B. Sc. (Ag) 1st year 2nd semester

Sub.- Fundamentals of Agricultural Economics

Credit hours: 2 (2+0)

Teacher Name – S.K. Rajak

College - College of Agriculture Balaghat

Lecture - 1. Economics: (i) Meaning,

(ii) Definitions

(iii) Scope and

(iv) Positive Science or Normative Science –

(v) Subject matter,

(vi)Approaches to economic analysis; micro and macro economics

Basic Concepts of Economics

Economics deals with maintaining an efficient balance between unlimited wants and limited resources in everyone's life. Economics also deals with the production, distribution, and consumption of goods and services. In this chapter, we will study the basic concepts of economics in detail and understand it better.

(ii) MEANING OF ECONOMICS

Two major factors are responsible for the emergence of economic problems, they are (i) the existence of unlimited human wants and (ii) the scarcity of available resources. The numerous human wants are to be satisfied through the scarce resources available in nature. Economics deals with how numerous human wants are to be satisfied with limited resources. Thus, the science of economics center on want and effort satisfaction. Economics not only covers the decision making behavior of individuals but also the macro variables of economics national income, public finance, international trade etc.

The word 'Economics' originates from the Greek work '*Oikonomikos*' which can be divided

into two parts:

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(*a*) ‘*Oikos*’, which means ‘Home’, and

(*b*) ‘*Nomos’,* which means ‘Management’.

Thus, Economics means ‘Home Management’. The head of a family faces the problem of managing the unlimited wants of the family members within the limited income of the family. In fact, the same is true for a society also. If we consider the whole society as a ‘family’, then the society also faces the problem of tackling unlimited wants of the members of the society with the limited resources available in that society.

Thus, Economics means the study of the way in which mankind organises itself to tackle the basic problems of scarcity.

All societies have more wants than resources. Hence, a system must be devised to allocate these resources between competing ends.

The study of the way in which economies work, for example, the way in which they make money and produce and distribute goods and services:

(ii) Definition:

Different economist have given their different views & concepts for defining economics viz. 1. Wealth,, 2.Welfare, 3.Scarcity, and 4. Growth.

Wealth –

Classical Economist Adam smith (1776) has given their views as “An enquiry into the nature and causes of the wealth of nations”. Ely also defined economics as “Economics is the science which treats of those social phenomena that are due to the wealth-getting and wealth-spending activities of man”.

Welfare -

New classical economist Alfred Marshall (1890) given by their concept as “A study of mankind in the ordinary business of life it examines that part of individual and social action which is most closely connected with the attainment and with the use of material requisites of well- beings”. Marshall has given priority to human welfare by upliftment each &every individual of the society with the attainment of wealth.

Scarcity -

(Lionel Robbins) given definition based on scarcity concept "Economics is the science which study human behavior as relationship between ends and scarce means which have alternative uses". Robbins have elaborated his views in 1.Unlimited wants (ends), 2.Limited means (resources) and, 3.Alternative uses of means

Robbins's concept is superior over other concept, in his definition he has given "alternative uses" it means how utilize scarce resources wealth to achieve maximum output or satisfaction with the given opportunities.

Growth -

According to Samuelson "Economics is the study of how men and society choose, with or without money, to employ scarce productive resources which could have alternative uses to produce various commodities over time, and desirable them for consumption how and in future among various people and groups of society".

Samuelson also given stresses in his definition that employ scarce productive resources which could have Samuelson strongly supported Robbins concept for growth and development of the society and Nation.

Thus, economics is a study of all meaningful principles and practice, which are being turn scare resources in generation of income and employment for the betterment of the individual and a society as a whole.

(iii) Scope of Economics:

Scope means the sphere of study. What economics studies and what lies beyond it. The scope of economics will be brought and by discussing the following points:

1. Economics is a social science.
2. Economics is a science or an art.
3. It economics is a science, whether it is a positive science or a normative science.

Economics – As a Social science:

In Economics studies man living in organized society, exchanging his goods for those of others, influencing then by his actions and being influenced by them is turn. He depends on them and they him. Economics is thus, a social science and not one dealing with individual isolated human beings. Interest in how almost completely shifted to the economy as a whole, how it grows and develops, the factors that hinder its growth and the measures that would helps or accelerate it.

Economics-As a science or an Art:

First it is interested to know what is 'Science' and 'Art' actually mean. A science is a systematized body of knowledge, when relevant parts have been collected and analyzed in a manner that we can "trace the effect back to their causes and project causes forward to their effects". Then, it is called a science. A science lays dawn general principals which help to explain things and guide us.

