

Why Study Economics | Features of Economic System

Studying economics is essential for several reasons as it helps individuals, businesses, governments, and society at large understand and navigate the complexities of resource allocation, decision-making, and economic interactions. Here are some key reasons why we study economics:

Why Do We Study Economics

1. Understanding Resource Allocation

Economics helps us understand how resources, such as labor, capital, and land, are allocated among various competing uses. It provides insights into how to make choices in a world with limited resources.

2. Optimizing Decision-Making

Individuals and businesses use economic principles to make rational decisions. For example, consumers consider utility and price, while firms evaluate production costs and profit maximization.

3. Policy Formulation

Governments use economic analysis to formulate and implement policies that address issues like inflation, unemployment, taxation, and international trade. It provides a basis for creating policies that can benefit society.

4. Global Perspective:

Economics provides tools to analyze and understand global economic relationships. International economics helps countries engage in trade, address exchange rate fluctuations, and negotiate international agreements.

5. Efficiency and Equity:

Economics explores concepts of efficiency (allocating resources optimally) and equity (fair distribution of resources). It helps in evaluating trade-offs between these two objectives.

6. Economic Growth:

Understanding the factors that drive economic growth and development is crucial for raising living standards, reducing poverty, and improving the overall well-being of a society.

7. Consumer Behavior:

Economics sheds light on consumer behavior, which is important for businesses to develop effective marketing strategies and for policymakers to protect consumers' rights.

8. Environmental Sustainability:

Environmental economics addresses the challenges of resource depletion, pollution, and sustainability, helping us make choices that balance economic growth with environmental protection.

9. Financial Literacy:

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Economics equips individuals with the knowledge to manage their personal finances, invest wisely, and plan for retirement.

10. Analyzing Market Behavior:

Economics provides tools to understand the behavior of markets, including competition, monopolies, and market failures. This is essential for regulating markets and ensuring fair competition.

11. Risk Assessment:

Economic analysis is crucial for assessing risks associated with financial markets, investments, and economic stability.

12. Informed Citizenship:

A basic understanding of economics is essential for informed citizenship. It allows individuals to critically evaluate economic policies and decisions made by governments and businesses.

13. Career Opportunities:

Knowledge of economics opens up various career opportunities in fields like finance, banking, consulting, government, academia, and more.

The study of economics is not only about monetary matters but also about making informed decisions, addressing societal issues, and improving overall well-being. It equips us with valuable tools for understanding and improving the world around us.

Features of Economic Systems

Economic life under a private enterprise is not totally unlike economic life under other forms of economic organization. The famous visitor from Mars would probably have difficulty recognizing that different peoples were working under different economic systems.

Wherever he visited in the Western world he would find men and women going to work in factories, shops, mills and mines, and on farms.

He would find them working with complex pieces of machinery, on special tasks, and under the direction of "bosses."

Only by going behind these external activities to the methods used in guiding, motivating, and rewarding the people would he be able to perceive that differences do exist. The external features of economic life common to all modern forms of economic organization are the subject matter of this section.

1. Wants

To be human is to want food, clothing, shelter, and other economic goods. Certainly, then, the existence of wants cannot be accepted as a distinguishing feature of private enterprise.

Human wants are the mainspring of all economic action, whether that action is to take place under the rules of private enterprise or of a centrally directed economic system.

To be human is also to want more of these economic goods that can be supplied. Thus, even the existence of unsatisfied wants is not unique to private enterprise.

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Neither history nor our knowledge of human nature gives us any reason to believe that any economic system, however efficient, will ever be able to produce enough goods and services to satisfy all the wants of all the people.

2. Resources

To obtain economic goods, the people of all societies must produce, and to produce is to use resources. The basic resources are everywhere the same: (a) man and (b) nature.

These are man's only weapons against scarcity, and how well he succeeds in satisfying his wants depends on how well he uses these resources.

Economists use the term land to refer to all natural resources in their natural states. When these resources have been processed and delivered to consumers, they become consumer goods.

When they have been processed but, instead of being delivered to consumers, are used as instruments in the production of other goods, they become capital goods.

The fabricating of nature's resources into instruments of production—the use of capital goods—is common to all but the most primitive economies. If by capitalism we mean an economic system using capital goods, then even modern communism is a form of capitalism!

Nor is the existence of a class of specialists in collecting and guiding resources for the purpose of production, i.e., the existence of a management group, unique to private enterprise.

In all forms of economic organization, some persons must perform the management role, whether as private, profit-seeking businessmen, farmers, etc. or as employees of the State.

A boss-worker relationship is inevitable in an economy where large numbers of men must work at a common task.

All the non-management contributions of man to the process of production are identified by the term labor. The four basic resources recognized by economists—land, labor, capital, and management—are common to all modern forms of economic organization.

3. Specialization

Another characteristic feature of modern economic life is specialization. Any group of people who want to attain even reasonable efficiency in producing goods and services must divide the various tasks involved in production among various individuals and regions so that each person and each region is used to the best advantage.

4. Money

Specialization involves the exchange of goods and services, and exchange on any but the simplest scale necessarily involves the use of money. Money is defined as anything that is generally accepted in exchange for goods and services.

Some of the most important problems that confront a private enterprise economy arise from the use of money, but neither the problems nor the use of money itself is unique to the private enterprise form of economic organization.

5. The Circular Flow

Whatever the form of economic organization, the basic processes of economic life consist of a circular flow between households and firms.

The household is considered as the basic consuming unit in economic life and centered around the family. On the other hand firm is consider as the basic producing unit in economic life and might be a grocery store, steel mill or a form.

Whatever it is, but it's a collection of resources brought together for the purpose of producing specific product or goods.

The heart of the circular flow is the movement of resource services (the services of land, labor, capital, and management) from the households to the firms, and the reverse movement of goods and services from the firms to the households.