

MACHAYENGEY 1.0

Foundational Definitions of Economics

The study of economics is defined through four primary viewpoints from different economists:

- **Wealth-Oriented:** Adam Smith defined economics as the study of a nation's wealth.
 - **Welfare-Oriented:** Alfred Marshall saw it as the study of human well-being.
 - **Scarcity-Oriented:** Lionel Robbins defined it as the study of human behavior in relation to scarce resources with alternative uses.
 - **Growth-Oriented:** Paul A. Samuelson's view focuses on how societies use and distribute scarce resources over time for growth.
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Microeconomic and Macroeconomic Concepts

The document attributes many theories to specific economists:

- Alfred Marshall is credited with the Law of Demand and Consumer Surplus.
 - Frank Knight linked profit to the reward for bearing uncertainty.
 - Joseph Schumpeter identified innovation as the key function of an entrepreneur.
 - J.R. Hicks explained the downward-sloping demand curve through income and substitution effects.
 - John Maynard Keynes attributed economic downturns to a lack of aggregate effective demand.
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Theories of International Trade

Several theories explain the rationale behind international trade:

- Mercantilism focused on maximizing exports to accumulate wealth.
- Adam Smith's Theory of Absolute Advantage argues countries should specialize in what they produce most efficiently.
- David Ricardo's Theory of Comparative Advantage states that mutually beneficial trade can happen even if one country has an absolute advantage, as long as it specializes in what it produces at a lower opportunity cost.

- The Heckscher-Ohlin Theory links a country's exports to its abundant factors of production (e.g., labor or capital).
 - Paul Krugman's New Trade Theory explains trade between similar countries through economies of scale and network effects.
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Theories on the Demand for Money

Economists have developed several theories to explain why individuals hold money:

- Quantity Theory of Money (Irving Fisher): Views money as being held for transactions.
 - Cambridge Approach (Marshall and Pigou): Adds the idea of holding money as a store of value.
 - Liquidity Preference Theory (Keynes): Identifies three motives for holding money: transaction, precautionary, and speculative.
 - Inventory Theoretic Models (Baumol & Tobin): Treat the demand for money as an inventory management problem, balancing holding costs with transaction costs.
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Indian Public Finance

The document highlights several articles of the Indian Constitution that outline the framework for distributing tax revenues between the central and state governments:

- Article 268 deals with duties levied by the Union but collected by the States.
- Article 269 covers taxes levied and collected by the Union but assigned to the States.
- Article 270 details how taxes are levied and collected by the Union but distributed between the Union and the States.
- Article 271 specifies that any surcharge on certain taxes goes exclusively to the central government.

1. Foundational Definitions of Economics

The study of economics has been defined through several distinct, influential lenses over time. The primary definitional frameworks are attributed to four key economists.

Definition Type	Proponent(s)	Core Concept
Wealth-Oriented	Adam Smith	Defines economics as an inquiry into the nature and causes of the wealth of nations. It is a science that deals with wealth.
Welfare-Oriented	Alfred Marshall	Defines economics as a study of mankind in the ordinary business of life, examining the attainment and use of material requisites of well-being.
Scarcity-Oriented	Lionel Robbins	Defines economics as the science which studies human behavior as a relationship between ends and scarce means which have alternative uses.
Growth-Oriented	Paul A. Samuelson	Focuses on the study of how societies use scarce resources to produce valuable commodities and distribute them among different people over time.

2. Key Concepts in Microeconomics and Macroeconomics

A wide array of specific economic concepts, theories, and models have been developed by numerous economists. The following table provides a comprehensive list of these attributions as outlined in the source material.

Economist(s)	Contribution / Theory / Concept

Adam Smith	- "An Inquiry into the Nature and Causes of the Wealth of Nations" (1776). - Supporter of Capitalism.
Alfred Marshall	- Law of Demand. - Law of Diminishing Marginal Utility (though Hermann Gossen is also cited as the primary originator). - Consumer Surplus. - Utility Analysis, Time Element, and Velocity of Demand.
A.A. Berle & G.C. Means	- Concept that managers enjoy discretionary power to set goals.
A.C. Pigou	- Business activities are affected by waves of optimism and pessimism within the business community. - Defined "Value in Exchange" as command over commodities in general.
Baumol	- Theory of Sales Revenue Maximization.
Chamberlin	- The distinction between selling cost and production cost.
Cyert & March	- Identified four corporate goals other than profit: Product, Sales, Inventory, and Market Share.
Frank Knight	- Profit is the reward for bearing uncertainty.
H.A. Simon	- Theory of Satisficing Behavior.
Hicks & Allen	- Indifference Curve analysis. - Substitution Effect.
J.B. Say	- Supporter of Capitalism (along with Adam Smith).

