Unit One

Concepts of Economics

1.1Meaning and Scope of Economics

The word economics comes from the Greek word "Oikonomikos". Oiko means home Nomos means management. Economics means "one who manages a household".

Q1 How do you parents mange their home?

The definition of economics is ongoing, and it is under refinement mainly in areas such as:

- Wealth definition
- Welfare definition
- Scarcity definition

Every definition is vulnerable to objections. In this regard, let us consider some universal truths

- *Human wants are unlimited*
- *Resources (means) to satisfy them are scarce (limited).*
- *Resources have alternative uses.*

Q2 What is economics?

Definition:

- *Economics is a study of problems regarding choices that must be made due to scarcity of resources.*
- *It examines how the scarce resources can be used for the maximum fulfillment of human wants.*
- *Economics is a study of how society manages scarce resources.*
- *It is the study the way in which mankind organizes itself to tackle the basic problems of gap between wants of the members of society and the limited resources available in that society.*

Economics as a separate discipline emerged after a famous publication called ***An Inquiry into the Nature and Causes of Wealth's Nation by Adam Smith*** *in the year of 1776.*

Economics definition from different perspective

- **From wealth:-** is the study of the nature and causes of nations wealth or simply the study of wealth. (Adam Smith)
  . Features of this definition are **exaggerated emphasis on wealth, Inquiry into the creation of wealth and perceived wealth as goods but not services.**
- **From welfare:-** Economics is the of wealth and the role of the individual in the creation and the use of wealth. (Alfred Marshal)
  . Features of this definition are **study of materials requisites of well-being, concentrates on the ordinary business of life and stress the role of man in the creation of wealth or income**
- **From Scarcity**: Economics is a science which studies human behavior as a relationship between ends and scarce means which have alternative uses. (Lionel Robins)

. Features of this definition are **human wants are unlimited, limited resources to satisfy human wants, alternative use of scarce resources and need for choice and optimization**.

The Nature of Economics

Some economists have treated economics as a science, and others consider it to be an art.

Economics as a Science:- In economics, various facts are systematically collected, classified, analyzed and interpreted to make predictions for the future, and it is in this sense that economics can be considered to be a science.

Economics as an Art:- economics not only investigates the nature and causes of an economic problem but also sets guidelines for its solution. On this basis, we can consider economics to be an art.

Branches of Economics

In the recent past, many new branches of the subject have developed, including *development economics*, *welfare economics*, *environmental economics*, and so on. However, the core of modern economics is formed by its two major branches: *microeconomics* and *macroeconomics*.

- Microeconomics:- deals with the behavior of individual economic units.
  - economic activities and studies concerning a consumer, a producer, a firm or industry, individual income, the determination of product price and factor price, etc. come under the scope of microeconomics.
  - The central problem of microeconomics is the problem of allocation of resources or the problem of price-determination
  - Demand and supply are the main tools of analysis in microeconomics.
  - For example, when we study the price determination of a commodity in a market, our study is micro-analysis and is treated by micro economics
- Macroeconomics:- Deals with aggregates or averages covering an entire economy.
  - For instance, total employment, national income, national output, total investments, total consumption, total savings, aggregate supply, aggregate demand and general price level, wage level and cost structure come under the scope of macroeconomics.
  - The central problem of macroeconomics is the problem of determining income and employment.
  - Aggregate demand and aggregate supply are the main tools of analysis in macroeconomics
  - For example if we study the trend of the general price of commodities over time in a country, our analysis macro-analysis and is treated by macroeconomics.

Distinction between Microeconomics and Macroeconomics

Microeconomics is the study of individual economic units of an economy such as individual households, individual firms, or industries. On the other hand, *macroeconomics* is the study of an economy as a whole, and its focus is the study of broad economy-wide aggregates.

