**Unity PG And Law College**
**LLB (Integrated) Five Year Degree Course**
**(1st Year) 1st Semester**
**Paper Code: LB-102**
**Paper II**
**Economics I**
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## Course: Unit-1: Introduction to Economics

1. **Nature and Importance of Economics**
2. **Micro and Macro Economics, Positive and Standard Economics**
3. **Economic Theory of Democracy**
4. **Economics and Law**
5. **Basic Concepts: Balance, Marginal Utility, Opportunity Cost, Black Money, Value, Direct and Indirect Taxes**

## 1- Nature and Importance of Economics

**The word 'economics'** is **derived from two Greek words OIKOS** and NEMEN, which mean house rule or law. The study or theory of the way money, business and industry are organized.

**"Economics is the science of wealth"** was the definition given by Adam Smith. He is also known as the 'Father of Economics'

Economics is a social science that **focuses on the production, distribution, and consumption** of goods and services, and analyzes the choices that individuals, businesses, governments, and nations make to allocate resources.

Economics is classified into two important parts:

- **Microeconomics** – Microeconomics deals with how supply and demand interact in individual markets for goods and services.
- **Macroeconomics**—In macroeconomics, the topic is usually one nation—how all markets interact to generate large events that economists call aggregate variables.

Central Problems of an Economy:

1. What to produce?
2. How to produce?
3. Who to produce for?

**What to produce?**

This is one of the central problems in an economy. It deals with the type and quantity of goods and services that need to be produced.

**How to produce?**

This aspect deals with the process or technology by which goods and services can be produced. Generally, there are two techniques of production:

1. Labor intensive technology
2. Capital intensive technology

. **.Who to produce for?**

The problem pertains to determining the final consumers of the goods produced. Since the economy lacks resources, it becomes difficult to cater to all sections of the society. This leads to the problem of choice in an economy.

## Nature of Economics

**Nature of Economics: Economics as a Science and as an Art:**

There is a great controversy among economists regarding the nature of economics, whether the subject of 'economics' is considered a science or an art.

If it's a science, it's either positive science or standard science.

**Economics as a Science:** Before we start discussing whether economics is science or not, it becomes necessary to have a clear idea about science. Science is a systematic study of knowledge and fact that develops correlation-ship between cause and effect. According to Poincare, science is not just a collection of facts, in fact, all facts must be systematically collected, classified and analyzed.

Any science subject has the following characteristics, such as;

1. It is based on knowledge or systematic study of facts.
2. It develops the correlation-ship between cause and effect.
3. All laws are universally accepted.
4. All laws are tested and based on experiments.
5. It can predict the future,
6. It has a scale of measurement.

On the basis of all these characteristics, Prof. Robbins, Prof. Jordan, Prof. Robertson etc. claimed economics to be one of the subjects of science like physics, chemistry etc. According to all these economists, 'Arthashastra' also has many features similar to other science subjects.

I. Economics is also a systematic study of knowledge and facts. All theories and facts related to both micro and macro-economics are systematically collected, classified and analyzed.
II. Economics deals with the correlation-ship between cause and effect. For example, supply is a positive function of price, i.e., change in price is the cause but change in supply is the effect.
III. All laws in economics are also universally accepted, e.g., law of demand, law of supply, law of reducing marginal utility, etc.
IV. The theory and law of economics are based on experiments, e.g., mixed economy to be an experimental outcome between capitalist and socialist economies.

V. In economics, there is a scale of measurement. According to Marshall, in economics, 'money' is used as a measuring rod. However, according to Professor AK Sen, the Human Development Index (HDI) is used to measure the economic development of a country.

**According to** Mehta, "Knowledge is science, action is art." According to Pigou, Marshall, etc., economics is also considered as an art. In another way, art is the practical application of knowledge to achieve particular goals. Science gives us the principles of any discipline however art transforms all these theories into reality. Therefore, considering the activities in economics, it can also be claimed as an art, as it gives guidance for the solution of all economic problems. Therefore, from all the above discussions we can conclude that economics is neither a science nor a mere art. However, it is a golden combination of both. According to Kosa, science and art complement each other. Therefore, economics is considered as both a science as well as an art. **Economics is both science and art**

## Importance of Economics

**1. Study of Economics helps in conquering poverty** – Economics studies the critical question of fulfilling human desires with scarce resources available. The poverty and poor living standards of the people of many backward countries are currently due to poor resources, low production and lack of technology. Knowledge of economics is necessary to eradicate the poverty of a nation and increase their standard of living.

