**BASIC CONCEPTS OF ECONOMICS**

ECONOMICS is a social science that deals with how people organize themselves in order to allocate scarce resources in order to produce goods and services that will satisfy the unlimited and multiplying wants and needs of man

Economics is a science because it is an organized body of truth, coordinated, arranged and systematized with reference to certain general laws and principles (Observation, Formulation of theories, Gathering of data, Experimentation, Conclusion, Generalization). Economic analysis seeks to explain economic events using some kind of logic based on a set of systematic relations. It is a social science because the subject matter of economics is people or societies and their behavior, unpredictable in nature.

**ESSENCE OF STUDYING ECONOMICS**

**To understand the world better**

Applying the tools of economics can help you understand global and disastrous events such as wars, famines, epidemics, and depressions. Economics has the power to help us understand these phenomena because they result from the choices we make under the condition of scarcity.

**To gain self-confidence and become wise decisions makers**

Mastery of economics will help you to understand how things work in your society thereby “feeling equipped”

**To achieve social change and contribute to National Development**

Economics can help us understand the origins of serious social problems such as: unemployment, hunger, poverty, disease, child abuse, drug addiction, violent crime. It will also explain why previous efforts to solve these problems have failed, and help us to design new, more effective solutions.

**To help prepare for other careers**

Economics has long been a popular college major for individuals who are intending to work in business. But it has also been popular among those planning careers in politics, international relations, law, medicines, engineering, etc. This is for good reason because practitioners in each of these fields often find themselves confronting economic issues.

**CONCERNS OF ECONOMICS**

1. **Production**

Production is the use of inputs to produce outputs. Inputs are commodities or services that are used to produce goods and services. Outputs are the different goods and services which come out of production process. Society have to decide what outputs will be produced and in what quantity.

1. **Distribution**

Distribution is the allocation of the total product among members of society. It is related to the problem of for whom goods and services are to be produced.

1. **Consumption**

Consumption is the use of a good or service. Consumption is the ultimate end of economic activity. WHEN THERE IS NO CONSUMPTION, THERE WILL BE NO NEED FOR PRODUCTION AND DISTRIBUTION.

1. **Public finance**

Public Finance is concerned with government expenditures and revenues. Economics studies how the government raises money through taxation and borrowing.

**DIVISIONS OF ECONOMICS**

1. **Macro Economics**

* General
* economy as a whole
* Deals with the economic behavior of the whole economy or its aggregate such as government, business, unemployment, inflation and the like.
* Refers to management of income, expenditures, wealth or resources of a nation.

1. **Micro Economics**

* Specific
* Deals with the economic behavior of the individual units such as consumers, firms, the owners of factors of productions

**TYPES OF ECONOMICS**

**Household Economics** – most common use of economics is for the family. At this level, anyone who knows the economic principles will be able to improve the running of the household.

**Business Economics** – when a person or group of persons begins to work, they come under the system of business economics in their workplace. In this type, you deal with the rent, salary, profits and others.

**National Economics** – Economic factors of problems affecting the whole nation. Deals with the management of income, expenditures, wealth or resources of a nation.

**International Economics** – The highest stage of economic activities involving the business of one country with other countries like trade, tourism, exchange rates.

**PROCESS OF ECONOMIC DEVELOPMENT: 5 CONTRIBUTING FACTORS**

**or**

**FACTORS AFFECTING ECONOMIC GROWTH**

**1. Natural Resources:**

Resources created not through human effort but available from nature and transformed into productive resources have been playing an important role in the development process of a country.

In other words, natural resources, such as land, soil, mineral deposits (like iron ore, fossil fuel) are three main factors of production, the other two being labour and capital. The critical element here is the availability of such resources. Other things remaining the same, the growth and prosperity of a nation may be associated with the kind and size of the resources possessed by it.

There is a presumption that natural resources are ‘finite’. In fact, no one should ignore the possibility of adding more resources through discovery. Through discovery, opening up and by utilising new resources, many countries in the past had made a higher contribution in output.

However, that does not mean natural resources are ‘infinite’. Economic processes impact on the of environment. For instance, perils of resource depletion— both renewable and non-renewable— Trough uses generate insurmountable problems on growth and development of a nation. This then suggests conservation of resources so as to have a sustainable development.