Micro economics

1 It studies individual economic units of an economy.
2 It deals with individual income, individual prices, individual outputs, etc.
3 Its central problem is price determination and allocation of resources.
4 Its main tools are the demand and supply of particular commodities and factors.
5 It helps to solve the central problem of 'what, how and for whom to produce' in an economy.
6 It discusses how the equilibrium of a consumer, a producer or an industry is attained.
7 Examples are: Individual income, individual savings, individual prices, an individual firm's output, individual consumption, individual expenditure, etc.

Macroeconomics

1 It studies an economy as a whole and its aggregates.
2 It deals with aggregates like national income, general price level and national output.
3 Its central problem is determination of level of income and employment.
4 Its main tools are aggregate demand and aggregate supply of an economy as a whole.
5 It helps to solve the central problem of 'full employment of resources in the economy.'
6 It is concerned with the determination of equilibrium levels of income and employment.
7 Examples are: national income, national savings, general price level, national output, aggregate consumption expenditure, aggregate employment, etc.

Usefulness and Significance of Economics

Economics is an extremely useful subject, and its study and knowledge has acquired greater importance in recent times. Some of the advantages of studying economics are:

- *Economics helps us to understand certain problems and questions affecting individuals and families.* For example, *the types of jobs that are available, the level of wages in industries, and the effect of price rise on peoples' standard of living.*
- *Economics explains problems and questions that affect society.* For example, *what are the causes of unemployment and how can we reduce it? What causes price rises? What policies should the government adopt to control inflation?*
- *Economics examines the actions and behaviors of different types of people under different circumstances.* For example: employees, investors and speculators.
- *Economics explains the causes of fluctuations in economic activity and helps us to understand business trends.*
- *Economics helps us to understand and solve crucial problems like poverty and unemployment.*
- *The study of economics is useful for economic planning and economic development.*
- *Economics helps us to understand and participate in international trade by examining the theory and practice of exports, imports, comparative costs, etc.*
- *Economics helps us to understand how different economic systems function.*
- *The study of economics helps us to understand how social welfare can be achieved through material means.*

1.2 METHODS OF STUDYING ECONOMIC PRINCIPLES

Deductive and Inductive Methods

Deductive Method

Deductive method is a method of reasoning which enables one to reach at a particular conclusion from a general statement or assumption. The principal steps involved in the deductive method are:

I *Identifying the Problem and its Variables:-* He or she must also identify the significant variables that interact relative to the problem. The final laws and theories will be based on these understandings.

II *Defining Technical Terms and Making Assumptions:-* the process is to accurately and precisely define the various technical terms to be used in the analysis and to clearly state the assumptions on which the final theories and laws will be based.

III *Developing Hypotheses through Logical Deduction:-* is deducing hypotheses from the assumptions stated in Step (II). The hypotheses propose cause-and-effect relationships between the variables that are related to the problem identified in Step (I).

IV *Testing or Verifying Hypotheses:-* The hypotheses obtained in Step (III) must be verified before they can be established as theories of economics. On the basis of a hypothesis, economists make predictions. To verify the hypothesis, these predictions are tested.

V *Comparing Predictions with Facts:-* If, on testing, the predictions of a hypothesis are found to be in agreement with relevant facts in the real world. However, if predictions of the hypothesis are found to be in conflict with the facts, then two courses are open to the theorist. In the first, the theory is discarded in favor of a superior alternative. In the second, the process of constructing a theory is re-started by modifying the assumptions.

Inductive Method

- Inductive method is a process of reasoning from a part to whole, from particular to generals or from the individual to the general.
- The inductive method develops economic theories on the basis of observations and experiments.
- In this method, detailed data are collected with regard to the economic phenomenon. Efforts are then made to arrive at hypothesis based on the observations and data collected.
- Various steps are gone through in developing theories of inductive method.
    - Identify the problem,
    - Defining technical terms and variables related to the problem.
    - Specific to the inductive method (collecting data about the variables related to the problem and doing some preliminary thinking about possible functional relationships between the variables)
    - the analyst develops hypotheses
    - Tests the predictions under real-life economic conditions.

