

Basic terms and concepts in economics – Goods & Services – free and economic goods, Utility – Cardinal and Ordinal approaches. Characteristics of utility - Forms of utility.

BASIC TERMS AND CONCEPTS IN ECONOMICS

GOODS and SERVICES

Economics is concerned with the production and distribution of goods and services.

Goods: It is defined as anything that satisfies human wants or needs.

Characteristic features of goods:

1. They are tangible in nature
2. They are the material outcome of production

Example: Foodgrains, Machinery, Seeds, Fertilizers etc.,

Services would be the performance of any duties or work for another or professional activity. .

Characteristic Features of Services:

1. They are intangible
2. Non- Materialistic
3. Inseparable
4. Variable
5. Perishable

Example: Services rendered by agricultural labourers, doctors, teachers etc.,

Classification of Goods

The goods are classified based on supply, durability, consumption and transferability.

1) Based on Supply: The goods are categorized as economic goods and free goods based on the supply criteria

Free goods are those goods that exist in lenty that can be used as much as we like. They are gifts of nature and used without payment Example: Air, sunshine etc.

The economic goods, on the other hand, are scarce and can be had only on payment. They are limited and generally man- made and hence those can be available only on payment. In Economics, we are concerned with economic goods only. Economic goods mean wealth.

Thus there would have been no science of economics if all goods had been free goods. The distinction between free goods and economic goods, of course is not permanent, for instance air is a free good but when we receive it under fan it is an economic good.

2) Based on Consumption: The Goods are categorized as Consumer goods and Producer Goods.

Consumer goods are those which yield, satisfaction directly. They are used by consumer directly to satisfy the wants Example: food, clothing, etc. These goods are known as the Goods of First order.

Producer goods are these goods which help us to produce other goods. They give satisfaction indirectly by producing other goods which will yield final satisfaction. Example: machinery, tools etc. They are also termed goods of the second order.

.3) Based on Durability: This classification emphasized on the nature of the goods and their usage.

Mono Period Goods are those goods which can be used only once in the production and consumption process. Example: Seeds, Fertilizers, food etc.,

Poly Period Goods are those which can be used repeatedly during the production and consumption process over several periods. Example: refrigerator machinery, implements etc.,

4) Based on Transferability:

