes. In fact, economic development is a broad term.

In case of economic development, along with increase in national income, there is change in the economic, social and political structure of the country. For instance relative contribution of agricultural sector to national income declines and that of industrial and service sector increases. In the words of D. Bright Singh, economic development is a multi-dimensional phenomena, it involves not only increase in money incomes, but also improvement in real habits, education, public health, greater leisure and in fact all the social and economic circumstances that make for a fuller and happier life. One the contrary, in case of economic growth, there is increase in national income alone. There is no structural change in the economy.

Qualitative Change: In the words of Prof. J. K. Mehta, “The terms development and growth are not synonymous”. Term growth is quantitative whereas term development is qualitative. According to Meier, there are many important qualitative changes in development process which take it beyond growth. These qualitative changes manifest themselves in the form of efficient functioning of the factors of production and improved technique of production.

Economic development is concerned not only with increase in production but also its equitable distribution. If increased national income is not properly distributed then there will be no change in the standard of living of the poor people in the economy. That is why; economic development is a process that ensures growth with justice, whereas economic growth relates only to higher growth rate of national and per capita income. The latter has no concern with equitable distribution.

In the words of Byrns and Stone,

'Economic growth occurs when more goods can be produced. Economic Development entails improvements in the quality of life in the qualities of goods available or in the ways production is organized'.

Spontaneous and discontinuous Changes: In the words of Schumpeter, 'Development is discontinuous and spontaneous changes in the stationary state which for ever alters and displaces the equilibrium state previous existing, while growth is a gradual and steady change in the long run which comes about by general increase in the rate of saving and population. Thus, the term 'development' is used for spontaneous and discontinuous changes. The term 'growth' is used for continuous and steady changes.

Economic Development implies Economic Growth: According to some economists the term economic development is used to describe the determinants of economic growth, such as, changes in techniques of production, in social attitudes and in institutions. It is because of these changes that national income increase and is called economic growth. Thus, development is the determinant of growth.

According to Every man's "Dictionary, "Growth is measurable and objective, it describes expansion in force, in capital, in the volume of trade and consumption and economic development can be used to describe the determinants of economic growth such as changes in the techniques of production, social attitudes and institutions. Such changes may produce economic growth".

Regulated and Controlled: According to Alfred Bonne, "Development requires some sort of direction and regulation and guidance to generate the forces of expansion to maintain them. This is true of most of the underdeveloped countries. The Spontaneous nature of growth characteristics advanced free enterprises."

Growth without Development: According to Robert Clower growth is possible without development. For example, main cause of rise in national income of Liberian economy is the export of primary goods. But this production is done in those gardens whose ownership is in the hands of foreign companies. Thus, inspire of rise in national income there has been no increase in production capacity of the country. On the contrary, along with the process of economic development it is essential to have economic growth to some extent.

Related to the Problems of Underdeveloped Countries: Prof. Ursula Hicks is of the opinion that, "Development should relate to backward countries, where there is possibility of developing and using earlier unused resources. The term growth is applicable to economically advanced countries, where most of the resources are already known and developed'. Thus, the term economic development is used for the full utilization of unutilized national and human resources of the underdeveloped countries.

The term economic growth is used for maintaining the intuition of full employment in developed countries. Prof. Madison is of the view, "The rising of income levels is generally called economic growth in rich countries and in poor countries it is called economic development. "To illustrate, economic progress of America can be called economic growth while the economic progress of Soviet Russia, Asia and Africa, which is the outcome of deliberate efforts, is called economic development.

In short, according to Herrick and Kindleberger, "Economic growth means more output. Economic development implies not only more output but also different kinds of output than were previous produced as well as changes in the technical and institutional arrangements fry which output is produced and distributed'.

Main difference between economic growth development are as under :

Economic Growth	**Economic Development**
) **Narrow Economic Concept :** It is a narrow economic concept. It means rise in real per capita income or product.	) **Broad Economic Concept :** It is a broad concept. It includes increase in economic welfare alongwith increase in real per capita income or product.
) Mere Quantitative Economic Concept: Economic growth is quantitative concept. It is concerned with per capita rate of production.	(2) Quantitative and Qualitative Economic Concept: Concept of economic development is both quantitative and qualitative. It is concerned with economic welfare along with increase in real per capita income or production.
) Ignores Distribution of Income: No need is paid to the Distribution of income in case of economic growth. In spite of increase in income number of poor people may rise if distribution of income is unequal	(3) Takes into Consideration Distribution of Income: In case of economic development, distribution of income is kept in view. Inequality of distribution must be reduced.
(4) Centre point of Progress of Developed Countries: Concept of economic growth is generally used to indicate used to indicate economic progress of developed countries.	(4) Centre point of Progress of Underdeveloped Countries: In case of economic development is generally used to indicate economic progress of underdeveloped countries.

In the above pages an attempt has been made to distinguish between economic growth and economic development but this distinction will serve no purpose. In real life, both the terms are used as synonyms.

According to Paul Baran, “The mere notions of ‘Development’ and ‘growth’ suggest a transition to something that is new from something that is old, that has outlived itself. It is, therefore, prorate to use the terms ‘economic development’ and ‘economic growth for those changes, which enable an economy to reach a higher level of economic progress than before.

5.3 SUMMARY:

- Economic development studies the causes and cures of general poverty. Economic development refers to that process by which per capita income and economic welfare of a country increase over-rime. It may be noted that the terms “Economic Development” and “Economic Growth” are used interchangeably. But economists make a distinction between them. Economic development means growth with change and increase in welfare.
- Economic growth may be defined as an increase in the economy real gross national product or real national income.
- Economic development may be defined as the process whereby the real per capita income of the country increases over a long period of time-subject to the stipulations that the number of the people below an absolute poverty line does not increase and that the distribution of income does not become more unequal.
- Economic development is a multidimensional process involving major changes in social structures, popular attitudes and national institutions as well as the acceleration of economic growth, the reduction of inequality and the eradication of absolute poverty.
- Developed economies are economies having high per capita income. According to the World Atlas, the per capita yearly income in developed economies is around 9,000 dollars or slightly higher. The per capita income of these economic around 30 times the per capita income of underdeveloped economies.

- People living in developed countries enjoy a high standard of living. Apart from satisfying their basic needs of food, clothing and shelter, they are also able to consume a large number of comfort and luxury goods.
- Another form of human capital is the increase in the innovative capabilities of workers. Innovation is the use of new inventions. This results in an increase in productivity and productive capacity of workers. The cost of production goes down and new products are produced. Therefore, human capital is the base for economic development. According to Schultz, “Development of human capital is the main aim of developed economies”.
- Technical progress is brought about by innovation, which is introducing new products, new ways of manufacturing products and new forms of business organization. It is because of technological development that in developed countries, production keeps on increasing even when other factors of production such as capital are constant. The main reason behind the fast economic development in Japan and Germany is their scientific and technological progress. Scientific research is very essential for industrial development and improvements in agriculture.
- Generally, the terms economic development and economic growth are taken as synonym. For a long time, the term’s economic development, economic growth and economic progress have been used as synonym.
- Economic growth occurs when more goods can be produced. Economic Development entails improvements in the quality of life in the qualities of goods available or in the ways production is organized.
- According to Robert Clower growth is possible without development. For example, main cause of rise in national income of Liberaian economy is the export of primary goods. But this production is done in those gardens whose ownership is in the hands of foreign companies.
- Economic growth means more output. Economic development implies not only more output but also different kinds of output than were previous produced as well as changes in the technical and institutional arrangements fry which output is produced and distributed.

5.4 KEY WORDS:

Economic growth: Economic growth may be defined as an increase in the economy real gross national product or real national income.

Economic development may be defined as the process whereby the real per capita income of the country increases over a long period of time-subject to the stipulations that the number of the people below an absolute poverty line does not increase and that the distribution of income does not become more unequal.

Life-subsistence: Economic development is that process by which people are lifted from the level of poverty and simultaneously their basic needs are satisfied. A country cannot be called developed one till it satisfies the basic needs like, food, clothing, housing, primary education and health of all its people : The first element of economic development is to raise the standard of living of people, viz., their income, consumption level, medical services, education, etc. through suitable process.

Self-esteem: By self esteem is meant self respect and freedom. If a economy is exploited by others and it has not the right to deal with others on equal footing, then it is not treated as developed one underdeveloped countries are keen to develop themselves for the sake of self esteem. They want to rid themselves of the inferiority complex. They want to be self reliant and free. These second aspect of economic development is to create such conditions as a result of which people's self respect is enhanced. To achieve that goal, underdeveloped countries establish such social, political and economic institutions as may promote human respect.

Freedom: Freedom refers to freedom from three evils, namely, poverty, ignorance and squalor, so that people may decide their own future. No man can be regarded as free if he has not the freedom of choice/ if he is below the poverty line, if he is illiterate and his economic condition is not satisfactory. Economic development gives people freedom of skilful choice and their economic condition improves. They become literate and skilful.

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High Rate of Growth: In developed economies, not only is the per capita yearly "income high but the rate of growth is also comparatively higher using the years 2001-2002 the average rate of growth of developed countries was 3.2 per cent whereas in the majority of underdeveloped countries, it was only 2.5 per cent. Developed countries are able to sustain the, rise in their rate of growth.

High standard of Living: People living in developed countries enjoy a high standard of living. Apart from satisfying their basic needs of food, clothing and shelter, they are also able to consume a large number of comfort and luxury goods.

Developed Human Capital: Developed nations have a well developed human capital. Human capital is the skill and knowledge embodied in the minds and hands of the population. The development of human requires investment in the field of providing education, health, training facilities, etc., to the people. Such investment yields more returns as compared to material investment.

Training and Education of Workers: This result in an increase in an increase the productivity and efficiency of workers, and makes them capable handling the latest machines. It also results in an increase in the tendency towards modernization. Almost 90 per cent of the workers in developed economies" are educated.

Innovations: Another form of human capital is the increase in the innovative capabilities of workers. Innovation is the use of new inventions. This results in an increase in productivity and productive capacity of workers. The cost of production goes down and new products are produced.

Low Growth "Rate of Population: The rate of growth of population is very low in developed economies, since they are usually passing through the fourth stage of demographic transition. The fourth stage of demographic transition is characterized by a low birth rate and a low death rate, leading to stationary population growth at a low rate. This is also known as the Stationary Population Stage. In this stage, the people enjoy a very high standard of living due to economic development.

Technical Progress: Technical progress is brought about by innovation, which is introducing new products, new ways of manufacturing products and new forms of business organization. It is because of technological development that in developed countries, production keeps on increasing even when other factors of production such as capital are constant. The main reason behind the fast economic development in Japan and Germany is their scientific and technological progress. Scientific research is very essential for industrial development and improvements in agriculture.

Growth oriented Economic Agencies: There are sufficient growth-oriented agencies to be found in developed countries. These agencies are necessary in order to achieve fast economic growth at minimum cost. Some such agencies are: bans, financial and investment organizations, planning agencies, etc. These agencies encourage savings, channel investment and ensure smooth implementation of development schemes. Developed countries have a cohesive and efficient banking system, and stable money and capital markets.

Growth: Generally, the terms economic development and economic growth are taken as synonym. For a long time, the term's economic development, economic growth and economic progress have been used as synonym.

Single dimensional and Multi-Dimensional: Economic growth is single dimensional. It is concerned with increase in national and per capita income. On the other hand, economic development is multidimensional. It is concerned both with income and structural changes. In fact, economic development is a broad term.

Qualitative Change: In the words of Prof. J K Mehta, "The terms development and growth are not synonymous". Term growth is quantitative whereas term development is qualitative. According to Meier, there are many important qualitative changes in development process which take it beyond growth.

Spontaneous and discontinuous Changes: In the words of Schumpeter, 'Development is discontinuous and spontaneous changes in the stationary state which for ever alters and displaces the equilibrium state previous existing, while growth is a gradual and steady change in the long run which comes about by general increase in the rate of saving and population.

Economic Development implies Economic Growth: According to some economists the term economic development is used to describe the determinants of economic growth, such as, changes in techniques of production, in social attitudes and in institutions. It is because of these changes that national income increase and is called economic growth. Thus, development is the determinant of growth.

Regulated and Controlled: According to Alfred Bonne, "Development requires some sort of direction and regulation and guidance to generate the forces of expansion to maintain them. This is true of most of the underdeveloped countries. The Spontaneous nature of growth characteristics advanced free enterprises."

Related to the Problems of Underdeveloped Countries: Development relates to backward countries, where there is possibility of developing and using earlier unused resources. The term growth is applicable to economically advanced countries, where most of the resources are already known and developed.

5.5 SELF-ASSESSMENT QUESTIONS (SAQs):

1. Write a detailed note on economic growth.
2. Discuss economic development in detail.
3. Differentiate and distinguish economic growth and economic development.

5.6 REFERENCES / SUGGESTED READING:

- **Indian Economy (its Development Experience)** by Misra; Puri;
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- **India's Economic Policy** by Jalan;
- **Indian Planning at the Crossroads** by Datta, Bhabatosh;

- **Indian Economics** by Myneni, Dr.; Publisher: Allahabad Law Agency (2002)
- **Indian Economics (a Development Oriented Study)** by Dewett, K.K.; Publisher: S.Chand & Company (2002)

Bachelor of Mass Communication (1st year)

(BMC-107) ECONOMICS Block: D Unit: II Lesson: 6

FIVE YEAR PLANS

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LESSON STRUCTURE:

Five year plans were first introduced in the erstwhile Soviet Union in 1928 for controlled and rapid economic development. Much of the Soviet industrial successes are a result of the implementation of its five year plans. In 1950, India's prime minister Jawaharlal Nehru, impressed by the Soviet system, adopted five year plans as a model for economic development, and established the Planning Commission which was to act independent of any cabinet and was answerable only to the prime minister, who is also chairperson of the commission. Draft plans were to be approved by the National Development Council, comprising the Planning Commission and the chief ministers of all states. An approved plan is then passed by the cabinet and then in Parliament.

The benefits of five year planning, especially in a country as big and unpredictable as India, have been questioned by many, and it has often been seen that targets are not met. This method has still not been able to successfully get rid of poverty and the cost overruns in failed or incomplete public sector projects are often too high. Be that as it may, five year plans are still a good yardstick to determine investment and policy priorities.

In this lesson we shall discus about the various aspects of Five Year Plans. The lesson structure shall be as follows:

6.0 OBJECTIVES:

For the smooth functioning of any economy, planning plays an important role. The Planning Commission has been entrusted with the responsibility of the creation, development and execution of India's five year plans. India's five year plans are also supervised by the Planning commission.

Currently, the 11th Five Year Plan, is underway. India's 10th Five Year Plan, ended its tenure in the month of March, 2007.

In this lesson we shall try to cover some introductory aspects of economics.

The objectives of this lesson are:

- *To get an introduction to Five Year Plans*
- *To get an introduction to Development Planning*
- *To Know About the Objectives of Five Year Plans*
- *To Analyze the Five Year Plans*

6.1 INTRODUCTION:

Among the underdeveloped democratic countries of the world, India was the first country that had chosen the path of planning for its development. Economic Planning refers to that process wherein:

(i) a central planning authority,

(ii) keeping in view the resources of the country,

(iii) makes an attempt to control economic factors,

(iv) with a view to achieving pre-determined objectives within a specified period of time

Almost all under developed countries of the world have adopted the strategy of planning for their economic development. In India, Sir M. Vishveshwarya, an eminent engineer and statesman, in his book, Planned Economy for India (1934), had for the first time laid stress on scientific planning for the economic reconstruction of the country. In the proposed planning he had given top-priority to industrialization. In, 1983, All India Congress had appointed National Planning Committee under the chairmanship of late Pt. Jawaharl Lal Nehru. With the establishment of this committee, the idea of planning in India acquired special importance.

National Planning Committee, in its report attempted a compromise between private sector and socialism. In 1940, eight prominent industrialists of India prepared their own plan, called Bombay plan.

In 1944, Shrimananarayan Aggarwal presented Gandhian Plan. It aimed at establishing decentralized economy, so that Indian villages may become self-sufficient. In 1944, government of India set up a department of Planning and Development for the economic reconstruction of country in the post war period.

In January 1950, Sarvodya leader, late Sh. Jai Parkash Narayan prepared a plan known as Sarvodya Plan. This plan aimed at economic, social political and moral development of the country.

After independence in 1950 Planning Commission was set up under the chairmanship of late, Sh. Jawahar lal Nehru: It was to formulate plans for the economic development of the country on the basis of the available physical, capital and human resources. Within fifteen months of its inception, it presented the Draft of Frist five year plan 10th government in Jury 1951. On 8th December, 1952, late Sh. Nehru presented the Final Draft of First Five Year Plan to the Lok Sabha.

In this lesson we shall discus about the various aspects of Five Year Plans in detail.

6.2 PRESENTATION OF CONTENT:

The content of this lesson shall be presented as follows:

- *Five Year Plans- An Introduction*
- *Development Planning- An Introduction*

- *Objectives of Five Year Plans*
- *Five Year Plans- A Detailed Analysis*

6.2.1 FIVE YEAR PLANS- AN INTRODUCTION:

In 1951, India's first Five Year Plan (1951-55) was unveiled. While the first plan placed greater emphasis on agriculture, the second Five Year Plan (1956-60) sought to build up an industrial base for the country, particularly in the public sector. However, the chief landmark in this period was wide ranging and broad-based reforms in the village power structure by the abolition of the zamindari system and the creation of cooperatives among the rural poor to stimulate agricultural growth.

The Third Five Year Plan (1961-65) was interrupted by the 1962 war with China and the 1965 war with Pakistan, and it was evident that its targets would not be met. Its main basis was the conviction that an increase in agricultural production, particularly food grains, is essential for political stability and to build up food security and a buffer stock so as to not depend on foreign imports.

Area specific programmes like the Intensive Area Agricultural Programme and the Intensive Agricultural District Programme were promoted at this time. This was followed by three annual plans between 1966 and 1968, once again emphasizing on agriculture, and also on stimulating exports, in the process also devaluating the rupee in 1966.

The Fourth Five Year Plan (1969-73) called for greater expenditure in the public sector, but was not able to meet its national income growth target. This was the time when the so-called "Green Revolution" begun, which by the end of the Fifth Five Year Plan period ensured food security and adequate buffer stocks for India. The Fifth Five Year Plan was only passed in 1976 after a series of revisions due to the global crisis over crude oil prices, but it had to be prematurely terminated because of internal political differences following the election of a new government. There were two more annual plans in 1978 and 1979.

The Sixth Five Year Plan (1980-84) took a more adaptable “rolling” approach and concentrated on employment generation in rural areas and anti-poverty measures, while the Seventh Five Year Plan (1985-89) laid greater emphasis on energy and social development.

Following two more annual plans in 1990 and 1991, the Eighth Five Year Plan was launched in 1992, setting of economic liberalization and market based reforms, the fruits of which are still being enjoyed today. It was a landmark in the sense that it encouraged private investment in major public sector undertakings, greater rural and agricultural development and anti-poverty and anti-illiteracy measures. It also continued the emphasis on food security and foodgrains were also being exported during this period. The Ninth Five Year Plan (1997-2001) continued with the momentum of its predecessor, especially emphasizing on employment generation and poverty reduction.

India’s Tenth Five Year Plan has been devised to complement and meet the United Nations Millennium Development Goals (MDG) targets. The MDG were issued in 2000 to achieve eight targets to eradicate hunger and poverty and raise the standards of living worldwide by the year 2015 through global cooperation. (See also: Millennium Development Goals) Much of the Tenth Five Year Plan targets are extremely ambitious, even more so than the MDG themselves, and midway through, it seems apparent that while some can be met, others may not.

The most significant targets in this plan are the reduction of poverty to only 20 per cent, increased employment generation, universal primary education and raising the literacy rate to 75 per cent, reduction in gender gaps in literacy and wage rates, reduction in population growth, reduction in infant mortality to 45 per 1000 live births and maternal mortality to two per 1000 live births, universal availability of drinking water, clearing of all major polluted rivers and increase in forest cover to 25 per cent.

While India does seem on track towards meeting its poverty alleviation and universal primary education goals, a lot of work still needs to be done in the health sector.

6.2.2 DEVELOPMENT PLANNING- AN INTRODUCTION:

Main features of the development planning initiated in India are as follows:

Democratic: In India, economic planning has assumed a new pattern. It is democratic planning. In it, importance has been given to the development of both public and private sector. To make planning success, operation of the people has been sought. But unlike the planning in Socialist countries, in India neither the public nor the private sector is legally bound to achieve the targets of the plans. Indian Planning is therefore aptly called Indicative Planning. In India, Plans merely offer a future structure with regard to the direction of economic development; their objectives, their composition and the availability of financial resources for them. It is hoped that units of private and public sector will implement the plan in conformity to this structure. Government makes necessary provisions for its implementation. It provides incentives to the private sector and also controls it. However, to enforce the Plans fully is not, compulsory, for either sector.

Different Sectors: Developmental Plans, in India are being executed by three sectors in consonance with mixed economy: (i) Public Sector (ii) Private Sector (iii) Joint Sector. Keeping in view the all-round development of the country, different tasks have been assigned to these sectors. Public Sector plays significant role in the development of basic industries and industries making defense equipment's Private Sector has greater importance in the development of agriculture, small industries and industries producing mass consumption goods. Regarding the allocation of financial resources more importance is given to public sector than private sector in the plans.

Decentralized Decision Making: Comprehensive plan for the whole country is prepared by the Planning Commission in India. Subsequently, planning board of each state makes a detailed plan of its own state. Some economic decisions by the private sector are taken in the light of price-mechanism. Before giving it a final shape, the plan is discussed and debated upon by the National Development Council and representatives of the people.

Financial Planning: Indian planning has grown as a financial planning. It means that more emphasis has been laid on the achievement of financial targets as against the physical targets. As a result of it, total outlay in the Third and Fourth Plans exceeded the targets, yet most of the physical targets could not be achieved. There has been considerable gap between physical targets and their actual achievements.

Unrealistic Data: In 1951 when the era planning began in India, reliable statistics were not available. Success of planning depends largely on dependable statistics. Although the position of, statistics has improved a lot, yet it is far from satisfactory. It is one of the big drawbacks of our planning.

Broader Objective: The objectives of India planning are not only economic but social, cultural area political also. The objective of the plans is not restricted to economic growth alone but growth with justice.

Prospective and Perspective Planning: Indian planning is both prospective and perspective planning. In other words, both short-term and long-term programmes have been incorporated in five year plans. It is so because without making short-term plans a part of the long-term plans, real potentialities cannot be known. Thus, in the five year plans targets of employment and national income have on determined on the basis of short term and long-term planning.

Planning by Inducement and Direction: Five Year Plans in India are mostly implemented by inducement that is, after the blue-print of the plan; is ready, people's co-operation to implement the same is sought. However, if need be, efforts axe also made to enforce it by direction, keeping in view the larger interest of the country.

Comprehensive: Scope of our plans is very vast. Plans have been formulated in respect of different sectors of the economy, namely, agriculture, industry, communication transport, power, export import, social services and optimum of natural resources.

No Proper Implementation: Another feature of our planning is that planning commission of India has paid more attention to the formulation of the plan. No serious thought has been given as to how these plans can be effectively and promptly implemented. Prof. Barbara Ward has rightly, said, "Indian Planning has been stronger on formulation than on implementation."

Slogans: If we examine the programme of the plans, we shall find that several slogans have been given to the nation during different plans. For instance the main slogan of First Plan was "Self Sufficiency in Food grains" and establishment of "Welfare State". Soon, on account of Korean Wax and consequent5ly rise in prices, Indian Planning adopted the slogan of "Growth with stability". Second Plan began with the slogans of "Heavy and Basic Industries" and "Social and Economic Justice". In the Third Plan, country was given the slogan of "Take off Stage" but soon after Chinese aggression on India it changed into another slogan of "Defense and Development" in 1965. During Indo-Pak wax, slogan of "Jai Jawan Jai Kisan" became popular. Obviously, echo of slogans in our Five Year Plans has been louder than the concrete work. Slogan of the Fourth Plan was "Self-reliance" and that of the Sixth Plan, "Self-reliance and removal of poverty." In the Seventh Plan, it was "Productive Employment." Theme of the Eighth Plan is "Employment oriented growth."

In short, Indian development plans axe democratic and comprehensive. They axe inspired by economic and social objectives. Their theoretical aspect is more important than implementation aspect. Four main objectives of the plans are:

(a) To accelerate the growth rate of the economy,

(b) Modernization,

(c) Self-reliance, and

(d) Social justice.

OBJECTIVES OF PLANNING:

Main objectives of different plans in India axe divided under the following heads:

Increase in National Income or Economic Development: Objective of each plan in India has been to increase the national income or to accelerate economic development. Increase in the national income helps economic development of the country. Objective of First Plan was to increase the national income of the country at the rate of 2.2 percent per annum, but actually it increased at the rate of 3.7 per cent per annum at 1993-94 prices. Second plans objectives were to raise the national income at the rate of 4.6 per cent per annum but it could increase only at the rate of 4.2 per cent per annum. The Third Plan aimed at raising the national income at the rate of 5 per cent per annum, but actual increase was 2.8 per cent per annum. The Fourth Plans target was 5.5 per cent increase in national income per year but actually only 3.4 per cent increase could become possible. The fifth plan also set a target of 5.5 per cent increase in national income every year, but the actual realization was 4.9 per cent. Sixth plan's target of 5.2 per cent growth rate was fully achieved. Seventh plan had set a target of 5 per cent increase in national income but actual realization was 5.8 per cent. The objective of the Eight plan is to achieve a target of 5.6 per cent increase in national income but the actual rate of growth was 6.5 per cent. The target of ninth plan was to achieve a growth rate of 6.5 per cent per annum. But the actual rate of growth was 5.5 per cent. The target of Ninth plan was to achieve a growth rate of 6.5 percent per annum. But the actual rate of growth was 5.5 percent. The target of Tenth Plan is to achieve a growth rate of 8 percent.