Integrated Deductive and Inductive Methods

Which is more appropriate for developing economic theories and principles?

- ✓ The modern viewpoint in this regard is that both are needed for the proper development of scientific economic theories.
- ✓ Indeed, the two are complementary rather than competitive. Modern economists begin by developing economic hypotheses through logical deduction and then empirically test them through statistical or econometric methods.

Model Building in Economics

- *A model is an abstraction of the real world.*
- A model is a simplified theory or simplified picture of what something is like or how something works.
- *An economic model usually consists of a set of equations that express relationships between variables that are relevant to the problem under investigation*. *Each equation attempts to explain the behavior of one variable*, seeking to establish cause and effect relationships regarding it.
- Economic models are built for purposes of analysis and prediction.

❖ Note that causation does not always run only in one direction. There are mutual relationships among variables: one variable influences other variables and is in turn, influenced by them. For instance, consumption depends upon income

❖ Model does not represent its part of the real world in entirety. The model represents only its main significant features.

Positive versus Normative Economics: The Role of Value Judgment in Economic Analysis

Positive Economics (Economics as a science):- *Positive economics is concerned with* ***explaining what is****. In other words, it develops theories and laws to explain observed economic phenomena.* Example: Minimum-wage laws cause unemployment.

❖ It does not include value judgments since positive economics is concerned only with facts, which are, in principle, either true or false.

Normative Economics (Economics as an art):- *Normative economics* ***includes concerns of what should be,*** *and it involves value Judgment.* Example: The government should raise the minimum wage.

❖ It deals with analysis of the benefit of economic policies to society.

The Nature of Economic Laws

Economic laws are also known as *economic generalizations* and *economic principles*. Economic laws describe how man behaves as a producer or as a consumer. Such laws are also concerned with how the economic system works and operate.

Some of the main features of economic laws

I *Economic laws are a lot like statements of tendencies*

II *Economic laws are conditional.*

III *Economic laws are scientific in nature.*

IV *Economic laws are not completely exact and definite.*

V *Economic laws are not permanent and general.*

1.3 RESOURCE ALLOCATION

Some Basic Concepts of Economics

Economy *is a system which provides people with the means to work, and earn a living*.

The Economic Problem *is concerned with the uses of scarce resources among alternative human wants and in using these resources towards the end of satisfying wants as fully as possible*." The economic problem is also called *the problem of choice.*

Scarcity The economic problem is the problem of scarcity. In daily life, scarcity means acute shortage of a certain commodity, but in economics, it means *limitation in the supply of a commodity relative to the need for it.*

Similarly, resources are said to be scarce when they are not available in sufficient quantity to satisfy all human wants.

Choice With limited resources, we cannot satisfy all our wants, and thus we make choices. The economic problem is called a problem of choice because the economy has to make choices between various types of goods that can be produced with the given resources.

- Thus, when we make a choice for one thing, it is *at the cost of* some other thing. This leads us to another concept in economics, known as *opportunity cost.*

Opportunity Cost *The **opportunity cost** of a commodity is the amount of other commodities that must be forgone in order to produce the first.*

Efficiency (Economizing of Resources) means *making the best use of available resources*. In other words, it implies optimum utilization of existing resources. The need to economize resources arises because resources are scarce and have different uses.

Resources

There are two types of resources: *free resources* and *economic resources*.

Free Resources that are free gifts of nature and that are unlimited in supply, and do not have prices are known as *free resources*. For example, air, sunshine, and a mountain stream.

Economic Resources that are scarce or limited and that have prices are known as *economic resources,* for example, land, buildings, and machinery.

