CHAPTER 2

FUNDAMENTAL CONCEPTS AND TERMINOLOGIES

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Use Value

The use value is determined by the usefulness of a commodity to a consumer for his/her needs.

Exchange Value

When a commodity/service is exchanged for another commodity/service, it is known as exchange.

If a commodity has high use value then it cannot be said to have a high exchange value but if a commodity has a high exchange value then it has some use value.

Exchange value is determined by the scarcity of resources in relation to its demand.

Goods are demanded if they have a use value but if they are scarce in relation to their demand then they have high exchange value. For eg. Precious diamonds, metals etc.

On the other hand, if goods have a high use value but they are unlimited in supply then they do not have any exchange value. For eg. Air, sunlight etc.

In earlier even water had high use value but no exchange value but in present due to shortage of water, there is exchange value.

Commodities which have physical existence are called goods. In economics they are meant to satisfy the needs of the consumers.

Commodities which do not have any physical existence are called services. In economics they are meant to satisfy human life.
### 06 | Type of Goods

<table>
<thead>
<tr>
<th>Basis</th>
<th>Type of goods</th>
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<tbody>
<tr>
<td>Physical Existence</td>
<td><strong>Tangible goods</strong>: Tangible goods goods that have physical existence</td>
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<tr>
<td></td>
<td><strong>Intangible goods</strong>: Intangible goods – goods that do not have any physical existence</td>
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<tr>
<td>Monetary</td>
<td><strong>Non- Economic goods</strong>: Non- Economic goods – goods that do not command exchange value. <em>For eg. Services</em></td>
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<td></td>
<td><strong>Economic goods</strong>: Economic goods – goods that command some monetary value in exchange are called economic goods</td>
</tr>
<tr>
<td>Durability</td>
<td><strong>Durable goods</strong>: Durable goods – goods that can be used for a long period of time and repeatedly <em>For eg. Clothes, shoes etc.</em></td>
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<td></td>
<td><strong>Non durable/Perishable goods</strong>: Non durable goods/perishable goods – goods that cannot be used for a long period of time and are consumable only once. <em>For eg. Milk, fruits etc.</em></td>
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<tr>
<td>Ownership</td>
<td><strong>Private goods</strong>: Private goods – private goods are possessed and owned by private individual. These goods have characteristics of excludability and competitiveness</td>
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<td></td>
<td><strong>Public goods</strong>: Public goods – they can be used by many people at the same time. They possess the characteristics of joint demand and collective consumption. Hence, these are known as public goods. <em>For eg. a public garden, museum</em></td>
</tr>
<tr>
<td>Consumption</td>
<td><strong>Consumer’s Goods</strong>: Consumer’s goods – when a consumer consumes good and this good is capable of satisfying a particular want directly then it is called a consumer’s goods. <em>For eg. biscuits, chocolates etc.</em></td>
</tr>
<tr>
<td></td>
<td><strong>Producer’s Goods</strong>: Producer’s goods – when a good is used to produce a final product by the producer is known as producer’s goods. <em>For eg. cotton to make cloth etc.</em></td>
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### 07 | Wealth

**Meaning**: In the understanding of Alfred Marshall’s idea, wealth is something which is useful, scarce, capable of getting exchanged and can be owned by somebody.

**Characteristics**

- **Usefulness**: It must be useful in satisfying human wants or needs. For eg. vehicle, jewellery etc.
- **Scarce**:
  - The commodities that satisfy human wants should be scarce.
  - If they are in abundance then they do not constitute wealth.
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Physical or Intellectual Existence

- Wealth should have an existence which can be exchanged
- In today’s times, the intellectual intelligence ideas of human beings are capable of being exchanged for money hence they are wealth.

Exchangeability

- Wealth is an economic concept therefore it must be capable of being exchanged.
- Wealth is meant to satisfy present as well as future wants.
- A house purchased today satisfies the present need of housing as well as future demands.

Durability

- Wealth must possess durability.
- Durable goods can be used for future exchange and for satisfying future needs.
- Goods which perish in single use or in short time cannot constitute wealth.
- Food grains produced by a farmer are not wealth if they perish in short time. However if they can be stored for long time and their value increases then they can be called wealth.
- Labour of a labourer can not be stored hence it is not wealth.