External Material Transferable good. Example: Land, Buildings etc.,

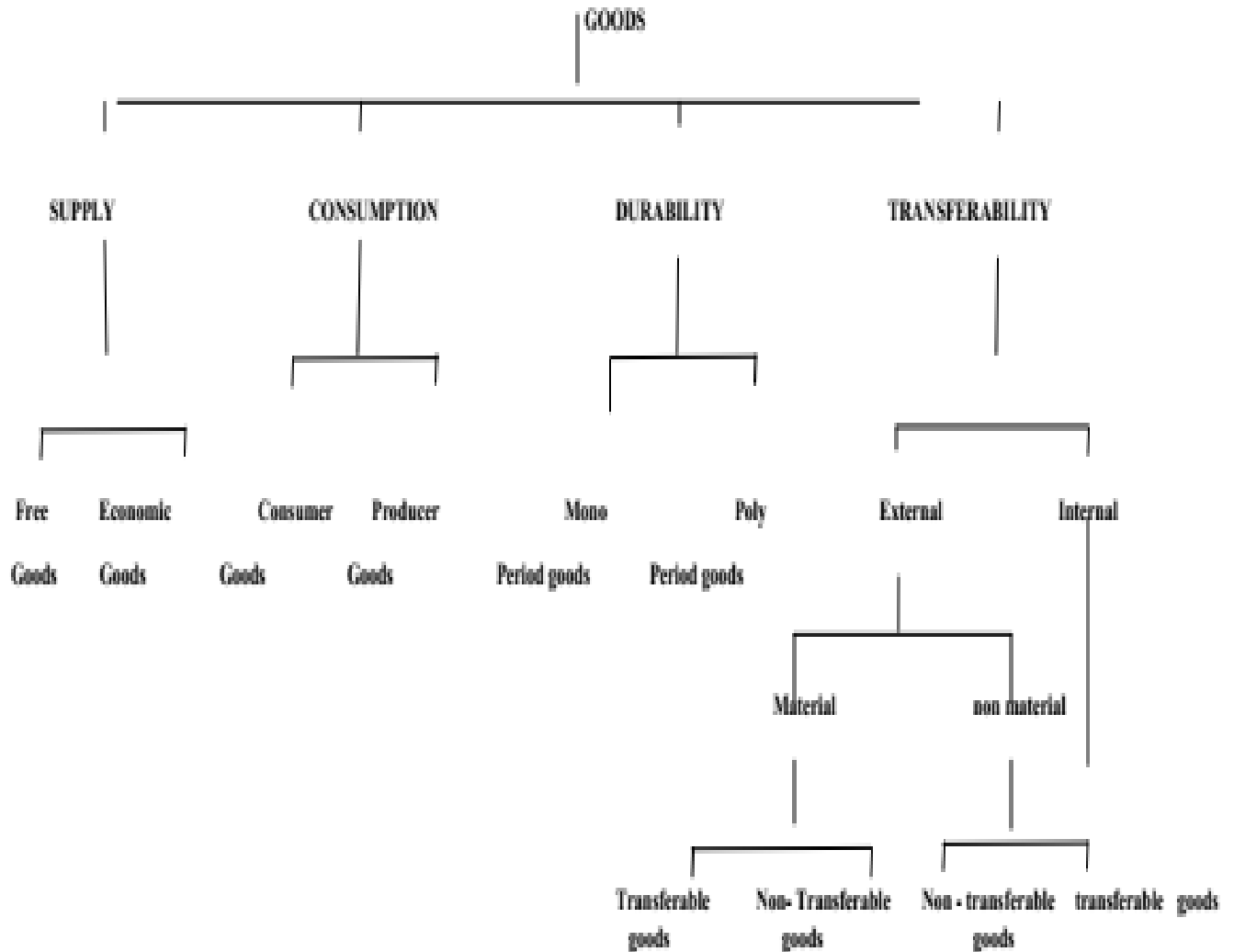
External material non-Transferable good. Example: Degree Certificate, PAN Card etc.,

External non material transferable good. Example: Goodwill of a business

External non material Non-transferable good. Example: Friendship, light

Internal non material Non-Transferable good. Example: Intelligence Quotient ,ability ,cruelty etc.,

CLASSIFICATION OF GOODS



UTILITY

The basis of consumer behaviour is that people tend to choose those goods and services they value high. Based on this premise economists developed the notion of utility to describe the consumption patterns adopted by the consumers.

Definition : Utility means the power to satisfy a human want. Any commodity or service which can satisfy a human want is said to have utility

Characteristics of Utility :

1. Utility is subjective: Utility varies from person to person, for Eg:- A high yielding variety seed gives more utility to the farmer. The same seed provided to a cloth merchant gives zero utility.
2. Utility varies with purpose :_ For Eg:- Coconut oil is used as coking oil or hair oil or as lubricant.
3. Utility varies with time : The Intensity of a person's desire for a commodity is different at various time periods, for Eg:- Labour requirement for paddy is peak during transplantation harvesting and threshing period than other operations taken up in paddy cultivation.
4. Utility varies with ownership : Ownership of a good creates greater utility from a good than when it is hired Eg:- owning a tractors gives more utility than hiring it.
5. Utility need not be synonymous with pleasure: For Eg:- A sick man has to consume medicines for getting cured. He does not get pleasure during the process.
6. Utility does not mean satisfaction: utility is distinct from satisfaction. It implies potentiality of satisfaction in a given commodity. But the satisfaction is the end result of consumption. Satisfaction is what we get and the utility is the quality in a good which gives satisfaction.

KINDS OR TYPES OF UTILITY

The kinds or types of utilities are 1) Form utility 2) Place utility 3) Time utility and 4) Possession utility.