Increase in Standard of Living: The other objective of the Five year plans was to raise the standard of living of the people so that their economic prosperity may grow. Improvement in the standard of living depends on several factors; like high per capita income, price stability, equal distribution of income etc. as a result of fifty-two years of planning, per capita income has risen to Rs. 17978 at current prices.

To reduce economic inequality: One of the main objectives of the Five Year Plans is to reduce economic inequality. Economic inequalities in the country symbolize exploitation and injustice. As a result, rich become richer and poor become poorer. In order to achieve economic equality, several measures swart taken, viz., taxes were levied on the rich at progressive rate, public sector was expanded, and new licensing policy was adopted. The objective of Socialistic Pattern of Society was set during the Second Plan to achieve this aim.

Comprehensive Development: Five Year Plans also aim at comprehensive development of the economy. In these Plans, all-round development of all productive sectors like agriculture, industry, transport, trade, power, etc. has been envisaged. However, development of these sectors has not been uniform in each plan. During the first plan great stress was laid on the development of agriculture and irrigation and in the Second plan main emphasis was on the development of heavy industries. In the Fifth Plan, development of both agriculture and industry was the sole objective, yet it was industrial development that received increasing attention. In the Sixth and Seventh Plans development of power and energy was on the priority list.

Regional Development: Different parts of India are not uniformly developed from the economic point of view. Punjab, Haryana, Goa, Mahareashtra, Gujrat, Tamil Nadu, Andhra Pradesh etc. are relatively more developed economically whereas V.P., Bihar, Orissa, Nagaland, Meghalya, Rajasthan etc. are quite backward. One of the objectives of the Five Year Plans is to attain regional equality by rapid development of backward states.

Economic Stability: In order to maintain the rate of economic growth, it is very essential to attain the goal of economic stability. Five Year Plans also aim at achieving economic stability. It imjplies an economy free from the alternating cycles of boom and depression. If prices rise very high or fall very low then the entire economy will be put out of gear. In every Five Year Plan, one of the objectives has been economic stability in the country. As a result of economic development; some rise in prices is inevitable but it should not be excessive. Prices had started rising steeply from the very beginning of the Seventh Plan.

Self-sufficiency and Self-sustained Growth: Aim of the Five Year Plan is in order agricultural and industrial sectors self-sufficient in the light of the available resources. It has been one of the objectives of the plans to render the country self-sufficient in foodgrains, raw materials and such industry raw materials “as iron, steel etc. To achieve this end, one the one hand imports are to be restricted producing import-substitutes in the country and on the other exports are to be promoted. Objective of the Plans is to attain self-sustained growth of the economy by raising the rate of saving and investment. After the Third Plan, Indian economy has entered the take-off stage. 'Plans aim at getting rid of dependence or Foreign aid by promoting export trade and developing internal resources.

Social Justice: Objective of each plan in India is to promote social justice. It can be achieved in two ways. Firstly, by alleviating poverty of the poorest of the poor. According to the Eighth Plan, a poor is one whose money income is less than 299 per month in rural area and Rs. 264 per month in urban area at 1993-94 prices. About 26 percent of the population lives below the poverty line India. Main objective of the Eighth Plan is removal of poverty. To achieve it, Minimum Needs Programme has been initiated. The other aspect of the social justice is to reduce economic in equality equal distribution of wealth and income.

Increase in Employment: Another objective of the Plans is the optimum utilization of manpower resources and increasing of employment opportunities. During planning period efforts have been made to provide employment to millions of people. In the Seventh Plan, great emphasis was laid on Self-employment. More facilities were created for self-employment. In the Eighth Plan, maximum emphasis had been laid on, the removal of unemployment and under employment.

Increase in Investment and Saving: Each Plan aims at increasing the ratio of saw and investment in the national income. It augments the production capacity of the country. Rate I investment was to be increased to 8 percent in the First Plan, 12.7 percent in the Second Plan, 14 in the Third Plan, 15.7 percent in the Fourth Plan, 19.7 percent in the Fifth Plan, 24.5 percent in the Six Plan, 25.9 percent in the Seventh Plan and 23.7 percent in the eighth plan. To increase the rate of investment is necessary of increase the rate of saving and limit the rate of consumption. Rate of domestic saving in the Seventh Plan was 20.6 pecent. It reached to 25 percent of GDP in Eight Plan. The target of Ninth Plan was to achieve 28.1 percent growth, rate of saving and 28.2 percent growth rate of investment.

In short, according to the First Five Year Plan, the main objective of the planning in India was to raise the standard of living of the people and to give them opportunities for a better more prosperous life. Hence the Planning aimed at utilizing effectively physical and human resources, increasing the production of goods and services and reducing inequalities of wealth, income and opportunities.

6.2.3 OBJECTIVES OF FIVE YEAR PLANS:

When India gained independence, its economy was groveling in dust. The British had left the Indian economy crippled and the fathers of development formulated 5 years plan to develop the Indian economy. The five years plan in India is framed, executed and monitored by the Planning Commission of India. Currently, India is in its 11th five year plan. Let's see the journey of five year's plan in India and the objectives in each plan.

Here are the objectives of all the Five Year's Plan:

1st Plan (1951-56)

The first five year plan was presented by Jawaharlal Nehru in 1951. The main objectives of the first five year plans were agriculture, community development, communications, land rehabilitation.

2nd Plan (1956-61)

The second five year plan mainly focused on hydroelectric projects, steel Mills, production of coal, railway tracks.

3rd Plan (1961-66)

The main objectives of the third five year plan were defense, price stabilization, construction of dams, cement and fertilizers plants, education etc.

4th Plan (1969-74)

At this time Indira Gandhi was the prime minister and she nationalized of 19 major banks. The funds raised for industrialization was used in the Indo-Pak war of 1971. India also conducted nuclear tests in 1974.

5th Plan (1974-79)

The major objectives of the fifth five year plan were employment, poverty alleviation, justice etc

6th Plan (1980-85)

The sixth five year plan focused on information technology, Indian national highway system, tourism, economic liberalization, price control, family planning etc.

7th Plan (1985-89)

The objectives of the seventh five year plan were Improving productivity by upgrading technology.

8th Plan (1992-97)

Modernization of industries was the main target of the eight five year plan.

9th Plan (1997-2002)

The main objectives of the ninth five year plan were agriculture and rural development, food and nutritional security, empowerment of women, accelerating growth rates, providing the basic requirements such as health, drinking water, sanitation etc.

10th Plan (2002-2007)

The tenth plan highlighted the need for reduction of poverty ratio, increase in literacy rates, reduction in infant mortality rate, economic growth, increase in forest and tree cover etc.

11th Plan (2007-08)

The major objectives of the eleventh five year plan are income generation, poverty alleviation, education, health, infrastructure, environment etc.

6.2.4 FIVE YEAR PLANS- A DETAILED ANALYSIS:

The economy of India is based in part on planning through its five-year plans, developed, executed and monitored by the Planning Commission. With the Prime Minister as the ex officio Chairman, the commission has a nominated Deputy Chairman, who has rank of a Cabinet minister. Montek Singh Ahluwalia is currently the Deputy Chairman of the Commission. The tenth plan completed its term in March 2007 and the eleventh plan is currently underway.

FIRST PLAN (1951-1956)

The first Indian Prime Minister, Jawaharlal Nehru presented the first five-year plan to the Parliament of India on December 8, 1951. The total plan budget of 206.8 billion INR (23.6 billion USD in the 1950 exchange rate) was allocated to seven broad areas: irrigation and energy (27.2 percent), agriculture and community development (17.4 percent), transport and communications (24 percent), industry (8.4 percent), social services (16.64 percent), land rehabilitation 4.1 percent), and other (2.5 percent).

The target growth rate was 2.1 percent annual gross domestic product (GDP) growth; the achieved growth rate was 3.6 percent. During the first five-year plan the net domestic product went up by 15 percent. The monsoons were good and there were relatively high crop yields, boosting exchange reserves and per capita income, which went up 8 percent. Lower increase of per capita income as compared to national income was due to rapid population growth. Many irrigation projects were initiated during this period, including the Bhakra Dam, Hirakud Dam, and Mettur Dam in South India. The World Health Organization, with the Indian government, addressed children's health and reduced infant mortality, contributing to population growth.

At the end of the plan period in 1956, five Indian Institutes of Technology (IITs) were started as major technical institutions. University Grant Commission was set up to take care of funding and take measures to strengthen the higher education in the country.

Contracts were signed to start five steel plants; however these plants did not come into existence until the middle of the next five-year plan.

SECOND PLAN (1956-1961)

The second five-year plan focused on industry, especially heavy industry. Domestic production of industrial products was encouraged, particularly in the development of the public sector. The plan followed the Mahalanobis model, an economic development model developed by the Indian statistician Prasanta Chandra Mahalanobis in 1953. The plan attempted to determine the optimal allocation of investment between productive sectors in order to maximise long-run economic growth .

Hydroelectric power projects and five steel mills at Bhilai, Durgapur, and Jamshedpur were established. Coal production was increased. More railway lines were added in the north east.

The Atomic Energy Commission was formed in 1957 with Homi J. Bhabha as the first chairman. The Tata Institute of Fundamental Research was established as a research institute. In 1957 a talent search and scholarship program was begun to find talented young students to train for work in nuclear power.

THIRD PLAN (1961-1966)

The third plan stressed on agriculture, but the brief Sino-Indian War in 1962 exposed weaknesses in the economy and shifted the focus towards defense. In 1965-1966, the Green Revolution in India advanced agriculture. The war led to inflation and the priority was shifted to price stabilization. The construction of dams continued. Many cement and fertilizer plants were also built. Punjab begun producing an abundance of wheat.

Many primary schools were started in rural areas. In an effort to bring democracy to the grassroot level, Panchayat elections were started and the states were given more development responsibilities.

State electricity boards and state secondary education boards were formed. States were made responsible for secondary and higher education. State road transportation corporations were formed and local road building became a state responsibility.

FOURTH PLAN (1969-1974)

At this time Indira Gandhi was the Prime Minister. The Indira Gandhi government nationalized 19 major Indian banks. In addition, the situation in East Pakistan (now independent Bangladesh) was becoming dire as the Indo-Pakistani War of 1971 and Bangladesh Liberation War took place.

Funds earmarked for the industrial development had to be used for the war effort. India also performed the Smiling Buddha underground nuclear test in 1974, partially in response to the United States deployment of the Seventh Fleet in the Bay of Bengal to warn India against attacking West Pakistan and widening the war.

FIFTH PLAN (1974-1979)

Stress was laid on employment, poverty alleviation, and justice. The plan also focused on self-reliance in agricultural production and defense. In 1978 the newly elected Morarji Desai government rejected the plan.

SIXTH PLAN (1980-1985)

Called the Janata government plan, the sixth plan marked a reversal of the Nehruvian model.

When Rajiv Gandhi was elected as the prime minister, the young prime minister aimed for rapid industrial development, especially in the area of information technology. Progress was slow, however, partly because of caution on the part of labor and communist leaders.

The Indian national highway system was introduced for the first time and many roads were widened to accommodate the increasing traffic. Tourism also expanded.

The sixth plan also marked the beginning of economic liberalization. Price controls on prices was eliminated and ration shops were closed. This led to an increase in food prices and an increased cost of living.

Family planning also was expanded in order to prevent overpopulation. In contrast to China's harshly-enforced one-child policy, Indian policy did not rely on the threat of force. More prosperous areas of India adopted family planning more rapidly than less prosperous areas, which continued to have a high birth rate.

SEVENTH PLAN (1985-1989)

The Seventh Plan marked the comeback of the Congress Party to power. The plan lay stress on improving the productivity level of industries by upgradation of technology.

PERIOD BETWEEN 1989-91

1989-91 was a period of political instability in India and hence no five year plan was implemented. Between 1990 and 1992, there were only Annual Plans. In 1991, India faced a crisis in Foreign Exchange (Forex) reserves, left with reserves of only about $1 billion (US). Thus, under pressure, the country took the risk of reforming the socialist economy. P.V. Narasimha Rao)(28 June 1921 – 23 December 2004) also called Father of Indian Economic Reforms was the twelfth Prime Minister of the Republic of India and head of Congress Party, and led one of the most important administrations in India's modern history overseeing a major economic transformation and several incidents affecting national security. At that time Dr. Manmohan Singh (currently, Prime Minister of India) launched India's free market reforms that brought the nearly bankrupt nation back from the edge. It was the beginning of privatization and liberalization in India.

EIGHTH PLAN (1992-1997)

Modernization of industries was a major highlight of the Eighth Plan. Under this plan, the gradual opening of the Indian economy was undertaken to correct the burgeoning deficit and foreign debt. Meanwhile India became a member of the World Trade Organization on 1 January 1995.

NINTH PLAN (1997-2002)

During the Ninth Plan period, the growth rate was 5.35 per cent, a percentage point lower than the target GDP growth of 6.5 per cent.

TENTH PLAN (2002-2007)

The main objectives of the 10th Five-Year Plan were:

- Reduction of poverty ratio by 5 percentage points by 2007;
- Providing gainful and high-quality employment at least to the addition to the labour force;
- All children in india in school by 2003; all children to complete 5 years of schooling by 2007;
- Reduction in gender gaps in literacy and wage rates by at least 50% by 2007;
- Reduction in the decadal rate of population growth between 2001 and 2011 to 16.2%;
- Increase in Literacy Rates to 75 per cent within the Tenth Plan period (2002-3 to 2006-7);
- Reduction of Infant mortality rate (IMR) to 45 per 1000 live births by 2007 and to 28 by 2012;
- Reduction of Maternal Mortality Ratio (MMR) to 2 per 1000 live births by 2007 and to 1 by 2012;
- Increase in forest and tree cover to 25 per cent by 2007 and 33 per cent by 2012;
- All villages to have sustained access to potable drinking water within the Plan period;

- Cleaning of all major polluted rivers by 2007 and other notified stretches by 2012;
- Economic Growth further accelerated during this period and crosses over 8% by 2006.

ELEVENTH PLAN (2007-2012)

The eleventh plan has the following objectives:

- Income & Poverty
- Accelerate GDP growth from 8% to 10% and then maintain at 10% in the 12th Plan in order to double per capita income by 2016-17
- Increase agricultural GDP growth rate to 4% per year to ensure a broader spread of benefits
- Create 70 million new work opportunities.
- Reduce educated unemployment to below 5%.
- Raise real wage rate of unskilled workers by 20 percent.
- Reduce the headcount ratio of consumption poverty by 10 percentage points.
- Education
- Reduce dropout rates of children from elementary school from 52.2% in 2003-04 to 20% by 2011-12
- Develop minimum standards of educational attainment in elementary school, and by regular testing monitor effectiveness of education to ensure quality
- Increase literacy rate for persons of age 7 years or more to 85%
- Lower gender gap in literacy to 10 percentage points
- Increase the percentage of each cohort going to higher education from the present 10% to 15% by the end of the plan
- Health
- Reduce infant mortality rate to 28 and maternal mortality ratio to 1 per 1000 live births

- Reduce Total Fertility Rate to 2.1
- Provide clean drinking water for all by 2009 and ensure that there are no slip-backs
- Reduce malnutrition among children of age group 0-3 to half its present level
- Reduce anaemia among women and girls by 50% by the end of the plan
- Women and Children
- Raise the sex ratio for age group 0-6 to 935 by 2011-12 and to 950 by 2016-17
- Ensure that at least 33 percent of the direct and indirect beneficiaries of all government schemes are women and girl children
- Ensure that all children enjoy a safe childhood, without any compulsion to work
- Infrastructure
- Ensure electricity connection to all villages and BPL households by 2009 and round-the-clock power.
- Ensure all-weather road connection to all habitation with population 1000 and above (500 in hilly and tribal areas) by 2009, and ensure coverage of all significant habitation by 2015
- Connect every village by telephone by November 2007 and provide broadband connectivity to all villages by 2012
- Provide homestead sites to all by 2012 and step up the pace of house construction for rural poor to cover all the poor by 2016-17
- Environment
- Increase forest and tree cover by 5 percentage points.
- Attain WHO standards of air quality in all major cities by 2011-12.
- Treat all urban waste water by 2011-12 to clean river waters.
- Increase energy efficiency by 20 percentage points by 2016-17.

6.3 SUMMARY:

- The benefits of five year planning, especially in a country as big and unpredictable as India, have been questioned by many, and it has often been seen that targets are not met. This method has still not been able to successfully get rid of poverty and the cost overruns in failed or incomplete public sector projects are often too high.
- In India, economic planning has assumed a new pattern. It is democratic planning. In it, importance has been given to the development of both public and private sector. To make planning success, operation of the people has been sought.
- Developmental Plans, in India are being executed by three sectors in consonance with mixed economy: (i) Public Sector (ii) Private Sector (iii) Joint Sector. Keeping in view the all-round development of the country, different tasks have been assigned to these sectors. Public Sector plays significant role in the development of basic industries and industries making defense equipment's.
- Comprehensive plan for the whole country is prepared by the Planning Commission in India. Subsequently, planning board of each state makes a detailed plan of its own state. Some economic decisions by the private sector are taken in the light of price-mechanism.
- Indian planning has grown as a financial planning. It means that more emphasis has been laid on the achievement of financial targets as against the physical targets.
- Objective of each plan in India has been to increase the national income or to accelerate economic development. Increase in the national income helps economic development of the country.
- The other objective of the Five year plans was to raise the standard of living of the people so that their economic prosperity may grow. Improvement in the standard of living depends on several factors; like high per capita income, price stability, equal distribution of income etc.
- One of the main objectives of the Five Year Plans is to reduce economic inequality. Economic inequalities in the country symbolize exploitation

and injustice. As a result, rich become richer and poor become poorer. In order to achieve economic equality, several measures swart taken, viz., taxes were levied on the rich at progressive rate, public sector was expanded, and new licensing policy was adopted.

- Five Year Plans also aim at comprehensive development of the economy. In these Plans, all-round development of all productive sectors like agriculture, industry, transport, trade, power, etc. has been envisaged. However, development of these sectors has not been uniform in each plan.
- In order to maintain the rate of economic growth, it is very essential to attain the goal of economic stability. Five Year Plans also aim at achieving economic stability. It imjplies an economy free from the alternating cycles of boom and depression. If prices rise very high or fall very low then the entire economy will be put out of gear.
- Aim of the Five Year Plan is in order agricultural and industrial sectors self-sufficient in the light of the available resources. It has been one of the objectives of the plans to render the country self-sufficient in foodgrains, raw materials and such industry raw materials "as iron, steel etc. To achieve this end, one the one hand imports are to be restricted producing import-substitutes in the country and on the other exports are to be promoted.
- Another objective of the Plans is the optimum utilization of manpower resources and increasing of employment opportunities. During planning period efforts have been made to provide employment to millions of people.

6.4 KEY WORDS:

Democratic: In India, economic planning has assumed a new pattern. It is democratic planning. In it, importance has been given to the development of both public and private sector. To make planning success, operation of the people has been sought.

Different Sectors: Developmental Plans, in India are being executed by three sectors in consonance with mixed economy: (i) Public Sector (ii) Private Sector (iii) Joint Sector. Keeping in view the all-round development of the country, different tasks have been assigned to these sectors. Public Sector plays significant role in the development of basic industries and industries making defense equipment's.

Decentralized Decision Making: Comprehensive plan for the whole country is prepared by the Planning Commission in India. Subsequently, planning board of each state makes a detailed plan of its own state. Some economic decisions by the private sector are taken in the light of price-mechanism.

Financial Planning: Indian planning has grown as a financial planning. It means that more emphasis has been laid on the achievement of financial targets as against the physical targets.

Increase in National Income or Economic Development: Objective of each plan in India has been to increase the national income or to accelerate economic development. Increase in the national income helps economic development of the country.

Increase in Standard of Living: The other objective of the Five year plans was to raise the standard of living of the people so that their economic prosperity may grow. Improvement in the standard of living depends on several factors; like high per capita income, price stability, equal distribution of income etc.

To reduce economic inequality: One of the main objectives of the Five Year Plans is to reduce economic inequality. Economic inequalities in the country symbolize exploitation and injustice. As a result, rich become richer and poor become poorer. In order to achieve economic equality, several measures swart taken, viz., taxes were levied on the rich at progressive rate, public sector was expanded, and new licensing policy was adopted.

Comprehensive Development: Five Year Plans also aim at comprehensive development of the economy. In these Plans, all-round development of all productive sectors like agriculture, industry, transport, trade, power, etc. has been envisaged. However, development of these sectors has not been uniform in each plan.

Economic Stability: In order to maintain the rate of economic growth, it is very essential to attain the goal of economic stability. Five Year Plans also aim at achieving economic stability. It imjplies an economy free from the alternating cycles of boom and depression. If prices rise very high or fall very low then the entire economy will be put out of gear.

Self-sufficiency and Self-sustained Growth: Aim of the Five Year Plan is in order agricultural and industrial sectors self-sufficient in the light of the available resources. It has been one of the objectives of the plans to render the country self-sufficient in foodgrains, raw materials and such industry raw materials “as iron, steel etc. To achieve this end, one the one hand imports are to be restricted producing import-substitutes in the country and on the other exports are to be promoted.

Increase in Employment: Another objective of the Plans is the optimum utilization of manpower resources and increasing of employment opportunities. During planning period efforts have been made to provide employment to millions of people.

6.5 SELF-ASSESSMENT QUESTIONS (SAQs):

1. Write a detailed note on planning.
2. Discuss developmental planning in detail.
3. What are the objectives of developmental planning? Discuss in detail.
4. Write a detailed note on the Five Year Plans in India.

6.6 REFERENCES / SUGGESTED READING:

- **Indian Economy (its Development Experience)** by Misra; Puri;
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- **India's Economic Policy** by Jalan;
- **Indian Planning at the Crossroads** by Datta, Bhabatosh;

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Bachelor of Mass Communication (1st year)

(BMC-107) ECONOMICS Block: E Unit: I Lesson: 7

MARKET

***Writer:* Ms. Veena Sharma**

LESSON STRUCTURE:

In this lesson we shall discus about the various introductory aspects of market. The lesson structure shall be as follows:

7.0 OBJECTIVES:

In this lesson we shall try to cover some introductory aspects of market.

The objectives of this lesson are:

- To get an Introduction to Market
- To get an explanation about Market
- To Know About Market Economy
- To Know About the Main Forms of Markets

7.1 INTRODUCTION:

A market is any place where the sellers of a particular good or service can meet with the buyers of that goods and service where there is a potential for a transaction to take place. The buyers must have something they can offer in exchange for there to be a potential transaction.

In economics, the term marked is used in a special sense. In the ordinary language the term market means a particular place where buyers and sellers meet each other and buy and sell the commodities. However, in Economics, the terms market does not mean any particular place but it means the entire area where buyers and sellers of a commodity are in such close contact with each other that price of the same commodity tends to be one throughout that area. Moreover, it is not necessary that buyers and sellers may contact each other face to face they can establish this contact by different modes of communication, namely, telephone telegram, fax, E-mail, letters or through their agents.

In the words of Cournot, "Economists understand by the term market not any particular market place in which things are bought and sold but the whole of any region in which buyers and sellers are in such free intercourse with each other that the price of same good tends to equality easily and quickly.

In the words of Prof. Chapman, "The term market refers not necessarily to a place but always to a commodity and the buyers and the sellers who are in direct competition with one another."

According to Prof. J.C. Edwards, "A market is that mechanism by which buyers and sellers are brought together. It is not necessarily a fixed place."

7.2 PRESENTATION OF CONTENT:

Market in economics does not means any particular place where buyers and sellers meet, rather it means the entire area over which buyers and sellers are spread and have close contact with one another. For instance, Dalda has its market all over India because its buyers and sellers are found in every state and city.

Both buyers and sellers are needed in the market. If one of the two does not exist in any region it will not be called a market. It is not necessary that buyers and sellers be physically present to bargain or transact business. They may establish contact among themselves on phone or other available mode of communication.

In Economics, every commodity has its own market e.g. what market sugar market etc. As many commodities, so many markets.

There should be free competition between buyers and sellers. In such a market, buyers try to buy at the cheapest rate and the sellers try to sell at the highest rate. As a result of it there will be one price for one commodity throughout the market.

The content of this lesson shall be presented as follows:

- Market- An Introduction
- Market Explained
- Market Economy
- Main Forms of Markets

7.2.1 MARKET-AN INTRODUCTION:

In economics, a market is a natural social structure developed by any economic or economically-oriented, human interaction to facilitate the exchange of rights, services or product ownership. Markets enable peoples' services, firms and products to be evaluated and priced. There are two roles in markets, buyers and sellers. The definition implies that at least three actors are needed for a market to exist; at least one actor, on the one side of the market, who is aware of at least two actors on the other side whose offers can be evaluated in relation to each other.

A market allows buyers and sellers to discover information and carry out a voluntary exchange of goods or services. This is commonly done through trade. These trades may be handled a variety of ways, but in small market environments, buyers and sellers typically deal in currency, and goods. In everyday usage, the word "market" may also refer to the location where goods are traded, or in other words, the marketplace.

The function of a market requires, at a minimum, that both parties expect to become better off as a result of the transaction. Markets generally rely on price adjustments to provide information to parties engaging in a transaction, so that each may accurately gauge the subsequent change of their welfare. In some markets, such as those involving barter, individual buyers and sellers must engage in a more lengthy process of haggling in order to gain the same information. Markets are efficient when the price of a good or service attracts exactly as much demand as the market can currently supply. The chief function of a market, then, is to adjust prices to accommodate fluctuations in supply and demand in order to achieve allocative efficiency.

More complex economic systems in which goods and services are exchanged through markets by larger groups of people, organizations, and businesses are called market economies. The decision of exchange regarding the prices and the quantity are decentralized; employees or independent agents (often called brokers) act as buyers and sellers, involving themselves in the exchange. This tendency often takes place in financial markets, where the buyer may only have access to an account and the seller may only issue a receipt or bill of sale during the trade. In this case, neither the buyer nor seller would actually see the products or money they were trading with.