**2. Economics helps us understand economic systems** – Knowledge of the subject tells us how complex forces work in economic systems. It explains the relationship between producer and consumer, labour and management etc. It explains how action in one area affects another area. Without knowledge of the functioning of economic systems, administration will not be effective and may even be impossible.

**3. Economics teaches modern methods of production**- In practical life it gives knowledge of modern methods of production and production at low cost to the traders and industrialists. In other words, the subject helps businessmen to get maximum output at minimum cost.

**4. Study of economics helps in making proper budget**- Economics is useful for the householder. With knowledge of economics, the householder is able to use his small income to achieve maximum satisfaction for his family by proper budgeting and careful spending. This increases the happiness of the family.

**5. Study of economics helps in increasing national wealth**- By studying economics, we can discover new factors that can lead to an increase in national wealth. Modern governments are actively engaged in economic planning. Economic planning aims to remove poverty by increasing national income and distributing wealth effectively. Without knowledge of economics, this is absolutely impossible.

**6. Study of economics helps in preparing budget** – Knowledge of economics is also very important for the Finance Minister. It helps in devising a just and fair system of taxation. It helps in preparing budgets for the growth of the economy and removal of poverty, unemployment and inequality. Money supply, effective credit system, efficient functioning of the banking system can be efficiently handled in the country only by having in-depth knowledge of economics by the people administering these areas.

**7. Study of Economics helps in law making**- Study and knowledge of economics is very essential for legislators and MPs. They will be able to make laws effectively only if they have knowledge of the subject. It will help people understand the many economic programmes put forward by political parties in their election manifestos. People can intelligently assess the veracity of the statements made in the manifesto and choose their right representative to run the economy. Economics is not a bundle of theories and theories. It is an applied social science. The subject matter is not studied only for knowledge, but it is done to lay down principles and policies to overcome poverty and enhance human welfare.

## 1.1 Economics by Alfred Marshall

- **Economics is the study of humankind in the ordinary business of life. – – Alfred Marshall**
- It examines how a person gets his income and how he invests it.
- Thus, on the one hand, it is the study of wealth.
- The second most important aside, it is the study of well-being (well-being)

**Salient features of Marshall's definition**

**1. The Study of Mankind:** In his definition Marshall laid primary emphasis on the study of mankind. No doubt, he emphasized both mankind and wealth in his definition. He agreed with classical economists that economics is related to wealth because wealth is a material need for welfare. Money provides the means of survival, comfort and enjoyment for life. But he believed that wealth is not an end in itself, rather it is only a means to human welfare. Thus, according to Marshall, it is the study of man that occupies a central place in the study of economics.

**2. Study** of the ordinary business of life: Economics is the study of the ordinary business of life. There are many aspects of a person's life, such as economic, social, religious and political. Economic is only concerned with the economic aspect of human life. Economics, according to Marshall, is not concerned with the social, religious and political aspect of human life. The ordinary business of life is related to the income-earning and income-expenditure activities of mankind. Economics studies how people earn material means of their livelihood and how they spend these for the satisfaction of their well-being.

**3. Study of material welfare:** Marshall emphasized material welfare as the primary concern of economics. According to him, economics is not concerned with the entire human welfare, but only with material welfare, that is, that part of human welfare which is related to money. Economics studies the activities that are most closely associated with the attainment and utilization of the material needs of well-being.

**4. Emphasis on the needs of welfare:** Marshall also emphasized the material needs of welfare. Obviously, material things like food, clothing, and shelter are very important economic commodities. Physical needs are very basic requirements that must be met before thinking about other requirements.

**5. Exclusion of Non-Economic Activities:** Marshall has limited the scope of economics to those forces and activities which are amenable to measurement in terms of money. This is why political, social, cultural and religious activities of man are excluded from the purview of economics as they are not subject to measurement in terms of money.

**Criticisms on the definition of Marshall economics are major criticisms against the welfare definition**

**1. Economics is considered only as a social science**: Marshall has been criticized for considering economics as a social science rather than a human science. A social science studies the actions of individuals living in organized communities as members of a society while an anthropology studies human beings whether they are living as members of an organized community or living in isolation. In terms of the welfare definition, the activities of an isolated person like Robinson Crusoe or a Himalayan saint are outside the orbit of economics because they are both cut off from the rest of society. Thus, the welfare definition limits the scope of economics to the study of individuals living in organized communities only. This is somewhat unacceptable because some important laws of economics are relevant to an individual, whether he or she is a member of a community or not.