Anyway, an abundant supply of natural resources conduces to both agricultural and industrial development. Just as availability of fertile land and abundant supply of water for irrigation purposes are the two essential prerequisites for achieving faster agricultural growth, minerals like coal, bauxite, iron ore, crude oil, copper, tin, etc., if available in plenty, can help the process of industrialisation. Shortage of natural resources often acts as a constraint on output expansion and is often considered as an obstacle to economic development. For example, some poor countries of Asia and Africa have limited natural resources such as land and minerals. And whatever little is available is to be shared by the large population.

However, one also sees an inverse association between natural resource abundance and economic growth. There is enough evidence to support that many resource-poor economies have outperformed many resource-rich economies in terms of economic growth! In other words, such an adverse association between resource abundance and growth at least demonstrates that the possession of natural resource is just a necessary’ condition- but not a sufficient condition—for economic development.

Above all, resources that we have may be fixed and exhaustible. Growing exploitation of such natural resources to fulfil man’s insatiable demands has now raised the issue of environmental damage that adversely affects economic development. The poor people of poor countries are dependent on their natural environment. Thus the greatest victims to the damage of natural environment are, obviously, the poor people. Herein lies the importance of protecting natural environment so as to have a sustainable develop­ment.

**2. Human Resources:**

Labour is a basic input for virtually all production. It is not possible to make the best possible utilisation of existing natural resources unless there is sufficient manpower. If a country is able to utilise its man­power properly, it will certainly prove to be an important factor in development.

The supply of manpower—called human resources—depends, among other things, on population growth. Thus the size of the population is an important factor of economic development. More labour should, therefore, mean greater potential output. In an under-populated (relative to resources) country, population increases do indeed mean economic growth—as more land can be cultivated or more workers may be employed in industry and services.

It is to be remembered that not only the size of population but also the quality of laboure force is also an important determinant of an economy’s capacity. There is a feeling among some economists that the quality of labour input—human capital— is the single-most important factor of economic development. Modern economists consider resources devoted to education and training as investment in human capital.

The effective use of capital and the application of modem technology depend on the availability of skilled manpower Educated, skilled workers are generally more productive than uneducated, unskilled workers. At the same time workers are also consumers. So, with population growth, there is an expansion in the size of the market and there is greater scope for division of labour and specialisation. Healthy people can work harder and longer than sick people.

Anyway, the stock of educated and healthy labour force in any economy contributes to growth and development by (a) creating a more productive and healthy labour force endowed with skills and knowledge, (b) opening up employment oppor­tunities in various sectors of the economy, (c) Indeed, an educated and skilled labour force is a necessary condition for sustained economic growth. Further, there is ample evidence that health and nutrition of a nation affects employment, productivity, and wages favourably. A healthy population is a pre-requisite for economic development.

However, the relationship between population growth and economic development is a complex one. Experiences of many countries suggest that ‘rapid’ rates of population growth acts as constraint on development. It reduces per capita income of a nation. It creates environmental problems and overcrowded cities and towns.

It reduces savings and capital formation. Thus economic growth is hampered. This means that we have landed in a two-way problem because of two-way relation between population growth and economic develop­ment. Even then, the quality of human capital is an important element in the progress of a nation.

**3. Capital Resources:**

Increases in labour and land productivity, in their turn, depend greatly upon new technology and increased capital resources. The amount of output that workers can produce depends largely on the availability of complementary resources like capital. It is argued that lack of capital is the principal obstacle to growth and no plan for economic development will succeed unless adequate capital is forth­coming. No country can achieve higher growth if certain minimum rate of capital formation is not realised.

Capital accumulation or investment refers to the creation of additional capital like plant, equipment, machinery, structures, etc. (physical capital), and social and economic structures like roads, electricity, water, sanitation, etc., to aug­ment output and income. An increasing amount of capital per worker a rising capital/labour ratio is clearly a major source of productivity or output per man-hour.

In other words, by increasing the amount of capital per worker, it is possible to increase labour productivity. Capital formation enables a country to enjoy the advantages of large scale production and specialisation. It is indis­pensable not only for augmenting output but also for providing employment to the people. Further, capital accumulation provides a growing labour force with an increased supply of tools and machinery per worker. This then raises efficiency of the workers.