J.M. Keynes - Lower aggregate expenditure is the reason for massive declines in income and employment. - Aggregate Effective Demand. - Fluctuations in Effective Demand.

J.R. Hicks - Explained that the demand curve is downward sloping due to income and substitution effects.

James Bates & J.R. Parkinson - Defined production as an organized activity of transforming resources into finished products.

James Duesenberry - Demonstration Effect.

Jeremy Bentham - Defined utility as the property of an object.

Joel Dean - Defined business economics as the use of economic analysis to formulate business policies and make decisions involving the best use of scarce resources.

Joseph Schumpeter - The primary function of an entrepreneur is to introduce innovations. - The Innovation Theory of trade cycles.

Karl Marx & Friedrich Engels - Supporters of Socialism. - Published "The Communist Manifesto" in 1848.

Lionel Robbins - Authored "Nature and Significance of Economics".

Nicholas Kaldor - Cobweb Theory.

Olaf Helmer	- Delphi Method (a technique for demand forecasting).
Paul H. Douglas & C.W. Cobb	- Cobb-Douglas Production Function, which applies to individual firms and the entire manufacturing industry.
Paul A. Samuelson	- Defined a production function as the relationship showing the maximum output achievable with given inputs and a given state of technology.
Professor Boulding	- Defined the study of particular firms, households, individual prices, wages, and industries (i.e., microeconomics).
Professor McConnel	- Described macroeconomics as examining "the forest and not the trees" by focusing on larger aggregates.
R.G. Hawtrey	- Proposed that the trade cycle is a purely monetary phenomenon.
R.L. Marris	- Proposed the goal of maximizing the firm's balanced growth rate.
Ricardo	- Defined land as having indestructible and permanent properties.
Sir Robert Giffen	- Giffen Goods Paradox.
Thorstein Veblen	- Veblen Effect and the concept of Conspicuous Consumption.

Williamson - Theory of maximization of the managerial utility function.

3. Theories of International Trade

The rationale and patterns of international trade are explained by several major economic theories.

Theory	Proponent(s)	Core Concept
Mercantilism	(Not attributed to a single person)	An early theory emphasizing that a nation's wealth is increased by maximizing exports and minimizing imports to accumulate precious metals.
Theory of Absolute Advantage	Adam Smith	A country should specialize in producing and exporting goods that it can produce more efficiently (with fewer resources) than other countries.
Theory of Comparative Advantage	David Ricardo	Even if one country has an absolute advantage in all goods, trade can be mutually beneficial if each country specializes in producing the good where it has a lower opportunity cost. This is based on the labor theory of value.
Heckscher-Ohl in Theory	Eli Heckscher & Bertil Ohlin	A country will export goods that make intensive use of its relatively abundant factors of production (e.g., a labor-surplus country exports labor-intensive goods) and import goods that require factors it has in relative scarcity.

New Trade Theory (NTT)	Paul Krugman	Explains trade patterns based on economies of scale and network effects, suggesting that countries can become dominant producers of certain goods without a difference in factor endowments.
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4. Theories of the Demand for Money

Economists have proposed several theories to explain why individuals and firms hold money.

Theory / Approach	Proponent(s)	Core Concept
Quantity Theory of Money (Classical / Transaction Approach)	Irving Fisher	Money is demanded primarily for transaction purposes. Fisher published his work "The Purchasing Power of Money" in 1911.
Cambridge Approach (Neoclassical / Cash Balance Approach)	Alfred Marshall, A.C. Pigou, D.H. Robertson, J.M. Keynes	Money is demanded not only for transactions but also as a store of value. It focuses on the portion of income individuals wish to hold as cash balances for transaction and precautionary motives.
Keynesian Theory (Liquidity Preference Theory)	John Maynard Keynes	Demand for money is driven by three motives: Transaction Motive (for daily expenses), Precautionary Motive (for emergencies), and Speculative Motive (to seize investment opportunities). Outlined in his 1936 book, "The General Theory of Employment, Interest and Money."