**2. Impractical classification of activities:** A second criticism against the welfare definition stated by Robbins is that the distinction between economic and non-economic activities is unscientific, illogical and misleading as all human activities have an economic aspect. Moreover, well-being is holistic and it is very difficult to separate material well-being from total well-being.

**3. Only materialistic aspect:** Robbins has criticized the definition of welfare on the grounds that its scope includes only material things. It excludes non-material things like the services of doctors, lawyers, teachers, etc. from its classroom. There is nothing content in these services. However, these services also meet our immediate needs and thus promote well-being. Therefore, it is wrong to say that economics deals only with material things.

**4. Restricted scope of economics:** Robbins has also criticized the welfare definition as it restricts the scope of the study of economics. Economics studies many activities that hardly promote economic welfare. Many goods such as alcohol, cigarettes, and guns do not promote economic well-being, yet the production of these goods constitutes economic activity and is therefore studied in economics.

**5. Vague Concept of Physical Well-being: The definition of well-being** is also subject to criticism on the ground that material well-being cannot be measured quantitatively. Well-being is a subjective thing; It is mental in nature. It is related to the mental makeup of a person. It varies according to time, place, and person. Thus, well-being cannot be measured in objective terms.

## 1.2 Economics by Lionel Robbins

According to Robin, "Economics is the science which studies human behavior as the relationship between ends and scarce means that have alternative uses"

According to him, economics is a science that studies human behavior as a relationship between ends and scarce means that have alternative uses.

- Man's desires are limitless.

- It has an alternative use of scarce resources.
- It is efficient use of resources.
- It is needed for optimization, i.e., the best allocation of resources.

**Salient features of Robin's definition The definition of robin emphasizes four fundamental characteristics of human life.**

**1. Unlimited End (Desires):** The end here refers to human desires. A fundamental fact of economic life is that human desires are unlimited. Human desires are not only large in number, but they multiply over time. As one wants is satisfied, the other wants to grow crops. Given the multiplicity of desires and the increase in their number in overtime, it is not possible to fulfill all wishes. However, an important fact about human desires is that not all desires are of the same intensity. They differ in their importance; Some desires are more intense than others. Since desires are unlimited, we have to make a choice between more important and less important desires.

**2. Rare Means:** The second fundamental fact of economic life is that the meaning of fulfilling human desires is unlimited. Means refer to various productive resources such as land, labour capital, etc. that are required to produce and purchase goods required to satisfy human needs. Resources are said to be scarce in the sense that the supply of resources is limited compared to their demand. It should be noted here that the word scarcity is not used in the absolute sense but in the relative sense i.e. in relation to demand. "If the means are not scarce, there is no problem; There is nirvana'.

**3. Alternative Use of Means:** The third fact that Robbins' definition emphasizes is that resources can be put to alternative use. For example, a piece of land can be used to produce wheat, vegetables, etc. Similarly, a labourer can be used in the fields or in factories. The use of scarce resources in the production of one commodity prevents its use for another commodity. Therefore, society has to make a decision about how to allocate scarce resources in the production of various goods.

**4. Choice:** Since resources are scarce and also capable of alternative uses and human desires (ends) are endless, people have to make choices in allocating these resources to the production of different goods on the basis of their relative importance. The need for alternatives arises due to scarcity. If everything were available in abundance, there would be no need for alternatives.

**Merits of Robin's definition (superiority over other definitions) Robbins' definition of economics is generally and widely accepted by economists in several ways given its superiority over earlier definitions:**

**1. Logical explanation of economic problem:** Robin's definition has very clearly brought out the root cause of economic problem, which forms the foundation of economics as a social science. According to Robbins' definition, economic problems arise due to the lack of means in relation to their demand.

**2. Universal Nature:** The definition of economics deficient emphasizes the universal nature of the subject in the sense that lack of means regarding the end is a universal problem everywhere and at all times. Rich as well as poor, traditional as well as modern economies face the problem of choice. The definition of economics scarcity applies to the Robinson Crusoe economy as much to the capitalist economy or socialist economy.