Often, poor countries are handicapped by low volume of capital accumulation because of low income and low savings. If domestic capital is not sufficient to meet the investment needs, a poor country may be required to import capital from abroad. However, there is a question mark on the use of foreign capital in the poor developing countries.

Modem economists like T. W. Schultz, Jan Tinbergen, Gary S. Becker, etc., have pointed out that human capital formation (investment in training and investment) is as important as physical capital formation, if not more. They have emphasised the contribution of investment in human beings for economic development.

**4. Technology:**

Technological progress is considered as the most important source of development by many economists. It is said that technology has been revolutionising our lives since the dawn of human history. Modem day technological progress that is going on is something unique as far as its depth and rapidity are concerned. Technology refers to our knowledge of how to convert resources into goods and services. Technical progress refers to an improvement in the art of production. Technological progress leads to an improvement in productivity of existing resources.

It is the result of research, invention, development, and innovation. With the advance­ment of scientific and technological knowledge, people discover more and more sophisticated techniques of production which steadily raise the productivity levels.

It is thus dear that technological progress in a country depends on both pure and applied science. And science depends on the resources allocated towards research and development. Thus education is of crucial importance in any economy in furthering technological improvement. Besides education, entrepreneurial ability is another impor­tant determinant of technical progress. Joseph A. Schumpeter assigned a very important role to the entrepreneur in the economic development of a country. In his view, one of the most important functions of the entrepreneur is innovation getting new methods adopted in effective ways.

Thus, through new techniques and methods of production, a country can increase its productive capacity. To an economist, this implies that new technology is a sufficient condition for economic growth. However, technological progress is also a necessary condition for sustained growth. Without it, there would not be enough new capital formation to allow continued increases in labour productivity.

It may be noted that a continued increase in labour productivity requires both increased capital and new or modem technology. Continual capital formation will occur only if there is a continual flow of new technology. Thus there is a close rela­tion between technological change and capital and capital formation. These two not only complement but also depend upon each other. New method may require new machinery. Or, when a firm decides to build a new factory, this may lead to discovery of new and better methods of production.

**5. Institutional Environment:**

Further progress of present day market economies is now largely influenced by the institutional environment. In other words, market economies can flourish provided an appropriate institutional environment prevails. Development requires effective state participation. In today’s changing world, state should complement market.

However, benefits of development must he widespread and inclusive so that poor people can harvest benefit from the market-oriented growth. It is observed that the state, because of poor governance and ineffective institutional framework, fail to protect property rights, law and order, freedom of individuals, human rights, and so on. Even it fails to protect the poor, vulnerable people. An effective economic institution can ensure public services to the poor and give economic incentives through opening better opportunities and empowering the excluded and vulnerable.

Often it is found that institutional environment gets vitiated by the rich powerful of the society and ultimately institutions serve their purposes. Under the circumstance, market, as an institution, marginalises poor people. Protecting poor people from insecurity requires participation and empowerment of these people so that public action is designed by them according to their priorities.

Institutional failure results in bad and poor governance and corruption. And corruption definitely hampers progress of majority of the countries. If the institutional environment is made effective the prospect for good investment is likely to brighten. It is the experience of the people that poor governance and corruption has been choking off and disturbing investment at the cost of the poor people. It is said that good institu­tions encourage people to invest, accumulate, and develop new technologies. All these are elements of economic progress of a nation.

[**MAJOR OBSTACLES IN THE WAY OF ECONOMIC DEVELOPMENT OF PAKISTAN AND OTHER THIRD WORLD COUNTRIES**](https://ahsankhaneco.blogspot.com/2011/12/major-obstacles-in-way-of-economic.html)

There are many barriers and difficulties in the way of economic development of less developed countries. Development for developing nations is desirable but not achievable due to a lot of hurdles. These obstacles are grouped into the following five categories:

1. Economic Obstacles
2. Social Obstacles
3. Cultural Obstacles
4. Political Obstacles and
5. Administrative Obstacles

**A.      ECONOMIC OBSTACLES**

Some of the main economic obstacles are given below:

**1- Deficiency of Capital and Foreign Exchange**

There is scarcity of capital and foreign exchange in Pakistan. Lack of capital and foreign exchange are a big hurdle in way of economic development. Per capita income is very low i.e., $ 1095. Low level of per capita income results in low saving and low investment. Domestic saving is just 9.9 % of GDP in Pakistan; it should be 25 % for rapid economic development. Foreign exchange reserves of Pakistan are just $ 15.0 billion.

