1. State and explain the definition of Economics provided by Alfred Marshall?

Marshall is a well-known economist. He was behind Smith and for him all the way, approximately hundred twenty years after Smith's book on Economics. Alfred Marshall wrote a book in Cambridge which was entitled "PRINCIPALES OF ECONOMICS".

In this book, Marshall defined Economics as an instrument to remove the doubts of the people regarding the subject.

Marshall stated , ***"Economics is the study of mankind in the ordinary business of life; it examines that part of individual and social Action which is most is closely connected with the attainment and use of the material requisites of well-being"***

From the definition, we able to achieve three main points:

(i) Ordinary business of life or Economics as a social science.

(ii) Attainment and use of material requisites or production and consumption of wealth.

(iii) Well-being or welfare of the society.

(i) ORDINARY BUSINESS OF LIFE OR ECONOMICS AS A SOCIAL SCIENCE:

According to Marshall, Economics is studies the economic behavior of the people living in the society. Economic activities of the people outside the society are not, therefore, considered in the study of economics. Hence Economics does not study the isolated individuals or any "Robinson Crusoe". By this he shows that economics is a social science.

(ii) ATTAINMENT AND USE OF MATERIAL REQUISITES OR PRODUCTION AND CONSUMPTION OF WEALTH:

In the ordinary business of life, human beings perform different types of activities such as political activities , sports, economic activities , moral and religious activities, of all these activities of ordinary life, Economics Studies only those activities which are related with the attainment and use of material requisites or in other words, the production and consumption of wealth.

(iii) WELL BEING OR WELFARE OF THE SOCIETY:

According to Marshall, the objective of the study of Economics is to promote the material welfare of the people, to Marshall. Economics focuses on only material aspects of life and therefore studies material requisites well-being. Hence, according to him economics does not regard wealth to be the goal of all human activities. In 1931, other economists, Loinel Robbins, wrote a book entitled "*NATURE AND SIGNIFICANCE OF ECONOMIC SCIENCE"*

(i)THE DEFINITION NAROWS THE SCOPE OF ECONOMICS:

The use of the word "Material" by Marshall narrows the scope of economics as well need both the material and non-material requisites of life i.e. goods and services.

The need for non-material requisites is certainly over-whelming, Examples of the nonmaterial requisites are the service of lawyers, teachers and doctors etc, these non-material requisites satisfy our wants in the same way as material requisites (or goods) and if we exclude them from the study of economics, the scope of economics would certainly be restricted.

(II)WELL BEING IS A NONMEASURABLE CONCEPT:

True enough in its meaning one cannot measure "*wellbeing*". It is something that cannot be estimated to figures, although it can be stated in theories. Thus, according to Robbins, well-being cannot be measured as stated by Marshall.

(iii)ECONOMICS SHOULD NOT PASS VALUE JUDGEMENT:

Robbins, Economics should emphasize only on human and their satisfaction and, therefore it is not concerned with whether these wants are being satisfied buy good things or bad things.

(iv) IT CREATES PROBLEMS FOR POLICY MAKING:

According to Marshal, the study of economics should be directed to pursue the concept of welfare, but Robbins objects to this point of view on the ground that the concept of welfare would place the government in a vulnerable position in the making of economic policies

2.(Discuss the importance of the study of Economics?

Today all over the world people have become highly economic minded. They have realized that the study of economics can provide them a solution to their economic and social problems. Today economics is more useful than any other branch of knowledge because it makes human welfare its direct and primary concern.My. Durbin says "Economics is the intellectual religion of the days." Following are the main importance of the study of economics.

1. USEFUL FOR THE PRODUCER:-

Economics is very useful for the producer. It guides him that how he should combine the four factors of production and minimize the cost of production.

2. USEFUL FOR THE CONSUMER:-

The consumer can adjust his expenditure of various goods in better way if he knows the principles of economics. He will spend his income according the law of Equi-Marginal utility in order to get maximum satisfaction.

3. POVERTY AND DEVELOPMENT:-

It helps in removing the poverty from the country. Under developed countries are facing many problems like unemployment, over population low per capita income and low production. Economics is very useful in solving these problems.

4. USEFUL FOR THE LEADER:-

Its study is helpful for the leader5s to understand the economic problems if they have a knowledge of Economics.

5. USEFUL FOR THE FINANCE MINISTER:-

Finance minister prepares the yearly budget of the country. Economics guides him that how he should frame the tax policy and monetary policy.