But, economics is also an art. An 'Art' lays dawn percepts or formulae to guide people who want to achieve a certain aim. The aim might be the removal of poverty from a country, the production of more paddy& wheat from an acre of land. Economics is also an art. Economics does undoubtedly help us in solving many practical problems of the day. It is not a mere theory, it has great practical use. It light –giving and fruit-bearing. Hence, Economics is both a Science and an Art.

(iv) Positive Science or Normative Science –

Our view is that Economics is both a positive and a normative science. It not only tells us certain things happen, it also says whether it is the right thing to happen for example we know that a few people in the worlds are very rich, while the messes are very poor. Economic should explain not only the causes of this unequal distribution of wealth, but it should also say whether this is good or bad. It might well say that wealth ought to be fairly distributed. Future, it should suggest the method of doing it.

(v) Subject matter and limitation:

"Economics only tells us how a man utilizes his limited resources for the satisfaction of his unlimited wants" A man has a limited amount of money and time, but his wants are unlimited for his satisfaction. The field of economics constitutes wants further reveals the participation of two different economic agents i.e. consumers and producers in the economic activity. The subject matter of economics covers major 4 division. viz. consumption, production, exchange and distribution

Consumption –

It means the use of wealth to satisfy innumerable wants. It also means the destruction of utility. All the goods that are produced are consumed immediately or some time in future hence consumption represents using up of utilities.

Division of Economics

1. Consumption
2 Production
3 Exchange and,
4 Distribution

Production –

It is an activity that helps to create utility it simply means the addition of utilities. Hence, production is defined as the creation of utility. Through the process of production one set of goods is transformed into products that have value too, i.e. output.

Exchange-

The word exchange of goods implies transfer of goods implies transfer of goods from one person to the other. Exchange of goods takes place among groups of individuals, countries, markets, regions and so on. The exchange of goods leads to an increase in the welfare of the individuals through creation on higher utilities for goods and services.

Distribution – It refers to the sharing of wealth produced by the community among the agents of production proper distribution of wealth and resources leads to growth and economic welfare of the people in the nation.

Limitation

Economics cannot predict the future events

Economic and Non Economic activities -

As earlier discussed in the definition of economics “Economics is the science which treats of those social phenomena that are due to the wealth-getting and wealth-spending activities of man”. Ely’s definition clearly means art what are economic activities or what are not anything that a man does by way of getting wealth or using wealth is an economic activities. In other words man’s action connected with consumption, production, exchange and distribution are economic activities.

According to Robbins, a person trying to make the best use to his scare resources in man, money, and other assets is engaged in an economic activity. In case his resources are unlimited but a particular want is limited, the activities will be non -economic. “It means anything which we get in terms of output or returns after spending money is called economic activity”. Example- As an the case of farmer’s field preparation is necessary for sowing different crops, borrowing money for buying seeds, fertilizer, Integrated Pest Management (IPM), implements etc, marketing his produce in neighboring market, hiring labour for agricultural operations.

(v) Approaches to Economic Analysis:

There are mainly 2 approaches for economics analysis i.e. traditional and modern approach.

Traditional Approach - Traditionally, the Economics can be analyzed under four divisions these are consumption, production, exchange and distribution, which was already discussed in sub head 1.4

Modern approach – Micro economics and Macro economics

As against the traditional approach modern approach treats micro economics and macro economics as the two basic division of economics.

Micro means a millionth part. It is otherwise known as price theory. It focuses on price determination. Micro economics fundamentally deals with economic behavior of individual economic units such as consumer, resource owners and business firms it is concerned with the flow of goods and services from business firms to consumer and also the flow of resources or their services from resource owners to business firms. Micro economics covers theory of consumer behavior, theory of value (product pricing and factor pricing) and theory of economic welfare. Microeconomics is same what abstract because it cannot include all the economics activities of real worlds.

The term macro economics is called income theory. It treats the economic system as a whole, rather them treating the individual economic units of which it is composed. Macro economics is concerned with the value of the overall flow of goods and the value of the overall flow of resources. Thus, it covers theory of income and employment, theory of money and prices, banking, theory of economic growth, theory of distribution, general equilibrium analysis, policy formulation and analysis etc.