An alternative economic system in which non-participants to the exchange (often government mandates) determine prices are called planned economies or command economies. The attempt to combine socialist ideals with the incentive system of a market is known as market socialism.

7.2.2 MARKETS EXPLAINED:

In supermarkets, industrialized countries, such as this one in Netherlands, sellers periodically change prices for classes of goods in response to market conditions, rather than negotiating the price of each good with each buyer.Although many markets exist on the traditional sense--such as a flea market--there are various other types of markets and various organizational structures to assist their functions.

A market can be organized as an auction, as a private electronic market, as a shopping center, as a complex institution such as a stock market, and as an informal discussion between two individuals.

In economics, a market that runs under laissez-faire policies is a free market. It is "free" in the sense that the government makes no attempt to intervene through taxes, subsidies, minimum wages, price ceilings, etc. Market prices may be distorted by a seller or sellers with monopoly power, or a buyer with monopsony power. Such price distortions can have an adverse effect on market participant's welfare and reduce the efficiency of market outcomes. Also, the level of organization or negotiation power of buyers, markedly affects the functioning of the market. Markets where price negotiations do not arrive at efficient outcomes for both sides are said to experience market failure.

Most markets are regulated by state wide laws and regulations. While barter markets exist, most markets use currency or some other form of money.

Markets of varying types can spontaneously arise whenever a party has interest in a good or service that some other party can provide. Hence there can be a market for cigarettes in correctional facilities, another for chewing gum in a playground, and yet another for contracts for the future delivery of a commodity. There can be black markets, where a good is exchanged illegally and virtual markets, such as eBay, in which buyers and sellers do not physically interact. There can also be markets for goods under a command economy despite pressure to repress them.

7.2.3 MARKET ECONOMY:

A market economy or free market economy is an economic system in which the production and distribution of goods and services take place through the mechanism of free markets guided by a free price system. In a market economy, businesses and consumers decide of their own volition what they will purchase and produce, and in which decisions about the allocation of those resources are without government intervention. In theory this means that the producer gets to decide what to produce, how much to produce, what to charge customers for those goods, what to pay employees, etc., and not the government.

These decisions in a market economy are influenced by the pressures of competition, supply and demand. This is often contrasted with a planned economy, in which a central government decides what will be produced and in what quantities. Market economy is also contrasted with mixed economy where there are market operations though the markets system is not entirely free but under some government control that is not extensive enough to constitute a planned economy. In the real world, there is no nation that has a pure market economy. some Market economy countries include China or the United states.

Although no country has ever had within its border an economy in which all markets were absolutely free, the term typically is not used in an absolute sense. Many states which are said to have a market economy have a high level of market freedom, even if it is less than some parts of the population would prefer. Thus, almost all economies in the world today are mixed economies which combine varying degrees of free market and command economy traits. For example, in the United States there are more market economy traits than in Western European countries.

CAPITALISM AND MIXED ECONOMY

Capitalism generally refers to an economic system in which the means of production are all or mostly privately owned and operated for profit, and in which investments, distribution, income, production and pricing of goods and services are determined through the operation of a market economy. It is usually considered to involve the right of individuals and groups of individuals acting as "legal persons" or corporations to trade capital goods, labor, land and money. Capitalism has been dominant in the Western world since the end of feudalism, but some feel that the term "mixed economies" more precisely describes most contemporary economies, due to their containing both private-owned and state-owned enterprises, combining elements of capitalism and socialism, or mixing the characteristics of market economies and planned economies.

FREE MARKET

It is generally understood that the necessary components for the functioning of an idealized free market include the complete absence of government regulation, subsidies, artificial price pressures and government-granted monopolies (usually classified as coercive monopoly by free market advocates) and no taxes or tariffs other than what is necessary for the government to provide protection from coercion and theft and maintaining peace, and property rights.

MARKET MECHANISMS

Friedrich Hayek and Milton Friedman stated that economic freedom is a necessary condition for the creation and sustainability of civil and political freedoms. They believed that this economic freedom can only be achieved in a market-oriented economy, specifically a free market economy. They do believe, however, that sufficient economic freedom can be achieved in economies with functioning markets through price mechanisms and private property rights. They believe that the more economic freedom that is available the more civil and political freedoms a society will enjoy.

Friedman states: "economic freedom is simply a requisite for political freedom. By enabling people to cooperate with one another without coercion or central direction it reduces the area over which political power is exercised."

Studies by the Canadian free market-oriented Fraser Institute, the American free market-oriented Heritage Foundation, and the Wall Street Journal state that there is a relationship between economic freedom and political and civil freedoms to the extent claimed by Friedrich von Hayek. They agree with Hayek that those countries which restrict economic freedom ultimately restrict civil and political freedoms.

DECISION MAKING

Generally market economies are bottom-up in decision-making as consumers convey information to producers through prices paid in market transactions. All states today have some form of control over the market that removes the free and unrestricted direction of resources from consumers and prices such as tariffs and corporate subsidies. Milton Friedman and many other microeconomists believe that these forms of intervention provide incentives for resources to be misused and wasted, producing products society may not value as much as a product that is valued as a result of these restrictions.

However, the term "market economy" is not exclusive to traditional capitalist ownership where a corporation hires workers as a labour commodity to produce material wealth and boost shareholder profits. Market mechanisms have been utilized in a handful of socialist states, such as Yugoslavia and even Cuba to a very limited extent. China's government is still run by the Communist Party, but its economy involves considerable private enterprise and market forces in both private and public sectors. It is also possible to envision an economic system based on cooperative, democratic worker ownership and market allocation of final goods and services; the labour-managed market economy is one of several proposed forms of market socialism.

GOVERNMENT INTERVENTION

It is possible according to some interpretations for a market economy to have government intervention in the economy. The key difference between market economies and planned economies lies not with the degree of government influence but whether that influence is used to coercively preclude private decision. In a market economy, if the government wants more steel, it collects taxes and then buys the steel at market prices. In a planned economy, a government which wants more steel simply orders it to be produced and sets the price by decree.

The proper role for government in a market economy remains controversial. Most supporters of a market economy believe that government has a legitimate role in defining and enforcing the basic rules of the market. Different perspectives exist as to how strong a role the government should have in both guiding the economy and addressing the inequalities the market produces. For example, there is no universal agreement on issues such as central banking, and welfare. However, most economists oppose protectionist tariffs.

7.2.4 MAIN FORMS OF MARKETS:

On the basis of competition, market may be divided into the following forms :

- Perfectly competitive market
- Monopoly
- Imperfect competion
- Duopoly
- Oligopoly.

PERFECTLY COMPETITIVE MARKET:

You need one quire of paper to write questions of economics. There are many shops selling paper in your city. They all sell one brand of paper. You may buy paper from any shopkeeper, you pay Re. 1 per quire of paper. If any shopkeeper charges Rs. 1.05 per quire of paper, no student will buy paper from him. If another shopkeeper charges Rs. 0.98 per quire of paper in the market and all shopkeepers will charge that very price. There will be such a perfect competition among the buyers and sellers of the paper that no shopkeeper will be able to charge more than the prevailing price as determined by the perfect competition.

Thus, perfect competition is that situation of the market wherein there are large number of buyers and sellers of a homogeneous product and the price of such a product is determined by the market force, i.e. the industry. All firms sells the precut at this price. In other words, there prevails only price of a product in the market.

In the words of Leftwith, “Perfect Competition is a market in which there are many firms selling identical products with no firm large enough relative to the entire market to be able to influence market price.”

In the words of Ferguson, “Perfect competition prevails when the demand for the output of each producer is perfectly elastic.”

According to Mrs. Joan Robbin, “Perfect competition prevails when the demand for the output of each producer is perfectly elastic.”

In the words of Prof. Lim Chong Yah, “Perfect competition is a market situation where there is a large number of sellers and buyers, a homogeneous product, free entry of firms into the industry, perfect knowledge among buyers and sellers of existing market conditions and free mobility of factors of production among alternative uses.”

FEATURES OF PERFECT COMPETITION

Main assumptions or features of perfect competition are as under:

Large number but small size of Buyers and Sellers: The number of buyers and sellers of a commodity is very large under perfect competition, but each buyer and each seller is so small in comparison with the entire market of the product, that by changing the quantity of the product bought and sold by him, he cannot influence its price. A seller sells so small a quantity of the total supply that if he withdraws from the market, the total supply will not fall to such an extent as to raise the price or if a seller suppliers the entire stock of the product produced by him, the total supply will not rise to such an extent as to lower the price. It means, under perfect competition no firm can influence the market price by changing the quantity of its product. Likewise, an individual buyer buys such a small quantity of the total supply of the product that he cannot influence its price by changing his demand.

Homogenous Products: The other assumption of perfect competition is that all sellers sell homogeneous units of a given product. The units sold by Ram & Co. are exactly similar to the units sold another seller. Because of large number of sellers and homogenous products, a firm operating under the condition of perfect competition is merely a price taker and not a price maker.

Perfect Knowledge: Buyers and sellers are fully aware of the price of the product prevailing in the market. Buyers have perfect knowledge about the price being charged by the sellers for a given product. Sellers also know well, where and from which buyer, they can change more prices. Because of this knowledge and awareness, all sellers will change one price for one product from all buyers without any distraction. There will therefore, be no uncertainly in the market.

Free Entry and Exit of Firms: Under perfect competition, in the long-run firm can enter any industry and any old firm can withdraw from any industry. There is no legal or social restriction large number of sellers. It is because of free entry of firms that their number is very large.

Perfect Mobility: Another important assumption of perfect competition is that in such a market there is perfect mobility of factors as well as goods and services. Factors of production are free to seek employment in any industry that they like. No factor of production is monopolized by anyone. Each firm can get as many factors as it needs. Goods and services can be sold at any place where they are likely to fetch good price.

Lack of Transport Costs: In a perfect competitive market cost of transport does not influence the price of the product.

Lack of Selling Costs: Under perfect competition, a seller does not spend on advertisement and publicity etc. It is so because all firms sell homogeneous product. Hence, there is no need on the part of a firm to incur selling cost.

Same Price: Under perfect competitive market, each seller charges the same price for the same product. Price is determined by the industry. All firms have to sell their products at this price. Average revenue and marginal revenue of the product are equal. Firms under perfect competition are price-taker and not price-maker.

PURE AND PERFECT COMPETITION

Economists usually distinguish between 'pure' and 'perfect' competition. The difference between the two is that of degree. The concept of pure competition has mainly propounded by Prof. Chamberlin. According to him a market having the following characteristics is called pure competitive market : (i) Large number of buyers and sellers (ii) homogeneous products (iii) Free entry and exit of firms (iv) free from checks (v) Lack of selling costs and (vi) Lack of transport costs.

In the words of Baumol, "An industry is said to be operating under conditions of pure competition when there are many firms, homogeneity of products, freedom of entry and exit, independent decision making". Thus, pure competition is a more realistic concept than perfect competition. When two conditions of perfect competition, viz, perfect knowledge and perfect mobility, are lacking but all other are fulfilled then such a market is called pure competitive market.

MONOPOLY

It is that situation of market in which there is a single seller of a product. It is explained with the help of a few examples. There is only firm dealing in the sale of cooking gas in your town. You get your electricity supply from one agency, that is, State Electricity Board; you travel by railway train owned and run by government of India. All these are examples of monopoly. This situation of market, where a single (mono) firm controls (poly) the production of a commodity is called monopoly. Hence, monopoly is a market situation in which there is only one producer of a commodity with no close substitutes.

According to Koutsoyiannis, "Monopoly is a market situation in which there is single seller, there are no close substitutes for commodity it produces, there are barriers to entry."

In the words of Prof. Foguson, “A pure monopoly exits when there is only one producer in a market. There are no direct competition.”

Mc. Connel Says, “Pure or absolute monopoly exists when a single firm is the sole producer for a product for which there are no close substitutes.”

Main features of monopoly are as follows:

One seller and Large Number of Buyers: Under monopoly there should be a single producer of the commodity. He may be a sole, proprietor or there may be a group of partners or a firm and industry. But the buyers of the product are in large number consequently, no buyer can influence the price but the seller can.

Monopoly is also an Industry: Under monopoly situation, there is only one firm and the difference between firm and industry disappears. There is no difference between the study of a firm and industry.

Restrictions on the Entry of the New Firms: Under monopoly, there are some restrictions on the entry of new firms into monopoly industry. There is no competitor of a monopoly firm. In the words of J.S. Bains, “A firms assumes monopoly situation when it has no close rival.”

No close Substitutes: The commodity produced by the firm should have no close substitute, otherwise the monopolist will not be able to determine the price of his commodity as per his discretion. According to Boulding, A pure monopoly firm is one that produces such a commodity as has no effective substitute in the production of other firms.

Price Marker: A monopolist has full control over the supply of the commodity. On the other hand, there are large number of buyers, but the demand of a single buyer constitutes only a small portion of the total market demand. Hence, the buyers have to pay the same price as fixed by the monopolist. In other words, price of the commodity is fully under the control of the monopolist. In case, the monopolist increases the supply of commodity, the prices of it will fall. If he reduces the supply, the price of it will rise. A monopolist may also indulge in price discrimination. In other words, he may change different prices of the same product from different buyers.

IMPERFECT COMPETITIVE MARKET

Imperfect competition is the real situation of the market. In practical life, perfect competition and pure monopoly are rare situations. Real markets are imperfectly competitive. They have some features of both perfect competition and monopoly. In economics, imperfect competitive market situation became a subject of study only after the year 1933, when Mrs. Joan Robinson published her book "Economics of imperfect competition in England" and Prof. Chamberling Published his book, "Theory of Monopolistic competition in America." With publication of these two books, price and equilibrium determination under imperfect competition assumed great importance.

In the words of Fairchild, "If a market is not organized, if contact if contact between the buyers and sellers is established with great difficulty and they are not in position to compare the goods and prices paid, then we face a situation of imperfect competition." Thus, imperfect competition is a wide term that includes, the following situation of market: (i) Monopolistic Competition, wherein the number of sellers is quite large; (ii) Oligopoly, wherein the sellers are few in number; (iii) Duopoly, where there are only two sellers.

MONOPOLISTIC COMPETITION

The concept of Monopolistic Competition was presented by American Economist Prof. E.H. Chamberlin in his book "Theory of Monopolistic Competition" published in 1933. It is that situation of market in which there are many sellers of a commodity, but the product of each seller differs from that or the other sellers in one respect or the other. Thus product differentiation is the hall-mark of Monopolistic Competition. This product differentiation manifests itself in several ways, for example, different brands of the product, different trade marks, difference in shape, colour and quality. It can also be in the form of difference in services and facilities offered to the consumers by the sellers.

Many examples can be cited to explain Monopolistic Competition. Firms producing variety to tooth pastes, such as Forhans, Colgate, Chibaca, Choice, Signal etc. are examples of Monopolistic Competition. In this type of market, a firm enjoys some features of monopoly and some features of competition. In this type of market, a firm enjoys some features of monopoly and some features of competition. For example, Hindustan Lever Ltd, enjoys monopoly right on the trade-mark “Lux”. No other firm in the country can christen its bathing soaps as Lux.

However they can manufacture their bathing soaps and sell the same under their own trade-mark, such as Hamam, Breeze etc. In other words, there is freedom to produce substitute of “Lux” soap. Thus, the characteristics of both monopoly and perfect competition are found in this market. Many sellers producing close substitutes is the feature of competition and difference in the products of the producers is the feat5ure of monopolistic competition.

In reality, monopolistic competition is a situation that is an between perfect-competition and monopoly. Under perfect competition number of sellers is very large, i.e. unlimited and under monopoly here is only one seller. Under monopolistic competition, number of firms or sellers is large but it is limited.

Some of the definitions of Monopolistic Competition are as under :

> According to J.S. Bains, “Monopolistic Competition is found in the industry where there is a large number of small sellers, selling differentiated but close substitute products.”
>
> In the words of Lefwithc, “Monopolistic Competition is a market situation in which there are many sellers of a particular product, but the product of each seller is in some way differentiated in the minds of consumers from the product of every other seller.

> According to Lim Chong Yah, "Monopolistic Competition is a market situation where there are many producers but each offers a slightly differentiated product."

Main assumptions of monopolistic competitions are as under:

Large number of Firms and Buyers: Under monopolistic competition there are large number of firms producting the product and also large number of buyers, as in case of perfect competition. But the size of each firm is small. It means that each firm has only limited control over the market. Each firm can decide its own price policy independently.

Product Differentition: Product differentiation is a salient feature of monopolistic competition. Product differentiation refers to that situation wherein the buyers can distinguish one product from the other. Number of firms if large but their products differ in one respect or the other. However their products are close substitutes. Product differentiation arises due to the characteristics of the products, e.g. shape, colour, durability, quality, size, etc. There are many instances of product differentiation, such as Lux, Godrej, Hamam, Rexona etc. among bathing soaps. Similarly; Cibaca, Colgate, Choice, Prudent etc. among the toothpastes.

Freedom of Entry and Exit of Firms: As in case of perfect competition, firms are free to enter and leave the industry under monopolistic competition, but this freedom of entry into industry is not absolute on the part of new firms. They are to face so many difficulties. Production of some firms are legally patented. New firm cannot produced them. For instance, no other firm can produce Campa-Cola.

Selling Cost: Each firm spends a lot of funds on advertisement and publicity of its products. With a view to selling more and more units of the product it gives wide publicity of its products in newspapers, cinemas, journals, radio, T.V. etc. The expenses so incurred are called selling costs.

Price Policy: Each firm has its own price policy. Average and marginal revenue curves of a firm under monopolistic competition slope downwards as in case of monopoly. It means if a firm wants to price per unit. Aim of the firm is to get maximum profit, both in the short and long-run.

Less Mobility: Under monopolistic competition, neither the factors of production nor goods and services are perfectly mobile. It is so because marginal productivity of each factor is not equal.

Imperfect Knowledge: Buyers and sellers are ignorant about the price of the product. It is so because it is not possible to compare the produces of different firm due to product differentiation. Buyers develop a liking for a particular brand of product produced by a product differentiation. Buyers its price is a little higher than the price of the product of other firms. Similarly, owners of fact services are also ignorant about the price of their service being paid by other firms.

Non Price Competition: Another feature of monopolistic competition is that, different firms compete with one another without changing the price of the product. Take for instance, firms producing washing powder, "Suft' and Farishta' the other company may give a free gift as one glass tumbler. Likewise, with one pack of 'Farista', the other company may give a stainless steel spoon as a free gift. In this way, firms compete with one another in offering free gifts and other services to attract as a free gift. In this way, firms comet with one another in offering free gifts and other services to attract more and more customers. Such a competition is called non-price competition.

MAIN TYPES OF IMPERFECT COMPETITION:

Two main types of Imperfect Competition are:

DUOPOLY: It is that situation of market in which there are only two producers. While fixing the price, firm takes into consideration the price charged by the other firm producing similar product. If there is no difference between the products of the two firms, then fixation of prices of their products will be governed by firms' mutual relation. If both the firms enter into some sort of agreement then they can fix high price like Monopolist. On the country, if they do not arrive at any agreement, then they will comet with one another as under perfect competition and both will get minimum price. If there exists product differentiation in their products, them the firm having a quality product will be able to charge higher price.

OLIGOPOLY: An oligopoly is a market in which there are few producers of a product. For instance, there are only five firms in India, manufacturing Cars. Hence car-market will be called oligopoly. In this case also each firm has to take into account the price being charged by the other. To that extent, firms are inter dependent. If they enter into some sort of agreement among themselves, then they suffer losses. There is no set principle to determine price under oligopoly.

Main Features of oligopolstic market are as follows:

Few Sellers: In case of oligopolstic, the number of sellers is very small but the buyers are very large. The number of sellers being small, each seller has a control over a very large part of the total supply. Hence, he can influence the market price.

Inter-dependence: Each firms sells a substantial of production of a commodity. Therefore the decision that the firm takes with regard to the price and supply of the good has its influence on similar decision taken by other firms. If one firm reduces the price, the other firms also bring down their price. On the other hand, if one firm raises the price, it is quite possible firms may not like to raise their price. Thus, the sales of the former will be adversely affected. Each firm, therefore, has to take into account the reaction of the other firms while taking any decision regarding price-fixation. It means that there exists an inter dependence among the firms.

Selling Costs: Each firm under oligopoly incurs lot of expenditure on different modes of advertisement in order to push the sale of its products. To excel its competitors in sales, a firm would rather like to spend lavishly on advertisement and non price competition than indulging in cutting down the price. Consequently, selling costs of the firms rise very much without any corresponding advantage to the society.

Group Behaviour: Under oligopoly there is inter dependence as well as competition among the firms. Each firm intends to maximize its profit. To achieve this objective either the firms decide independently the price and output of their product or they enter into a mutual agreement, as a group, in this respect.

Uncertainty of Demand Curve: Demand curve is uncertain under oligopoly. Demand curve is perfectly elastic under perfect competition. It means a firm can sell as much of the commodity at the prevailing price as it desires. Selling more or less of the commodity will have no effect on the demand curve. Demand curve of the firm is also certain. Demand curve of monopolist is also certain because he has no completion. In case of monopolistic competition also a firm's demand curve is certain. However, demand curve of a firm operating under oligopoly is uncertain, it is so because the changes effected by it in priced are very much influenced by similar changes made by other firms. It cannot therefore be said with any amount of certainty, that with fall in price demand must increase and with rise in pride demand must decrease.

Difference between Monopolistic Competition and Oligopoly

Main differences between monopolistic competition and oligopoly are as under :

Basic of difference	Monopolistic Competition	Obligopoly
1. Number of sellers	Large	Few sellers

2. Demand curve	Downward sloping curve	Kinky demand curve
3. Price determination	Price can be fixed	Price is influenced by other firms
4. Relation of firms	Firms are almost independent	Firms are largely inter dependent
5. Product differentiation	Product differentiation is found	May or may not be any product differentiation.

7.3 SUMMARY:

- In economics, the term marked is used in a special sense. In the ordinary language the term market means a particular place where buyers and sellers meet each other and buy and sell the commodities. However, in Economics, the terms market does not mean any particular place but it means the entire area where buyers and sellers of a commodity are in such close contact with each other that price of the same commodity tends to be one throughout that area. Moreover, it is not necessary that buyers and sellers may contact each other face to face they can establish this contact by different modes of communication, namely, telephone telegram, fax, E-mail, letters or through their agents.
- In the words of Cournot, “Economists understand by the term market not any particular market place in which things are bought and sold but the whole of any region in which buyers and sellers are in such free intercourse with each other that the price of same good tends to equality easily and quickly.
- In the words of Prof. Chapman, “The term market refers not necessarily to a place but always to a commodity and the buyers and the sellers who are in direct competition with one another.”
- Both buyers and sellers are needed in the market. If one of the two does not exist in any region it will not be called a market. It is not necessary that buyers and sellers be physically present to bargain or transact

business. They may establish contact among themselves on phone or other available mode of communication.

- In Economics, every commodity has its own market e.g. what market sugar market etc. As many commodities, so many markets.
- A market allows buyers and sellers to discover information and carry out a voluntary exchange of goods or services. This is commonly done through trade. These trades may be handled a variety of ways, but in small market environments, buyers and sellers typically deal in currency, and goods. In everyday usage, the word "market" may also refer to the location where goods are traded, or in other words, the marketplace.
- A market economy or free market economy is an economic system in which the production and distribution of goods and services take place through the mechanism of free markets guided by a free price system. In a market economy, businesses and consumers decide of their own volition what they will purchase and produce, and in which decisions about the allocation of those resources are without government intervention.
- Capitalism generally refers to an economic system in which the means of production are all or mostly privately owned and operated for profit, and in which investments, distribution, income, production and pricing of goods and services are determined through the operation of a market economy. It is usually considered to involve the right of individuals and groups of individuals acting as "legal persons" or corporations to trade capital goods, labor, land and money.
- It is generally understood that the necessary components for the functioning of an idealized free market include the complete absence of government regulation, subsidies, artificial price pressures and government-granted monopolies (usually classified as coercive monopoly by free market advocates) and no taxes or tariffs other than what is necessary for the government to provide protection from coercion and theft and maintaining peace, and property rights.

7.4 KEY WORDS:

Market: In Economics, the terms market does not mean any particular place but it means the entire area where buyers and sellers of a commodity are in such close contact with each other that price of the same commodity tends to be one throughout that area. Moreover, it is not necessary that buyers and sellers may contact each other face to face they can establish this contact by different modes of communication, namely, telephone telegram, fax, E-mail, letters or through their agents.

Market Defined: "Economists understand by the term market not any particular market place in which things are bought and sold but the whole of any region in which buyers and sellers are in such free intercourse with each other that the price of same good tends to equality easily and quickly.

Market Defined: "The term market refers not necessarily to a place but always to a commodity and the buyers and the sellers who are in direct competition with one another."

Market Players: Both buyers and sellers are needed in the market. If one of the two does not exist in any region it will not be called a market. It is not necessary that buyers and sellers be physically present to bargain or transact business. They may establish contact among themselves on phone or other available mode of communication. A market allows buyers and sellers to discover information and carry out a voluntary exchange of goods or services. This is commonly done through trade. These trades may be handled a variety of ways, but in small market environments, buyers and sellers typically deal in currency, and goods. In everyday usage, the word "market" may also refer to the location where goods are traded, or in other words, the marketplace.

Market economy: A market economy or free market economy is an economic system in which the production and distribution of goods and services take place through the mechanism of free markets guided by a free price system. In a market economy, businesses and consumers decide of their own volition what they will purchase and produce, and in which decisions about the allocation of those resources are without government intervention.

Capitalism: Capitalism generally refers to an economic system in which the means of production are all or mostly privately owned and operated for profit, and in which investments, distribution, income, production and pricing of goods and services are determined through the operation of a market economy. It is usually considered to involve the right of individuals and groups of individuals acting as "legal persons" or corporations to trade capital goods, labor, land and money.