**2- Vicious Circle of Poverty**

According to Ranger Nurkse, vicious circle of poverty is the greatest obstacle in way of economic development. In developing countries there is low income that leads to low saving and low investment. Low level of investment causes low rate of capital formation, which stops the economic development. Rate of capital formation is just 5%.

**3- Backward Natural Resources**

No doubt, developing countries including Pakistan have rich and many resources. But due to backward state of technology these resources are un-utilized, under-utilized or mis-utilized. So, the improper utilization of natural resources is also a hurdle in the development procedure. Share of natural resources to GDP is less than 1 %.

**4- Backward State Technology**

Use of backward technology is another problem of economic development.  Due to use of backward technology productivity level of our labour and its efficiency is very low. Productive quality and quantity is also inferior due to use of old means of production. Annual value of productivity of our labour is about $ 100 as compare to the more than $2500 in advanced countries.

**5- Inflation**

High rate of inflation is also a hurdle in way of economic development. Rate of inflation is 13.3 % in Pakistan. Due to inflation purchasing power of people decreases, their consumption increases and saving decreases. Low saving leads to less investment and a country remains poor and backward.

**6- Low Per Capita Income**

Per capita income of Pakistan is very low as compared to the rich nations. Low per capita income is due to low level of national income and high rate of population growth. Low per capita income results in low saving and low investment. So, in the economy, capital formation rate is low that is a serious obstacle in way of economic development. Per capita income in Pakistan is $ 1095.

**7- Internal and External Debts**

To operate some major projects, government has to take loans from national and international resources. These debts and their services charges are increasing day by day. While taking loans from abroad we have to follow the terms and conditions of foreign donors that is the obstacle in our growth and development process. Today, the burden of total public debts is Rs. 8160 billion and an external debt is $ 53.9 billion.

**8- Dependence on Agriculture**

In Pakistan, about 68% population is living in 46,894 villages. Their main occupation is agriculture that is at backward stage. Old methods of cultivation, less credit facilities, unorganized markets and limited irrigation facilities are factors, which are hurdle in the process of economic development. Total cropped area of Pakistan is 23.8 million hectares which is about 28% of total area.

**9- Dualistic Economy**

Dualistic economy refers to the huge difference between various economic sectors. There are vast regional and income disparities in Pakistan. There is co-existence of fully advanced and fully backward state of technology in the same sector at the same time. Similarly, population of Pakistan is very rich and very poor; it is also a hurdle in economic development.

**10- Deficit Balance of Payment**

Pakistan is facing the persistent deficit in its balance of payment since 1947 with the exception of 5 or 6 years. Higher imports volume than exports are an obstacle in way of economic development. At present, imports of Pakistan are $ 25.107 billion, exports are $ 14.162 billion and deficit in balance of payment is $ 10.945 billion in 2009-10.

**B.     SOCIAL OBSTACLES**

These are the major social obstacles in way of economic development of Pakistan:

**11- Illiteracy**

Only 57 % population is literate in Pakistan. Due to illiteracy our farmer and industrialists are ignorant. Efficiency and productivity level of our labour is poor due to illiteracy. Use of modern techniques of production is impossible due to illiteracy. Accordingly, illiteracy is a difficulty in way of economic development.

**12- Low of Living Standard**

Low level of living is a hurdle in the way of economic development. Our population is backward and its growth rate is as high as 2.05 %. Poor population is not provided appropriate facilities to make high standard of life. Low level of living, low income, inadequate housing facilities, poor health etc. are the problems of economic development.

**13- Joint Family and Caste system**

Joint family system is also one of the main obstacles in the way of economic development. In joint family system all the members of the family do not work. They depend upon one another. Similarly, due to caste system rich and superior class do not work hard. 32.17 % population is working and 67.83 % is depending upon them in Pakistan.