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Lecture - 1. Basic concepts: **1.Goods and services,**

2. Desire,

3. Want,

4. Demand,

5. Utility,

6. Cost and

7. price,

8. Wealth,

9. Capital,

10. Income and

11. Welfare.

Basic Concept

24 basic concepts which are necessary to understand the economics are goods and services, desire, wants, demand, utility, cost, price, wealth, capital, income and welfare.

1 Goods and Services

i. Goods – Goods means, the commodities that an individual use. Goods or commodities are almost always concrete material and tangible items ie. house, furniture.

ii. Services – Refer to the work that a person may do viz. carpentry, tailoring, insurance agent etc.

The goods are classified as a) Free Goods & Economic Goods, b) Consumption Goods and Capital Goods and c) Private and Public goods

a) Free Goods & Economic Goods –

(i) Free Goods - Are those goods that exist in such plenty that you can have as much of them as you like without any payments e.g. Air, Sun shine

(ii.) Economic Goods - Those goods which are scarce and can be had only on payments. They are limited I quantity and are manmade thing. e.g.:- Food, cloth, land, house, cash etc.

b) Consumption Goods and Capital Goods

(i) Consumption Goods: – are those goods which are used the consumers to satisfy their wants directly e.g.:- food, clothing.

(ii) Capital Goods - Are those goods which help use to produce other goods e.g.:- Machines, tools etc. They are also called producer's goods.

c) Private and Public goods:-

(i.) Private Goods: - Are the property of private individuals e.g. Land or buildings owned by them exclusively and not shared with others.

(ii.) Public Goods:- Are those which is common to all and are owned by society collectively e.g. - a hospital, a college, a stadium etc.

2. **Desire**:- is whatever an individual wish to have or something want, but don't have sufficient money or income to afford it.

   Example – X is having Rs. 8000 and wants to buy a phase of worth Rs. 10000. This is called desire want something but can't buy.

3. **Want: -** is that desire which is backed by & willingness to satisfy called wants.

4. **Demand**: - "It means that the person is willing and able to pay for the object

   he desires". "Demand means desire backed by willingness and ability to pay." "Demands are the quantitative expression of preferences." (Chapman)

5. **Utility**: - The power of satisfying human wants are called utility." Utility is that quality of a commodity by virtue of which it is capable of satisfying a human wants.

6. **Cost**: - "Cost is value scarified are called cost". This scarified is either called as opportunity cost or Alternative cost. e.g.:- Fixed cost, variable cost.

7. **Price**:- When value is expressed in terms of money it is called price". The price of a commodity today means its money value i.e. the price it commands in the market.

8. Wealth:- " Anything which has value is called wealth" there three attributes of wealth as in case of value, utility, scarcity and transferability or marketability.

i. It should a human wants or it posses' utility.
ii. It must be both scarce & useful.
iii. It must also be transferable.

Personnel quality like honesty, skill, ability and intelligence too are not wealth. They are source of wealth but are not wealth in themselves, because they are not transferable. Surgeon's skill is not wealth through it brings him wealth, moon light, sunlight & air is not wealth.

(i) Classification of wealth:

(a) Individual wealth:- The wealth of an individual consist of (a) his material possessions or property like cash, land building, livestock, share. (b) Non-material goods like the goodwill of his business which commands and price in the market. But we o not include in wealth his personal qualities like skill and intelligence for they are not saleable.

(b) Social or communal wealth:- It consist of state and municipal property that is things owned by a society or community in common. They include among other things the assembly chamber, central railway, public park, museums etc.

(c) National wealth:- The term national wealth are aggregate wealth of all citizens excluding the debts due to one another. In the wider sense however, national wealth may also include river mountains, good government, high character of the people etc. They are valuable national assets.

(d) Cosmopolitan wealth:- It is the wealth of the whole world a sum total of the wealth of all nations (world bank). It includes the wealth of all countries in the strict economic sense mountains, sea, Ocean (Hind, Arabian, and Atlantic).

9. Capital: - Capital consists of these kinds of wealth, other than the free gifts or nature which yield income. Capital is a part of that wealth of individuals and of communities other then land, which is used to assist in the production of further wealth e.g. tools, implements machinery, seed, raw material and transport facilities such as Roads, Railways, Ships etc.

10. Income:- Wealth refers to property or assets. The amount of many which these assets is called income. e.g.:- from a rented house – Rent is income. "Land – doing owned farming – Net return is income", Contract farming – Contract provide a lump sum amount to the farmer for a year that amount is income of a farmer National Income.