Free market: It is generally understood that the necessary components for the functioning of an idealized free market include the complete absence of government regulation, subsidies, artificial price pressures and government-granted monopolies (usually classified as coercive monopoly by free market advocates) and no taxes or tariffs other than what is necessary for the government to provide protection from coercion and theft and maintaining peace, and property rights.

7.5 SELF-ASSESSMENT QUESTIONS (SAQs):

1. Write a detailed note on markets.
2. Discuss the concept of market economy in detail.
3. What are the main forms of markets? Discuss with examples.

7.6 REFERENCES / SUGGESTED READING:

- **Indian Economy (its Development Experience)** by Misra; Puri;
- **Development Economics** by Bharadwaj, Krishna; Kaviraj, Sudipta;
- **India's Economic Policy** by Jalan;
- **Indian Planning at the Crossroads** by Datta, Bhabatosh;
- **Indian Economics** by Myneni, Dr.; Publisher: Allahabad Law Agency (2002)
- **Indian Economics (a Development Oriented Study)** by Dewett, K.K.; Publisher: S.Chand & Company (2002)

Bachelor of Mass Communication (1st year)

(BMC-107) ECONOMICS Block: E Unit: I Lesson: 8

DEMAND AND SUPPLY

Writer: **Ms. Veena Sharma**

LESSON STRUCTURE:

Demand is an economic principle that describes a consumer's desire and willingness to pay a price for a specific good or service. Holding all other factors constant, the price of a good or service increases as its demand increases and vice versa.

Think of demand as your willingness to go out and buy a certain product. For example, market demand is the total of what everybody in the market wants.

Businesses often spend a considerable amount of money in order to determine the amount of demand that the public has for its products and services. Incorrect estimations will either result in money left on the table if it's underestimated or losses if it's overestimated.

In this lesson we shall discus about the various introductory aspects of demand and supply with a special focus on demand. The lesson structure shall be as follows:

8.0 OBJECTIVES:

In this lesson we shall try to cover some introductory aspects of demand.

The objectives of this lesson are:

- *To Get an Introduction to Demand*
- *To Understand some Definitions of Demand*
- *To Know About the Law of Demand*
- *To Differentiate Demand and Supply*

8.1 INTRODUCTION:

The term 'demand' is used in economics in a special sense. Ordinarily, we use the terms 'desire: 'want' and 'demand; to convey the same meaning. But in Economics all the three terms have separate meanings. Desire is just a wishful thinking. This desire will become demand when you are ready to buy.

Demand therefore is expressed with reference to a price and a given time. It indicates how much quantity of a commodity will be demanded at its different prices. It may be pointed out that economists distinguish between demand and quantity demanded. Demand is the quantities that buyers are willing are able." to buy at alternative prices during a given period of time. Whereas the quantity demanded is it specific amount that buyers are willing and able to buy at one price.

8.2 PRESENTATION OF CONTENT:

The content of this lesson shall be presented as follows:

- *Introduction to Demand*
- *Definitions of Demand*
- *Law of Demand*
- *Demand and Supply*

8.2.1 DEMAND- AN INTRODUCTION:

One of the most important building blocks of economic analysis is the concept of demand. When economists refer to demand, they usually have in mind not just a single quantity demanded, but what is called a demand curve. A demand curve traces the quantity of a good or service that is demanded at successively different prices.

The most famous law in economics, and the one that economists are most sure of, is the law of demand. On this law is built almost the whole edifice of economics. The law of demand states that when the price of a good rises, the amount demanded falls, and when the price falls, the amount demanded rises.

Some of the modern evidence for the law of demand is from econometric studies which show that, all other things being equal, when the price of a good rises, the amount of it demanded decreases. How do we know that there are no instances in which the amount demanded rises and the price rises? A few instances have been cited, but they almost always have an explanation that takes into account something other than price. Nobel Laureate George Stigler responded years ago that if any economist found a true counterexample, he would be "assured of immortality, professionally speaking, and rapid promotion." And because, wrote Stigler, most economists would like either reward, the fact that no one has come up with an exception to the law of demand shows how rare the exceptions must be. But the reality is that if an economist reported an instance in which consumption of a good rose as its price rose, other economists would assume that some factor other than price caused the increase in demand.

The main reason economists believe so strongly in the law of demand is that it is so plausible, even to noneconomists. Indeed, the law of demand is ingrained in our way of thinking about everyday things. Shoppers buy more strawberries when they are in season and the price is low. This is evidence for the law of demand: only at the lower, in-season price are consumers willing to buy the higher amount available. Similarly, when people learn that frost will strike orange groves in Florida, they know that the price of orange juice will rise.

The price rises in order to reduce the amount demanded to the smaller amount available because of the frost. This is the law of demand. We see the same point every day in countless ways. No one thinks, for example, that the way to sell a house that has been languishing on the market is to raise the asking price.

Again, this shows an implicit awareness of the law of demand: the number of potential buyers for any given house varies inversely with the asking price.

Indeed, the law of demand is so ingrained in our way of thinking that it is even part of our language. Think of what we mean by the term on sale. We do not mean that the seller raised the price. We mean that he or she lowered it. The seller did so in order to increase the amount of goods demanded. Again, the law of demand.

Economists, as is their wont, have struggled to think of exceptions to the law of demand. Marketers have found them. One of the best examples was a new car wax. Economist Thomas Nagle points out that when one particular car wax was introduced, it faced strong resistance until its price was raised from $.69 to $1.69. The reason, according to Nagle, was that buyers could not judge the wax's quality before purchasing it. Because the quality of this particular product was so important—a bad product could ruin a car's finish—consumers "played it safe by avoiding cheap products that they believed were more likely to be inferior."

Many noneconomists are skeptical of the law of demand. A standard example they give of a good whose quantity demanded will not fall when the price increases is water. How, they ask, can people reduce their use of water? But those who come up with that example think of drinking water, or using it in a household, as the only possible uses. Even for such uses, there is room to reduce consumption when the price of water rises. Households can do larger loads of laundry, or shower instead of bathe, for example. The main users of water, however, are agriculture and industry. Farmers and manufacturers can substantially alter the amount of water used in production. Farmers, for example, can do so by changing crops or by changing irrigation methods for given crops.

It is not just price that affects the quantity demanded. Income affects it too. As real income rises, people buy more of some goods (which economists call normal goods) and less of what are called inferior goods. Urban mass transit and railroad transportation are classic examples of inferior goods. That is why the usage of both of these modes of travel declined so dramatically as postwar incomes were rising and more people could afford automobiles. Environmental quality is a normal good, which is a major reason that Americans have become more concerned about the environment in recent decades.

Another influence on demand is the price of substitutes. When the price of Toyota Tercels rises, all else being equal, demand for Tercels falls and demand for Nissan Sentras, a substitute, rises. Also important is the price of complements, or goods that are used together. When the price of gasoline rises, the demand for cars falls.

8.2.2 DEFINITIONS OF DEMAND:

In the words of Ferguson, “Demand refers to the quantities of a commodity that the consumers are able and willing to buy at each possible price during a given period of time, other things being equal,

B.R. Schiller is of the view that, “Demand is the ability and willingness to buy specific quantity of a good at alternative price in a given time period.

An individual’s demand for a commodity may be defined as the quantities of that commodity that of individual is willing, able and ready to buy at each possible price during a given time period. While the market demand for a commodity is the sum is the sum of quantities demanded by individuals at each possible price.

It is apparent from the above definitions of demand that there are five constituents of demand: (i) Desire for a thing (ii) Money to satisfy the desire (iii) Willingness to spend the money (iv) Relationship of the price a quantity of the commodity demanded and (v) Relationship of time and the quantity of the commodity demanded.

8.2.3 LAW OF DEMAND:

Law of demand states, that other things being equal, the demand for a good extends with a fall in price and Contracts with a rise in price. There is an inverse relationship between price of the commodity and it; quantity demanded.

According to Samuelson, “Law of Demand states that people will buy more at lower, prices and buy less at higher prices, ceteris paribus, or other things remaining the same.”

The Law of demand states that amount demanded increases with a fall in price and diminishes when price increases, other things being equal, says Sarshall.

Explanation of Law of Demand

According to law of demand there is an inverse relationship between price and demand for a commodity. However, this relation is not proportional, meaning thereby that it is not necessary that when price falls by one-half demand for goods will be doubled. Law of demand simply indicates the direction of change in demand as a result of change in price.

Income Effect: Income effect is the effect that a change in a person's real income caused by change in the price of a commodity has on the quantify of that commodity. Real income is that income which is measured in terms b 1 goods and services that a consumer can buy with his given money income. When the relative price of a good decreases, less of a person's income would need to be spent to purchase exactly the same amount of the good; therefore it is possible to purchase more because of this risen purchasing power or real income.

Suppose your income is Rs. 15.00 per day. You want to buy apples whose is Rs. 5.00 per kg it means with your fixed income of Rs. 15.00 you can buy three kgs of apples. In case, the price of apples comes down to Rs. 3 per kg then after buying 3 kgs of apples you will be left with Rs. 6. It means your real income (in terms of apples) increases. This increased real income (Rs. 6 saved on apples) may be spent on buying two more kgs i.e. 5 kgs of apples. Thus fall in price causes increase in real income and so extension in demand. On the contrary, rise in price causes decrease in real income and so contraction in demand.

Substitution Effect: The substitution effect is the effect that a change in relative prices of substitute goods has on the quantity demanded. Substitutes are goods that can be used in place of each other. For example, tea and coffee, cocacola and pepsi cola substitutes. In order to get maximum satisfaction with a fixed income, a consumer will substitute lower priced goods for higher priced one. In other words, when the price of one good changes relative to another, the relatively less expensive good is substituted for the more expensive one. The demand for the former, therefore, extends. On the contrary, when the price of one of the substitutes increases, its demand in comparison to the other good contracts due to substitution effect.

Tea and coffee are substitutes of each other. If price of tea goes down, the consumers may substitute tea for coffee, although price of coffee remains the same. Thus demand for tea extends due to its becoming less expensive because of it fall in its price. Contrary to it, if the price of tea goes up the consumer will substitute relatively less expensive coffee for tea which is now relatively more expensive. Consequently the demand for tea contracts. To get maximum satisfaction, a consumer will buy more units of that commodity whose price in relation to its substitute, has gone down. In other words the consumer substitutes cheaper goods for the good whose price has not altered. The demand for the former, therefore, extends. On the contrary, when price of one of the substitutes increases, its demand vis-à-vis the other good, contracts due to substitution effect.

Modern view is that change in the quantity demanded of a commodity due to change in its price is the sum of income effect and substation effect.

Different Uses: Some goods have more than one use. Milk for example may be used for drinking and for making curd and cheese. At its very high price, an individual consumer may buy milk only for drinking; but at the reduced price more milk may be bought for making curd anti cheese as well. Thus the demand for commodities with alternative uses tends to extend consequent upon the fall in their prices.

Size of Consumer Group: When the price of a commodity fails, then many consumers, who are unable to buy that commodity at its previous price, come forward to buy it. Consequently, the total number of consumers or total market demand goes up. For example, when the price of apple's is Rs. 30 per kg then a handful of consumers buy it. The demand is limited. The price comes down to Rs. 15 per kg then many consumers are willing to be purchase apples at this new favourable price. Consequently, the total demand for apples goes up. On the contrary, it the price of apples rises to Rs.s 40 per kg many consumers will withdraw from the market and in this way total demand for apples will go down.

Change in price causes change in the size of consumer-group affecting change in total demand.

There are some exceptions to the law of demand. It means there are some commodities whose demand extends when price rises and contracts when price falls demand curve of such commodities slopes upwards from left to right as shown by curve DD in fig. 3 it is called positive slope.

Ignorance: Many a time, consumers out of sheer ignorance or poor judgment consider a commodity to be of low quality if its price is low and of high quality if its price is high. Benham gave an interesting example to substantiate this point. Before World War II and illustrated book was published. Le UK and priced at – IDs 6d per copy. But it could not attract many buyers. Another edition of the same was published after World War II and this time it was priced $ 3 and ten shillings. The book was sold i.e. hot cakes. High price of the book enhanced its quality in the minds of the people and so also its demand.

Determinants of Demand or Demand Function: Demand of a consumer for a particular commodity at any given time is determined by the following factors:

- Price of the commodity (Px)
- Prices of the related goods (Pr)
- Income of the consumer (Y)
- Tastes and preferences of the consumer (T)
- Expectation of price change of the commodity (E)

In addition to the above, the market demand is also determined by the following factors:

- Size and composition of population
- Distribution of Income

Various determinants of the market demand for a commodity are discussed are discussed as under:

Price of Commodity: Ordinarily, the demand for a good is governed by its price. Other determinants remaining constant, or ceteris paribus, changes in the price of a good causes an inverse change in its demand as well. Normally, rise in price is accompanied by contraction in demand and fall in price is accompanied by extension of demand. This relationship between price and demand is called law of demand.

Prices of Related Goods: Demand for a commodity depends not only on its own price, but also upon the prices of related goods. Related goods are broadly classified as substitute goods and complementary goods.

Substitute goods: Substitute goods are those goods which can be substituted for each other, such as tea and coffee, or limca and coke. Demand for coke is related to the price of limca. If price of limca is raised people may shift to coke, and vice-versa. In other words, in case of substitute the quantity demanded of one good is positively related to the price of the other good. If the price of one good for example pepsi increases the demand for its substitute coke will also increase. Contrary to it, if the price of pepsi decreases, the demand for its substitute coke will also decrease.

X Fig. 5 illustrates this relationship. Fig. 5 shows that following a rise in the price of pepsi from OP to OP1, demand for coke increase from OQ to OQ1.

Complementary Goods:

Complementary Goods are those goods which complete the demand for each other. Such as car and petrol or pen and ink. There is an inverse or negative relationship between the demand for first good and price of the second which happens to be complementary to the first. Thus, following increase in the price of pens, demand for ink is likely to go down (of course along with the demand for pens). Contrary to it, if the price for pens decreases the demand for it complementary goods increases. In other words, if two commodities are complements and the price of one decrease, the demand for the other commodity will decline. Contrary to it, if the price of one decreases, the demand for the complement commodity will increase.

Income the Consumer:

Experience shows that numerically there is positive relationship between income of the consumer and his demand for a good. Inother words, an increase in come would cause an increase in demand and economists therefore call such goods as normal goods. Normal good is a good for which an increase in consumer's income results in a decrease in its demand. Thus relationship between income of the consumer and demand for a commodity is discussed with reference to :

(i) Normal goods,

(ii) Inferior goods

(iii) Necessaries of life and inexpensive goods.

(iv) Normal Goods.

Normal goods, (ii) Inferior goods the demand for which tends to increase in following increase in consumer's income, and tends to decrease following decreases in his income.

Inferior Goods

Inferior goods are those goods the demand for which tends to decline following a rise in consumer's income, and tends to increase following a fall in his income. So, there is an inverse relationship between income of the consumer and demand for a commodity.

Necessaries of life and inexpensive goods: One may also study the relationship between income of the consumer and his demand for the necessaries of life and inexpensive goods. In case of such goods, as salt and match box, for example, the demand remains almost constant irrespective of the level of income, thought it may slightly stretch in the initial stages of a rise in consumers income.

Taste and Preference: The demand for any goods and service depends on individual's tastes and preferences. These terms are used in broad sense. They include fashion, habit, custom etc. Tastes and preferences of the consumers are influenced by advertisement, change in fashion, climate, new invention etc. Other things being equal, demand for those goods increase for which consumers develop tastes 0-01 preferences. Contrary to it, an unfavourable change in consumer preferences and tastes for a product cause demand to decrease.

Expectations: Change in consumer's expectations about such things as product prices, product availability and future income is another determinant of demand. If the consumer expects price will rise in future, he will buy more goods in the present even when price is high. In case, he expects that prices will fall in future, he will either buy less in the present will postpone his demand. Thus, future rise or fall in income has also its effect on the present demand. There is generally a direct relationship between the expectation of rise in income and the demand for a commodity. Expectation of future rise income leads to increase in demand and feat of future fall in income leads to decrease in demand.

Size and Composition of Population: Market demand is influenced by change in size and composition of population. Increase in population leads to more demand for all types of goods decrease in population means less demand for them. Composition of population also effects its demand. Composition refers to the number of children, adults, males, females, when number of females exceeds that of males, then there will be demand for goods required by women folk.

Distribution of Income: Market demand is influenced by the distribution of income, society. If there is unequal distribution of income, in a country, there will be more demand for goods like colour television, automatic washing machine, video cameras etc. On the other hand, if the income is evenly distributed, there will be less demand for luxury goods and more demand for necessaries and comforts.

Change in Quantity demanded and Change in Demand OR Movement Along Demand Curve and Shift of the Demand Curve:

Economists usually mean something different when they talk about a “change in the quantity demanded” then when they talk about “change in demand”. A change in quantity demanded shows the effect of a change in the price of the commodity on its demand while other determinants of demand like income, tastes and prices of related goods remain constant. Since the quantity demanded at a given price is shown by a point on demand curve, change in quantity demanded is reflected in a “movement along demand curve”.

A change in “demand” on the other hahd, is not caused by the change in the price of that good. It shows the effect of change in income, taste, price of related goods etc. on the demand of a consumer for a commodity. A change in demand is reflected in a shift in the curve demand curve to the left or to the right. The distinction between two kinds of demand changes is very important. Movement along the demand curve represents consumer adjustment to changes in the market price. Shift in demand by contrast represents adjustment to outside factors (income, taste, and price of related goods) and ads in turn to change in the equilibrium price and quantity.

Change in quantity demanded or Movement Along the Demand Curve:

Other things remaining the same when the quantity demanded changes consequent upon the change in price only, then this change is shown by different points along the same demand curve. Fall in price is followed by extension of demand and rise in price is followed by contraction of demand. In short, movements along a demand curve are in response to price changes for that good. Such movements assumed that determinants of demand are unchanged. Movement along a given demand curve in response to price changes of that good are reflected by changes in quantity demanded. In short, change in price along change in Quantity Demanded Movement along the Demand Curve.

8.2.4 DEMAND AND SUPPLY:

In economics, supply and demand describes market relations between prospective sellers and buyers of a good. The supply and demand model determines price and quantity sold in the market. The model is fundamental in microeconomic analysis of buyers and sellers and of their interactions in a market. It is used as a point of departure for other economic models and theories. The model predicts that in a competitive market, price will function to equalize the quantity demanded by consumers and the quantity supplied by producers, resulting in an economic equilibrium of price and quantity. The model incorporates other factors changing such equilibrium as reflected in a shift of demand or supply.

The intersection of supply and demand curves determines equilibrium price (P0) and quantity (Q0).Strictly considered, the model applies to a type of market called perfect competition in which no single buyer or seller has much effect on prices, and prices are known. The quantity of a product supplied by the producer and the quantity demanded by the consumer are dependent on the market price of the product. The law of supply states that quantity supplied is related to price. It is often depicted as directly proportional to price: the higher the price of the product, the more the producer will supply, ceteris paribus. The law of demand is normally depicted as an inverse relation of quantity demanded and price: the higher the price of the product, the less the consumer will demand, cet. par. "Cet. par." is added to isolate the effect of price. Everything else that could affect supply or demand except price is held constant. The respective relations are called the 'supply curve' and 'demand curve', or 'supply' and 'demand' for short.

The laws of supply and demand state that the equilibrium market price and quantity of a commodity is at the intersection of consumer demand and producer supply. Here, quantity supplied equals quantity demanded (as in the enlargeable Figure), that is, equilibrium. Equilibrium implies that price and quantity will remain there if it begins there. If the price for a good is below equilibrium, consumers demand more of the good than producers are prepared to supply. This defines a shortage of the good. A shortage results in the price being bid up. Producers will increase the price until it reaches equilibrium. If the price for a good is above equilibrium, there is a surplus of the good. Producers are motivated to eliminate the surplus by lowering the price. The price falls until it reaches equilibrium.

Supply schedule

The supply schedule is the relationship between the quantity of goods supplied by the producers of a good and the current market price. It is graphically represented by the supply curve. It is commonly represented as directly proportional to price. The positive slope in short-run analysis can reflect the law of diminishing marginal returns, which states that beyond some level of output, additional units of output require larger doses of the variable input. In the long-run (such that plant size or number of firms is variable), a positively-sloped supply curve can reflect diseconomies of scale or fixity of specialized resources (such as farm land or skilled labor).

For a given firm in a perfectly competitive industry, if it is more profitable to produce at all, profit is maximized by producing to where price is equal to the producer's marginal cost curve. Thus, the supply curve for the entire market can be expressed as the sum of the marginal cost curves of the individual producers.

Occasionally, supply curves do slope upwards. A well known example is the backward bending supply curve of labour. Generally, as a worker's wage increases, he is willing to supply a greater amount of labor (working more hours), since the higher wage increases the marginal utility of working (and increases the opportunity cost of not working). But when the wage reaches an extremely high amount, the laborer may experience the law of diminishing marginal utility in relation to his salary.

The large amount of money he is making will make further money of little value to him. Thus, he will work less and less as the wage increases, choosing instead to spend his time in leisure. The backwards-bending supply curve has also been observed in non-labor markets, including the market for oil: after the skyrocketing price of oil caused by the 1973 oil crisis, many oil-exporting countries decreased their production of oil.

The supply curve for public utility production companies is nontraditional. A large portion of their total costs are in the form of fixed costs. The marginal cost (supply curve) for these firms is often depicted as a constant.

Another postulated variant of a supply curve is that for child labor. Supply will increase as wages increase, but at a certain point a child's parents will pull the child from the child labor force due to cultural pressures and a desire to concentrate on education. The supply will not increase as the wage increases, up to a point where the wage is high enough to offset these concerns. For a normal demand curve, this can result in two stable equilibrium points - a high wage and a low wage equilibrium point.

Demand schedule

The demand schedule, depicted graphically as the demand curve, represents the amount of goods that buyers are willing and able to purchase at various prices, assuming all other non-price factors remain the same. The demand curve is almost always represented as downwards-sloping, meaning that as price decreases, consumers will buy more of the good.

Just as the supply curves reflect marginal cost curves, demand curves can be described as marginal utility curves.

The main determinants of individual demand are: the price of the good, level of income, personal tastes, the population (number of people), the government policies, the price of substitute goods, and the price of complementary goods.

The shape of the aggregate demand curve can be convex or concave, possibly depending on income distribution.

As described above, the demand curve is generally downward sloping. There may be rare examples of goods that have upward sloping demand curves. Two different hypothetical types of goods with upward-sloping demand curves are a Giffen good (a sweet inferior, but staple, good) and a Veblen good (a good made more fashionable by a higher price).

Changes in market equilibrium

Practical uses of supply and demand analysis often center on the different variables that change equilibrium price and quantity, represented as shifts in the respective curves. Comparative statics of such a shift traces the effects from the initial equilibrium to the new equilibrium.

Demand curve shifts

An out-ward or right-ward shift in demand increases both equilibrium price and quantityWhen consumers increase the quantity demanded at a given price, it is referred to as an increase in demand. Increased demand can be represented on the graph as the curve being shifted outward. At each price point, a greater quantity is demanded, as from the initial curve D1 to the new curve D2. More people wanting coffee is an example. In the diagram, this raises the equilibrium price from P1 to the higher P2. This raises the equilibrium quantity from Q1 to the higher Q2. A movement along the curve is described as a "change in the quantity demanded" to distinguish it from a "change in demand," that is, a shift of the curve. In the example above, there has been an increase in demand which has caused an increase in (equilibrium) quantity. The increase in demand could also come from changing tastes, incomes, product information, fashions, and so forth.

If the demand decreases, then the opposite happens: an inward shift of the curve. If the demand starts at D2, and decreases to D1, the price will decrease, and the quantity will decrease. This is an effect of demand changing. The quantity supplied at each price is the same as before the demand shift (at both Q1 and Q2). The equilibrium quantity, price and demand are different. At each point, a greater amount is demanded (when there is a shift from D1 to D2).

Supply curve shifts

An out-ward or right-ward shift in supply reduces equilibrium price but increases quantityWhen the suppliers' costs change for a given output, the supply curve shifts in the same direction. For example, assume that someone invents a better way of growing wheat so that the cost of wheat that can be grown for a given quantity will decrease. Otherwise stated, producers will be willing to supply more wheat at every price and this shifts the supply curve S1 outward, to S2—an increase in supply. This increase in supply causes the equilibrium price to decrease from P1 to P2. The equilibrium quantity increases from Q1 to Q2 as the quantity demanded increases at the new lower prices. In a supply curve shift, the price and the quantity move in opposite directions.

If the quantity supplied decreases at a given price, the opposite happens. If the supply curve starts at S2, and shifts inward to S1, the equilibrium price will increase, and the quantity will decrease. This is an effect of supply changing. The quantity demanded at each price is the same as before the supply shift (at both Q1 and Q2). The equilibrium quantity, price and supply changed.

When there is a change in supply or demand, there are four possible movements. The demand curve can move inward or outward. The supply curve can also move inward or outward.

Elasticity

A very important concept in understanding supply and demand theory is elasticity. In this context, it refers to how supply and demand respond to various factors. One way to define elasticity is the percentage change in one variable divided by the percentage change in another variable (known as arc elasticity, which calculates the elasticity over a range of values, in contrast with point elasticity, which uses differential calculus to determine the elasticity at a specific point). It is a measure of relative changes.

Often, it is useful to know how the quantity demanded or supplied will change when the price changes. This is known as the price elasticity of demand and the price elasticity of supply. If a monopolist decides to increase the price of their product, how will this affect their sales revenue? Will the increased unit price offset the likely decrease in sales volume? If a government imposes a tax on a good, thereby increasing the effective price, how will this affect the quantity demanded?

Another distinguishing feature of elasticity that it is more than just the slope of the function. For example, a line with a constant slope will have different elasticity at various points. Therefore, the measure of elasticity is independent of arbitrary units (such as gallons vs. quarts, say for the response of quantity demanded of milk to a change in price), whereas the measure of slope only is not.

