Static and Dynamic Economics

Meaning of Static Economics:

The word 'static' has been taken from physical science. It points to a position of complete rest

In other words, by static is meant a position where there is the absence of any movement.

But the concept of statics has its different meaning in economics. It does not point to a position of complete rest or no movement.

In economics, the concept of static refers to a situation where there is a movement. But this movement is continuous, certain, regular and constant. Static economics does not deal with the unexpected changes. It studies only the expected economic activities. There are no windfall changes or fluctuations in economic activities. According to Prof. Harrod, **"An economy in which rates of output are constant is called static."**
Economic activities are repeated in different time periods in a static economy. No changes in economic activities occur. For example, India's national income increased by 5% in 1977-78. The increase in 1978-79 and 1979-80 was also 5%.

The study of national income is called a static analysis because the rate of increase in national income is the same. In other words, this study of India's national income shows that Indian economy passed through a stationary state during these years. According to J R. Hicks, "Economic statics covers that part of economic theory where we do not trouble about dating."

Scope and Importance of Static Economics:

Static economics occupy an important role in economics. According to Prof. Harrod, "Statics will remain an important part of the whole economics."

We can explain the importance and scope of static economics as under:

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1. It is the simple and easy method of economic analysis. It is easier to understand and economical in thought.

2. It is the basis of the principle of free trade. The principle of free trade which was favoured by classical economists like Adam Smith is an integral part of static economics.

3. Robbins' definition is also the subject matter of static economics. Robbins defined economics as a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses. This definition is a part of static economics.

4. Static economics gives knowledge of the conditions of equilibrium. It tells that price is determined where demand for the supply of goods is equal. Similarly, income is in equilibrium where planned investment and planned savings are equal.

5. It is the basis of dynamic analysis. Prof. Hicks has pointed out that static economics occupies an important role because it gives a lot of information for the proper understanding of dynamic economics. We can understand the path of equilibrium only after studying the conditions of equilibrium.

6. Keynes' theory is also static in nature. It shows only a once-over change of variables like consumption function, multiplier, liquidity preference, etc. The effect of once-over change of economic valuables is studied in static economics.

Limitations of Static Economic Analysis:

Static economic analysis has its drawbacks too.

They are given below:

1. Constancy of Variables:

Prof. Clark and Stigler have assumed many economic variables as constant. They are population, quantity of capital, natural resources, techniques of production, habits and fashions, etc. We know that these economic factors change in reality. So static economic analysis is far from reality.

2. Unrealistic Assumptions:
Static analysis is based on unreal assumptions like perfect competition, perfect mobility, perfect knowledge, full employment, etc. These assumptions are far from the real world. That is why Prof. Hicks said, "Stationary state in the end is nothing but an evasion."

3. It ignores Time Element:
Another shortcoming of the static analysis is that it studies a timeless economy. But in reality, many changes occur with the passage of time. Therefore, it gives a narrow explanation of economic problems.

4. It does not Explain the Path of Equilibrium:
Static analysis explains only the final state of equilibrium. And comparative statics compares only the two final equilibrium states. It does not show how this new equilibrium has been reached. Though comparative static economic analysis has many drawbacks, yet it occupies an important role in economics.

Many important classical laws are a part of static economic analysis. Moreover, it is a simple type of economic analysis. It is easier to understand.

Concept of Dynamic Economics:
The concept of dynamics is derived from Physics. It refers to a state where there is a change such as movement.

Tides of the sea, a bird flying in the sky are examples of dynamics. But the word 'dynamic' has a different meaning in economics.

We have known that there is movement in statics also but this movement is certain, regular and expected. While dynamics refers to that movement which is uncertain, unexpected and irregular.
Therefore, an aero plane flying in the sky is in a dynamic state only if its direction, height and speed are uncertain. We know from day to day experience that fluctuations occur in the economy quite often. And it is not possible to make correct predictions about such fluctuations.

The concept of dynamics is nearer to reality. In dynamic economics we study the economic variables like consumption function, income and investment in a dynamic state.

In the real world, economic variables like population, capital, techniques of production, fashions, habits, etc. do not change at a constant rate. The rate of change is different at different times.

For example, the population of a country may increase at a rate of 2% in the first year; 3% in the second year and 5% in the third year, if the other economic variables change at unequal rates, the rate of output will also change at different times. In a dynamic state, there is uncertainty of every change. So, it is not possible to make correct predictions.

Recently the concept of dynamics has been applied to the economy as a whole, Prof. Clark has pointed out the following features of a dynamic economy:

(i) In a dynamic economy, population grows;

(ii) Quantity of capital grows;

(iii) Modes of production improve;

(iv) Industrial institutions undergo changes. Inefficient organizations are replaced by efficient organisations.

(v) Habits of the people, fashions and customs change, as wants of the people increase.

We can conclude by saying that dynamic economics relates to a dynamic economy where uncertainty and expectations play their part.

Scope and Importance of Dynamic Economics:

Dynamic economics is becoming more and more popular since 1925. Though the principles advocated by Clark and Aftalian were dynamic in nature yet their main purpose was to explain the business fluctuations. After 1925,

dynamic economics became popular not only in business fluctuations but also in the determination of income and growth models.

The following points explain the scope and importance of dynamic economics:

1. Study of Time Element:

Time element occupies an important role in dynamic economics. Economic problems concerning continuous change of economic variables and path of change can be studied only in dynamic economics.

2. Trade Cycles:

Theories of trade cycles have been advocated only through the introduction of dynamic economics. Theories of trade cycles are based on dynamic economics as they refer to the fluctuations of the different time periods.

3. Basis of many Economic Theories:

Dynamic economics has an important place in economics because many economic theories are based on it. For example, saving and investment theory, theory of interest, effect of time element in price determination, etc. are based on dynamic economics.

4. More Flexible Approach:

Dynamic analysis is more flexible. Models regarding the possibilities of economic change can be development in dynamic analysis. That is why it has been found a useful mode of study. Dynamic economics is also useful in solving the problems of economic planning, economic growth and trade cycles.

5. Realistic Approach:

Dynamic economic analysis is nearer to the reality. In a real world, economic variables like national income, consumption, etc. change irregularly and uncertainly. Moreover, economic variables of the previous period also affect the present economy. And time clement occupies an important role in economic analysis.

Limitations of Dynamic Economics:

Dynamic economic analysis has its shortcomings too. It is difficult to understand.

Its main limitations are the following:

1. Complex Approach:

Dynamic economic analysis is a complex approach for the study of economic variables because it is based on time element. To find solutions of various problems, we have to make use of mathematics and economics which is beyond the understanding of a common man.

2. Not Fully Developed:

Many economists like Samuelson and Harrod, have developed dynamic approach of economic analysis. They have developed their theories through dynamic analysis. But this mode of economic analysis has not been fully developed. The reason is that factors affecting economic variables change very soon. Dynamic approach is not developing at the speed at which economic factors change.