6. USEFUL FOR THE DISTRIBUTION OF NATIONAL INCOME :-

From the study of economics one can easily judge that how the income should be distributed among the four factors of production.For this purpose Marginal productivity theory is suggested by economic

7. CULTURAL VALUE:-

A person's education can not be considered complete unless he has some knowledge of economics. The things which happen daily around us have an important economic bearing. So there is also the cultural value of the study of economics.

8. IMPORTANCE FOR A COMMON MAN :-

The study of economics is very useful for every citizen. It enables him to understand and criticize the economic policies of the government. He can also guide the government.

9. ECONOMIC PLANNING:-

In the modern age the importance of economic planning cannot be ignored. Through planning we can utilize our natural resources in better way and can improve our economic condition.

10. IMPORTANCE FOR LABOUR:-

It guides the workers that how they can get maximum wages from the employer. It enables them to get the right of trade union , collective bargaining and fixation of working hours.

11. SOLUTION FOR ECONOMIC CRISES:-

It guides the nations that how they can save themselves from the economic crises. The advanced countries desire is that there should be economic stability and full employment without inflation to achieve these objectives, economics is very useful for them.

12. INSPIRES FOR DEVELOPMENT:-

The study of advanced countries economy inspires the less development countries that they can also improve their economics conditions.

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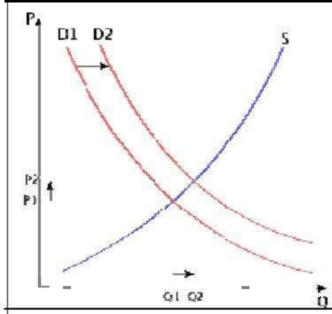
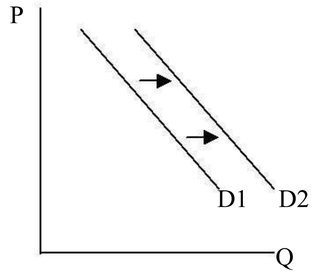
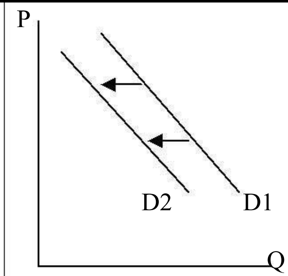
3. What is the difference between "changes in demand'' and increase/decrease in demand?

Changes in demand	Increase in Demand	Decrease in Demand
		
	Shift to the right of the Demand Curve	Shift to the left of the Demand Curve
First, a demand (or supply) determinant changes. Second, this determinant change causes the demand curve (or supply curve) to shift. Third, the change in demand (or supply) causes either a shortage or a surplus imbalance in the market. The market is in a temporary state of disequilibrium. Fourth, the shortage and surplus imbalance causes the price of the good to change. Fifth, the change in price causes a change in quantity demanded (and supplied). ·Sixth, the change in quantity demanded (and supplied) eliminates the shortage or surplus and restores market equilibrium.	Change in Factors Other Than Price 1.Increase in Taste increases the demand curve. 2.Increase in population increases the demand curve. 3.Increase in income in income increases demand if a normal good. 4.Decrease in income increases demand if an inferior good. 5.Increase in price of substitute (pepsi) increases demand for good (coke). 6.Decrease in price of complement (beer) increases demand for good (pizza). 7.If I expect the price of the product to increase in the future, my demand today will increase.	Change in Factors Other Than Price 1.Decrease in Taste decreases the demand curve. 2.Decrease in population decreases the demand curve. 3.Increase in income decreases demand if an inferior good. 4.Decrease in income decreases income if a normal good. 5.Decrease in price of substitute (pepsi) decreases demand for good (coke). 6.Increase in price of complement (beer) decreases demand for good (pizza). 7.If I expect the price of the product to decrease in the future, my demand today will decrease

4. Illustrate how equilibrium market price is determined through the interaction of demand and supply?

Introduction

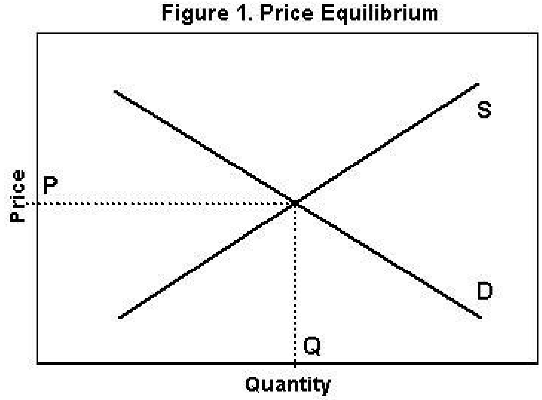
Price is arrived at by the interaction between demand and supply. Price is dependent upon the characteristics of both these fundamental components of a market. Demand and supply represent the willingness of consumers and producers to engage in buying and selling. An exchange of a product takes place when buyers and sellers can agree upon a price.