One way of calculating elasticity is the percentage change in quantity over the associated percentage change in price. For example, if the price moves from $1.00 to $1.05, and the quantity supplied goes from 100 pens to 102 pens, the slope is 2/0.05 or 40 pens per dollar. Since the elasticity depends on the percentages, the quantity of pens increased by 2%, and the price increased by 5%, so the price elasticity of supply is 2/5 or 0.4.

Since the changes are in percentages, changing the unit of measurement or the currency will not affect the elasticity. If the quantity demanded or supplied changes a lot when the price changes a little, it is said to be elastic. If the quantity changes little when the prices changes a lot, it is said to be inelastic. An example of perfectly inelastic supply, or zero elasticity, is represented as a vertical supply curve. (See that section below)

Elasticity in relation to variables other than price can also be considered. One of the most common to consider is income. How would the demand for a good change if income increased or decreased? This is known as the income elasticity of demand. For example, how much would the demand for a luxury car increase if average income increased by 10%? If it is positive, this increase in demand would be represented on a graph by a positive shift in the demand curve. At all price levels, more luxury cars would be demanded.

Another elasticity sometimes considered is the cross elasticity of demand, which measures the responsiveness of the quantity demanded of a good to a change in the price of another good. This is often considered when looking at the relative changes in demand when studying complement and substitute goods. Complement goods are goods that are typically utilized together, where if one is consumed, usually the other is also. Substitute goods are those where one can be substituted for the other, and if the price of one good rises, one may purchase less of it and instead purchase its substitute.

Cross elasticity of demand is measured as the percentage change in demand for the first good that occurs in response to a percentage change in price of the second good. For an example with a complement good, if, in response to a 10% increase in the price of fuel, the quantity of new cars demanded decreased by 20%, the cross elasticity of demand would be -2.0.

Vertical supply curve (Perfectly Inelastic Supply)

When demand D1 is in effect, the price will be P1. When D2 is occurring, the price will be P2. Notice that at both values the quantity is Q. Since the supply is fixed, any shifts in demand will only affect price.It is sometimes the case that a supply curve is vertical: that is the quantity supplied is fixed, no matter what the market price. For example, the surface area or land of the world is fixed. No matter how much someone would be willing to pay for an additional piece, the extra cannot be created. Also, even if no one wanted all the land, it still would exist. Land therefore has a vertical supply curve, giving it zero elasticity (i.e., no matter how large the change in price, the quantity supplied will not change).

Supply-side economics argues that the aggregate supply function – the total supply function of the entire economy of a country – is relatively vertical. Thus, supply-siders argue against government stimulation of demand, which would only lead to inflation with a vertical supply curve.

Positively-sloped demand curves?

Standard microeconomic assumptions cannot be used to disprove the existence of upward-sloping demand curves. However, despite years of searching, no generally agreed upon example of a good that has an upward-sloping demand curve (also known as a Giffen good) has been found. Some suggest that luxury cosmetics can be classified as a Giffen good. As the price of a high end luxury cosmetic drops, consumers see it as an low quality good compared to its peers. The price drop may indicate lower quality ingredients, thus one would not want to apply such an inferrior product to one's face.

Lay economists sometimes believe that certain common goods have an upward-sloping curve. For example, people will sometimes buy a prestige good (eg. a luxury car) because it is expensive, a drop in price may actually reduce demand. However, in this case, the good purchased is actually prestige, and not the car itself. So, when the price of the luxury car decreases, it is actually decreasing the amount of prestige associated with the good (see also Veblen good). However, even with downward-sloping demand curves, it is possible that an increase in income may lead to a decrease in demand for a particular good, probably due to the existence of more attractive alternatives which become affordable: a good with this property is known as an inferior good.

Negatively-sloped supply curve

There are cases where the price of goods gets cheaper, but more of those goods are produced. This is usually related to economies of scale and mass production. One special case is computer software where creating the first instance of a given computer program has a high cost, but the marginal cost of copying this program and distributing it to many consumers is low (almost zero).

Empirical estimation

Demand and supply relations in a market can be statistically estimated from price, quantity, and other data with sufficient information in the model. This can be done with simultaneous-equation methods of estimation in econometrics. Such methods allow solving for the model-relevant "structural coefficients," the estimated algebraic counterparts of the theory. The Parameter identification problem is a common issue in "structural estimation." Typically, data on exogenous variables (that is, variables other than price and quantity, both of which are endogenous variables) are needed to perform such an estimation. An alternative to "structural estimation" is reduced-form estimation, which regresses each of the endogenous variables on the respective exogenous variables.

Macroeconomic uses of demand and supply

Demand and supply have also been generalized to explain macroeconomic variables in a market economy, including the quantity of total output and the general price level. The Aggregate Demand-Aggregate Supply model may be the most direct application of supply and demand to macroeconomics, but other macroeconomic models also use supply and demand. Compared to microeconomic uses of demand and supply, different (and more controversial) theoretical considerations apply to such macroeconomic counterparts as aggregate demand and aggregate supply. Demand and supply may also be used in macroeconomic theory to relate money supply to demand and interest rates.

Demand shortfalls

A demand shortfall results from the actual demand for a given product or service being lower than the projected, or estimated, demand for that product or service. Demand shortfalls are caused by demand overestimation in the planning of new products and services. Demand overestimation is caused by optimism bias and/or strategic misrepresentation.

The phrase "supply and demand" was first used by James Denham-Steuart in his Inquiry into the Principles of Political Economy, published in 1767. Adam Smith used the phrase in his 1776 book The Wealth of Nations, and David Ricardo titled one chapter of his 1817 work Principles of Political Economy and Taxation "On the Influence of Demand and Supply on Price".

In The Wealth of Nations, Smith generally assumed that the supply price was fixed but that its "merit" (value) would decrease as its "scarcity" increased, in effect what was later called the law of demand. Ricardo, in Principles of Political Economy and Taxation, more rigorously laid down the idea of the assumptions that were used to build his ideas of supply and demand. Antoine Augustin

Cournot first developed a mathematical model of supply and demand in his 1838 Researches on the Mathematical Principles of the Theory of Wealth.

During the late 19th century the marginalist school of thought emerged. This field mainly was started by Stanley Jevons, Carl Menger, and Léon Walras. The key idea was that the price was set by the most expensive price, that is, the price at the margin. This was a substantial change from Adam Smith's thoughts on determining the supply price.

In his 1870 essay "On the Graphical Representation of Supply and Demand", Fleeming Jenkin drew for the first time the popular graphic of supply and demand which, through Marshall, eventually would turn into the most famous graphic in economics.

The model was further developed and popularized by Alfred Marshall in the 1890 textbook Principles of Economics. Along with Léon Walras, Marshall looked at the equilibrium point where the two curves crossed. They also began looking at the effect of markets on each other.

- Aggregate demand
- Aggregate supply
- Artificial demand
- Barriers to entry
- Consumer surplus
- Consumer theory
- Deadweight loss
- Demand shortfall
- Economic surplus

8.3 SUMMARY:

- The term ‘demand’ is used in economics in a special sense. Ordinarily, we use the terms ‘desire: ‘want’ and ‘demand; to convey the same meaning. But in Economics all the three terms have separate meanings. Desire is just a wishful thinking.

- One of the most important building blocks of economic analysis is the concept of demand. When economists refer to demand, they usually have in mind not just a single quantity demanded, but what is called a demand curve.
- A demand curve traces the quantity of a good or service that is demanded at successively different prices.
- The most famous law in economics, and the one that economists are most sure of, is the law of demand. On this law is built almost the whole edifice of economics. The law of demand states that when the price of a good rises, the amount demanded falls, and when the price falls, the amount demanded rises.
- Some of the modern evidence for the law of demand is from econometric studies which show that, all other things being equal, when the price of a good rises, the amount of it demanded decreases. How do we know that there are no instances in which the amount demanded rises and the price rises? A few instances have been cited, but they almost always have an explanation that takes into account something other than price.
- An individual's demand for a commodity may be defined as the quantities of that commodity that of individual is willing, able and ready to buy at each possible price during a given time period. While the market demand for a commodity is the sum is the sum of quantities demanded by individuals at each possible price.
- There are five constituents of demand: (i) Desire for a thing (ii) Money to satisfy the desire (iii) Willingness to spend the money (iv) Relationship of the price a quantity of the commodity demanded and (v) Relationship of time and the quantity of the commodity demanded.
- Law of demand states, that other things being equal, the demand for a good extends with a fall in price and Contracts with a rise in price. There is an inverse relationship between price of the commodity and it; quantity demanded.
- Law of demand has been defined by some eminent economists as under:

- In the words of Bilas, “The law of demand states that, other things being equal, the quantity demanded per unit of time will be greater the lower the price and smaller the higher the price.”
- According to Samuelson, “Law of Demand states that people will buy more at lower, prices and buy less at higher prices, ceteris paribus, or other things remaining the same.”
- The Law of demand states that amount demanded increases with a fall in price and diminishes when price increases, other things being equal, says Sarshall.

- The demand for any goods and service depends on individual’s tastes and preferences. These terms are used in broad sense. They include fashion, habit, custom etc. Tastes and preferences of the consumers are influenced by advertisement, change in fashion, climate, new invention etc. Other things being equal, demand for those goods increase for which consumers develop tastes 0-01 preferences. Contrary to it, an unfavourable change in consumer preferences and tastes for a product cause demand to decrease.

8.4 KEY WORDS:

Demand: The term ‘demand’ is used in economics in a special sense. Ordinarily, we use the terms ‘desire: ‘want’ and ‘demand; to convey the same meaning. But in Economics all the three terms have separate meanings. Desire is just a wishful thinking. I you desire to buy colour T.V. but do not have enough money with you, then this desire will remain to be a wishful thinking. It will not be called ‘demand’. Likewise, if you have enough money but not are unwilling to send it on colour T.V. then this desire will, at the best, he called Want but not ‘demand’.

Demand Explained: An individual’s demand for a commodity may be defined as the quantities of that commodity that of individual is willing, able and ready to buy at each possible price during a given time period. While the market demand for a commodity is the sum is the sum of quantities demanded by individuals at each possible price.

Constituents of demand: There are five constituents of demand: (i) Desire for a thing (ii) Money to satisfy the desire (iii) Willingness to spend the money (iv) Relationship of the price a quantity of the commodity demanded and (v) Relationship of time and the quantity of the commodity demanded.

Law of Demand: Law of demand states, that other things being equal, the demand for a good extends with a fall in price and Contracts with a rise in price. There is an inverse relationship between price of the commodity and it; quantity demanded. According to Samuelson, "Law of Demand states that people will buy more at lower, prices and buy less at higher prices, ceteris paribus, or other things remaining the same." The Law of demand states that amount demanded increases with a fall in price and diminishes when price increases, other things being equal, says Sarshall.

Explanation of Law of Demand: According to law of demand there is an inverse relationship between price and demand for a commodity. However, this relation is not proportional, meaning thereby that it is not necessary that when price falls by one-half demand for goods will be doubled. Law of demand simply indicates the direction of change in demand as a result of change in price.

Income Effect: Income effect is the effect that a change in a person's real income caused by change in the price of a commodity has on the quantify of that commodity. Real income is that income which is measured in terms b 1 goods and services that a consumer can buy with his given money income. When the relative price of a good decreases, less of a person's income would need to be spent to purchase exactly the same amount of the good; therefore it is possible to purchase more because of this risen purchasing power or real income.

Price of Commodity: Ordinarily, the demand for a good is governed by its price. Other determinants remaining constant, or ceteris paribus, changes in the price of a good causes an inverse change in its demand as well. Normally, rise in price is accompanied by contraction in demand and fall in price is accompanied by extension of demand. This relationship between price and demand is called law of demand.

Prices of Related Goods: Demand for a commodity depends not only on its own price, but also upon the prices of related goods. Related goods are broadly classified as substitute goods and complementary goods.

Substitute goods: Substitute goods are those goods which can be substituted for each other, such as tea and coffee, or limca and coke. Demand for coke is related to the price of limca. If price of limca is raised people may shift to coke, and vice-versa. In other words, in case of substitute the quantity demanded of one good is positively related to the price of the other good.

Inferior Goods: Inferior goods are those goods the demand for which tends to decline following a rise in consumer's income, and tends to increase following a fall in his income. So, there is an inverse relationship between income of the consumer and demand for a commodity.

Necessaries of life and inexpensive goods: One may also study the relationship between income of the consumer and his demand for the necessaries of life and inexpensive goods. In case of such goods, as salt and match box, for example, the demand remains almost constant irrespective of the level of income, thought it may slightly stretch in the initial stages of a rise in consumers income.

Taste and Preference: The demand for any goods and service depends on individual's tastes and preferences. These terms are used in broad sense. They include fashion, habit, custom etc. Tastes and preferences of the consumers are influenced by advertisement, change in fashion, climate, new invention etc. Other things being equal, demand for those goods increase for which consumers develop tastes 0-01 preferences. Contrary to it, an unfavourable change in consumer preferences and tastes for a product cause demand to decrease.

Expectations: Change in consumer's expectations about such things as product prices, product availability and future income is another determinant of demand. If the consumer expects price will rise in future, he will buy more goods in the present even when price is high.

8.5 SELF-ASSESSMENT QUESTIONS (SAQs):

1. Discuss demand in detail with examples.
2. The concept of demand varies from market to market. Do you agree? Discuss in detail.
3. Write a detailed note on demand and supply.

8.6 REFERENCES / SUGGESTED READING:

- **Indian Economy (its Development Experience)** by Misra; Puri;
- **Development Economics** by Bharadwaj, Krishna; Kaviraj, Sudipta;
- **India's Economic Policy** by Jalan;
- **Indian Planning at the Crossroads** by Datta, Bhabatosh;
- **Indian Economics** by Myneni, Dr.; Publisher: Allahabad Law Agency (2002)
- **Indian Economics (a Development Oriented Study)** by Dewett, K.K.; Publisher: S.Chand & Company (2002)

Bachelor of Mass Communication (1st year)

(BMC-107) ECONOMICS Block: E Unit: I Lesson: 9

SUPPLY

Writer: Ms. Veena Sharma

LESSON STRUCTURE:

In this lesson we shall discus about the various introductory aspects of *supply*. The lesson structure shall be as follows:

9.0 OBJECTIVES:

In this lesson we shall try to cover some introductory aspects of *Supply*.

The objectives of this lesson are:

- *To Get an Introduction to Supply*
- *To Understand Supply Schedule*
- *To Know About Supply Curve*

9.1 INTRODUCTION:

9.2 PRESENTATION OF CONTENT:

The content of this lesson shall be presented as follows:

- *Introduction to Supply*
- *Supply Schedule*
- *Supply Curve*

9.2.1 INTRODUCTION TO SUPPLY:

Supply refers to the quantity of a commodity offered for sale considering different possible prices at a point of time. In the words of Prof. Thosam, "The supply" of goods is the quantity offered for sale in a given market at a given time at various prices.

Distinction between Stock and Supply

In the ordinary language, the terms supply and stock are used in the same sense. In Economics, these terms have different meanings. Stock of a commodity refers to the total quantity of that commodity which at a n time is available in the market of the seller.

Supply refers, that part of the stock that the seller is prepared to sell at a given price and at a given time. Supposing, the stock of wheat in the market in the month of January 2003 is 100 tons and the prevailing price is Rs. 500 per quintal. If at this price, the seller is prepared to sell 10 tons of wheat, then the supply of wheat will be 10 tons only. If the price rises to Rs. 600 per quintal and the seller is prepared to sell 50 tons of wheat then its supply will accordingly be 50 tons.

Like the distinction between demand and quantity demanded, we may draw the distinction between supply and quantity supplied. Quantity supplied refers to a specific amount of a commodity offered for sale against specific price at a point of time. Supply, on the other hand; refers to the whole set of quantities of a commodity offered for sale corresponding to different possible prices at a point of time.

Individual Supply and Market Supply

Individual supply refers to supply of a commodity by an individual firm in the market producing selling that particular commodity and firm B is willing price firm A is willing to sell 100 units of a commodity and firm B is willing to sell 200 units and if there are only two firms producing or selling this particular commodity, market supply (also called Industry's Supply) will be 300 units.

9.2.2 SUPPLY SCHEDULE:

Supply Schedule is a tabular presentation of various quantities of a commodity offered for sale corresponding to different possible prices. It has two aspects (a) Individual Supply Schedule and (b) Marker Supply Schedule. Individual Supply Schedule refers of supply schedule of an individual firm in the market. It shows supply response of a particular firm in the market.

Individual Supply Schedule

Individual supply schedule express different quantities supplied by a firm at different prices. Table 1 represents individual supply schedule.

Price of Ice Cream (Rs)	Quantity Supplied
5	0
10	10
15	20
20	30

Table 1. Individual Supply Schedule

It is clear from this table that as the prices rises, supply extends. At Rs. 5 per Ice Cream, the supplier is not willing to sell any unit. When price is Rs. 10 then supply is of 10 units and when it rises to Rs. 20 the supply also extends to 30 units. In this way, supply schedule expresses the functional relationship between price and quantity supplied.

Market Supply Schedule:

Market supply schedule refers to supply schedule of all the firms in the market producing supplying a particular commodity. Sum total of the firms producing a particular commodity is called 'Industry'. Thus, market supply schedule refers to the supply schedule of the Industry as a whole. It shows supply response of all the firms (producing a particular commodity) in the market.

Table 2 represents market supply schedule. The schedule is based on the assumption that there are in all two forms 'N and 'B' of commodity 'X'. B aggregating the individual supply schedules, the market supply schedule has been constructed.

Table 2. Market Supply Schedule

Price of Ice Cream (in Rs)	**Supply by firm 'A'**	**Supply by firm 'B'**	**Market Supply**
5	0	**0**	**0**
10	10	**5**	**10 + 5 = 15**
15	20	**10**	**20 + 10 = 30**
20	30	**20**	**30 + 20 = 50**

Above schedule indicates that when price of ice cream is Rs. 5, the firms will not supply any quantity. When price increase to Rs. 10, firm 'N' supplies 10 units and firm 'B' supplies 5 units. Thus, the market supply is 10 + 5 = 15 units. As the price rises, market supply also increase.

9.2.3 SUPPLY CURVE:

Supply Curve is a graphic presentation of supply schedule, indicating position relationship between price of a commodity and its quantity supplied. Like supply schedule, it has two aspects:

(a) Individual Supply curve, and

(b) Market Supply Curve.

Individual Supply Curve

It is graphic presentation of supply schedule of an individual firm in the market. Sloping upward, it indicates positive relationship between price of a commodity and quantity supplied. The diagram is drawn on the basis of the above indicated supply schedule. In Fig. 1, SS is the supply curve. It has a positive slope of meaning thereby that as price the supply extends. It is evident from this figure that if price is Rs. 5 or less than that the seller will not be prepared to sell any. The price below which the seller is not prepared to sell any unit is called Reserve Price or minimum supply price.

Market Supply Curve

Market supply curve is a graphic presentation of supply schedule of all the firms producing a particular commodity in the market. It is supply curve of the industry as a whole. It is derived by way of horizon industry.

Supply Function or Factors Affecting Supply of Commodity

Supply function studies the functional relationship between supply of a commodity and its various determinants. The supply of a commodity mainly depends on the goal of the firm, price of the commodity, price of other goods, prices of factors of production used in the production of the commodity and state of technology. In other words, supply of a commodity is a function of several factors as expressed in the form of the following equation.

Sx = (f (Px, Po, Np, G, Pp, T, Ex, GP)

(Here S = Supply of Commodity X;

f= Functional Relations;

Px = Price of Commodity X;

Po = Price of other Goods;

NF = Number of Firms,

G = Goal of the Firm,

PF = Price of Factors of Production,

T = Technology;

Ex = Expected Future Price;

Gp + Government Policy)

Why is more Supplied in Response to Higher Price?

More is supplied in response to higher price simply because, other things remaining constant, higher price implies higher profits. However, the positive relationship between price and quantity supplied of a commodity may not always hold good, or may not firmly hold good in certain situations; as explained under:

Exceptions

There are some exceptions to the practices of Supply also. These are:

The practices of supply does not apply strictly to agricultural products whose supply is governed by natural factors. If due to natural calamities, the production of wheat is very little then its supply will not increase howsoever high the price may move.

Supply of goods having social distinction will remain limited even if their price may rise high.

Sellers may be willing to sell more units of perishable goods although their price may be falling.

Changes in Supply

Change in supply can be expressed by the supply curve in two ways: Movement along a Supply Curve, or Different Points on the same Supply Curve. When due to change in price along supply of a commodity changes, it is expressed by different points on the supply curve. It is also called movement along a supply curve or change in quantity supplied. Rise in supply due to rise in price is called 'Extension of Supply' and fall in supply due to fall in its price is called 'Contraction of Supply'.

Shifting of the Supply Curve

In this case, the entire supply curve either shifts upwards to the left or downwards to the right of the initial curve. This type of change takes place when supply changes due to change in factors other than price of the same commodity, such as, change in factor cost or change in goal of the firm, It is called, change in the level of supply. When due to change in these other factor, supply falls, it is called decrease in Supply and when supply rises, it is called increase in Supply'.

Extension and Contraction of Supply

When change is supply is caused by change in price, it is called extension or contraction of supply or movements along the supply curve.

Extension of Supply

Other thing being equal, when supply of a commodity increases due to rise in its price it is called extension of supply.

In the above Table, it is shown that when price is Re. 1 the quantity supplied is of 1 unit. When price rises to Rs. 5, the supply extends to 5 units. Extension of supply is also illustrated in Fig. 4. SS is the supply curve of Ice Cream. When price of Ice Cream is Re. 1, supply is of 1 Ice Cream.

When the price is Rs. 5, supply is 5 units. The supply is shown by point A on SS curve. Conversely, when the price falls to Re. 1, the supply contracts to 1 unit. The supply falls from point ex on SS curve to point 'B'. Thus, movement from higher point to a lower point on the same supply curve is known as contraction of supply.

Contraction Supply

Other things being equal, when supply of a commodity decreases due to fall in its price, it is called Contraction of Supply.

Table 4. Contraction of Supply

Price (Rs)	Quantity	Description
5	5	Fall in Price
1	1	Decrease in Quantity Supplied

The above Table shows what when the price of Ice Cream is Rs. 5, the supply is of 5 units of Ice Cream. When price falls to Re. 1, then the supply contracts to 1 unit of Ice Cream. Contraction of Supply is also illustrated with the help of Fig. 5 SS is the supply curve of Ice Cream. When the price is Rs. 5, supply is 5 units. The supply is shown by point A of SS curve. Conversely, when the price falls to Re. 1, the supply contracts to 1 unit. The supply falls from point ex on SS curve to point 'B'. Thus, movement from higher point to a lower point on the same supply curve is known as contraction of supply.

Increase in Supply and Decrease in Supply

When supply of a commodity changes due to factors other than its price, such as, change in expectation, state of technology or goal of the firm then it is called increase or decrease in supply. Such changes are represented by forward and backward shifts in supply curve.

9.3 SUMMARY:

- Supply refers to the quantity of a commodity offered for sale considering different possible prices at a point of time. In the words of Prof. Thosam, "The supply" of goods is the quantity offered for sale in a given market at a given time at various prices.
- Supply refers, that part of the stock that the seller is prepared to sell at a given price and at a given time. Supposing, the stock of wheat in the market in the month of January 2003 is 100 tons and the prevailing price is Rs. 500 per quintal. If at this price, the seller is prepared to sell 10 tons of wheat, then the supply of wheat will be 10 tons only. If the price rises to

Rs. 600 per quintal and the seller is prepared to sell 50 tons of wheat then its supply will accordingly be 50 tons.

- In the ordinary language, the terms supply and stock are used in the same sense. In Economics, these terms have different meanings. Stock of a commodity refers to the total quantity of that commodity which at a n time is available in the market of the seller.
- Supply refers, that part of the stock that the seller is prepared to sell at a given price and at a given time. Supposing, the stock of wheat in the market in the month of January 2003 is 100 tons and the prevailing price is Rs. 500 per quintal. If at this price, the seller is prepared to sell 10 tons of wheat, then the supply of wheat will be 10 tons only. If the price rises to Rs. 600 per quintal and the seller is prepared to sell 50 tons of wheat then its supply will accordingly be 50 tons.
- Supply Schedule is a tabular presentation of various quantities of a commodity offered for sale corresponding to different possible prices. It has two aspects (a) Individual Supply Schedule and (b) Marker Supply Schedule. Individual Supply Schedule refers of supply schedule of an individual firm in the market. It shows supply response of a particular firm in the market.
- Market supply schedule refers to supply schedule of all the firms in the market producing supplying a particular commodity. Sum total of the firms producing a particular commodity is called 'Industry'. Thus, market supply schedule refers to the supply schedule of the Industry as a whole. It shows supply response of all the firms (producing a particular commodity) in the market.
- Supply Curve is a graphic presentation of supply schedule, indicating position relationship between price of a commodity and its quantity supplied.
- It is graphic presentation of supply schedule of an individual firm in the market. Sloping upward, it indicates positive relationship between price of a commodity and quantity supplied. The diagram is drawn on the basis of

the above indicated supply schedule. In Fig. 1, SS is the supply curve. It has a positive slope of meaning thereby that as price the supply extends. It is evident from this figure that if price is Rs. 5 or less than that the seller will not be prepared to sell any. The price below which the seller is not prepared to sell any unit is called Reserve Price or minimum supply price.

- Market supply curve is a graphic presentation of supply schedule of all the firms producing a particular commodity in the market. It is supply curve of the industry as a whole. It is derived by way of horizon industry.

9.4 KEY WORDS:

Supply: Supply refers to the quantity of a commodity offered for sale considering different possible prices at a point of time. In the words of Prof. Thosam, "The supply" of goods is the quantity offered for sale in a given market at a given time at various prices.