08 | TYPES OF WEALTH

A | Individual Wealth

Wealth under the ownership of individual and meant for private consumption is called individual wealth. For eg: house

B | Social Wealth

Wealth under the ownership of society and meant for collective consumption is called social wealth. For eg: dam

C | National wealth

- Wealth belonging to a nation and possessed and treasured by a nation is called national wealth. For eg: rivers, mountains, literature, scriptures etc.

D | International wealth

Wealth belonging to earth and treasured by all nations is called international wealth. For eg: oceans etc.
Welfare means enhancement of life situations, standard of living, an overall state of improvement.

- All human activities economic and non economic are ultimately done with the purpose of improvement of life.
- Welfare can be measured quantitatively in terms of growth and qualitatively in terms of development.
- In economics, welfare is of two types.

**Individual welfare**
when an individual seeks to make efforts to improve his/her standard of living and well being, it is individual welfare.

**Collective welfare**
when nations and government seek to improve growth, development etc. it becomes a subject matter of collective welfare.

- The activity of converting raw materials and resources into final goods which satisfy human wants is called production.
- There are four factors of production viz. land, labour, capital and entrepreneur.

**LAND**
- All natural assets which help in production or economic activities constitute land.
- Land is a gift of nature and not man made.
- Supply of land is fixed.
- Land is immobile.
- All types of land are different in fertility, climatic condition etc.
- Remuneration of land is RENT.

**LABOUR**
- Physical or intellectual work done by humans in order to earn returns which is done under the supervision by some authority WAGES is called labour.
- Labour cannot be separated from labourer.
- Labour cannot be stored.
- In way labour is perishable.
- Mobility of labourer is influenced by social and economic reasons.
- Efficiency of every labourer is different.
- Supply of labour depends upon population.
- Remuneration to the labour is in the form of.

**CAPITAL**
- In modern times, capital is considered as the most important factor of production.
- It is a manmade factor of production.
- Capital is investment by owner in the business.
- Most mobile factor of production.
- In modern times, increasing demand of capital made it a scarce factor of production.
- Remuneration to capital is INTEREST.
ENTREPRENEUR

- It is that factor of production which brings all the factors of production.
- Entrepreneur is the risk taker who takes the risk of setting up an activity.
- This factor does not get fixed return but tries to generate maximum return.
- Decision maker of the activity
- It possess the quality of co-ordination
- The remuneration to entrepreneur is called **PROFIT**

12 | Trade Cycle

Economic activities go through the phases of dynamic changes like a human life goes through changes. Such changes are basically of four types.

**DEFINITION**

- As per Heberler “Trade cycle is an interval that embraces alternating periods of prosperity and depression”
- As per Hawtrey “Trade cycles are continuous phases of good and bad changes occurring in the economy.”

**Irregular Changes**

These are accidental changes which occur in an economic activity. *Eg. flood, famines, cyclones, fire etc.*

**Seasonal Changes**

These changes occur regularly in economic activities with changing seasons.

**Long run regular changes**

Some changes occur in a given direction in the form of a trend. These are directional changes which occur in an activity.

Cyclical changes

Dynamic fluctuations arising in an economy over its long run growth leading to rise in growth of economic activities and fall are called cyclical changes.

**CHARACTERISTICS**

- They depict dynamic changes in the economy
- They depict positive and negative changes in the economic
- These arise because of several factors
- They have various phases and each phase does not last for uniform period.

13 | Phases of A Trade Cycle

**Boom**

- This is a period when economic activities reaches the maximum growth level in a given time period.
- Demands have peaked and so do income and profits.
- This period is also known as period of peak.

**Recession**

- This period is after the period of boom
- When economic activity peaks, employment and investment reach their highest level, a slow down
- Demands slow down, investment and employment also slows down.

**Depression**

- The slowdown in the recession phase continues and depression occurs.
- The confidence of the buyers, investors and producers in the economic activity is at its lowest.

**Recovery**

- When depression lasts for some time, the suppressed demand starts emerging.
- The governments try to boost the investments and employment
- Sometimes technological changes occur in the long run.
- This leads to a recovery of demand, employment and investment.