**3. Anthropology:** Robbins explains that economics is a human science and not just a social science. This is because the problem of choice and resource allocation is faced by an individual, regardless of whether he is a member of an organized community or living in isolation.

**4. Broad view of economic activity:** According to Robbins, economics studies all economic activities, whether it is the production of tangible (physical) goods or services, provided that they involve a lack of means in relations.

**5. Positive Science:** Robbins emphasizes that economics is a science. Economics is a systematic body of knowledge that provides the framework within which one can analyze the economic problems faced by the society. Robbins' definition assigns the nature of a positive science to economics because it treats economics as neutral between ends. According to Robbins, economics does not tell individuals which loops should be discarded. Economics enlightens individuals, enables them to take rational decisions, but decisions must be made by the individual himself.

**But despite the superiority of Robbins' definition, it has been criticized on several grounds.**

**1. Narrow view of economics:** Robbins' definition has been criticized on the grounds that it considers economics as a positive science by making it neutral between ends. Critics consider the definition of deprivation to be narrow and restrictive in nature. If economists have to advise on policy matters, economics cannot remain neutral between ends.

**2. Restricted Content of Economics:** A serious objection against Robbins' definition is that it has limited the subject matter of economics to the principle of resource allocation, i.e., the principle of product and factor pricing. It does not focus on economic instability, unemployment, income fixation, and important economic issues of economic growth and development.

**3. Static Definition:** The biggest flaw in Robbins' definition, as pointed out by critics, is that it is static in content. According to critics, Robbins has taken a stable view of the scarcity problem. Robbins' definition does not take into account the possibility of an increase in resources over time.

**4. Economics as a Science:** Robbins has considered economics as only a science. But, in fact, economics is both a science and an art. The definition of economics lacking has turned economics into a pure science, a science that deals only with the formulation of economics laws. But economists these days believe that economics is also concerned with the solution of economic problems. Economists these days are regarded not only as tool-makers, but also as tool-users.

## 2- Micro and Macro Economics

## Microeconomics

The word microeconomics is derived from the Greek word "mikros" which means small. It studies the economic action and behavior of individual economic units and individual economic variables. Microeconomics seeks to determine the mechanism by which different economic units achieve a state of equilibrium.

**According to Shapiro, "Microeconomics deals with small parts of the economy.**

## Scope of Microeconomics:

What is the scope or subject matter of microeconomics related to?

1. **Commodity Pricing:** The price of an individual commodity is determined by the market forces of demand and supply. Microeconomics is concerned with demand analysis i.e. individual consumer behavior and supply analysis i.e. individual productive behavior.

2. **Factor Pricing Theory:** Microeconomics helps to determine factor prices for land, labour, capital and entrepreneurship in the form of rent, wages, interest and profit respectively. Land, labour, capital and entrepreneurship are the factors that contribute to the production process.

3. **Theory of Economic Welfare:** Welfare economics in microeconomics is concerned with solving problems in reform and achieving economic efficiency to maximize public welfare. It strives to achieve efficiency in production, consumption and distribution to achieve overall efficiency and 'what to produce?', 'when to produce?', 'how to produce?' And 'for whom is it to be produced?' Provides answers for.

## Importance or Utility of Microeconomics:

**(i) Conduct of Economy:** The greatest use of microeconomics is the understanding of the operations of the economy. It explains how a market economy with millions of consumers and producers decides the allocation of scarce productive resources among millions of goods.

**(ii) Economic Well-being:** The entire structure of welfare is built entirely on microeconomics.

**(iii) Forecasting:** Demand and supply predictions are made on the basis of principles of microeconomics.

**(iv) Economic Policy:** It means all the actions of the government to influence the economy, which are carried out on the basis of microeconomics.

**(v) Solution of economic problems** : It provides solutions to the economic problems of the economy like unemployment, population explosion, poverty etc.

**(vi) Study of fluctuations** **The study of microeconomics** helps in studying the fluctuations in the economy. It suggests ways to regulate these occupational fluctuations.

## Limitations of Microeconomics:

**(i) Limited scope:** There are some economic problems which cannot be analyzed through microeconomics.

**(ii) Only Micro View of Economy:** Microeconomics gives only a micro-view of the economy. It does not give a true and reasonable picture of the working economy. In fact, it is a study of only one part of the economy.