Distinction between Stock and Supply: In the ordinary language, the terms supply and stock are used in the same sense. In Economics, these terms have different meanings. Stock of a commodity refers to the total quantity of that commodity which at a n time is available in the market of the seller.

Supply Schedule: Supply Schedule is a tabular presentation of various quantities of a commodity offered for sale corresponding to different possible prices. It has two aspects (a) Individual Supply Schedule and (b) Marker Supply Schedule. Individual Supply Schedule refers of supply schedule of an individual firm in the market. It shows supply response of a particular firm in the market.

Market Supply Schedule: Market supply schedule refers to supply schedule of all the firms in the market producing supplying a particular commodity. Sum total of the firms producing a particular commodity is called 'Industry'. Thus, market supply schedule refers to the supply schedule of the Industry as a whole. It shows supply response of all the firms (producing a particular commodity) in the market.

Supply Curve is a graphic presentation of supply schedule, indicating position relationship between price of a commodity and its quantity supplied.

Individual Supply Curve: It is graphic presentation of supply schedule of an individual firm in the market. Sloping upward, it indicates positive relationship between price of a commodity and quantity supplied. The diagram is drawn on the basis of the above indicated supply schedule. In Fig. 1, SS is the supply curve. It has a positive slope of meaning thereby that as price the supply extends. It is evident from this figure that if price is Rs. 5 or less than that the seller will not be prepared to sell any. The price below which the seller is not prepared to sell any unit is called Reserve Price or minimum supply price.

Market Supply Curve: Market supply curve is a graphic presentation of supply schedule of all the firms producing a particular commodity in the market. It is supply curve of the industry as a whole. It is derived by way of horizon industry.

9.5 SELF-ASSESSMENT QUESTIONS (SAQs):

1. Write a detailed note on Supply.
2. Discuss Supply Schedule in detail.
3. Write a detailed note on Supply curve.

9.6 REFERENCES / SUGGESTED READING:

- **Indian Economy (its Development Experience)** by Misra; Puri;
- **Development Economics** by Bharadwaj, Krishna; Kaviraj, Sudipta;
- **India's Economic Policy** by Jalan;
- **Indian Planning at the Crossroads** by Datta, Bhabatosh;
- **Indian Economics** by Myneni, Dr.; Publisher: Allahabad Law Agency
- **Indian Economics** by Dewett, K.K.; Publisher: S.Chand & Company

Bachelor of Mass Communication (1st year)

(BMC-107) ECONOMICS Block: E Unit: I Lesson: 10

CONSUMER BEHAVIOUR

Writer: Ms. Veena Sharma

LESSON STRUCTURE:

In this lesson we shall discus about the various introductory aspects of consumer behavior. The lesson structure shall be as follows:

10.0 OBJECTIVES:

In this lesson we shall try to cover some introductory aspects of consumer behavior.

The objectives of this lesson are:

- *To Get an Introduction to Consumer Behaviour*
- *To Understand the Applications of Consumer Behaviour*
- *To Know About Segmentation and Consumer Behaviour*
- *To Know About the Factors affecting Consumer Behaviour*

10.1 INTRODUCTION:

One "official" definition of consumer behavior is "The study of individuals, groups, or organizations and the processes they use to select, secure, use, and dispose of products, services, experiences, or ideas to satisfy needs and the impacts that these processes have on the consumer and society." Although it is not necessary to memorize this definition, it brings up some useful points:

- Behavior occurs either for the individual, or in the context of a group (e.g., friends influence what kinds of clothes a person wears) or an organization (people on the job make decisions as to which products the firm should use).
- Consumer behavior involves the use and disposal of products as well as the study of how they are purchased. Product use is often of great interest to the marketer, because this may influence how a product is best positioned or how we can encourage increased consumption. Since many environmental problems result from product disposal (e.g., motor oil being sent into sewage systems to save the recycling fee, or garbage piling up at landfills) this is also an area of interest.
- Consumer behavior involves services and ideas as well as tangible products.
- The impact of consumer behavior on society is also of relevance. For example, aggressive marketing of high fat foods, or aggressive marketing of easy credit, may have serious repercussions for the national health and economy.

10.2 PRESENTATION OF CONTENT:

The content of this lesson shall be presented as follows:

- *Consumer Behaviour- An Introduction*
- *Applications of Consumer Behaviour*
- *Segmentation and Consumer Behaviour*
- *Factors affecting Consumer Behaviour*

10.2.1 CONSUMER BEHAVIOUR- AN INTRODUCTION:

The study of consumers helps firms and organizations improve their marketing strategies by understanding issues such as how:

- *The psychology of how consumers think, feel, reason, and select between different alternatives (e.g., brands, products);*
- *The the psychology of how the consumer is influenced by his or her environment (e.g., culture, family, signs, media);*
- *The behavior of consumers while shopping or making other marketing decisions;*
- *Limitations in consumer knowledge or information processing abilities influence decisions and marketing outcome;*
- *How consumer motivation and decision strategies differ between products that differ in their level of importance or interest that they entail for the consumer; and*
- *How marketers can adapt and improve their marketing campaigns and marketing strategies to more effectively reach the consumer.*

Understanding these issues helps us adapt our strategies by taking the consumer into consideration. For example, by understanding that a number of different messages compete for our potential customers' attention, we learn that to be effective, advertisements must usually be repeated extensively. We also learn that consumers will sometimes be persuaded more by logical arguments, but at other times will be persuaded more by emotional or symbolic appeals. By understanding the consumer, we will be able to make a more informed decision as to which strategy to employ.

10.2.2 APPLICATIONS OF CONSUMER BEHAVIOUR:

There are four main applications of consumer behavior:

The most obvious is for marketing strategy—i.e., for making better marketing campaigns. For example, by understanding that consumers are more receptive to food advertising when they are hungry, we learn to schedule snack advertisements late in the afternoon. By understanding that new products are usually initially adopted by a few consumers and only spread later, and then only gradually, to the rest of the population, we learn that:

(1) Companies that introduce new products must be well financed so that they can stay afloat until their products become a commercial success, and

(2) It is important to please initial customers, since they will in turn influence many subsequent customers' brand choices.

A second application is public policy.

Social marketing involves getting ideas across to consumers rather than selling something. Marty Fishbein, a marketing professor, went on sabbatical to work for the Centers for Disease Control trying to reduce the incidence of transmission of diseases through illegal drug use. The best solution, obviously, would be if we could get illegal drug users to stop. This, however, was deemed to be infeasible. It was also determined that the practice of sharing needles was too ingrained in the drug culture to be stopped.

As a final benefit, studying consumer behavior should make us better consumers. Common sense suggests, for example, that if you buy a 64 liquid ounce bottle of laundry detergent, you should pay less per ounce than if you bought two 32 ounce bottles. In practice, however, you often pay a size premium by buying the larger quantity. In other words, in this case, knowing this fact will sensitize you to the need to check the unit cost labels to determine if you are really getting a bargain.

There are several units in the market that can be analyzed. Our main thrust in this course is the consumer. However, we will also need to analyze our own firm's strengths and weaknesses and those of competing firms. Suppose, for example, that we make a product aimed at older consumers, a growing segment. A competing firm that targets babies, a shrinking market, is likely to consider repositioning toward our market. To assess a competing firm's potential threat, we need to examine its assets (e.g., technology, patents, market knowledge, awareness of its brands) against pressures it faces from the market. Finally, we need to assess conditions (the marketing environment). For example, although we may have developed a product that offers great appeal for consumers, a recession may cut demand dramatically.

10.2.3 SEGMENTATION AND CONSUMER BEHAVIOUR:

Although the text makes references to segmentation, this issue is not discussed explicitly in much detail. However, segmentation is important in consumer analysis because understanding the consumer will allow us segment the market more meaningfully.

Segmentation basically involves dividing consumers into groups such that members of a group (1) are as similar as possible to members of that same group but (2) differ as much as possible from members other segments. This enables us then to "treat" each segment differently—e.g., by:

- Providing different products (e.g., some consumers like cola taste, while others prefer lime)
- Offering different prices (some consumers will take the cheapest product available, while others will pay for desired features)
- Distributing the products where they are likely to be bought by the targeted segment.

In order for a segment structure to be useful:

- Each segment must have an identity—i.e., it must contain members that can be described in some way (e.g., price sensitive) that behave differently from another segment.
- Each segment must engage in systematic behaviors (e.g., a price sensitive segment should consistently prefer the low price item rather than randomly switching between high and low priced brands).
- Each segment must offer marketing mix efficiency potential—i.e., it must be profitable to serve. For example, a large segment may be profitable even though the competition it attracts tends to keep prices down. A smaller segment may be profitable if, for example, it is price insensitive or can be targeted efficiently (e.g., if its members consistently subscribe to

one magazine where all the company’s advertising can be put). Some segments are not cost effective. For example, a small group of consumers would love to have a no-sports news channel (similar to CNN), but we are just too small a group to profitable.

There are three "levels" of segmentation. Levels here refer to the tradeoff between the difficulty of implementing a segmentation scheme and the benefits that result.

The first level of segmentation involves personal characteristics—e.g., demographics. This is a fairly easy method of segmentation to employ because:

(1) we have a good idea of who is in each segment, and

(2) we can easily target these segments.

For example, if we want to reach males ageed fifteen through thirty-five, we can find out which TV shows they watch from firms such as Nielsen (similar services exist for newspapers and magazines). The trouble with this method of segmentation, however, is that there is often not a good correlation between personal characteristics of consumers and what they want to buy.

Perhaps males may want more flavor, and be willing to settle for more calories, in a soft drink than women do, but there is a great deal of within group variation. Interestingly, it has been found that people who live in the same area, as operationalized by their zip-codes, tend to share a many consumption relevant characteristics.

Psychographics includes a bit more information about the consumer than his or her mere descriptive characteristics. For example, two men could both be plumbers, aged 45, married with two children, and have annual incomes of $45,000. However, one could be couch potato who comes home and eats fast food while watching television. The other could be a health enthusiast who spends his time exercising. Several firms have tried to come up with psychographic profiles of consumers.

The second level is benefit desired—that is, segmenting on what someone wants rather than who he or she is. Implementing segmentation on benefit desired is more difficult since we have to research for each product category. The benefit, however, is that we can now make product that matches more closely a particular segment's specific desires, and we can promote, price, and distribute it according to the desires of the segment.

This method, then, lends itself extremely well to strong product positioning—we make a product that offers specific benefits, and we aggressively promote this fact to interested consumers. A drawback, however, is some efficiency is lost in marketing communication. While we can look up which television programs males ages twenty to thirty watch, we do not have this information for the segment of consumers that prefers scented over unscented hand soap.

The third level is segmentation based on behavior. Behavior here refers to a person's response (or lack of response) to a given treatment. For example, some consumers will switch from their preferred brand to another one that happens to be on sale (the "switchers,") while others will stay with the preferred brand (the "loyals.") The trick, then, is to get as many switchers as possible to switch to your brand (which will take some incentive, such as a cents off coupon) while not giving this incentive to the brand loyals (who would have bought your brand even without the discount). In practice, segmenting on behavior can be very difficult.

For example, supermarkets spend a great deal of money to establish the "clubs" that give price sensitive customers who are willing to go through with the required paperwork discounts not available to the "lazier" ones that end up paying full price. Despite this difficulty, the rewards are often great, because we can tailor the kind of deal we give a consumer to the minimum concession needed to get that consumer to buy our (as opposed to a competing) product.

Direct marketing offers exceptional opportunities for segmentation because marketers can buy lists of consumer names, addresses, and phone-numbers that indicate their specific interests. For example, if we want to target auto enthusiasts, we can buy lists of subscribers to auto magazines and people who have bought auto supplies through the mail. We can also buy lists of people who have particular auto makes registered.

No one list will contain all the consumers we want, and in recent years technology has made it possible, through the "merge-purge" process, to combine lists. For example, to reach the above-mentioned auto-enthusiasts, we buy lists of subscribers to several different car magazines, lists of buyers from the Hot Wheels and Wiring catalog, and registrations of Porsche automobiles in several states. We then combine these lists (the merge part).

However, there will obviously be some overlap between the different lists—some people subscribe to more than one magazine, for example. The purge process, in turn, identifies and takes out as many duplicates as possible. This is not as simple task as it may sound up front.

Response rates for "good" lists—lists that represent a logical reason why consumer would be interested in a product—are typically quite low, hovering around 2-3%. Simply picking a consumer out of the phone-book would yield even lower responses—much less than one percent.

Keep in mind that a relevant comparison here is to conventional advertising. The response rate to an ad placed in the newspaper or on television is usually well below one percent (frequently more like one-tenth of one percent).

10.2.4 FACTORS AFFECTING CONSUMER BEHAVIOUR:

There are many factors that affect consumer Behaviour. Some important influencing factors are discussed below.

CULTURE

Culture is part of the external influences that impact the consumer. That is, culture represents influences that are imposed on the consumer by other individuals. Culture is "That complex whole which includes knowledge, belief, art, morals, custom, and any other capabilities and habits acquired by man person as a member of society." From this definition, we make the following observations:

Culture, as a "complex whole," is a system of interdependent components.

Knowledge and beliefs are important parts. In some countries like the US, it is often known and believed that a person who is skilled and works hard will get ahead. In other parts, it may be believed that differences in outcome result more from luck.

Culture has several important characteristics:

(1) Culture is comprehensive. This means that all parts must fit together in some logical fashion. For example, bowing and a strong desire to avoid the loss of face are unified in their manifestation of the importance of respect.

(2) Culture is learned rather than being something we are born with. We will consider the mechanics of learning later in the course.

(3) Culture is manifested within boundaries of acceptable behavior. For example, in American society, one cannot show up to class naked, but wearing anything from a suit and tie to shorts and a T-shirt would usually be acceptable. Failure to behave within the prescribed norms may lead to sanctions, ranging from being hauled off by the police for indecent exposure to being laughed at by others for wearing a suit at the beach.

(4) Conscious awareness of cultural standards is limited. One American spy was intercepted by the Germans during World War II simply because of the way he held his knife and fork while eating.

(5) Cultures fall somewhere on a continuum between static and dynamic depending on how quickly they accept change. For example, American culture has changed a great deal since the 1950s, while the culture of Saudi Arabia has changed much less.

It should be noted that there is a tendency of outsiders to a culture to overstate the similarity of members of that culture to each other. In the United States, we are well aware that there is a great deal of heterogeneity within our culture; however, we often underestimate the diversity within other cultures. For example, in Latin America, there are great differences between people who live in coastal and mountainous areas; there are also great differences between social classes.

Cultural rules can be categorized into three types. Formal rules carry relatively explicit standards as to how one should behave, and violations often carry severe sanctions.

Informal rules, on the other hand, are less explicit and may not carry sanctions for violation. For example, in the U.S., most people would consider eating dinner at 10:00 p.m. weird, while this is perfectly normal in parts of Latin American and Southern Europe. Finally, technical cultural rules involve implicit standards as to what constitutes a good product. For example, in India, a movie must have at least seven songs to be successful; in the U.S., preempting the soundtrack for that amount of time would not be desirable.

Language is an important element of culture. It should be realized that regional differences may be subtle. For example, one word may mean one thing in one Latin American country, but something off-color in another. It should also be kept in mind that much information is carried in non-verbal communication. In some cultures, we nod to signify "yes" and shake our heads to signify "no;" in other cultures, the practice is reversed.

Different perspectives exist in different cultures on several issues; e.g.:

- Monochronic cultures tend to value precise scheduling and doing one thing at a time; in polychronic cultures, in contrast, promptness is valued less, and multiple tasks may be performed simultaneously.
- Space is perceived differently. Americans will feel crowded where people from more densely populated countries will be comfortable.
- Symbols differ in meaning. For example, while white symbols purity in the U.S., it is a symbol of death in China. Colors that are considered masculine and feminine also differ by culture.

In terms of etiquette, some cultures have more rigid procedures than others. In some countries, for example, there are explicit standards as to how a gift should be presented. In some cultures, gifts should be presented in private to avoid embarrassing the recipient; in others, the gift should be made publicly to ensure that no perception of secret bribery could be made.

Demographics and Social Stratification

Demographics are clearly tied to subculture and segmentation. Here, however, we shift our focus from analyzing specific subcultures to trying to understand the implications for an entire population of its makeup.

Several issues are useful in the structure of a population. For example, in some rapidly growing countries, a large percentage of the population is concentrated among younger generations. In countries such as Korea, China, and Taiwan, this has helped stimulate economic growth, while in certain poorer countries, it puts pressures on society to accommodate an increasing number of people on a fixed amount of land.

Other countries such as Japan and Germany, in contrast, experience problems with a "graying" society, where fewer non-retired people are around to support an increasing number of aging seniors. Because Germany actually hovers around negative population growth, the German government has issued large financial incentives, in the forms of subsidies, for women who have children. In the United States, population growth occurs both through births and immigration. Since the number of births is not growing, problems occur for firms that are dependent on population growth.

Social class is a somewhat nebulous subject that involves stratifying people into groups with various amounts of prestige, power, and privilege. In part because of the pioneering influence in American history, status differentiations here are quite vague. We cannot, for example, associate social class with income, because a traditionally low status job as a plumber may today come with as much income as a traditionally more prestigious job as a school teacher.

In certain other cultures, however, stratification is more clear-cut. Although the caste system in India is now illegal, it still maintains a tremendous influence on that society. While some mobility exists today, social class awareness is also somewhat greater in Britain, where social status is in part reinforced by the class connotations of the accent with which one speaks.

Family Decision Making

Individual members of families often serve different roles in decisions that ultimately draw on shared family resources. Some individuals are information gatherers/holders, who seek out information about products of relevance. These individuals often have a great deal of power because they may selectively pass on information that favors their chosen alternatives. Influencers do not ultimately have the power decide between alternatives, but they may make their wishes known by asking for specific products or causing embarrassing situations if their demands are not met. The decision maker(s) have the power to determine issues such as:

- Whether to buy;
- Which product to buy (pick-up or passenger car?);
- Which brand to buy;
- Where to buy it; and
- When to buy.

Note, however, that the role of the decision maker is separate from that of the purchaser. From the point of view of the marketer, this introduces some problems since the purchaser can be targeted by point-of-purchase (POP) marketing efforts that cannot be aimed at the decision maker. Also note that the distinction between the purchaser and decision maker may be somewhat blurred:

- The decision maker may specify what kind of product to buy, but not which brand;
- The purchaser may have to make a substitution if the desired brand is not in stock;
- The purchaser may disregard instructions (by error or deliberately).

GROUP INFLUENCES

Humans are inherently social animals, and individuals greatly influence each other. A useful framework of analysis of group influence on the individual is the so called reference group—the term comes about because an individual uses a relevant group as a standard of reference against which oneself is compared. Reference groups come in several different forms.

The aspirational reference group refers to those others against whom one would like to compare oneself. For example, many firms use athletes as spokespeople, and these represent what many people would ideally like to be. Associative reference groups include people who more realistically represent the individuals' current equals or near-equals—e.g., coworkers, neighbors, or members of churches, clubs, and organizations.

PERCEPTION

Our perception is an approximation of reality. Our brain attempts to make sense out of the stimuli to which we are exposed. This works well, for example, when we "see" a friend three hundred feet away at his or her correct height; however, our perception is sometimes "off"—for example, certain shapes of ice cream containers look like they contain more than rectangular ones with the same volume.

LEARNING

Learning involves "a change in the content or organization of long term memory and/or behavior." The first part of the definition focuses on what we know (and can thus put to use) while the second focuses on concrete behavior. For example, many people will avoid foods that they consumed shortly before becoming ill. Learning is not all knowledge based.

For example, we may experience the sales people in one store being nicer to us than those in the other. We thus may develop a preference for the one store over the other; however, if pressed, we may not be able to give a conscious explanation as to the reason for our preference.

Much early work on learning was actually done on rats and other animals (and much of this research was unjustifiably cruel, but that is another matter).

MEMORY:

There are two kinds of memory. When you see an ad on TV for a mail order product you might like to buy, you only keep the phone number in memory until you have dialed it. This is known as short term memory. In order for something to enter into long term memory, which is more permanent, you must usually "rehearse" it several times.

For example, when you move and get a new phone number, you will probably repeat it to yourself many times. Alternatively, you get to learn your driver's license or social security numbers with time, not because you deliberately memorize them, but instead because you encounter them numerous times as you look them up.

MASLOW'S HIERARCHY OF NEEDS:

Abraham Maslow suggested the intuitively appealing notion that humans must satisfy the most basic objectives before they can move onto "higher level" ones. Thus, an individual must satisfy physiological needs (such as food and liquid) before he or she will be able to expend energy on less fundamental objectives such as safety.

Only when basic objectives have been met will a person move on to seek such objectives as love and belonging, and only a small minority of people make it as far as seeking self-actualization.

Maslow's Hierarchy is useful in understanding different needs of consumers across the World. However, one must be careful not to take it too literally, since people may occasionally "swing" between needs. For example, a homeless person who currently does not have shelter may seek that out even though he or she is hungry.

Consumers are motivated to achieve goals. Achieving these goals may require sustained activity over time (e.g., exercising every day for months or years) as opposed to just taking some action once.

Consumers maintain a balance between the desires for stability and variety. Most consumers want some variety (e.g., they do not want to eat the same meal every day), but also want a certain stability (they do not want to try an entirely new food every day).

Motivation reflects individual differences. Different consumers are motivated to achieve different things, and it may be difficult to infer motivations from looking at actual behavior without understanding these differences in desired outcomes.

The reality that consumers are frequently motivated by multiple motives suggests a possibility that motives may conflict. Three main types of conflict exist:

PERSONALITY AND CONSUMER BEHAVIOR:

Traditional research in marketing has not been particularly successful in finding a link between personality and consumer behavior. Part of the problem here is that much of the theory has been developed by clinical psychologists who have tended to work with maladjusted people. Not surprisingly, research that sought to predict, based on standard personality inventories, which kinds of consumers would buy Chevrolets as opposed to Fords was not successful.

EMOTION:

Emotion impacts marketing efforts in several ways. One purpose is to get attention to a stimulus (since emotionally charged individuals tend to be less predictable than calmer ones, there has been an evolutionary advantage in paying attention to emotion). Secondly, emotion influences information processing. In general, happy people tend to scrutinize arguments given (e.g., purported benefits of using a product) somewhat less, since they do not want to lose their happy moods by doing too much thinking. In general, happy ads are somewhat better liked, and may be better remembered. Empathy may also increase liking for the ad and the sponsoring product.

ATTITUDES:

Consumer attitudes are a composite of a consumer's (1) beliefs about, (2) feelings about, (3) and behavioral intentions toward some object--within the context of marketing, usually a brand or retail store. These components are viewed together since they are highly interdependent and together represent forces that influence how the consumer will react to the object.

BELIEFS:

The first component is beliefs. A consumer may hold both positive beliefs toward an object (e.g., coffee tastes good) as well as negative beliefs (e.g., coffee is easily spilled and stains papers). In addition, some beliefs may be neutral (coffee is black), and some may be differ in valance depending on the person or the situation (e.g., coffee is hot and stimulates--good on a cold morning, but not good on a hot summer evening when one wants to sleep).

Note also that the beliefs that consumers hold need not be accurate (e.g., that pork contains little fat), and some beliefs may, upon closer examination, be contradictory (e.g., that a historical figure was a good person but also owned slaves).

Since a consumer holds many beliefs, it may often be difficult to get down to a "bottom line" overall belief about whether an object such as McDonald's is overall good or bad.

AFFECT:

Consumers also hold certain feelings toward brands or other objects. Sometimes these feelings are based on the beliefs (e.g., a person feels nauseated when thinking about a hamburger because of the tremendous amount of fat it contains), but there may also be feelings which are relatively independent of beliefs. For example, an extreme environmentalist may believe that cutting down trees is morally wrong, but may have positive affect toward Christmas trees because he or she unconsciously associates these trees with the experience that he or she had at Christmas as a child.

BEHAVIORAL INTENTION:

The behavioral intention is what the consumer plans to do with respect to the object (e.g., buy or not buy the brand). As with affect, this is sometimes a logical consequence of beliefs (or affect), but may sometimes reflect other circumstances--e.g., although a consumer does not really like a restaurant, he or she will go there because it is a hangout for his or her friends.

Attitude-Behavior Consistency:

Consumers often do not behave consistently with their attitudes for several reasons:

Ability: He or she may be unable to do so. Although junior high school student likes pick-up trucks and would like to buy one, she may lack a driver's license.

Competing demands for resources: Although the above student would like to buy a pickup truck on her sixteenth birthday, she would rather have a computer, and has money for only one of the two.

Social influence: A student thinks that smoking is really cool, but since his friends think it's disgusting, he does not smoke.

Measurement problems: Measuring attitudes is difficult. In many situations, consumers do not consciously set out to enumerate how positively or negatively they feel about mopeds, and when a market researcher asks them about their beliefs about mopeds, how important these beliefs are, and their evaluation of the performance of mopeds with respect to these beliefs, consumers often do not give very reliable answers. Thus, the consumers may act consistently with their true attitudes, which were never uncovered because an erroneous measurement was made.

THE SELF-CONCEPT:

The consumer faces several possible selves. The actual self reflects how the individual actually is, although the consumer may not be aware of that reality (e.g., many anorexic consumers who are dangerously thin believe that they are in fact fat). In contrast, the ideal self reflects a self that a person would like to have, but does not in fact have. For example, a couch potato may want to be a World famous athlete, but may have no actual athletic ability.

The private self is one that is not intentionally exposed to others. For example, a police officer may like and listen to rap music in private, but project a public self-image of a country music enthusiast, playing country songs at work where police officers are portrayed as heroes.

The key here is to keep in mind which kind of self we are trying to reach in promotional messages. If we appeal to the hidden self, for example, we must be careful to make our appeals subtle and hint, if appropriate, on how the individual's confidentiality and privacy can be enhanced.