(a) Govt. Net worth - Roads, Railways, Tax, Revenues

(b) Domestic Income - Mines, Airways, Post & Telegraphs,

(c) Abroad Income - Export – Tea, coffee, Rubber, Basmati Rice, Mango

11. Welfare:- Wealth is the means and welfare is the end Wealth in general promotes welfare. It a non happens to be a rich man he will be able to live well himself and may also help others. Wealth thus promotes welfare. Poverty is a great curse and root of many evils. But wealth, promotes mental, moral and physical well –being of the people.

Needs	Wants	Desires	Demand
There are numerous half-instinctive feeling which may be called the primary need such as hunger and thirst. e.g. we need food.	There are other feelings concerned with less vital matters which are common to man; they may be designated as wants. e.g. we want footwear.	Wants, felt in relation to particular things may be called desires. Thus we desire a particular kind of footwear, say-shoes.	***Demand*** is an economic principle that describes a consumer's desire and willingness to pay a price for a specific good or service

cost	**price**	**wealth**	**value**	**Capital**
the **cost** that is incurred is the profit the business makes when the item sells	**Price** is the amount a customer pays for that product or service.	**Wealth:** an abundance (a very large quantity of something) of valuable possessions or money. Economic goods are called wealth	Value of a commodity means the value in exchange for other commodities, is purchasing power	Capital refers to financial assets or the financial value of assets, such as cash ,funds held in deposit accounts, as well as the tangible machinery

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Lecture -. Agricultural economics:

1.Meaning,

2. Definition,

3. Characteristics of agriculture,

4. Importance and its role in economic development.

5. Agricultural planning and development in the country.

1. Agricultural Economics: Meaning

The study of agricultural economics is of recent origin. Not enough literature exists on many aspects of agricultural economics as a separate discipline. Perhaps, after the depression of 1890's which left behind serious effects on agricultural sector, stimulated interest of economists to carry out farm management studies in a systematic manner. Some renowned economist like Henry Moore of Columbia University and Henry Schultz of Chicago University had been able to devote attention to make important contribution to Agricultural Economics by applying quantitative methods, more initiated a number of demand and supply studies in 1920 which were being strongly influenced by Walras and Pareto. Another major work was brought at out in 1926 by Black, in Production Economics in Agriculture. Similarly Taylor has done more than any other writer to shape the development of Agricultural Economics during the past quarter of the present century. In 1961 G.E. Brandow synthesized much of the earlier work on demand and supply functions into an integrated model of demand and supply for agricultural commodities in the U.S.A. during the last forty years.

Agricultural Economics is a economics, which deals with agriculture and comprise of two words i.e. Agriculture and Economics. The word agriculture comes from the Latin words ager referring to the soil and culture to its cultivation. Agriculture in its widest sense can be defined as the cultivation of crop or live stock production. Economics is the science that studies as to how people chose to use scarce productive resources to produce various goods and to distribute these goods to various members of society for their consumption.

2. Definition:

1. Agricultural economics is an applied field of science in which the principles of choice are applied in the use of scarce resources such as land, labour, capital and management in farming and allied activities.

2. Agricultural economics, is a the science in which the principles and methods of economics are applied to the special conditions of agricultural industry (Prof. Grey).

3. Agricultural economics is the study of relationships arising from the wealth getting and wealth using activity of man in agriculture. (Hibbard)

4. Agricultural economics is an applied social science dealing with how human choose to use technical knowledge and the scarce production resources such as land, labour, capital and management to produce food and fibre and to distribute it for consumption to various members of the society over a time (Cramer & Jensen)

3. Characteristics of Agricultural Economics:

a) **Land distribution system**:- Agricultural development depends on the proper land arrangement. The optimum size of land and fertile and plain lands are facilitated for agricultural production. To ensure the modern cultivation of land in the developing and under developed countries, the agricultural economist suggest for removing the unequal and un expected land distribution system.
b) **Supply of Consumer's Goods:-** Agricultural production is considered as the primary phase of consumer's goods supply in the society. The production activities of consumer's goods are discussed in agricultural economics.
c) **Supply of industrial inputs**:- Agriculture supplies raw materials to industry. Production, distribution and marketing of industrial inputs are discussed in agricultural economics.
d) **Labour employment:-** The economy of the developing countries is basically based on agriculture. Agricultural sectors have huge opportunity to absorb the

illiterate and inefficient labour. In this case, the more labour can be employed by using small capital, that means labour – capital ratio is very low.

