

Ch-2. Basic Economic Entities of an Economy,

Good Morning Students,

This lesson is for class 9th for the subject of Economics. The topic for today is 'Economy and its components' of which is covered in chapter 2 titled 'Basic Economic Entities in an Economy' of your book of Economics.

This lesson is being submitted to you on 22.04.24 and the voice is of Mr. Lokesh Agre.

All the students now please open page number 12 of your book and listen carefully

Economy:-

In economics, the word 'Economy' refers to production activities of a well defined area or region. It may be a village, a district, a state, a nation or the whole world. The sum total of all production units that help to produce goods and services like factories, farms, mines, banks, schools, colleges, shops, transport system etc. are collectively called an Economy.

"Economy is a system by which people get a living (i.e. earning of income) and satisfy their wants."

An economy can also be described into two different ways

(1) A System of Cooperation among producers

In the process of providing living to the people, various goods and services are produced by the mutual co-operation of people as producers.

For example, farmers produce cotton. Producers

Chapter:- 2

engaged in the production of cotton yarn depend on the farmers for the supply of raw cotton. Again, producers of cotton cloth depend on the producers of cotton yarn.

(2) A system of Mutual Exchange.

A man cannot produce everything that he wants, Therefore he has to depend on others to meet his wants. This is true in all the economies.

In the traditional village economies, wants of the people are limited. Some people specialised on the production of food, some produced cloth, while others made hand tools. Each of them produced more than his own requirement so that he could exchange the surplus to obtain other goods of his requirements. Such a system of exchange of goods for goods is called Barter System.

In today's modern economy, goods and services are exchanged through the medium of money. For example, a person working in a sugar mill earns his income in terms of money by selling labour services to the owner of that factory. Then, he uses this money income to buy goods and services as he wants.

Main Sectors of an Economy

An economy may broadly be classified into three sectors.

- (i) Production Sector
- (ii) Consumption Sector
- (iii) Government Sector.

For explanation refer to page 13 of your book.

Chapter: 2

Economic Entity:

An institutional unit which is capable of doing economic activities independently is called an Economic Entity.

An economic entity can independently perform the following activities:-

- (a) Acquiring assets (property, wealth etc.)
- (b) Taking up responsibilities and new liabilities.
- (c) Participating in Economic activities.
- (d) Undertaking transactions with other economic entities in the economy.

Classification of Basic Economic Entities

There are millions of people participating in the functioning of an economy. For a systematic study of their behaviour, we classify them into four important groups - Consumers, households, firms or producers and government. These four groups are known as Basic Economic Entities.

1. Consumers:-

Consumers are the basic economic entities in an economy. They consume various goods and services. Their objective is to allocate their limited resources on the consumption of various goods and services ~~so~~ to get maximum satisfaction. Generally a consumer is considered as an individual. But in practice, consumers consist of institutions, individuals and groups of individuals. They take decisions regarding consumption. For example, educational institutions take decision with regard to consumption of blackboards and stationery etc. (3)

Chapter: 2

2. Households!

A household refers to a group of people living under single roof and taking economic decisions jointly.

The main objective of every household is to maximise satisfaction with its limited income or means.

Households are both means and end of every economic activity. They perform the following two functions!

(i) As a mean: Households are the owners of different factors of production (e.g. land, labour, capital). They supply factor services to the firms and earn factor income. For example, the households earn wage income for supplying labour services to the firms and the government.

(ii) As an end!

They purchase different consumer goods and services. For example, households purchase various consumer goods like food items, clothes, furniture, car etc.

Importance of Households:

(i) Supply of Factor Services:-

Households are owners of factors of production such as land, labour, capital. They provide various factor services to the firms.

(ii) Source of Demand:

Households or consumers are the biggest source of demand for various goods and services produced in an economy. The greater the demand,

the larger will be production of goods and services. Moreover different consumers have different likings. Some consumers ^{like} scooters whereas others like motorbikes. As a result, producers tend to produce goods of different designs and colours to attract the consumers towards their products.

(iii) Tax Payers:-

Households are also tax payers. They pay taxes to government such as income tax, sales tax etc. Thus, they contribute revenue to the government.

(iv) Capital Formation:-

Households save a part of their income. They deposit their savings in the banks or invest in other financial instruments. Banks give loans to the producing sector. Thus, savings of households is transferred to producing sectors in the form of loans. In this way, households help in capital formation.

With this, I am ending my topic.

Write the answers of the following questions in your note-books

1. What is Barter System?
 2. Who are Consumers?
 3. Define Economy.
 4. Explain the importance of households.
- last page