Individuals will often seek to augment and enhance their self concepts, and it may be possible to market products that help achieve this goal. For example, a successful attorney may want to wear (in politically correct terms) cowchild boots and a cowchild hat to bring home an image as a ranch enthusiast.

LIFESTYLES:

Self-concept often translates into a person's lifestyle, or the way that he or she lives his or her life. For example, a person may be very materialistic, preferring to wear flashy clothes and drive expensive cars, or prefer instead a simpler life with fewer visible status symbols. Attempts have been made to classify consumers into various segments based on their lifestyles.

The Values and Lifestyle (VALS) Project, developed by the Stanford Research Institute (SRI), attempts to classify people based on a combination of values and resources. Thus, for example, both "Achievers" and "Strivers" want public recognition, but only the Achievers have the resources to bring this about. A global analogue is the Global Scan.

SITUATIONAL INFLUENCES:

Specific circumstances often influence consumer behavior. For example, consumers in a rush are likely to take the most convenient product available. Consumers whose attention is demanded elsewhere are likely to disregard commercial messages. Consumers shopping for a special occasion (e.g., a wedding) may buy different products.

CONSUMER DECISION MAKING

Consumer decision making comes about as an attempt to solve consumer problems. A problem refers to "a discrepancy between a desired state and an ideal state which is sufficient to arouse and activate a decision process." Thus, problems can be major (e.g., a consumer has been fired and is without a job) or minor (e.g., the consumer lacks an eraser necessary to take an exam the next day), and the broader and more ambiguous a problem is, the more potential solutions are generally available.

Consumer Problem Recognition:

Consumers often note problems by comparing their current, or actual, situation, explicitly or implicitly, to some desired situation. In terms of the "big picture," what is compared may be the totality of one’s lifestyle. Once a discrepancy is found, a determination is found as to whether this is large enough to warrant action, in which case a search for solutions is initiated.

Problems come in several different types. A problem may be an active one (e.g., you have a headache and would like as quick a solution as possible) or inactive--you are not aware that your situation is a problem (e.g., a consumer is not aware that he or she could have more energy with a new vitamin).

Problems may be acknowledged (e.g., a consumer is aware that his or her car does not accelerate well enough or unacknowledged (e.g., a consumer will not acknowledge that he or she consumes too much alcohol). Finally, needs can be relatively specific (generic), as in the need for enjoyment (which can be satisfied many different ways), or specific, as in the need for professional attire to wear at a new job.

Creating problems for consumers is a way to increase sales, albeit a questionably ethical one. One way to create new problems, and resultant needs, is to create a new ideal state. This is often done quite arbitrarily in the fashion industry, as skirt lengths and the appropriate number of buttons on a suit often change arbitrarily up and down. It may also be possible to create dissatisfaction with current states--e.g., a firm may publicize current crime statistics to increase the sales of handguns and alarms.

Many vocational training schools advertise that better careers than the consumer’s current one are available upon graduation (a promise on which, by the way, they may not deliver in the end).

There are two main approaches to search. Internal searches are based on what consumers already know. Thus, it may be important for certain firms to advertise to consumers before they actually need the product. For example, one bail bond company advertised its existence to people "in case you ever find yourself in jail." As another example, if you decide to go out for fast food, you may not consult any directories, but instead search your memory for fast food restaurants conveniently located.

A problem is that some excellent ones which are not remembered, or have never been heard of, are not considered. External searches get people to either speak to others (getting information by word of mouth) or use other sources (such as advertisements now sought out or yellow page listings). Because the yellow pages are often the first place to which people turn, this medium is able to charge very large advertising rates.

Consumers often do not consider all alternatives. Some are not known (the "unawareness" set), some were once known but are not readily accessible in memory (the "inert" set), others are ruled out as unsatisfactory (the "inept" set--e.g., Glad bags attempts to get "bargain bags" into that set), and those that are considered represent the "evoked" set, from which one alternative is likely to be purchased.

The amount of effort a consumer puts into searching depends on a number of factors such as the **market** (how many competitors are there, and how great are differences between brands expected to be?), **product characteristics** (how important is this product? How complex is the product? How obvious are indications of quality?), **consumer characteristics** (how interested is a consumer, generally, in analyzing product characteristics and making the best possible deal?), and **situational characteristics** (as previously discussed).

Two interesting issues in decisions are variety seeking (where consumers seek to try new brands not because these brands are expected to be "better" in any way, but rather because the consumer wants a "change of pace," and "impulse" purchases. Impulse purchases are, generally speaking, unplanned, but represent a somewhat fuzzy group.

For example, a shopper may plan to buy vegetables but only decide in the store to actually buy broccoli and corn. Alternatively, a person may buy an item which is currently on sale, or one that he or she remembers that is needed only once inside the store (remember the Wal-Mart article).

RETAIL EVOLUTION AND CONSUMER CHOICE:

For many products, consumers frequently have numerous choices as to where they are going to actually obtain the product. Although we are used to thinking of buying automobiles only from dealerships, for example, it is today possible to buy them through brokers or fleet sales organizations that may both (1) offer a lower price and/or (2) provide the help of a neutral third party which does not have a vested interest in the sales of one make over the other.

In general, the evolution of diversity in the retail scene has provided consumers with more choice. In the old days, most consumers had access only to "general" stores for most products. Gradually, in urban environments, specialty and discount stores evolved. Today, a consumer may generally choose to buy most products either at a relatively high price, frequently with a significant amount of service, in a specialty store, or with lower service in a discount store.

A special case of the discount store is the category killer--a store that tends to specialize in some limited area (e.g., electronics), lacking the breadth of a traditional discount store often undercutting the traditional discount store on price (which they are able to do because of the bargaining power that results from high buying volumes of a narrow assortment of merchandise from the same manufacturer).

"AT HOME" SHOPPING AND ELECTRONIC COMMERCE:

During the last several decades, the incidence of "at home" shopping has increased. The growth of catalog sales can be traced to advances in computer technology and subsequent list availability (as we discussed in the section of direct marketing segmentation methods).

A more recent development is Internet based marketing. Although sales are modest in this domain at the moment, it is too early to judge the total potential of this medium. Although many of the concerns that consumers hold about computer crime tend to be exaggerated and/or largely unwarranted, public fears are a major holdback.

Another problem is the demographics of computer and Internet use--the majority of U.S. consumers, and certainly the great majority of residents of even highly industrialized countries, are not regular Internet users. Certain products specifically aimed at heavy Internet users (e.g., records, software) and products/services that require a high level of customization (e.g., airline tickets) may find good opportunities.

An interesting problem with Internet commerce, which may well have spillover effects outside the realm of the Net, is the relative ease with which consumers may compare prices of different retailers, resulting in intense price competition. Note that recent legislation has limited taxation of Internet sales in the U.S., in a sense attempting to "jump start" this innovation.

STORE POSITIONING:

Positioning of retail stores is essential. In general, stores which excel on a significant dimension seem to perform better--for example, Nordstrom's excels through its intense customer service, while Wal-Mart excels through its efficiency and low prices. (In a course on marketing strategy or retailing, you will probably discuss the issue of the importance of balanced markets--it is healthier if different firms have different strategies, so that everyone will not be competing intensely on the same variables).

Stores which fall somewhere in between--e.g., Sears--tend to do less well since they get "stuck in the middle" and have to compete against both. Obviously, there is a limit to how strongly you can move toward one extreme. For example, if Nordstrom were to double its prices and even double its service, that position would be untenable, and certain extreme discount stores that offer lower prices than Wal-Mart tend not to be successful because they are ultimately not satisfactory to consumers.

10.3 SUMMARY:

- Consumer behavior involves the use and disposal of products as well as the study of how they are purchased. Product use is often of great interest to the marketer, because this may influence how a product is best positioned or how we can encourage increased consumption. Since many environmental problems result from product disposal (e.g., motor oil being sent into sewage systems to save the recycling fee, or garbage piling up at landfills) this is also an area of interest.
- Consumer behavior involves services and ideas as well as tangible products.
- The impact of consumer behavior on society is also of relevance. For example, aggressive marketing of high fat foods, or aggressive marketing of easy credit, may have serious repercussions for the national health and economy.
- Consumer behavior is, "the study of individuals, groups, or organizations and the processes they use to select, secure, use, and dispose of products, services, experiences, or ideas to satisfy needs and the impacts that these processes have on the consumer and society."

- The study of consumers helps firms and organizations improve their marketing strategies by understanding issues such as how: The psychology of how consumers think, feel, reason, and select between different alternatives (e.g., brands, products); The the psychology of how the consumer is influenced by his or her environment (e.g., culture, family, signs, media); and The behavior of consumers while shopping or making other marketing decisions, etc.
- Although the text makes references to segmentation, this issue is not discussed explicitly in much detail. However, segmentation is important in consumer analysis because understanding the consumer will allow us segment the market more meaningfully.
- Segmentation basically involves dividing consumers into groups such that members of a group (1) are as similar as possible to members of that same group but (2) differ as much as possible from members other segments. This enables us then to "treat" each segment differently.
- Psychographics includes a bit more information about the consumer than his or her mere descriptive characteristics. For example, two men could both be plumbers, aged 45, married with two children, and have annual incomes of $45,000. However, one could be couch potato who comes home and eats fast food while watching television. The other could be a health enthusiast who spends his time exercising. Several firms have tried to come up with psychographic profiles of consumers.
- Culture is part of the external influences that impact the consumer. That is, culture represents influences that are imposed on the consumer by other individuals. Culture is "That complex whole which includes knowledge, belief, art, morals, custom, and any other capabilities and habits acquired by man person as a member of society."
- Humans are inherently social animals, and individuals greatly influence each other. A useful framework of analysis of group influence on the individual is the so called reference group—the term comes about because an individual uses a relevant group as a standard of reference

against which oneself is compared. Reference groups come in several different forms.

- Learning involves "a change in the content or organization of long term memory and/or behavior." The first part of the definition focuses on what we know (and can thus put to use) while the second focuses on concrete behavior. **Memory:** There are two kinds of memory. When you see an ad on TV for a mail order product you might like to buy, you only keep the phone number in memory until you have dialed it. This is known as short term memory. In order for something to enter into long term memory, which is more permanent, you must usually "rehearse" it several times.
- Abraham Maslow suggested the intuitively appealing notion that humans must satisfy the most basic objectives before they can move onto "higher level" ones. Thus, an individual must satisfy physiological needs (such as food and liquid) before he or she will be able to expend energy on less fundamental objectives such as safety.
- Emotion impacts marketing efforts in several ways. One purpose is to get attention to a stimulus (since emotionally charged individuals tend to be less predictable than calmer ones, there has been an evolutionary advantage in paying attention to emotion). Secondly, emotion influences information processing. In general, happy people tend to scrutinize arguments given (e.g., purported benefits of using a product) somewhat less, since they do not want to lose their happy moods by doing too much thinking. In general, happy ads are somewhat better liked, and may be better remembered. Empathy may also increase liking for the ad and the sponsoring product.
- The consumer faces several possible selves. The actual self reflects how the individual actually is, although the consumer may not be aware of that reality (e.g., many anorexic consumers who are dangerously thin believe that they are in fact fat). In contrast, the ideal self reflects a self that a person would like to have, but does not in fact have. For example, a couch

potato may want to be a World famous athlete, but may have no actual athletic ability.

- The Values and Lifestyle (VALS) Project, developed by the Stanford Research Institute (SRI), attempts to classify people based on a combination of values and resources.

10.4 KEY WORDS:

Consumer behavior: Consumer behavior is, "the study of individuals, groups, or organizations and the processes they use to select, secure, use, and dispose of products, services, experiences, or ideas to satisfy needs and the impacts that these processes have on the consumer and society."

Segmentation and Consumer behavior: Segmentation basically involves dividing consumers into groups such that members of a group (1) are as similar as possible to members of that same group but (2) differ as much as possible from members other segments. This enables us then to "treat" each segment differently.

Demographics and Social Stratification: Demographics are clearly tied to subculture and segmentation. Here, however, we shift our focus from analyzing specific subcultures to trying to understand the implications for an entire population of its makeup.

Family Decision Making: Individual members of families often serve different roles in decisions that ultimately draw on shared family resources. Some individuals are information gatherers/holders, who seek out information about products of relevance. These individuals often have a great deal of power because they may selectively pass on information that favors their chosen alternatives. Influencers do not ultimately have the power decide between alternatives, but they may make their wishes known by asking for specific products or causing embarrassing situations if their demands are not met.

Group Influences: Humans are inherently social animals, and individuals greatly influence each other. A useful framework of analysis of group influence on the individual is the so called reference group—the term comes about because an individual uses a relevant group as a standard of reference against which oneself is compared. Reference groups come in several different forms.

Perception: Background. Our perception is an approximation of reality. Our brain attempts to make sense out of the stimuli to which we are exposed. This works well, for example, when we "see" a friend three hundred feet away at his or her correct height; however, our perception is sometimes "off"—for example, certain shapes of ice cream containers look like they contain more than rectangular ones with the same volume.

Maslow's Hierarchy of Needs: The late Abraham Maslow suggested the intuitively appealing notion that humans must satisfy the most basic objectives before they can move onto "higher level" ones. Thus, an individual must satisfy physiological needs (such as food and liquid) before he or she will be able to expend energy on less fundamental objectives such as safety.

Personality and consumer behavior: Traditional research in marketing has not been particularly successful in finding a link between personality and consumer behavior. Part of the problem here is that much of the theory has been developed by clinical psychologists who have tended to work with maladjusted people. Not surprisingly, research that sought to predict, based on standard personality inventories, which kinds of consumers would buy Chevrolets as opposed to Fords was not successful.

Attitudes: Consumer attitudes are a composite of a consumer's (1) beliefs about, (2) feelings about, (3) and behavioral intentions toward some object--within the context of marketing, usually a brand or retail store. These components are viewed together since they are highly interdependent and together represent forces that influence how the consumer will react to the object.

Beliefs: The first component is beliefs. A consumer may hold both positive beliefs toward an object (e.g., coffee tastes good) as well as negative beliefs (e.g., coffee is easily spilled and stains papers).

The self-concept: The consumer faces several possible selves. The actual self reflects how the individual actually is, although the consumer may not be aware of that reality (e.g., many anorexic consumers who are dangerously thin believe that they are in fact fat). In contrast, the ideal self reflects a self that a person would like to have, but does not in fact have. For example, a couch potato may want to be a World famous athlete, but may have no actual athletic ability.

Lifestyles: Self-concept often translates into a person's lifestyle, or the way that he or she lives his or her life. For example, a person may be very materialistic, preferring to wear flashy clothes and drive expensive cars, or prefer instead a simpler life with fewer visible status symbols. Attempts have been made to classify consumers into various segments based on their lifestyles. The Values and Lifestyle (VALS) Project, developed by the Stanford Research Institute (SRI), attempts to classify people based on a combination of values and resources.

10.5 SELF-ASSESSMENT QUESTIONS (SAQs):

1. Discuss consumer behaviour in detail.
2. Discuss the applications of consumer behaviour in detail.
3. Discuss segmentation and consumer behaviour in detail.
4. Discuss the factors affecting consumer behaviour in detail.

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Bachelor of Mass Communication (1st year)

(BMC-107) ECONOMICS Block: E Unit: II Lesson: 11

LIBERALISATION & GLOBALISATION

Writer: Ms. Veena Sharma

LESSON STRUCTURE:

In this lesson we shall discus about the various introductory aspects of liberalisation and globalisation. First, we shall focus on liberalisation. We shall also briefly discuss globalisation. The lesson structure shall be as follows:

11.0 OBJECTIVES:

The objectives of this lesson are:

- o To Know About Economic Reforms
- o To Know About Liberalisation
- o To Understand Globalisation

11.1 INTRODUCTION:

Since 1991, government of India has introduced diverse economic reforms in order to pull the country out of economic crisis and to accelerate the rate of growth. Among them, main reforms are:

- *Policy of liberalization in place of controlled economy,*
- *Encouragement to private sector by restricting public sector,*

- *Encouragement to foreign investment,*
- *Introduction of improved technology of production,*
- *Incentive to modernisation of agriculture,*
- *Comprehensive changes in commercial policy monetary policy and fiscal policy,*
- *Control over fiscal deficit.*

In this lesson we shall discus about the various introductory aspects of liberalisation and globalisation. First, we shall focus on liberalisation. We shall also briefly discuss globalisation.

11.2 PRESENTATION OF CONTENT:

The content of this lesson shall be presented as follows:

- Economic Reforms
- Liberalisation
- Globalisation

11.2.1 ECONOMIC REORMS:

Economic reforms refer to various policy measures and changes introduced since 1991. The common objective of all these measures is to improve productivity and efficiency of the economy by creating a more competitive environment therein.

About five decades back (April 1951) India had commenced its journey to economic development on the path of socialistic pattern of society and mixed economy. By far, India has completed 9 five year plans and 5 one year plans. There is no denying the fact that in these five decades Indian economy has achieved many success but the number of failures is by no means small. During the period of planning pubic sector was given utmost importance. Private sector was largely kept under government control. Trade and industry were subjected to many restrictions. Bureaucracy and red tapism were the normal features of the Economy.

The cumulative effect of all these was that in the end of June 1991, country landed in an unprecedented economic crisis. Reserves of foreign exchange were just sufficient to pay for two weeks imports. New loans were not available. Large amounts were being withdrawn from the accounts of non-residential Indians (NRIs). Faith of international community in Indian economy was shaken. Industrial progress was on reverse, gear and prices were sky-rocketing.

International Scenario was undergoing significant changes. Russia had disintegrated. Socialist economies were heading for competition and privatization. Several factors accounted for it. For instance, widespread political instability, gulf crisis, inflation, excessive rise in fiscal deficit, rise in balance of payments deficit and tremendous fall in foreign exchange reserves.

In order to pull the economy out of economic crisis and to put it on the path to rapid and steady economic growth, it was most essential to correct financial disequilibrium, curb rising prices, correct adverse balance of payments and replenish foreign exchange reserves. To achieve all these objectives, introduction of economic reforms or an appropriate economic policy was considered inevitable.

Need for economic reforms or new economic policy was felt mainly because of the following reasons:

Increase in Fiscal Deficit: Prior to 1991, fiscal deficit of the government had been mounting year after year on account of continuous increase in its non-development expenditure, Fiscal deficit means difference between the total expenditure and total receipts minus loans. It is equivalent to total borrowings by the government. In 1981-82, it was 5.4% of domestic product. In 1990-91, it rose to 8.4% of GDP. With a view to meeting fiscal deficit, the government is obliged to raise loans and pay interest thereon. Thus, due to persistent rise in "fiscal deficit" there was corresponding rise in public debt and interest payment liability.

In 1980-81, interest payment on public debt amounted to 10% of total government expenditure. In 1991, amount of interest liability rose further to 36.4% of total government expenditure.

There was serious apprehension that the government was fast heading for debt trap. Faith of international financial institutions like World Bank etc. in the fiscal state of the government had been shaken. It therefore became inevitable for the government to reduce substantially its non-development expenditure so as to scale down fiscal deficit.

Increase in Adverse Balance of Payments: Balance of payments is the difference between total exports and total imports of a country. When total imports exceed total exports, the balance of payments becomes adverse.

Our country needs foreign exchange to pay for the import of goods and services. The required foreign exchange is earned by exporting goods and services. Another source of foreign exchange is the remittances by non-resident Indians (NRIs) living abroad. When receipts of foreign exchange fall short of their payments or when the value of total imports is greater than the value of total exports, the problem of adverse balance of payments arises.

Although, government granted diverse kinds of incentives and concessions to the exporters under export promotion programme, yet the export did not rise to the desired extent. It was mainly due to the fact that in inter national market our exports could not compete in price and quality. All this was the direct result of the policy of protection so liberally pursued by the government and for so long.

As against slow growth of exports there was rapid increase in imports. As a result balance of payments had been rising continuously since 1980-81. For instance, in 1980-81, balance of payments on current account was adverse to the tune of Rs. 2214 crore and it rose in 1990-91 to Rs. 17367 crore. To meet this deficit large amount of foreign loans had to be obtained. Thus, foreign loans that amounted in 1980-81 to 12 % of gross domestic product rose in 1990-91 to 23 % of gross domestic product.

Accordingly, the burden of foreign debt service i.e. repayment of loan installments and payment interest requested tremendously. In 1980-81, foreign debt service constituted 15% of our export earning while in 1990-91 it rise to 30 %. All this led to further deterioration of balance of payments position.

Gulf Crisis: On account of Iraq war in 1990-91, prices of petrol shot up. India used to receive huge amount of remittances from gulf countries in foreign exchange, all that stopped totally. Gulf Crisis thus further accentuated already adverse India's balance of payments position. This increased balance of payments deficit very much.

Fall in Foreign Exchange Reserves: In 1990-91 India's foreign exchange reserves fell to such a low level that the same were not enough to pay for an import bill for even 10 days. Foreign exchange reserves that were Rs. 8151 crore in 1986-87, declined sharply to Rs. 6252 crore in 1989-90.

The situation grew so acute that Chandra Shekher government had to mortgage country's gold to discharge its foreign debt servicing obligation. In such a predicament government felt compelled to adopt the policy of liberalization as proposed by international financial instructions, in order to secure loans from them.

Rise in Prices: In India prices continued to rise very high. Average annual rate of inflation increased from 6.7 % to 16.7% prior to 1991, despite good monsoon for three consecutive years, prices of good grains rose substantially. Because of increasing pressure of inflation, country's economic position deteriorated further. Main reason for inflation or annual fate of increase in prices was rapid increase in the supply of money. This in turn, was due to excessive resort to deficit financing by the government.

Deficit financing implies borrowing from Reserve Bank of India by the government to meet its deficit. Reserve Bank offered this loan by printing new currency notes. Cost of production takes an upward jump due to high rate of inflation. It adversely affects domestic and foreign demand for our products.

Poor Performance of Public Sector Undertaking (PSUs): in 1951 there were just 5 enterprises in public sector in India but in 2001 their number raised to 232. Several thousand crores of public funds were invested therein. In the initial 15 years their functioning was quite satisfactory but thereafter most of these suffered losses.

Because of their poor performance, public sector undertakings degenerated into liability.

On account of the above compelling factors, it became in eve table for the government to adopt New Economic Policy. It was all the more necessary to increase industrial output and attract foreign capital.

Main features of new economic polity are liberalization, privatization and globalization of the economy.

11.2.2 LIBERALISATION:

Liberalization of the economy means to free it from direct or physical controls imposed by the government. Prior to 1991, government had imposed several types of controls on Indian economy e.g. industrial licensing system; price control or financial control on goods, import license, foreign exchange control restrictions on investment by big business houses, etc. It was experienced by the government that several shortcomings had crept into the economy on economy on account of these controls. These had dampened the enthusiasm of the entrepreneurs to establish new industries.

These controls have given rise to corruption, undue delays and inefficiency. Rate of economic growth of the economy fell sharply and high cost economic system came into being. Economic reforms therefore, made a bid to reduce restrictions imposed on the economy. Economic reforms were based on the assumption that market forces could guide the economy in a more effective manner than government control. Examples of other underdeveloped countries like Korea, Thailand, Singapore, etc. that had achieved rapid economic development as a result of liberalization, were worthy of emulation.

MEASURES TAKEN FOR LIBERALIZATION:

Following measures have been taken under economic reforms for liberalization of Indian Economy:

Abolition of Industrial Licensing and Registration: Main feature of the New Industrial Policy is to adopt a policy of liberalization in place of controlled economy. Till now, private sector of the economy was functioning under a rigid licensing system. Under New Economic Policy private sector has been fire to a large extent, from the yoke of licenses and other restrictions. In July 1991, a new Industrial Policy was announced in this respect. According to it, with the exception of 6 Industries, industrial licensing has been abolished for all other industries. Industries for which licenses are still necessary are:

- *Liquor*
- *Cigarette*
- *Defense equipment*
- *Industrial explosives*
- *Dangerous chemicals,*
- *Drugs.*

Any entrepreneur can float any new company and sell its shares without any restriction.

Concession from Monopolies Act: According to the provisions of Monopolies and Restrictive Trade Practices Act (MRTP Act) all those companies having assets worth more than 100 crore used to be declared MRTP firms and were subjected to several restrictions. Now the concept of MRTP has been done away with. These firms are now no longer required to obtain prior approval of the government, at the time of taking investment decisions. They ate free to expand themselves. Large concessions have been granted to companies falling under MRTP Act. Capital investment limit fixed earlier has been removed.

As a result, there would be no restriction on dominant companies and industrial houses for set up new industries or expansion of industries, taking over and amalgamation. However, under this policy more emphasis will be laid on checking unfair trade practices to safeguard the interests of the consumers. The newly empowered Monopoly board will be authorized to investigate individual consumers.

Freedom for Expansion and Production to Industries: Under the policy of liberalization, industries are free to expand and produce. They need no prior official approval. As a result of liberalization policy, industries have been given the following freedom:

- Prior to liberalization under the provisions of old policy at the time of granting license government used to fix maximum limit of production capacity. No industry could produce beyond this limit. Now this limit has been removed. So as to enable the industry to take full advantage of large scale production.
- Producers are now free to produce any thing on the basis of demand in the market. Previously, only those goods could be produced which were mentioned in the license. It is no longer so now.
- *Increase in the Investment Limit of the Small Industries:* investment limit of the small industries has been raised to Rs. 1 crore so as to enable them to introduce modernization. Investment limit of tiny industries has also been increased to Rs. 25 lakh.
- *Freedom to import Capital Goods:* Under the policy of liberalization, Indian Industries will be free to buy machines and raw materials from abroad in order to expand and modernize themselves.
- *Freedom to Import Technology:* New Economic Policy of economic reforms has laid emphasis on the use of high technique to “Promote modernization”. The objective of this policy is to develop sunrise, to

promote technological dynamism in India Industries, government has allowed agreements to import high technology. There is a provision in the new industrial policy that high priority industries need not seek permission to enter into agreements relating to high technology.