e) **Primary stage of economic development:-** Economic development means a positive change in quantitative and qualitative of standard of living being. Agriculture is considered as a primary sector to make the economy healthy in its owned. Otherwise, the base of industry cannot be strong.

f) **Capital formation:-** Agriculture is considered is a primary foundation of economic development in agricultural economics. So the foreign currency is earned by exporting agricultural products, which is helpful for capital formation and encourages the investers to the large-scale investment.

g) **Risk and uncertainty:-** Natural calamity and natural degradation affect the agricultural production negatively Lack of sufficient information of agricultural products and insantly not possible to coordinate between supply and demand due to the existence of time duration. Risk and uncertainty are existed in both production and marketing is and un certainty is the prominent feature of agricultural economics.

h) **Existence of middlemen**:- Existence of different middlemen and broker is found in the marketing of agricultural commodities. Farmers are deprived to have fair price for their commodities.

i) **Subsistence farming:-** The subsistence farming is the main feature in the developing countries. In this case, the land is not cultivated commercially. Most of the farmer are operated their land for subsistence purpose.

4. Importance and its role in economic development.

Agriculture sector forms the backbone of the Indian economy. India is agricultural country, endowed with abundant natural resources. So prosperity of the nation is largely dependent on agriculture. The role of agriculture in national economy is of vital importance.

1) Share of agriculture in the national income:

Between 1950-51 to 1960-61 the share of agriculture was greater than 50 percent of total GDP. The share of agriculture is decreasing continuously and it has declined to 14 percent in 2011-12. However, the share of manufacturing services and service sectors are increasing. The agriculture plays on important role in the nation's economy which is still dependent on agriculture.

2) Agriculture as a source of livelihood: Agriculture provides employment to around 52 percent of total work force in the country. Agriculture dominates the economy to such an extent that a very high proportion of working population in India is engaged in agriculture.

3) Importance of agriculture for industrial development: Indian agriculture has been the source of supply of raw material to leading industries such as cotton, jute and sugar etc. There are many industries which depend on agriculture in an indirect manner like handloom weaving, oil crushing, rice husking etc. Since ninth five year plan onwards the importance of food processing industries is being increasingly recognized and given due weightage in economic development.

4) Role of agriculture in the field of international trade: Importance of agriculture also arises from the role it plays in India's trade. Agriculture products such as tea, sugar, oilseed, tobacco, constitute the main items of exports.

5) Support of transport and trade: Agriculture provides the main support for India's transport system since railways and roadways secure bulk of business from the movement of agriculture products. Internal trade is mostly in agricultural products. Thus agricultural trade provides more opportunities to service sector.

6) Prosperity of farmers is prosperity of industry: Good crops and high products enhance the purchasing power of farmers thereby increasing the demand for other manufactured goods. It will help to stimulate the growth of the non-agricultural sector and also help to reduce and strain on foreign to exchange earnings.

Agriculture growth has direct impact on poverty eradication. Agriculture growth is an important factor influencing inflation, agricultural wages and employment generation. It is clear that agriculture is the backbone of Indian economy and prosperity in agriculture can influence the prosperity of Indian economy.

5. Agricultural planning and development in the country.

Agriculture in India Planning is one of the major factors for the growth of the Indian economy which is still primarily agrarian.

Agriculture is the most important sector in India. As the Indian economy is mainly based on agriculture, the annual output of products from the agricultural sector is an important factor in the growth of the economy. Agriculture also has a crucial role to play in Indian exports, where it has a significant contribution. Many of the industries in India are dependent on agriculture for raw materials. So, without agriculture and agriculture-based products, the Indian economy cannot sustain or accelerate its growth rate.

Agriculture Planning in India is a very important tool to enhance and maximize the total agriculture based produce. The planning in agriculture is mainly looked after by the Planning Commission of India which operates and executes under the aegis of the government of India. Agriculture in India planning takes into account all factors that are related to the rural sector where most of Indian agriculture originates. The sole objective of the Planning Commission in terms of Agriculture Planning in India is to enhance the total output of agriculture and boost the economic growth of the country.

The major objectives under **Agriculture in India Planning**:

- Wastelands and underutilized lands to be utilized
- Development and reclamation of problematic lands
- Harvesting the abundant rainwater for the purpose of irrigation
- Irrigation development
- Utility and conservation of natural resources
- The activities to be diversified to high value crops
- The intensity of cropping to be increased
- To have adequate inputs on time

Area of expansion under **Agriculture in India Planning**:

- Improvement in production
- Improvement in productivity
- Reduction in the cost of production