

Ch-2 Basic Economic Entities in an Economy

Good Morning Students

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

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

All the students now please open page number 14 of your book and listen carefully.

Firms (Producers).

"A firm refers to a particular unit producing a commodity or service with a view to earn profit".

Firms produce goods and services by employing the factors of production (such as land, labour, capital) and sell the same to the consumers, other firms and the governments. A firm may take the form of a sole proprietorship, partnership, joint stock company, cooperative society and state enterprise.

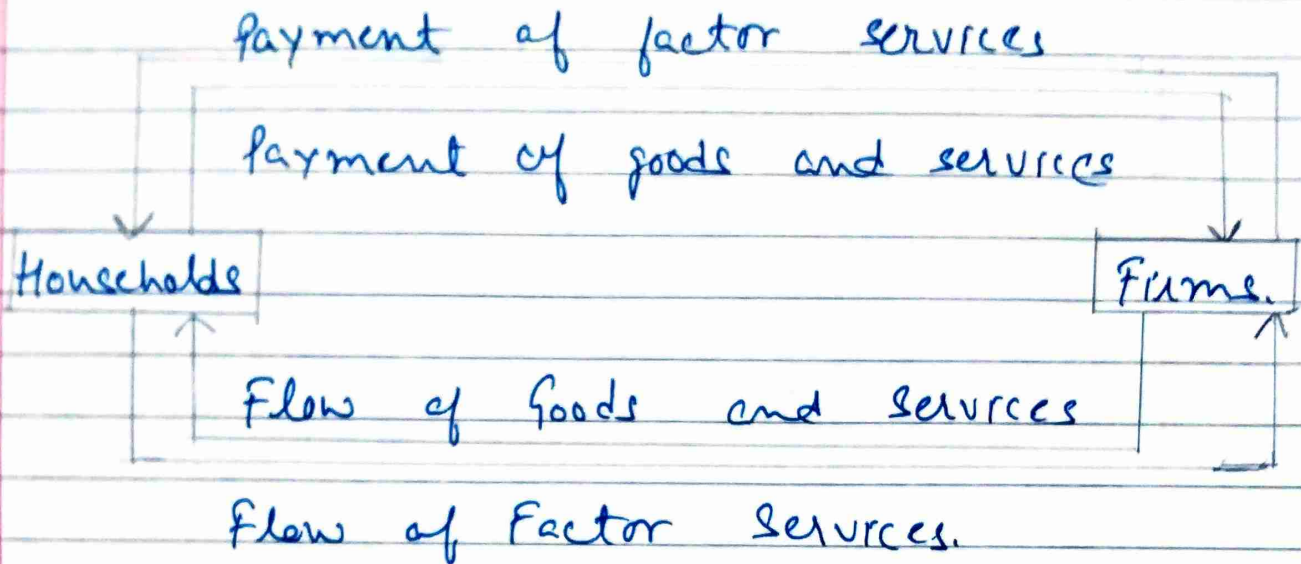
Firms take decisions about the location of the plant (factory), quantity and quality of the goods to be produced, factors of production to be employed.

Firms play a dual role of

- (i) They produce and sell various goods and services in exchange for money and
- (ii) They purchase different factors of production by paying factor prices.

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The exchange relationship between the households and the firms can be explained with the following chart.



Firms produce goods and services with help of factor services (land, labour, capital) purchased from households. These factors of production are paid for by the firms like wages for the labour, rent for land and interest for capital. This expenditure of the firms becomes the income of the households.

Households use this income for purchasing various goods and services produced by the firms. So, expenditure of the households would become income of firms.

Thus an exchange relationship is established between the households and the firms. This leads to a circular flow of income and expenditure in a society.

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Classification of Producers

Producers may be classified into the following three categories.

- (1) Primary Producers
- (2) Secondary Producers
- (3) Tertiary Producers

For explanation refer to page 15.

Importance/ Role of Producers (Firms)

- (1) Supply of Goods and Services.
- (2) Efficient Utilisation of Resources.
- (3) Expansion of Income and Employment opportunities
- (4) Increase in Export Earnings.

For explanation refer to page 16

Government

The term government includes all regulatory bodies by which it exercises its control over the behaviour of households and firms.

Government acts both as households and as firms. As households, a government incurs expenditure on various consumer goods and as a producer (firm) government provides various services (e.g. police, defence, medical, education etc.) to the people. The main aim of government is to provide maximum social welfare.

Role/Importance of the Government:

- (1) The Government supplies different public goods (e.g. parks, roads, bridges etc.) in an economy.
- (2) The Government incurs consumption expenditure for purchasing various consumption goods.

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- (3) The Government makes investment expenditure for helping the process of capital formation in the economy.
- (4) The Government regulates the total supply of money in an economy.
- (5) The Government provides primary health and education facilities for the benefit of the common people.
- (6) The Government also frames different economic policies (e.g. tax policy, trade policy, industrial policy, etc.) for the smooth operation of the economy.

Foreign Sector:-

Foreign sector is that part of an economy which is concerned with transactions with overseas countries. This sector includes imports and exports of goods and services as well as capital movements related to investment and banking transactions. Foreign Sector is also called 'External Sector'.

With this, I am ending my topic here. Write the answers of the following questions in your note-books.

- Ques 1. Who are producers?
2. How do households and firms interact with each other in a modern economy?
 3. Describe the role of government in an economy.