**14- Unproductive Expenditure**

Most of the expenditure of people is unproductive like expenditure on various rural fairs and festivals. People in developing countries prefer to keep resources in cash form in lockers at home. They invest in real estates and in gold and silver ornaments. These resources can be used for economic development.

**15- Consumption Oriented Society**

Most of the population of Pakistan is consumption oriented. People have to make huge consumptions due to demonstration effect. Due to posh locality, friends and relatives people have to adjust their consumption styles. Consumption of people is very high due to fulfillment of customs, traditions and habits.

**16- Rapidly Rising Population**

In developing countries like Pakistan population growth rate is very high i. e., 2.05 %. The rapid backward population growth is also a hurdle in way of economic development. This rapidly increasing population leads to starvation and various social crimes.

**C.     CULTURAL OBSTACLES**

Cultural obstacles are given below:

**17- Customs and Traditions**

In developing countries like Pakistan, people spend huge portion of their incomes on customs and traditions. Sometimes they have to take part in the arrangements of rural festivals that reduce their savings. People have to spend more on marriage, birth and death times in our country.

**18- Wastage of Resources in Litigations**

Legal process is very costly and lengthy in Pakistan. Especially, the large part of our farmer’s income is wasted in litigations. It is wastage of resources and reduction in the rate of saving.

**19- Low Participation of Women**

Almost 49 % population is female in Pakistan and out of them only 20 % takes an active part in economic activities. These facts are showing a little participation of women in economic activity that is also an obstacle in the way of economic development. Woman labour force is just 10.96 million.

**20- Out-flow of the Best Brain**

Brain drain is also a problem in way of economic development. In our country, honour, dignity, self-esteem and authorities of qualified person is very low. So, they are bound to go abroad to provide their services for other nations.

**21- In-efficient Entrepreneur**

Due to illiteracy and lack of training institution in our country entrepreneur is in-efficient. In-efficient entrepreneur is a cause of economic backwardness. Illiterate entrepreneur cannot maintain the proper record of his business to earn maximum profit.

**D.     POLITICAL OBSTACLES**

These are political obstacles in the way of economic development:

**22- Political Instability**

There is political instability in Pakistan; the policies of the government are also instable. Due to political instability, rate of economic growth and development remains low in all the sectors of the economy. Investors feel hesitation while making investment if political situation is not stable.

**23- Mis-use of Authorities**

Mis-use of authorities and powers is a big problem in the way of economic development. Mis-use of authority leads to corruption and nepotism. Accordingly, there is no regard for talented, intelligent and brilliant brain.

**24- Insincere Leaders**

Politics in Pakistan creates insincere leaders. Political leaders have no interest with the welfare of population but their own interest. In Pakistan rich industrialists join politics to safeguard their industries. The Feudals involve in politics for the sake of status and power.

**25- Changes in Fiscal Policy**

In developing countries there are frequent changes in fiscal policy. Change in price level and tax rate is a common practice. It is also a hurdle in economic development.

**E.     ADMINISTRATIVE OBSTACLES**

Following administrative obstacles are problems in the way of economic development:

**26- Corruption**

In developing countries most of the officers are included in the curse of corruption. Sometimes, they have to make corruption due to any big administrative or political pressure.

**27- Favouritism and Nepotism**

Nepotism means selection according to relationship, not according to ability. In developing countries like Pakistan, there is favouritism and nepotism, which causes in economic backwardness. Preferences are given to the friends and relatives for the jobs.

**28- Lengthy Legal Process**

In developing countries law and order and legal process is very lengthy and costly. To obtain social justice, people have to waste their income and time. People have to depend upon the mood of the officer for their work in Pakistan. The official matters and domestic problems are highly inter-related.

**29- Mis-use of Authorities**

In our country, use of authorities is not reasonable. Officers use their powers for their personal interest. They give first preference to their own benefits and second preference to the public welfare.

**30- Law and Order**

Improper situation of law and order is also a problem in the way of economic development. Law and order conditions are not satisfactory in case of Pakistan. Here, Chief Justice Iftikhar Muhammad Chohdery was demanding for justice and justice was not provided him for a long time.

**Conclusion:**

            Economic development in developing countries is facing a lot of problems. It is very difficult to remove all these obstacles but not impossible. Government should adopt self-reliance policy and adopt modern technology to remove these complications.