1. Form Utility : The Change in the form offers greater utility to the good than in its original form. For example: Processing of paddy into rice. Rice, fetches superior price than paddy because of processing.
2. Place Utility : The utility obtained by spatial movement of the goods is termed as place utility. Transportation aids in place utility i.e., through the transfer of goods from surplus production area to deficit or slack areas. Example: Shimla apples are transported to all parts of the country thereby increasing the utility of apples.

3. Time utility: Storing the commodity at the times of surplus production and make them available during scarcity creates time utility. Storage aids in creation of time utility by the supply of seasonal products during off season as per the consumers requirements.
4. Possession Utility: The Utility obtained due to possession or transfer of ownership of the commodity is called possession utility. Buying and selling creates possession utility. For Eg:- Agriculture land sold to real estate for plots would increase the utility for the same piece of land.

Cardinal and Ordinal Utility

Cardinal utility : This is based on the premise that utility could be measured and can be aggregated across individuals. It *quantitatively* measures the preference of an individual towards a certain commodity. Numbers assigned to different goods or services can be compared. A utility of 100 units towards a cup of coffee is twice as desirable as a cup of tea with a utility level of 50 units. The only limitation is its subjectivity.

Ordinal utility: this is the ordinal measurement of utility. According to this utility can not be quantified. For Example: If the utility is 100 units towards a cup of coffee and 50 units for a cup of tea, the conclusion drawn is that Coffee is preferred over tea. The ordering is important rather than the magnitude of the numerical values like 100 and 50 in the given instance. This approach faces the limitation of utilities not being compared.

Value – Definition – Characteristics; Price – Meaning, Wealth – Meaning Attributes of wealth, Types of wealth, Distinction between wealth and welfare.

Value and wealth

Value

The word “Value” in economics conveys value-in-exchange. It does not include free goods which have only value-in-use. In other words, value of a commodity refers to those goods that can be obtained in exchange for itself or purchasing power of a commodity in terms of other commodities and services. Value can be referred to as the capacity of a good to command other things in exchange.

Characteristics of Value.

1. It must possess utility
2. It must be scarce and
3. It must be transferable and marketable.

Price

In Pre historic times, people did not know money and they had a barter system in which goods are exchanged with goods. Therefore, in those days value and price were used synonymously. But now days, goods are exchanged for money. Therefore, Value expressed in monetary terms is Price

Wealth

In ordinary language, “Wealth” conveys an idea of prosperity and abundance. A man of wealth understood as a rich person. But in Economics Wealth is synonymous with economic goods. In short, Wealth means anything which has value.

Definition: It consists of all potentially exchangeable means of satisfying human wants (J.M.Keynes)

Characteristics of wealth :

1. It should possess utility
2. It must be scarce
3. It must be transferable
4. It must be external to person

Relation between Money and Wealth : Money is a form of wealth .All money is wealth but all wealth is not money

Relation between Income and Wealth : Income is different from wealth. Wealth yields income. Therefore, Wealth is a fund whereas income is a fl

Types of Wealth :

1. Individual Wealth : It consists of all tangible and intangible possessions of the individuals besides loans due to them. Example: Land, bonds, deposits are tangible possessions while, intangible possessions are copyrights, patents etc.,
2. Social Wealth : It is the wealth, which is collectively used by all the people in a nation. Example: Railways, Public Parks, Government colleges etc.,
3. Representative Wealth : It is that form of wealth in the form of title deeds
4. National Wealth : It is an aggregate of all individuals wealth and social wealth of the country inclusive of loans due to people and to the nation debts have to be deducted. Example: Rivers, mountains.
5. Cosmopolitan Wealth: It is wealth of the whole word. It is a sum total wealth of all nationals.
6. Negative Wealth : It refers to the exclusive debts owed by the individuals and the nation.

Wealth and Welfare compared

Wealth	Welfare
It is the means to an end	It is the end itself
It is objective	It is subjective
It includes harmful goods	It does not include harmful goods
It does not include free goods	Free and economic goods lead to welfare