Broadly speaking, we can divide economic resources into four categories. *Land, labor, capital, and entrepreneurship.*

- ***Land:*** it includes all natural wealth that exists on or under the surface, including features such as rivers, soil, forests, mines, and deserts. The reward for land is rent.
- ***Labour:*** all labour – mental and physical – that is done in order to earn money is called labour. Work that is performed for other reasons – for example, to provide a social service, or for entertainment, love, or affection is not labour in economic terms. The reward for labor is wage and salary.
- ***Capital:*** All man-made goods that are used for the further production of wealth are included in *capital*. Thus, capital is the man-made material sources of production. Some examples are machines, tools, buildings, roads, bridges, raw material, trucks, and factories. The reward for capital is interest.
- ***Entrepreneurship:*** is the taking of production risks and business creation. An entrepreneur is a person who organizes the other resources of production and undertakes the risks and uncertainties involved in production. The reward for entrepreneurship is profit.

Economic Growth An economy is said to grow when its total real output or gross domestic product (GDP) rises. *Economic growth* or *growth of resources* can be achieved in different ways, including technological advancement and the production of new types of goods.

The Production Possibility Curve (PPC)

A production possibility curve (PPC) *shows us all possible combinations of production quantities of multiple products.*

The production quantities represent maximum possible output and are based on full and efficient use of currently available resources and of the current production technology.

Production Possibility Schedule

Table 1.2 is a production possibility schedule that shows various production trade-offs between units of guns versus units of butter.

Table 1.2 Hypothetical production possibility schedule for guns and butter

Production possibilities	Units of guns	Units of butter
A	0	100
B	1	90
C	2	70
D	3	40
E	4	0

Table 1.2 shows five possible combinations of production quantities – A through E. As shown for scenario A, if all the given resources are used to produce butter, 100 units of butter can be produced. On the other hand, as shown at point E, when all the resources are used to produce guns, 4 units of guns can be produced. In between these two scenarios, many other possible combinations of production quantities exist, and we can consider as many or as few of them as we choose. In our case, we examine those of points B, C, and D.

Note In our example, there are only two products. However, the concepts and procedures for production possibility curves can involve any number of products.

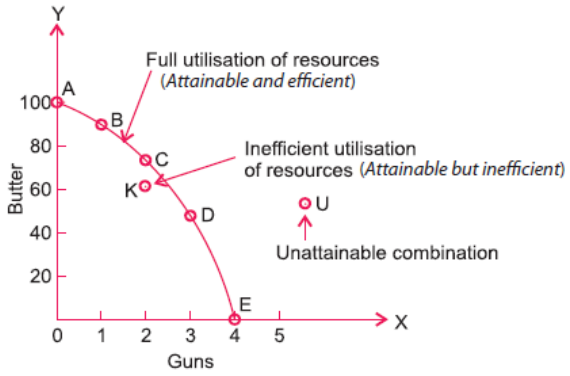


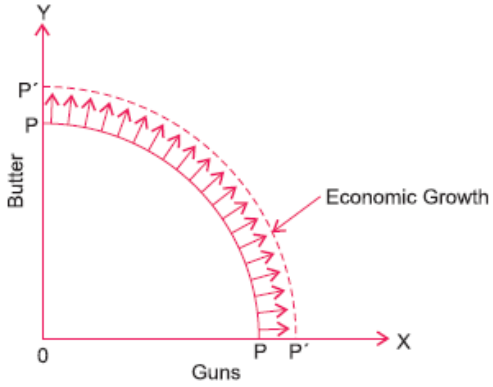
Figure 1.1: Hypothetical production possibility curve for guns and butter

In order to understand the relationship between production possibility curves and basic economic problems, study the following information about our hypothetical production possibility curve:

I Points A, B, C, D, and E on the curve show five production possibilities for units of guns versus units of butter, illustrating the trade-offs that result from increasing one product over the other. To decide what to produce and the quantities of each item to produce, we assess these trades-offs relative to the economy's goals.

ii Regarding efficiency in production technique and in use of resources. If a production point lies anywhere inside the curve, inefficiency and waste are occurring. Consider Point K, which lies inside the production possibility curve. Point K represents the production of two units of guns with 60 units of butter. However, Point C, which falls on the curve itself, tells us that greater production is possible – at full resource utilization, we can produce 70 units of butter (rather than 60) as well as the same two units of guns.

iii If the economy's production capacity increases, reflecting economic growth, the production possibility curve shifts outward, to the right, as shown in Figure 1.2, showing that greater quantities of both types of goods can be produced. Economic growth has led to increased available resources, higher technology levels, or both.



