

“INDIAN ECONOMIC PROBLEMS”

A Project Report

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Economic Problem in India

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Introduction:

Economic problems are the science that studies human behavior in relationship with ends and scarce means that have alternative uses. In other words, it deals with the problem of choice. According to Professor Eric Roll, Baron Roll of Ipsden, 'Economic problem is essentially a problem arising from the necessity of choice; choice of the manner in which limited resources with alternative uses are disposed off. It is a problem of husbandry of resources.' Economic problems asserts that an economy's finite resources are insufficient to satisfy all human wants and needs. Economics involves the study of how to allocate resources in conditions of scarcity. However, viewing economics as the study of how society allocates resources can lead to conflation of normative economic planning and empirical study of how economic agents operate in these conditions.

In economics mainstream neoclassical economics, it is assumed that humans pursue their self-interest, and that the market mechanism best satisfies the various wants different individuals might have. These wants are often divided into *individual wants* (which depend on the individual's preferences and purchasing power parity) and *collective wants* (which are the wants of entire groups of people). Things such as food and clothing can be classified as either wants or needs, depending on what type and how often a good is requested.

Economists have sometimes characterized "how" to produce as a "technological problem" of efficiency whereas the allocation of what is produced is an "economic problem". In a free market, the "how" of production and allocation of resources is distributed among economic agents. In a centrally planned economy, a principal decides how and what to produce on behalf of agents. Modern economies are often welfare capitalist with various regulations, which makes the economic system more equitable while retaining the distributed free market system.

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The appearance of economic problem:

Human wants are unlimited, an infinite series of human wants remains continue with human life. Nobody can claim that all of his wants have been satisfied and he has no need to satisfy any further want. Everybody feels hunger at a time then other he needs water. Sometime one feels the desire of clothing then starts to feel the desire of having good conveyance. When all existing wants are satisfied then new wants starts to create in mind, so the series of wants remains till the last moment of life. So an economic problem arises because of existence of unlimited human wants.

Parts of the problem:

The economic problem can be divided into three different parts, which are given below.

Problem of allocation of resources:

The problem of allocation of resources arises due to the scarcity of resources, and refers to the question of which wants should be satisfied and which should be left unsatisfied. In other words, what to produce and how much to produce. More production of a good implies more resources required for the production of that good, and resources are scarce. These two facts together mean that, if a society decides to increase production of some good, it has to withdraw some resources from the production of other goods. In other words, more production of a desired commodity can be made possible only by reducing the quantity of resources used in the production of other goods.

The problem of allocation deals with the question of whether to produce capital goods or consumer goods. If the community decides to produce capital goods, resources must be withdrawn from the production of consumer goods. In the long run, however, [investment] in capital goods augments the production of consumer goods. Thus, both capital and consumer goods are important. The problem is determining the optimal production ratio between the two.

Resources are scarce and it is important to use them as efficiently as possible. Thus, it is essential to know if the production and distribution of national product made by an economy is maximally efficient. The production becomes efficient only if the productive resources are utilized in such a way that any reallocation does not produce more of one good without reducing the output of any other good. In other words, *efficient distribution* means that redistributing goods cannot make anyone better off without making someone else worse off. (See Pareto efficiency.)

The inefficiencies of production and distribution exist in all types of economies. The welfare of the people can be increased if these inefficiencies are ruled out. Some cost must be incurred to remove these inefficiencies. If the cost of removing these inefficiencies of production and distribution is more than the gain, then it is not worthwhile to remove them.

The problem of full employment of resources:

In view of the scarce resources, the question of whether all available resources are fully utilized is an important one. A community should achieve maximum satisfaction by using the scarce resources in the best possible manner— not wasting resources or using them inefficiently. There are two types of employment of resources:

- Labour-intensive
- Capital-intensive

In capitalist economies, however, available resources are not fully used. In times of depression, many people want to work but can't find employment. It supposes that the scarce resources are not fully utilized in a capitalistic economy.

The problem of economic growth:

If productive capacity grows, an economy can produce progressively more goods, which raises the standard of living. The increase in productive capacity of an economy is called economic growth. There are various factors affecting economic growth. The problems of economic growth have been discussed by

numerous growth models, including the Harrod-Domar model, the neoclassical growth models of Solow and Swan, and the Cambridge growth models of Kaldor and Joan Robinson. This part of the economic problem is studied in the economies of development.

Needs and wants:

Needs are things or material items of peoples need for survival, such as food, clothing, housing, and water. Everyone has a different needs and wants. Until the Industrial Revolution, the vast majority of the world's population struggled for access to basic human needs.

Wants are effective desires for a particular product, or for something that can only be obtained by working for it. While the fundamental needs of survival are key in the function of the economy, wants are the driving force that stimulates demand for goods and services. To curb the economic problem, economists must classify the nature and different wants of consumers, as well as prioritize wants and organize production to satisfy as many wants as possible.