- *Free Determination of Interest Rates:* Interest rate of the banking system of the country will up longer be determined by the Reserve Bank of India as per the policy of liberalization. Banks all over the country are now free to determine rate of interest as they like.

11.2.3 GLOBALISATION:

Globalization means integrating the economy of a country with the economies of other countries under conditions of freer flow of trade and capital, and movement of persons across borders.

'Globalization may be defined as a process associated with increasing openness, growing economic interdependence and deepening economic integration in the world economy"

Economic Reformers assume that Indian economy should have close link with world economy. As a result, there will be unrestricted flow of goods and services, technology and expertise among different countries of the world. There will be increased cooperation of Indian economy with different economies across the world. Capital and technology will flow from the developed countries of the world towards India. Main components of Globalization of Indian economy are:

Increase in Foreign Investment: Under economic reforms, limit of foreign capital investment has been raised from 40 percent to 51 percent. In 47 high priority industries foreign direct investment to the extent of 51 percent will be allowed without any restriction and red-tapism.

Export trading houses will also be allowed foreign capital investment up to 51 percent. In this regard Foreign Exchange Management Act (FEMA) will be enforced. In matters of spare parts, raw-materials and technical know how these foreign capital investment units will be subject to normal rules.

Devaluation: In order to promote exports under the policy of Globalization, Indian rupee wad devalued. In July 1991, rupee was prevalued to the extent of 20 percent on an average. The objective was export promotion, import substitution and attraction of foreign capital.

Partial Convertibility: To achieve the objective of Globalization, partial convertibility of Indian rupee was allowed. It was in conformity with economic reforms. Partial convertibility means to buy or sell foreign currency like, dollar or pound, sterling, for foreign transactions at a price determined by the market. This convertibility was valid for the following transactions:

- *Import and export of goods and services*
- *Payment of interest or divided on investment*
- *Remittances to meet family expenses. It is called partial convertibility because it does not cover capital transactions.*

Long-term Trade Policy: In conformity with economic reforms foreign trade policy was enforced for long duration viz. five years. Main characteristics of this policy are its being a liberal policy. Under this policy, all restrictions and controls on foreign trade have been removed. Open competition has been encouraged and all facilities provided to this end. Barring some specific goods, any other good can be imported or exported. By restricting the number of goods imported or exported by the state agencies, equal opportunities of trade have been provided to all. Another feature of this policy is that administrative controls have been minimized.

Reduction in Tariffs: In order to render India economy beneficial internationally, custom duties and tariffs imposed on imports and exports are being reduced gradually.

Extension of Openness of India Economy: With a view to expanding the openness of India economy, foreign investment and use of foreign modern technology are being encouraged.

Export Promotion: Several measures have been taken to meet the deficit of balance of payments. Exports' have been promoted. Special facilities have been provided to the exporters in order to increase the share of Indian exports in world trade.

OTHER ECONOMIC REFORMS:

Since 1991, following economic reforms concerning liberalization, privatization, and globalization have also been undertaken:

Fiscal Reforms: Fiscal reforms means increasing the revenue receipts and reducing the public expenditure of the government in a manner that production and economic welfare are not adversely affected. Its main objective was to reduce fiscal deficit, that stood at 8.5 percent or GDP in 1990—91, to 4 %. Several reforms were undertaken to achieve this objective e.g. control over public expenditure, increase in taxes, sale of share of public sector enterprises, and increased price of public sector products.

On the basis of the recommendations of Raja J. Chellia Committee Report, long-term fiscal policy was announced. This fiscal policy initiated many reforms. Taxation system was made more scientific and rational. The maximum limit of income tax was reduced from 50 percent to 30 percent. Profits of foreign companies were scaled down. Custom duties were brought down from 250 percent to 50 percent. Excise duty on several commodities was reduced. Subsidies were cut down (vi) Special efforts are being made by the government to cut public expenditure. State governments will pay special attention to develop their enterprises; deficits of State Electricity Board and Transport Corporation are being reduced.

Financial Reforms: These reforms refer to reform in country's monetary and banking policies. Government had appointed Narasinham Committee to introduce financial reforms. Main recommendations of this committee are as under: On their basis government has introduced significant financial reforms:

- Re*duction in liquidity ratio:* Statutory Liquidity Ratio (SLR) has been lowered from 38.5 percent to 25 percent. Likewise Cash Reserve Ratio (CRR) has recently been brought down to 5.00 percent effective from fortnight June 15, 2002.
- *Free Determination of Interest Rates:* Rates of Interest should not be determined by the Reserve Bank rather the same be allowed to be determined by the banks independently.
- *Reconstitution of banking system:* Banking system should be reconstituted
- *More freedom to banks:* Different banks should be given 'freedom to recruit their own officials. Inspection of the banks should be based 0 internal inspection reports.

ADVANTAGES OF LIBERALIZATION & GLOBALIZATION:

Following points may be noted in favour of these reforms:

Increase in Rate of Economic Growth: Despite huge investments during first fifty years of planning, growth rate of domestic product oscillated around 3.6% and of per capita income around 1.4% per annum. However, between 1981-2002 these rates have risen to 6.5% and 4.3% respectively.

Yet, in comparison to the growth rate of many Asian countries, for example, Malaysia, South Korea, Hong Kong, Taiwan, Singapore, India's performance has been rather dismal. Growth rate of per capita income is lower compared to most developing nations of the world. All this called for drastic economic reforms as a result of which growth rate of per capita income could be increased as much as in the other developing countries.

Increase in competitiveness of Industrial Sector: Economic reforms are also essential to increase competitiveness of the Indian industry. Despite a fair degree of diversification, Indian industry stands almost nowhere, in the international market. Because of 'Protection' and wide extent of uncompetitive 'home market, Indian industry remained technically far behind than most of the other small nations. High production costs touched its international competitiveness.

Accordingly, our share in international trade which was 2% in 1950 has been reduced to just 0.7% in 2001. New economic policy is expected to time late the industrial activity in a manner that, it becomes competitive and profitable. Foreign investment is expected to increase and along with it will come improved technical know-how. Efficiency and productivity levels will positively increase.

Reduction in Poverty and Inequality: Plans in India have thus far failed to reduce poverty or inequality in the distribution of wealth and income. New policy aims at developing human resources. As a result of the policy of liberalization, people will get more opportunities of self employment. It will help reduce poverty and inequality of income.

Increase in Efficiency of Public Sector: Plans in India have been according special status to the public sector. Unfortunately however, this sector piled up only inefficiency and losses. An investment of nearly 30 thousand crores of rupees in this sector yielded on average just 3% of profit, which is hopelessly low. New Economic Policy will remove defects of public sector and improve its efficiency.

Fall in Fiscal Deficit: Because of several factors, fiscal deficit and budgetary deficit of the government had been consistently rising. In 1990-91, it was 8.5% of GDP to meet this deficit; the government has been raising various loans both from within and outside the nation. These loans involve heavy interest burdens. The bulk of government revenue is spent by way of interest payments; little is left for investment purposes. Invariably the government has to resort to deficit financing; thus adding to inflationary pressures in the economy. New Policy hopes to prevent such tendencies.

Control of Prices: Consequent union new economic policy, there will be less deficit financing, rates of taxation will be slashed, supply of money contracted, public expenditure cut and production increased. All these will keep the prices under control.

Decline in Deficit of Balance of Payments: Deficit on the balance of payments on current accounts has almost touched unmanageable limits. New measures claim to boost exports and discourage imports. These measures should also raise global confidence in the economic system. Foreign exchange services would increase.

Increase in Efficiency: Public sector in India has tended to breed inefficiency resulting in low level of productivity. Several factors are responsible for it. For instance, wrong implementation of the policy of controls, unrestricted import substitution, heavy dose of protection, etc. Inefficiency of Indian economy is reflected in low productivity of capital, less production than production capacity, large number of sick units etc. New Economic Policy will add to the efficiency of the in many ways viz. closure of inefficient units, scientific management, improvement in technology, competition, foreign co-operation, freedom from controls etc.

Favourable to Middle Class: New policies are expected to be favourable to the middle class. The size of middle class in India has inflated to 10 cores of people. This class is conscious of raising their living standards, and they are expected to spend their increased real income on the purchase of increasing flow of goods and services. Disposable income of this class has gone up due to several connections on direct taxes. People belonging to this class, like to spend most of their income on consumer durables, like colour TV, Refrigerator, Car, VCR etc. To take advantage of the rising demand for these goods, private enterprises be given full freedom. With the expansion of private sector, income and purchasing power of the middle class will go up. Thus, expansion of consumer goods industries will get encouraged.

Development of Small Scale Industries: Significance of small scale industries has substantially increased in India. But owing to the constraints of licensing and other controls, this sector has failed to make any progress to the extent desire. New policies are expected to offer conducive environment to the small scale sector allowing it to progress rapidly. Development of this sector will promote employment, reduce poverty and minimize inequalities of income. In short, New Economic Policy will accelerate growth rate of the economy and help correct ill.

CRITICISMS OF LIBERALIZATION AND GLOBALIZATION:

As regards criticism of New Development Policy we may note following observations:

Less importance to Agriculture: New Policy seems to have ignored the significance of agricultural sector to the economy. The policy concerns itself largely with industrial development and modernization. However, it would be wrong to think that the Indian Economy can be developed entirely on the basis of industrialization without caring for agricultural development.

Induced by IMF and World Bank it is also said that the policy of liberalization and globalization has been endorsed by the Indian government under pressure from IMF and World Bank. These financial institutions are tyring to impose their own conditions of lending. Being in dire need of loads, India had no option but to surrender. Thus, the paid basis of the New Economic Policy is not the outcome of governments independent decision father it is the result of pressure by international financial institution these policies, it is feared, would promote the investment of multinationals and big industrial houses in India, ignoring the well being of the teeming millions struggling for survival.

More Dependence on Foreign Debt new Policy is also criticized because of its excessive dependence on external assistance. It does not attach any significance to the development of internal resources. Repeated loans for development have increased total quantum of our indebtedness to such an extent6 that we have reached close to the whirlpool of debt trap. Today, every Indian is burdened with foreign debt to the tune of about Rs. 1500. The situation has become so grave that 85% of fresh foreign loans is used for repayment of the old principal and payment of interest thereon. Too much dependence on foreign loans may prove disastrous for us.

Dependence on Foreign Technology: New Economic Policy has accorded more importance to foreign technology than Swadeshi technology. Under this policy, to impart technological dynamism to the India industry, the government has decided to allow unrestricted import of foreign know-how. Superior technology is the monopoly of multi national which they make use of fully for their own profit. India will gain less but lose more by it.

Development on the basis of superior foreign technology would involve huge social cost in the form of economic concentration growth of monopolies, regional imbalance, investment of capital in undesirable sectors, competition for domestic investment, neglect of public sector, undue promotion of private sector etc.

Promotion of Consumerism: The New Policy is also feared to encourage the production of comforts and “luxuries” trapping the poor masses in the cobweb of consumerism. Demonstration effect would multiply and the ever-rising demand for comforts and other luxuries would only distort the pattern of investment. The production of wage goods and good necessary for social welfare would suffer for want of resources and their shortage should cause misery among the poor.

More importance to Privatization: New Economic Policy is designed to encourage private and discourage public sector. The argument advance is ‘that private sector is more efficient than public sector. It has more productivity and more profitability. But the basic objective of public sector is not earning of profit only. Making available public utility services at cheap rate, developing backward and under developed regions, generating employment opportunities, establishing basis and heavy Industries, promoting exports, contribution to national income, helping the development” of small and cottage industries, achieving self-sufficiency, etc. have been the other important objective of public enterprises, although their profitability has been less than private Enterprises.

However, the remedy or alternative does not lie in promoting privatization or private sector. Privatization is not the only panacea of industrial backwardness. No useful purpose will be served by transferring the ownership from government to private hands. More than lakh 36 thousand units in the private sector are sick and Rs. 10767 crore of bank loans are out taking against them. Privatization has come inherent maladies which are bound to cause disequilibrium in the economy. One cannot overlook evils like, growth of monopolistic tendencies, exploitation of the people, problem of black money, hoarding, profiteering etc.

Problem of Unemployment: Unemployment is bound to increase with New Economic Policy. Retrenchment will become almost an inseparable part of new economic order in the Indian Economy. Already, National Textile Corporation has laid off nearly 50,000 workers. Profitability will enforce the application of capital intensive technique with unemployment as a natural corollary. This will lead to a struggle between labourers and capitalists, adversely affecting production.

In short economic reforms were initiated in July 1991, in India. A period of ten years has elapsed since then. During this period, several objectives of economic reforms have been achieved. However, these reforms could neither alleviate poverty nor reduce unemployment. It is therefore, imperative that policies relating to these reforms should be so modified as to help eradicated poverty and minimize unemployment.

SECOND PHASE OF ECONOMIC REFORMS IN INDIA:

In September 1999, Finance Minister of India during the course of annual conference of World Bank and International Monetary Fund in Washington referred to the second phase of economic reforms in India. Reforms in the second phase provide for:

- *Development of social and economic infrastructure*
- *Undertaking in more risks by the banking sector*
- *Liberalization of agriculture*
- *Reforms in table communication sector*
- *Help to Indian firms to enable them to make progress and become multinational*
- *Development of creative power of the people so as to occupy eminent place in selected sectors and*
- *To take full advantage of the opportunities thrown open by globalization of information and education services.*

As a result of these reforms India will not only become a rapidly advancing economy but also a human society that will be at the peak of human development.

11.3 SUMMARY:

- Prior to 1991, government had imposed several types of controls on Indian economy e.g. industrial licensing system; price control or financial control on goods, import license, foreign exchange control restrictions on investment by big business houses, etc. It was experienced by the government that several shortcomings had crept into the economy on economy on account of these controls. Liberalization of the economy was introduced to free it from direct or physical controls imposed earlier.

- For a long time, the private sector was functioning under a rigid licensing system. Under New Economic Policy private sector has been fire to a large extent, from the yoke of licenses and other restrictions. In July 1991, a new Industrial Policy was announced in this respect. According to it, with the exception of 6 Industries, industrial licensing has been abolished for all other industries.
- The concept of MRTP has been done away with. These firms are now no longer required to obtain prior approval of the government, at the time of taking investment decisions. They ate free to expand themselves. Large concessions have been granted to companies falling under MRTP Act. Capital investment limit fixed earlier has been removed.
- Globalization may be defined as a process associated with increasing openness, growing economic interdependence and deepening economic integration in the world economy.

11.4 KEY WORDS:

Liberalization: Liberalization of the economy means to free it from direct or physical controls imposed by the government.

Abolition of Industrial Licensing and Registration: Main feature of the New Industrial Policy is to adopt a policy of liberalization in place of controlled economy. Till now, private sector of the economy was functioning under a rigid licensing system. Under New Economic Policy private sector has been fire to a large extent, from the yoke of licenses and other restrictions. In July 1991, a new Industrial Policy was announced in this respect. According to it, with the exception of 6 Industries, industrial licensing has been abolished for all other industries.

Concession from Monopolies Act: Under liberalization, the concept of MRTP has been done away with. These firms are now no longer required to obtain prior approval of the government, at the time of taking investment decisions. They ate free to expand themselves. Large concessions have been granted to companies falling under MRTP Act. Capital investment limit fixed earlier has been removed.

Globalization: Globalization means integrating the economy of a country with the economies of other countries under conditions of freer flow of trade and capital, and movement of persons across borders.

Partial Convertibility: Partial convertibility means to buy or sell foreign currency like, dollar or pound, sterling, for foreign transactions at a price determined by the market.

Fiscal Reforms: Fiscal reforms means increasing the revenue receipts and reducing the public expenditure of the government in a manner that production and economic welfare are not adversely affected. Its main objective was to reduce fiscal deficit.

11.5 SELF-ASSESSMENT QUESTIONS (SAQs):

1. Write detailed note on economic reforms in India.
2. Discuss the process of Globalization in detail.
3. What is liberalization? Discuss giving examples in the Indian context.

11.6 REFERENCES / SUGGESTED READING:

- **Indian Economy (its Development Experience)** by Misra; Puri;
- **Development Economics** by Bharadwaj, Krishna; Kaviraj, Sudipta;
- **India's Economic Policy** by Jalan;
- **Indian Planning at the Crossroads** by Datta, Bhabatosh;
- **Indian Economics** by Myneni, Dr.; Publisher: Allahabad Law Agency (2002)
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Bachelor of Mass Communication (1st year)

(BMC-107) ECONOMICS Block: E Unit: II Lesson: 12

SWADESHI

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LESSON STRUCTURE:

In this lesson we shall discus about the various aspects of the concept of Swadeshi. Swadeshi means indigenous, or native or homegrown, or indigenous; as opposed to foreign. First, we shall focus on Swadeshi in India. We shall also briefly discuss the Recent Controversies regarding Swadeshi. The lesson structure shall be as follows:

12.0 OBJECTIVES:

Swadeshi means indigenous. Swadeshi means homegrown. As a concept, this is very old. This age-old practice is there since time immemorial. In developing countries like India and most under-developed countries, foreign technologies and foreign-made products are a huge hit. Swadeshi is a movement to counter the foreign invasion by the foreign or Multi National Companies. In this lesson we shall try to cover various aspects of the concept and practice of Swadeshi.

The objectives of this lesson are:

- To Get an Introduction to Swadeshi in India
- To Understand the Recent Controversies regarding Swadeshi

12.1 INTRODUCTION:

Swadeshi means native. It means local or locally built. Swadeshi means homegrown. Swadeshi is opposite of foreign. The term ‘Swadeshi’ may have different meanings for different people. It often always arouses national feelings. ***Swadeshi*** was a slogan to exhort people to put the nation before self and also for larger participation by the people in nation building.

In this lesson we shall discuss the various aspects of Swadeshi including an Introduction to Swadeshi in India and some controversies regarding Swadeshi.

12.2 PRESENTATION OF CONTENT:

The content of this lesson shall be presented as follows:

- o Swadeshi in India- An Introduction
- o Swadeshi- Recent Controversies

12.2.1 SWADESHI IN INDIA- AN INTRODUCTION:

The term Swadeshi reminds of the early days of our national struggle for attaining independence when Mahatma Gandhi gave a nationwide call for rejection of foreign goods, particularly foreign textiles. This call received an overwhelming response from all Indians. This was due to the sentimental issue of attaining independence from British regime.

But nowadays, with the changes in time, nobody subscribes to Swadeshi though it has far reaching appeal and impact.

Recently, in India, Swadeshi has been mooted as an alternative policy package by a section of population to reject westernization. Critics say that it is a move against modernization. But followers of this concept say that Swadeshi promotes human welfare through the adoption viable alternatives to modernization.

The Bhartiya Janata Party (BJP) is an ardent supporter of this Swadeshi policy. The BJP led coalition Government that came to power in March 1998, promoted the idea of Swadeshi in its economic policies. The policy of Swadeshi gained momentum under the BJP led coalition Government. But this policy also faced many problems under the prevailing global economic set up.

The BJP led coalition Government continued the process of economic reforms along with a strong "Swadeshi" thrust. The BJP led coalition Government also pledged a 7 to 8 % growth in its Gross Domestic Product (GDP). This was seen as a step to reassure foreign investors who are very much worried about the fate of economic reforms.

With the continuation of the process of economic reforms along with globalization, it promised "*to carefully analyze the effects of globalization, regulate the process of it by devising a time table to suit our national conditions and requirements so as to undermine but strengthen the national economy, the indigenous industrial base and the financial and service sectors*".

In the same way, the policy statement of the BJP Government on Foreign Direct Investment (FDI) also failed to help much in advancing the concept of "Swadeshi". The National Agenda categorically mentioned about how to encourage FDI in core areas and also to non-priority areas instead of core and non-core areas. Now the important task before the Government was to translate the policy on FDI flows and ensure its smooth functioning. But the BJP Government failed in this effort. In order to enhance and promote FDI flows into the country, it was essential to sent correct signals to the foreign investors at the earliest possible time. But the BJP Government failed on this front too.

Another important area on which the BJP Government failed is the insurance sector. The BJP Government had to take a clear strand with regard to the opening of the insurance sector, on which the BJP was committed to prohibit MNCs from entering into insurance business. But it was not so easy for the government to keep the commitment made to WTO earlier simply by making a legislation to introduce an Insurance Regulation Authority with statutory powers on the matter relating to issuing licenses, ensuring fair competition and other relevant issues.

The BJP led government took a decision to permit joint ventures in the insurance field, and this proved to be a positive signal to the MNCs about its policy on FDI and at the same time, removed some of the negative impacts of the concept of Swadeshi. Next, the BJP led government took a decision to permit domestic private investors to play as a regular player in the insurance field. This was an experimental and introductory step on this crucial issue.

The BJP-led coalition Government in its National Agenda had also laid adequate emphasis on development of infrastructure and allowed the flow of foreign Direct Investment (FDI) in core areas in addition to giving stress on eradication of poverty and unemployment. It was also decided to allocate 60 percent of plan funds on agriculture, rural development and irrigation in order to have a quantum jump in its agriculture output. The Government had also decided to set a target for national savings to 30% of GDP as compared to that of the then prevailing 22%.

In order to instill confidence among investors, the capital market was revived through various measures. The country was poised to play a very crucial role in the World Trade Organization (WTO) so as to guard adequately its external trading sector.

Thus under this highly competitive global market, particularly after completing seven years of economic reforms, it was imperative on the part of BJP government to make a fresh review of the sequencing of basic reform measures, more particularly on the critical issues of reforms. The BJP Government also tried to develop the agricultural sector with the induction of proper technology. Moreover, the BJP Government set up a Public Utility Regulatory Commission (PURC) as a watchdog body, in line with US Federal Regulatory Commission, so as to protect the interest of the consumers.

12.2.2 SWADESHI- RECENT CONTROVERSIES:

Some economists and social scientists argue that the concept "Swadeshi" gained some importance very recently. They are of the view that those who do not have the capacity or willingness to face competition and thereby want to have protectionists policy so that in the absence of competition, those domestic producers can pressurize domestic consumers to purchase its shoddy products at higher prices and to earn even monopoly profits. They also argue that the protectionist policies pursued over the last five decades lead to no improvement in the production and quality of consumer goods produced in India.

The need of the hour is to accept the challenge of foreign competition by those unworthy domestic producers by restructuring their business, induction of adequate new technologies, improving the quality of their products and diversifying the market of their products. In this connection, there is need to establish link between the industry and universities and research institutes for developing technologies and products which are of international quality.

By adopting this process they will be able to face competition and can sell their products to the domestic consumers instead of arguing in favour of Swadeshi. Once they can satisfy the domestic consumers, they will be able to extend the market of this product at the international level and in this way Indian entrepreneurs will be able to play dominant role in the international market.

Moreover, recently India has become an important member of World Trade Organization (WTO) after signing the treaty in 1995. Under the present set up, it is quite impossible to reverse our economic policy towards protectionism from the present trend of globalization.

It is said, "*Swadeshi is not anti-globalization. It is an attitude of the mind, suggesting nationalism and patriotism. It exhorts people to work harder for the country and to place nation before self. Swadeshi is the best means towards globalization and can create a more equal and more just world*"

Former Prime Minister, Mr. Vajpayee has also rightly observed, "*Swadeshi does not mean that we do not value foreign investment. It only means that the bulk of resources needed for our development must be mobilized by ourselves*."

Thus in order to attain this, the Government has proposed to take steps to raise the rate of savings from 26% of GDP at present to about 30%. However, foreign resources could supplement these domestic resources also.

12.3 SUMMARY:

- Swadeshi means native. It means local or locally built. Swadeshi means homegrown. Swadeshi is opposite of foreign.
- The term 'Swadeshi' has different meanings for different people. It often always arouses national feelings. *Swadeshi* was a slogan to exhort people to put the nation before self and also for larger participation by the people in nation building.
- The term Swadeshi reminds of the early days of our national struggle for attaining independence when Mahatma Gandhi gave a nationwide call for rejection of foreign goods, particularly foreign textiles. This call received an overwhelming response from all Indians. This was due to the sentimental issue of attaining independence from British regime.
- Recently, in India, Swadeshi has been mooted as an alternative policy package by a section of population to reject westernization. Critics say that it is a move against modernization. But followers of this concept say that Swadeshi promotes human welfare through the adoption viable alternatives to modernization.
- The Bhartiya Janata Party (BJP) is an ardent supporter of this Swadeshi policy. The BJP led coalition Government that came to power in March 1998, promoted the idea of Swadeshi in its economic policies. The policy of Swadeshi gained momentum under the BJP led coalition Government. But this policy also faced many problems under the prevailing global economic set up.

12.4 KEY WORDS:

Swadeshi: Swadeshi means native. It means local or locally built. Swadeshi means homegrown. Swadeshi is opposite of foreign. The term 'Swadeshi' has different meanings for different people. It often always arouses national feelings. *Swadeshi* was a slogan to exhort people to put the nation before self and also for larger participation by the people in nation building.

Origin of Swadeshi: The term Swadeshi reminds of the early days of our national struggle for attaining independence when Mahatma Gandhi gave a nationwide call for rejection of foreign goods, particularly foreign textiles. This call received an overwhelming response from all Indians. This was due to the sentimental issue of attaining independence from British regime.

Swadeshi in Recent Times: Recently, in India, Swadeshi has been mooted as an alternative policy package by a section of population to reject westernization. Critics say that it is a move against modernization. But followers of this concept say that Swadeshi promotes human welfare through the adoption viable alternatives to modernization.

12.5 SELF-ASSESSMENT QUESTIONS (SAQs):

Write a detailed note on the concept of Swadeshi.

Discuss the concept of Swadeshi as envisaged by the BJP-led Government.

Write a detailed note on the recent controversies regarding Swadeshi.

12.6 REFERENCES / SUGGESTED READING:

- **Indian Economy : Its Development Experience** by Misra; Puri;
- **Development Economics** by Bharadwaj, Krishna; Kaviraj, Sudipta;
- **India's Economic Policy** by Jalan;
- **Indian Planning at the Crossroads** by Datta, Bhabatosh;
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