Opportunity Cost and PPC

*Recall that the **opportunity cost** of a commodity is the amount of other commodities that must be forgone in order to produce the first.*

- For the curve in Figure 1.3, assume that the economy is producing at Point C. It indicates production of 70 units of butter and 2 units of guns.
- Now assume that the economy needs one more unit of guns. To make this change, production must move to Point D, which shows that, when the economy increases gun production by one unit, it must forgo 30 units of butter.
- In other words, 30 units of butter is the *opportunity cost* of one unit of guns. The opportunity cost of a commodity is the amount of another commodity that must be forgone in order to produce the first.

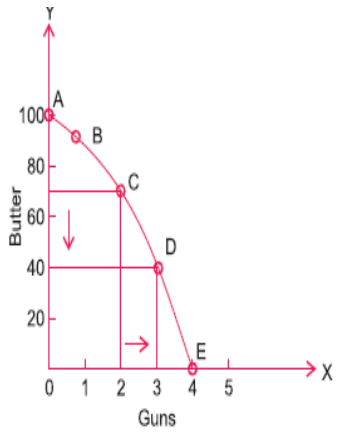


Figure 1.3: Hypothetical opportunity cost and PPC

Figure 1.3: Hypothetical opportunity cost and PPC

Generally, the opportunity cost of producing a commodity is calculated as follows:

$$\text{Opportunity cost of a commodity} = \frac{\text{the amount of the next-best alternative given up}}{\text{the amount of the commodity produced}}$$

Shape of the PPC a downward sloping curve and concave to the origin.

1.4 ECONOMIC SYSTEMS

Every modern society faces certain basic economic problems, such as:

- *What goods and services should be produced and in what quantity?*
- *How and where should production be organized so as to produce the required goods and services most efficiently?*
- *How should the resulting output be distributed?*

Basic Economic Questions

Economic problems faced by an economic system due to scarcity of resources are known as *basic economic problems*. They are also known as *central problems of an economy*.

- The three central/basic economic questions are:
  - What to produce?
  - How to produce?
  - For whom to produce?
  - *How most efficiently utilize resources.*
  - *How to accelerate the rate of economic growth*

What to Produce?

- This problem is also known as the *problem of allocation of resources*.
- It implies that every economy must decide which goods and in what quantities are to be produced.

How to Produce?

- This problem is also known as the *problem of choice of technique*.
- Once an economy has reached a decision regarding the types of goods to be produced, and has determined their respective quantities, the economy must decide how to produce them, choosing between alternative methods or techniques of production.
- Broadly speaking, the various techniques of production can be classified into two groups: *labour-intensive techniques* and *capital-intensive techniques*.

- A labour intensive technique involves the use of more labour, relative to capital, per unit of output. A capital-intensive technique involves the use of more capital, relative to labour, per unit of output.

For Whom to Produce?

- This problem is also known as the *problem of distribution of national product*.
- It relates to how a material product is to be distributed among the members of a society.
- It can also be referred to as *an organization for the purpose of satisfying the peoples' needs by using available means of production*.

The study different types of economic systems, classified on the basis of ownership of resources. These are: ‘ Capitalistic economy
‘ Command economy
‘ Mixed economy

Capitalistic Economy (Capitalism)

- *Capitalism* is the oldest formal economic system in the world.
- It became widespread in the middle of the 19th century.
- In this economic system, all means of production are privately owned, and production takes place at the initiative of individual private entrepreneurs who work mainly for private profit.
- Government intervention in the economy is minimal. This system is also called *free market economy* or *market system* or *laissez faire*.

