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# MODULE 2

# Basic Concepts and Definitions

# UTILITY

## Definition:

Utility in economics refers to the satisfaction or benefit that a consumer derives from consuming a product or service. It is a subjective concept as it varies from person to person depending on their tastes, preferences, and circumstances.

## Key Features:

- Subjective: What gives utility to one person may not give utility to another.
- Relative: It changes with time and context.
- Cardinal vs. Ordinal Utility: Some economists try to measure utility in units (utils), while others only rank preferences.
- Law of Diminishing Marginal Utility: As more units of a good are consumed, the additional satisfaction derived from each additional unit decreases.

## Example:

- The first cup of coffee in the morning gives you high satisfaction (utility). The second or third might give less satisfaction.
- A person who is allergic to dairy will get zero or negative utility from milk.



# COMMODITY

## Definition:

A commodity is a basic good used in commerce that is interchangeable with other goods of the same type. They are typically produced and sold by many companies and are uniform in quality.

## Characteristics:

- Standardized: Quality does not vary significantly.
- Tradable: Bought and sold on exchanges.
- Fungible: Interchangeable regardless of producer.

## Examples:

- **Agricultural commodities**: wheat, rice, cotton.
- **Metals**: gold, silver, iron.
- **Energy commodities:** crude oil, natural gas.
- **Livestock**: cattle, pork bellies.

# SERVICES

## Definition:

A service is a non-physical, intangible economic activity that provides value to the consumer without resulting in ownership of anything.

## Features:

- Intangible: Cannot be touched or stored.
- Perishable: Consumed at the time of delivery.
- Involves human effort: Skill, experience, or labor.

## Examples:

- Education services (teaching in schools).
- Legal services (provided by lawyers).
- Transport services (metro, Uber).
- Healthcare services (treatment by doctors).

# CONSUMPTION

## Definition:

Consumption is the process of using up goods and services to satisfy human wants. It is the end-purpose of economic activity.

## Types:

- **Direct Consumption:** When goods are consumed to satisfy immediate wants (e.g., eating food).
- **Indirect Consumption:** When goods are used to produce other goods (e.g., using flour to bake bread).

## Examples:

- Buying vegetables for dinner (consumption).
- A car buyer who uses the car for personal use is consuming; a taxi company buying cars for business is investing.

## Special Note:

Economists often study the consumption function – the relationship between income and consumption.

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# PRODUCTION

## Definition:

Production is the process of creating goods or services by transforming inputs (resources) into outputs that satisfy human wants.

## Inputs:

- Land
- Labour
- Capital
- Entrepreneurship

## Types of Production:

- **Market Production:** Goods produced for sale in the market.
- **Public Production:** Goods/services produced by government bodies.
- **Household Production:** Goods/services produced for own use (e.g., home gardening).

Examples:
- A farmer growing wheat.
- A baker making bread in a commercial kitchen.
- Software development for a client company.

# INCOME

## Definition:

Income is the money received by individuals or firms as a return for their contribution to the production process.

## Types:

- **Personal income**: Salaries, wages, pensions, interest.
- **Business income**: Profits earned by businesses.
- **National income**: Total income of the entire economy

## Examples:
- A doctor earning ₹1,50,000 monthly.
- A shopkeeper earning profit from his grocery store.
- A firm's income from selling products and services.

# WEALTH

## Definition:

Wealth refers to the stock of valuable economic resources possessed by an individual, business, or country.

## Characteristics:

- Measured at a point in time.
- Includes physical (land, buildings) and financial assets (stocks, bonds).
- Net wealth = Total assets – Liabilities.

## Examples:

- A person owning 2 houses, gold jewelry, shares, and having no loans is wealthy.
- A country's total wealth includes its infrastructure, natural resources, and foreign investments.

# ECONOMIC EQUILIBRIUM

## Definition:

Economic equilibrium is a state where market supply and demand balance each other, and as a result, prices become stable.

## Types:

- **Market Equilibrium:** Quantity demanded = Quantity supplied.
- **General Equilibrium:** All markets in the economy are in balance.
- **Nash Equilibrium:** Used in game theory; each player's strategy is optimal given others' strategies.

## Examples:

- If 100 pens are demanded at ₹10 and producers supply exactly 100 pens at that price, the market is in equilibrium.

# ECONOMIC AND NON-ECONOMIC GOODS

**Economic Goods:**

- Have a price.
- Are scarce and require resources to produce.
- Involve opportunity cost

Examples:

- Electricity, bread, clothing, mobile phones.

Non-Economic Goods (Free Goods):

- Available free of cost.
- Do not require human effort to produce.
- Abundant in nature

Examples:

- Air, sunlight, rainwater in natural environments.

Relative Nature:

- Air is free → becomes an economic good when purified in hospitals.
- River water → becomes economic when treated and piped into homes.

# ECONOMIC AND NON-ECONOMIC WANTS AND ACTIVITIES

**Economic Wants:**

- Involve money or purchasing.
- Related to goods/services that have utility and price.

Examples:

- Desire for a new phone, laptop, house.

Non-Economic Wants:

- Related to emotions, sentiments, or feelings.
- Do not involve money or market exchange.

Examples:

- Want for affection, peace, social recognition.

## Human Activities:

### Economic Activities:
- Done with the aim of earning income or creating wealth.

Examples:
- Practicing medicine, selling vegetables, teaching at a private school.

### Non-Economic Activities:
- Done out of love, care, duty, social service.

Examples:
- A mother feeding her child.
- Donating blood or volunteering at an orphanage

# SCARCITY

### Definition:

Scarcity refers to the limited availability of resources compared to the unlimited wants of individuals and societies..

Implications:
- Necessitates choice.
- Involves opportunity cost.
- Foundation of all economic problems.

Real-Life Examples:
1. **Land Scarcity:** Urban areas like Mumbai facing high land prices due to limited land.
2. **Water Scarcity:** Rajasthan faces droughts and acute drinking water shortages.
3. **Labour Scarcity:** Skilled worker shortages in AI and Data Science sectors.
4. **Healthcare Scarcity:** In rural India, few doctors, leading to high wait times and limited access.
5. **Traffic Scarcity:** Congestion in Delhi due to inadequate road capacity.
6. **Product Scarcity:** iPhones sold out quickly during launch – more demand than supply.