**(iii) Microeconomics ignores macro-level activity**: The real economic mirror of a country is employment, income, production, foreign trade, price levels, impact of policy implementation, etc. But microeconomics does not analyze all those topics.

**(iv) Unrealistic Assumptions:** Microeconomics analysis is based on many unrealistic assumptions such as existence of full employment and perfect competition in the economy which is not found in real life.

## Macro Economics

The term 'macroeconomics' is derived from the Greek word "macros" which means large. It is related to the functioning of the economy as a whole. In other words, macroeconomics is the study of aggregates or averages covering the entire economy such as theory of national income, total employment, economic growth, total investment, national output, etc. According to Shapiro, "Macroeconomics is related to the functioning of the economy as a whole.

## Scope of Macro Economics:

There are six important theories under macroeconomics:

**1- Economic Growth and Development:** The state of a country's economy can be evaluated in terms of real income per capita, as studied under macroeconomics.

**2- Theory of National Income: It** covers various topics related to the assessment of national income including income, expenditure and budget.

**3- Theory of Money:** Macroeconomics analyses the functions of the Reserve Bank of India in the economy, the inflows and outflows of money as well as its impact on employment levels.

**4- Theory of International Trade:** It is a field of study that throws light on the export and import of goods or services. In short, it determines the impact of cross-border trade and tariffs on the economy.

**5- Employment Theory:** This stream of macroeconomics helps to find out the level of unemployment and the prevailing employment situation in the country. In addition, knowing how it affects supply, demand, savings, consumption, and expenditure behavior.

**6- Principle of Common Price Level:** The most important of all is the analysis of product pricing and how these price levels fluctuate due to inflation or deflation.

## Importance or Utility of Macro Economics:

**(i) Functioning of Economy:** It helps us to understand the functioning of the economy. It gives a bird's-eye view of the phenomenon of the economic universe.

**(ii) Study of Economic Development:** It helps poor countries to understand their basic problems and suggests ways to achieve economic development.

**(iii) Solution of Economic Problems:** It provides solutions to the economic problems of the economy like unemployment, population, poverty, etc.

**(iv) Study of Fluctuations:** The study of macroeconomics helps in studying the fluctuations in the economy. It suggests ways to regulate these occupational fluctuations.

**(v) Economic Policy formulation:** Formulation of monetary and fiscal policies primarily depends on the study of macroeconomic conditions prevailing in the country.

## Limitations of Macro Economics:

**(i) Dependence on Individual Units: As** we analyze macro economics, we have to take into account microeconomic variables that can affect macro economic variables.

**(ii) Heterogeneous Units: Studies** the various units of macroeconomic goods. Different commodities have their own different measures. It is not possible to measure all goods with a single measuring rod.

**(iii) Unable to Affect the Society Equally:** One cannot affect entire sectors of the economy as a whole. For example, inflation may have different effects on different sectors of the economy.

**(iv) Misleading: The widespread application of macro economics measures aimed at** 100 per cent outcomes appears to be irrelevant.

**(v) Ignores Individual Consumers**: The concept of macro economics ignores the importance of individual entity or consumer as the fundamental aggregate is to be used.

| Parameter | Micro Economics | Macro Economics |
|---|---|---|
| Economic Unit | It is the study of **individual economic units** of an economy | It is the study of economy as a **whole and its aggregates.** |
| Scope | It deals with individual income, individual prices and individual output, etc. | It deals with aggregates like national income, general price level and national output, etc. |
| Central Problem | Its **Central problem** is price determination and allocation of resources | Its **central problem** is determination of level of income and employment. |
| Main Tools | Its main tools are demand and suply of a particular commodity/factor. | Its main tools are aggregate demand and aggregate supply of economy as a whole. |

| | | |
|---|---|---|
| **Use** | It helps to solve the central problem of what, how and for whom to produce in the economy | It helps to solve the central problem of full employment of resources in the economy. |
| **Equilibrium Analysis** | It discusses how equilibrium of a consumer, a producer or an industry is attained. | It is concerned with the determination of equilibrium level of income and employment of the economy |
| **Determinants** | Price is the main determinant of microeconomic problems | Price is the main determinant of microeconomic problems |
| **Limitation** | It is based on unrealistic assumptions, i.e. In microeconomics it is assumed that there is a full employment in the society which is not at all possible. | It has been analyzed that 'Fallacy of Composition' involves, which sometimes doesn't proves true because it is possible that what is true for aggregate may not be true for individuals too. |
| **Approach** | While analyzing any economy, microeconomics takes a bottom-up approach, | The macroeconomics takes a top-down approach into the consideration. |
| **Examples** | Examples are: individual income, individual savings, price determination of a commodity, individual firm's output, consumer's equilibrium | Examples are: National income, national savings, general price level, aggregate demand, aggregate supply, poverty, unemployment etc. |