Equilibrium Price

When a product exchange occurs, the agreed upon price is called an "equilibrium" price, or a "market clearing" price. Graphically, this price occurs at the intersection of demand and supply as presented in Figure 1. In Figure 1, both buyers and sellers are willing to exchange the quantity Q at the price P. At this point, supply and demand are in balance.

Price determination depends equally on demand and supply. It is truly a balance of the two market components. To see why the balance must occur, examine what happens when there is no balance, for example when market price is below that is shown as P in Figure 1. At any price below P, the quantity demanded is greater than the quantity supplied. In such a situation, consumers would be clamouring for a product that producers would not be willing to supply; a shortage would exist. In this event, consumers would choose to pay a higher price in order to get the product they want, while producers would be encouraged by a higher price to bring more of the product onto the market.

Figure 1. Price Equilibrium



The end result is a rise in price, to P, where supply and demand are in balance. Similarly, if a price above P were chosen arbitrarily the market would be in surplus, too much supply relative to demand. If that were to happen, producers would be willing to take a lower price in order to sell, and consumers would be induced by lower prices to increase their purchases. Only when the price falls would balance be restored.

A market price is not necessarily a fair price, it is merely an outcome. It does not guarantee total satisfaction on the part of buyer and seller. Typically some assumptions about the behaviour of buyers and sellers are made, which add a sense of reason to a market price. For example, buyers are expected to be self-interested and, although they may not have perfect knowledge, at least they will try to look out for their own interests. Meanwhile, sellers are considered to be profit maximizers. This assumption limits their willingness to sell to within a price range, high to low, where they can stay in business.

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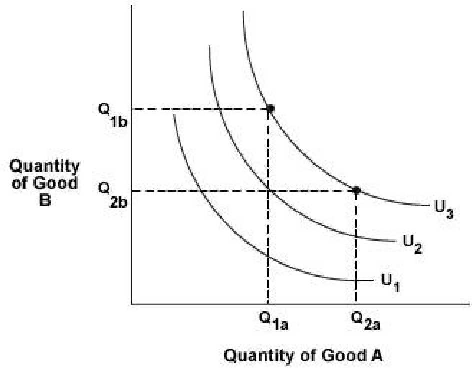
5. What is an indifference curve and what are its characteristics?

A diagram depicting equal levels of utility (satisfaction) for a consumer faced with various combinations of goods.



As an example, consider the diagram above. This consumer would be most satisfied with any combination of products along curve U_3. This consumer would be indifferent between combination Q_{a1}, Q_{b1}, and Q_{a2}, Q_{b2}.

Characteristics:

(1) Indifference Curves are negatively Sloped:

The indifference curves must slope down from left to right. This means that an indifference curve is negatively sloped. It slopes downward because as the consumer increases the consumption of X commodity, he has to give up certain units of Y commodity in order to maintain the same level of satisfaction.

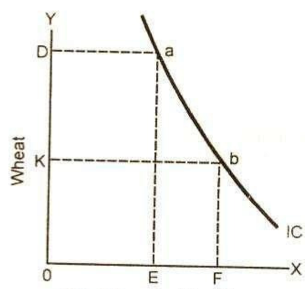


Fig. 3.4

In fig. 3.4 the two combinations of commodity cooking oil and commodity wheat is shown by the points a and b on the same indifference curve. The consumer is indifferent towards points a and b as they represent equal level of satisfaction.

At point (a) on the indifference curve, the consumer is satisfied with OE units of ghee and OD units of wheat. He is equally satisfied with OF units of ghee and OK units of wheat shown by point b on the indifference curve. It is only on the negatively sloped curve that different points representing different combinations of goods X and Y give the same level of satisfaction to make the consumer indifferent.

(2) Higher Indifference Curve Represents Higher Level:

A higher indifference curve that lies above and to the right of another indifference curve represents a higher level of satisfaction and combination on a lower indifference curve yields a lower satisfaction.

In other words, we can say that the combination of goods which lies on a higher indifference curve will be preferred by a consumer to the combination which lies on a lower indifference curve.