Main Features of Capitalistic Economy

- ✓ ***The Right to Private Property***
- ✓ ***Freedom of Enterprise***
- ✓ ***Freedom of Choice by Consumers***
- ✓ ***Profit Motive***
- ✓ ***Competition***
- ✓ ***Price Mechanism***
- ✓ ***Minor Role of Government***
- ✓ ***Self-Interest***
- ✓ ***Inequalities of Income***
- ✓ ***Existence of negative externalities***

Advantages of Capitalistic Economy

- ➢ ***Flexibility or Adaptability***
- ➢ ***Decentralization of Economic Power***
- ➢ ***Increase in Per-Capita Income and Standard of Living***
- ➢ ***New Types of Consumer Goods***
- ➢ ***Growth of Entrepreneurship***
- ➢ ***Optimum Utilization of Productive Resources***
- ➢ ***High Rate of Capital Formation***
- ➢ ***Reward According to Ability***

Disadvantages of Capitalistic Economy

- ➢ ***Inequality of Income***
- ➢ ***Too Much Waste***
- ➢ ***Unbalanced Economic Activity***
- ➢ ***Emphasis on Materialism***

- ***Exploitation of Labour***
- ***Trade Cycles of Economic Booms and Depressions***
- ***Negative externalities***

Command Economy (Socialism)

- *Command economy* is also known as *socialistic economy.*
- In it, the economic institutions that are engaged in production and distribution are owned and controlled by the state and are put to use under a centralized plan.
- Beginning with Russia (in 1917), many countries of the world, including China, Vietnam, former East Germany, Poland, Hungry, and Cuba, adopted socialism.
- socialism as "*an economic organization of society in which the material means of production are owned by the whole community according to a general economic plan, all members being entitled to benefit from the results of such socialized planned production on the basis of equal rights*".

Main Features of Command Economy

- ***Collective Ownership***
- ***Clear Social and Economic Objectives***
- ***Central Economic Planning***
- ***Government strong role***
- ***Maximum Social Welfare***
- ***Relative Equality of Incomes***

Advantages of Command Economy

- ***Best Utilization of Resources***
- ***Absence of Wasteful Competition***
- ***Smooth Working of the Economy***
- ***Balanced Economic Growth***
- ***Elimination of Private Monopolies and Inequalities***

Disadvantages of Command Economy

- ***Absence of Automatic Price Determination***
- ***Absence of Incentives for Hard Work and Efficiency***
- ***Lack of Economic Freedom***
- ***Red-Tapism***

Mixed Economy

- A mixed economy is an attempt to combine the advantages of both the capitalistic economy and the command economy.
- *A mixed economy is an economy containing the characteristics of both capitalism and socialism: a combination of private and public ownership of the means of production, with some measures of control by the government.*
- The concept of mixed economy is of recent origin and many developing countries have adopted the system of mixed economy.

Main Features of Mixed Economy

- ***Co-existence of Public and Private Sectors***
- ***Economic Welfare***
- ***Economic Planning***
- ***Price Mechanism***

- ***Economic Equality***

Advantages of Mixed Economy

- ***Private Property, Profit Motive and Price Mechanism***
- ***Adequate Freedom***
- ***Rapid and Planned Economic Development***
- ***Social Welfare and Fewer Economic Inequalities***

Disadvantages of Mixed Economy

- ***Ineffectiveness and Inefficiency***
- ***Instability***
- ***Economic Fluctuations***
- ***Corruption and Black Markets***

Note:- Generally in concept a mixed economy is ideal because it incorporates the advantages of both capitalism and socialism, its success depends totally on government efficiency and effectiveness. The system has been successfully adopted by some countries, including Sweden, Denmark and Switzerland, but it has not given appropriate results in many other countries.