## 2- Positive and Standard Economics

## Positive Economics

- Positive economics talks about various economic phenomena. It refers to objective analysis in the study of economics. It is related to the current economy, as whatever is happening in the country at present is a part of positive economics.
- Positive economics relies on facts and factual data. No assumptions have been made in positive economics. Positive economics can be tested and supported by data. It deals with describing and explaining an economic process.
- It deals with the facts and behavioral relationships of cause and effect. It also involves the development and testing of economic theories. It imposes restrictions on decisions on economic value.
- In simple language, positive economics is defined as 'what is' economics. The process of examining what is actually happening in a given economy.

***Examples of Positive Economics***

The following are examples of positive economics:

1. How does the growth of the money supply affect inflation, without incorporating the suggested policies ?

2. Studying the factors that influence the increase in government spending would reduce the unemployment rate.

***Benefits of Positive Economics***

*Here are the key qualities of positive economics:*

1. Positive economics is based on objective data.
2. Positive economics does not involve opinions and value judgments.
3. Positive economics guarantees to support any claim.
4. Positive economics allows us to use historical data to regulate the relationship between interest rates and consumer behavior.
5. There is no place for value and judgment in positive economics, allowing policymakers to devise the necessary measures to deal with any economic situation.
6. Positive economics helps in moving the economy in a certain direction.

***Disadvantages of Positive Economics***

Following are the demerits or limitations of positive economics:

1. There are no foolproof solutions or conclusions.
2. Policies designed with positive economics in mind do not affect everyone in the same way.
3. Some decisions in positive economics are based more on emotions than logic.
4. Positive economics is not a good decision when it comes to large purchases.
5. Positive economics is not an exact science or logic.
6. Positive economics does not have a one-size-fits-all approach.
7. A single decision of positive economics has a different impact on everyone. For consideration, raising rates can be crucial to slow growth and is a boon for lenders. But at the same time, it is no less than a curse for borrowers.

## Standard Economics

Standard economics as the name suggests refers to normatively or ideologically prescriptive decisions towards the economy. This includes economic developments, investment projects, statements, and scenarios.

Standard economics concerns more on value judgments and statements. It does not rely on cause and effect statements. Standard economics suggests conceptual judgments about the consequences that can occur in economic activity when public policies are made.

In ordinary language, standard economics can be defined as 'what should be' or 'what should be' of economics. It determines what should or should happen. Standard economics suggests conclusions and solutions.

### *Examples of Standard Economics*

Given below are prime examples of standard economics.

1. The government strives for the economic development of the nation.
2. Behavioral economics is also an example of standard economics.
3. Cutting taxes in half to increase disposable income.

### *Benefits of Standard Economics*

The merits of standard economics are as follows:

1. Standard economics is important in establishing and generating new ideas.
2. Standard economics is better at dealing with large purchases.
3. Standard economics can suggest policies to influence economic decisions.
4. Standard economics expresses conceptual judgment.
5. Standard economics shows the stage of economic policies.

### *Disadvantages of Standard Economics*

The disadvantages of standard economics are given below:

1. Standard economics cannot be verified.
2. Standard economics suffers from the problem of non-replication.
3. It is impossible to create a stable market in terms of standard economics.

| Basis | Positive Economics | Normative economics |
|---|---|---|
| ***Meaning*** | A stem of economics based on data and facts. | A steam of economics based on values, opinions and judgements. |
| ***Nature*** | Stands descriptive in nature | Stands prescriptive in nature |
| ***What it does?*** | Analyzes cause and effect relationships | It offers subjective ideas |
| ***Study matter*** | It studies what actually is! | It studies what ought to be! |
| ***Testing*** | Statements can be tested, proved or disproved tested using scientific methods. | Statement cannot be tested |
| ***Verification*** | Can be verified with real world data | Cannot be verified by actual data |
| ***Fact or opinion*** | Refers to a science which is based on data and facts | Refers to a social science based on opinion, values and judgements. |
| ***Dealing of situation*** | Deals with actual or realistic situation | Deals with idealistic situation |
| ***Economic issues*** | Deals with how an economic problem is solved. | Deals with how an economic problems should be solved. |