Inventory Theoretic Approach	Baumol (1952) & Tobin (1956)	Treats the demand for money like an inventory management problem. Individuals balance the cost of holding money (forgone interest) against the transaction costs (e.g., brokerage fees) of converting other assets into money.
Friedman's Restatement of the Quantity Theory	Milton Friedman (1956)	Treats the demand for money as an application of the broader theory of demand for capital assets. Demand is influenced by factors like permanent income and the relative returns on alternative assets.
Risk Aversion Theory	Tobin	Individuals decide how to allocate their wealth between money (a risk-free asset) and other assets (like bonds, which are risky) based on their risk tolerance and the expected returns.

5. Principles of Indian Public Finance: Revenue Distribution Articles

The Constitution of India outlines a detailed framework for the distribution of tax revenues between the Union (Central) and State governments through several key articles.

Article	Description of Revenue Distribution Mechanism
Article 268	Duties Levied by the Union but Collected and Appropriated by the States. The central government imposes the tax, but the state governments collect and keep the revenue.

Article 269 Taxes Levied and Collected by the Union but Assigned to the States. The central government imposes and collects the tax, but the entire proceeds are handed over to the states.

Article 270 Taxes Levied and Collected by the Union and Distributed between the Union and the States. The central government levies and collects these taxes, and the revenue is shared between the Union and the States according to a prescribed formula.

Article 271 Surcharge on Certain Duties and Taxes for Purposes of the Union. Any surcharge imposed on taxes under Articles 269 and 270 is exclusively for the central government and is not shared with the states.

Article 275 Statutory Grants. The central government provides grants-in-aid to states that are in need of financial assistance.

Article 282 Grants for any Public Purpose. Both the Union and the States can make grants (donations) for any public purpose.

Article 293 Loans for any Public Purpose. This article pertains to the provision of loans for public purposes.

More on hahahaahahahhaa 1 min capsule shots are.....

- **Wealth-Oriented (Adam Smith):** Economics = study of wealth of nations.
- **Welfare-Oriented (Alfred Marshall):**
Economics = study of human well-being in daily life.
- **Scarcity-Oriented (Lionel Robbins):**
Economics = managing scarce resources with alternative uses.
- **Growth-Oriented (Paul Samuelson):**
Economics = using scarce resources for production, distribution & growth over time.

2. Key Micro & Macro Concepts

- **Marshall:** Law of Demand, Consumer Surplus, Utility.
- **Knight:** Profit = reward for uncertainty.

- **Schumpeter:** Entrepreneur's key role = innovation.
- **J.R. Hicks:** Demand curve = income + substitution effects.
- **Keynes:** Lack of effective demand = cause of recessions.
- **Others:**
 - Pigou → optimism/pessimism in business.
 - Baumol → Sales revenue maximization.
 - Veblen → Conspicuous consumption.
 - Cobb-Douglas → Production function.
 - Friedman → Permanent income & money demand.

3. Theories of International Trade

- **Mercantilism:** Max exports, min imports → wealth.
 - **Absolute Advantage (Smith):** Specialize in what you do most efficiently.
 - **Comparative Advantage (Ricardo):** Trade benefits even if one is better at everything → specialize where lower opportunity cost.
 - **Heckscher-Ohlin:** Trade depends on factor abundance (labour/capital).
 - **New Trade Theory (Krugman):** Scale economies & network effects explain trade between similar nations.
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4. Theories of Demand for Money

- **Quantity Theory (Fisher):** Money = held for transactions.
- **Cambridge Approach (Marshall, Pigou):** Money = also store of value.

- **Keynes (Liquidity Preference):** 3 motives → Transaction, Precaution, Speculative.
 - **Baumol & Tobin:** Money demand = inventory management trade-off.
 - **Friedman:** Money demand = like capital assets, linked to permanent income.
 - **Tobin (Risk Aversion):** Portfolio choice between money (safe) & risky assets.
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5. Indian Public Finance (Revenue Distribution Articles)

- **Art. 268:** Union levies, States collect & keep.
- **Art. 269:** Union levies & collects, assigns to States.
- **Art. 270:** Union levies/collects, shares with States.
- **Art. 271:** Surcharge = Central govt only.

- **Art. 275:** Grants-in-aid for needy States.
- **Art. 282:** Grants for any public purpose (Union & States).
- **Art. 293:** Loans for public purposes.