1.5 DECISION-MAKING UNITS AND CIRCULAR FLOWS OF ECONOMIC ACTIVITIES

The Decision-Making Units of an Economy

Household Sector:- are the main owners of *factors of production* – land, labour, capital and entrepreneurship.

- They sell the services of these factors (called factor service) to producers and, in return, receive their income in the form of rent, wages, interest, etc.
- They spend a large part of their income purchasing goods and services from the producers. However, they save part of their income, and also they pay taxes to the government out of their income.

Business Sector (Firms):- Firms hire services of factors of production from households to produce commodities that they sell to households, to other firms, to the government or to other countries.

- Firms are the principal buyers of factors of production and they are the main producers of commodities. The business sector consists of both private and government enterprises.

Government Sector:- *General government* gets its income largely from taxes imposed on households and on the business sector in the form of direct and indirect taxes.

- General government buys goods and services from the producers and factor services from the households.
- It uses these commodities and factor services to provide free services, such as police, education, medical facilities, sanitation facilities, judicial services, etc., to the people so as to satisfy their collective wants for those services.

The Rest of the World:- Different sectors of an economy have transactions not only with each other, but also with foreign countries – *the rest of the world*.

Circular Flows of Income and Expenditure

- *A circular flow of income is a visual model of an economy that shows how a currency, such as the Birr, flows through markets among decision-making units.*

- A *circular flow* is a pictorial representation of the continuous flow of payments and receipts for goods and services and factor services between different sectors of the economy.
- Economic transactions, like the sale and purchase of goods and factor services, generate two kind of flows – *Real flows* and *money flows*
    - *Real flows* consist of the flows of *Factor services from the owners of factor services to the producers and goods and services from the producers to the buyers.*
    - *Money flows* consist of the flows of *money incomes from factor services such as rent, wages, interest, etc., and the money expenditures incurred for the purchase of goods and services*

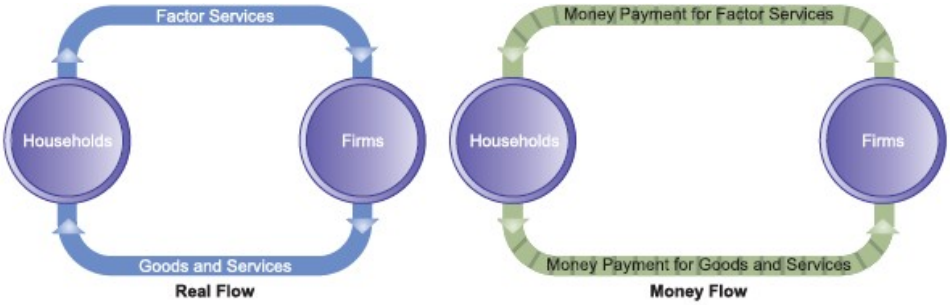


Figure 1.4: Circular Income Flows – Real Flow and Money Flow

Models of Circular Flow

- For closed economies, we have two models of circular flow
    - ✓ *Two-sector model, consisting of the flows between households and the business sector (firms).*
    - ✓ *Three-sector model, consisting of the flows among households, the business sector, and the government sector*

Two-Sector Models of Circular Flow

The two-sector model represents a private closed economy with only two sectors– the household sector and the business sector (firms). It can further be divided into these two types:

i Two-sector economy without savings

ii Two-sector economy with savings

I *Two-Sector Economy without Savings*

In this model our assumptions are:

- ✓ *There are only two sectors in the economy: the household sector and business firms.*
- ✓ *Household sectors are owners of factors of production and they supply factor services to the firms.*
- ✓ *Firms produce goods and services and sell their entire output to households*
- ✓ *Households receive income for their factor services and spend the entire amount on consumption.*
- ✓ *There is no savings in the economy.*
- ✓ *There is no government sector.*
- ✓ *It is a closed economy, and therefore there are no exports or imports.*