## 4- Economics and Law

**Economic law** is a set of legal rules to regulate economic activity. Economics can be defined as "the social science concerned with the production, distribution, and consumption of goods and services". Regulation of such events, law may be defined as "the customs, practices and rules of conduct of a community that are recognized by the community as binding", where "the enforcement of the body of rules is through a controlling authority." Accordingly, different states have their own legal infrastructure and produce different provisions of goods and services.

According to Adam Smith, who is considered as the father of economics, there are 3 laws of economics:

1. Law of Self-Interest
2. Contest Rules
3. Law of Supply and Demand

### Law of Self-Interest

In economics, self-interest is the idea that the best economic benefit for all can usually be accomplished when individuals act in their own self-interest.

Self-interest is anything done to seek personal gain. An example of self-interest, for example, is pursuing higher education to get a better job, so you can earn more money in the future.

According to Adam Smith, self-interest is important because it directs a competitive economy and allows all individuals to do their best to maximize their personal gains.

## Contest Rules

Competition law is the body of law that aims to prevent market distortion caused by anti-competitive practices on the part of businesses. In the United States, Canada, and the European Union, competition law is also known as antitrust law.

Competition law aims to ensure a fair market for consumers and producers, prohibiting unethical practices designed to gain greater market share through honest competition. The effects of anti-competitive practices include not only hardship for smaller companies entering the market or succeeding,  but also higher consumer prices, poor service, and less innovation.

## Law of Supply and Demand

The law of supply and demand is the theory that prices are determined by the relationship between supply and demand. If the supply of a good or service exceeds its demand, prices will fall. If demand exceeds supply, prices will rise.

The law of supply and demand is based on two other economic laws: the law of supply and the law of demand. The law of supply states that when prices rise, companies see the potential for more profits and increase the supply of goods and services. The law of demand says that as prices rise, customers buy less

**The following six points highlight the features of economic laws.**
***Feature # 1. Economic laws are not orders:*** *Economic laws are not orders of the state (government) and are not orders. They are drawn based on people's behavior in the real world.*
***Feature # 2. Economic laws are not precise:*** *Since economic laws deal with the actions of human beings of free will, they are not as accurate as the laws of natural science. They are statements that are simply true in general. For example, the statement that men will buy goods in the cheapest available market is generally true but not universally.*
A man knowingly pays a high price for helping a relative or friend; But such cases make up a small fraction of the total transactions of humans. Economists tacitly ignore these extraordinary cases and frame their laws on the expectation that the actions of men, in the vast majority of cases, will follow a similar pattern. This makes economic laws generally true, but less accurate than physical laws. "Economic laws are probability laws, not exact relation laws."

**"There are unusual and normal patterns of probabilities in economics",** as Samuelson remarked.

***Feature # 3. Economic laws are statements of cause and effect:*** *Economic laws, like scientific laws, are statements of cause and effect. They try to convey the influences that will follow for particular reasons. Unfortunately in economic affairs many factors work together and it is impossible to isolate each factor to know its effects separately. To overcome this difficulty, the merit clause **"Other things remain the same"** (et cetera, paribus), is used. But other things in economic life generally do not remain the same. Therefore, economic laws are never accurate enough to enable accurate predictions or predictions.*

**Feature # 4.** Economic laws are also hypothetical, i.e., they are conclusions drawn from certain assumptions or hypotheses. But in this, economic laws are no different from other scientific laws. The laws of science also start with certain hypotheses and underestimate certain results.

**Feature # 5. Predictions are tricky:** The following example can be noted in relation to making predictions. Simple and precise laws of gravity enable astronomers to make accurate forecasts. However, in case of tides, the water level depends on so many factors (e.g., strength of attracted force, geographical features of the country etc.) that it is impossible to predict the level accurately. Marshall therefore says, "the laws of economics should be compared with the laws of tides rather than with simple and precise laws of gravity".

***Feature # 6. The same are the physical laws:*** *some laws dealt with inanimate nature dealt with in the books of economics, for example, the law of diminishing returns. These laws are borrowed from other sciences.*