

A common theme running through all these definitions is that scarcity is a fact of life and that an efficient use of these scarce resources is to be found. That is how we define economics as a science that deals with scarcity.

It explains the behaviour of different economic units, households, firms, government and the economy as a whole, when they are faced with scarcity.

1.2 CONCEPT OF SCARCITY

“Scarcity” lies at the root of all economic activities. The concept of scarcity finds an expression in two basic facts of economic life:

- A. Unlimited wants or ends, and
- B. Scarce resources or means.

A. Unlimited wants or ends

Every person has some wants. Different persons have generally different wants, and wants of even the same person keep changing with the passage of time, change of place and status.

Human **wants are unlimited and keep on increasing**. Different wants differ in their intensity. Subject to the availability of resources, higher order wants need be satisfied first and if the resources are still available these may be used to satisfy lower order wants.

B. Scarce resources or means

Satisfaction of wants requires resources (or the means to satisfy wants). Availability of resources is limited in relation to requirements.

However, scarce means have alternative uses.

The resources therefore need be allocated among different uses in a systematic coordinated manner. Every individual and economy has to devise a mechanism for this.

Different societies try to solve these issues in different ways and in the process each society creates a set-up called ‘an economy’. The term ‘economy’ or ‘economic system’ is a comprehensive one. It covers the entire set of institutions and arrangements, (including rules and regulations which facilitate their interactions) for resolving the basic and permanent problem of an imbalance between means and wants.

The human society has evolved several sets of such institutional arrangements each is termed an economic system and they have their own distinguishing features and nomenclatures. These systems try to adopt their own means and methodologies for solving the basic problems.

For example, take the case of a capitalist economy. In this case the means of production are owned and inherited by individuals, and various economic decisions are guided by prices of goods and services in the market. The income of an individual is determined by means of production supplied by him to the market and the price which they are paid for their service. On the other hand, in a strict socialist economy all the means of production are owned by the state. The state takes all the decisions regarding the use of available resources.

Introduction

However, whatever its nature, every economy has to solve the basic problem of scarcity of means in relation to the ever-increasing and varied wants. The means and wants can be combined in alternative ways. The problem of scarcity exists in every society, irrespective of the levels of its development. Hence it has to address itself to two issues:

- 1) increasing the availability of means of satisfaction, and
- 2) laying down the priorities of the wants to be satisfied.

Check Your Progress 1

- 1) State two important characteristics of wants which make them unlimited in number.

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- 2) What is an economy?

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- 3) Pick up the correct option among the following:

Which of the following can be called scarce:

- a) Stock of rotten vegetables
- b) Useless plants in a jungle
- c) Number of flowers in a nursery
- d) Water in a dirty pit.

1.3 MEANING OF PRODUCTION

The term **‘Production’** implies the transformation of various inputs into output thereby increasing the want-satisfying capacity of the inputs. The process of production transforms the things occurring in nature into goods and services which are capable of satisfying human wants. The things which are so transformed are called inputs while output is nothing but the transformed form of inputs, that is, the goods and services. This involves some human effort, both physical and intellectual. The transformation may be physical (a different appearance which enhances want satisfying capacity), spatial (relocate or transfer the things from one place to another to make them available to the end users) or inter-temporal (saving/preserving things which arise/grow/made today for use at a later date-storage and warehousing). A particular transformation is production if the want-satisfying capacity of the output (also called ‘product’) is more than that of inputs used. To put it differently production is nothing but the creation of utility.