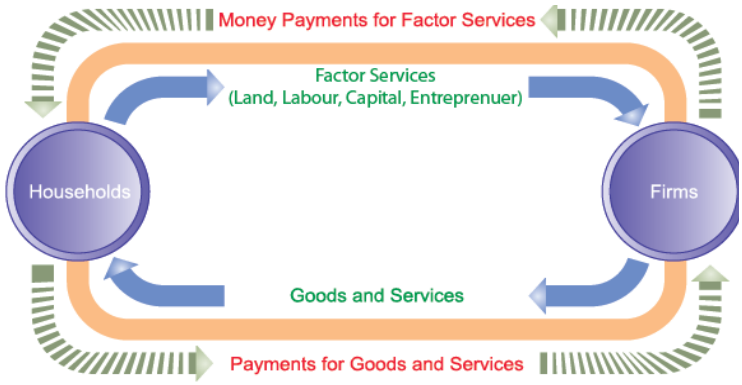


Figure 1.5: Circular flow of income in a two-sector economy without savings

II *Two-Sector Economy with Savings*

- In the real world not all income is spent on consumption.
- The savings are made by the household sector only. These savings are deposited in the capital market or in the financial system (such as banks, insurance companies, financial institutions, etc.)
- From the capital market, these savings flow to the firms for investment.

Three-Sector Model of Circular Flow

- In the three-sector model of circular flow, the economy has the following three sectors: households, firms, and government.
- In this model, activities of the government (as well as of the other two sectors) influence the flow of income.
- There are two main categories of economic government activities: government revenue and government expenditure.

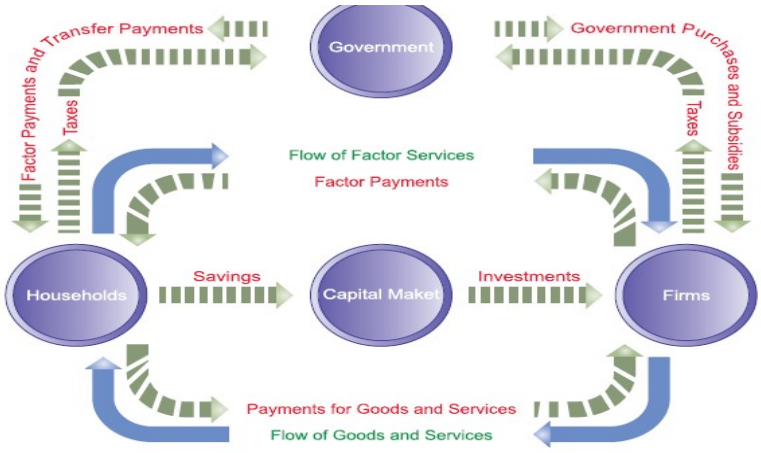


Figure 1.7: Circular flow of income in a three-sector economy

Entrepreneurs

- An entrepreneur is a person who organizes the other factors (resources) and undertakes the risks and uncertainties involved in production.

- He or she hires the other three factors, brings them together, and organizes and coordinates them in a way that results in the earning of maximum profit.
- An entrepreneur acts as the leader and decides how the business shall run.

Characteristics of Entrepreneurs

- ***Far sightedness***
- ***Courage***
- ***Quality of leadership***
- ***Ability to organize labor***
- ***Experience***
- ***Knowledge of business***
- ***Moral quality***
- ***Knowledge of psychology***
- ***Decision-Making Ability***

Roles of the Entrepreneur in Economic Development

- ✓ ***Performs the Role of an Administrator***
- ✓ ***Performs the Role of a Coordinator***
- ✓ ***Proper Utilization of Labor Force***
- ✓ ***Distributes Appropriate Remuneration to Each Factor of Production***
- ✓ ***Plays the Crucial Role of an Innovator***