

Economics, an Economy and the Role of Information in Economic Decisions

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Abstract

Economics deals with choices of individuals, institutions, groups, societies or nations worldwide. Irrespective of the level of the individuals, institutions, groups, societies, or nations, etc., their choices or economic decisions rely on certain information. If the relevant information is not available or perfectly shared among parties, no economic decision would be proper and/ or on line with the basic principles of economics. With this introduction, the present paper attempts to highlight the role of information in economic decisions. The present paper is organized in three sections. Section 1 highlights the basics of economics and the functioning of an economy based on activities. It includes defining the subject economics, economic activities and the economic problems. Section 2 narrates the role of information in facilitating economic activities and discusses as to how asymmetric information disturbs the economic decisions. The last section provides a summary of arguments.

Keywords: Economic decisions, Economic activities, and Economic problems.

Introduction

Section 1

Basics of Economics and Functioning of an Economy

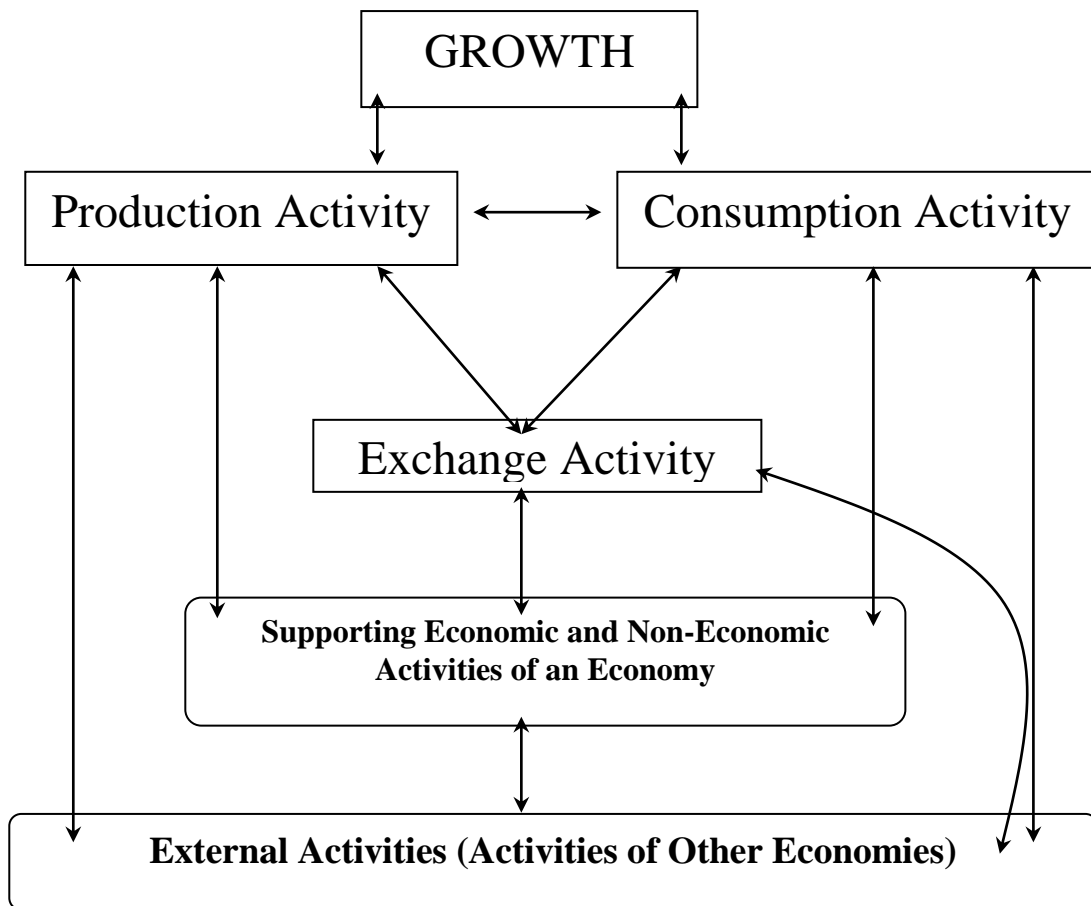
Economics emerged as a subject with high level of applications in all other disciplines due to its basic principle of 'Choice making for optimization with the given resources of scarcity and surplus'. To arrive at this phenomenon in the definition of economics, it has taken almost 235 years. In 1776, Adam Smith (1937), who is regarded as the "Father of Modern Economics", has defined economics as "a science which inquires into the nature and causes of wealth of nations". He emphasized the production and growth of wealth as the subject matter of economics. In 1890, Alfred Marshall (1949) stated that "Economics is a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of material requisites of wellbeing". It is on one side a study of wealth; and on the other side, a study of human welfare based on wealth. The problem of attaining welfare was identified as scarcity in 1932 by Lionel Robbins (1932) and he has defined economics as "the science which studies human behavior as a relationship between ends and scarce means which have alternative uses." He emphasized on choice under scarcity. In his own words, "Economics is concerned with that aspect of behaviour which arises from the scarcity of means to achieve given ends" (Ibid p.54). Paul A Samuelson (1948) further modified this definition by introducing the dimension of growth under scarce situation. According to him, "Economics is the study of how men and society choose with or without the use of money, to employ the scarce productive resources which have alternative uses, to produce various commodities over time and distribute them for consumption now and in future among various people and groups of society. It analyses the costs and benefits of improving pattern of resource allocation". The major limitation of this definition is that it ignores the surplus resource conditions by assuming that economics is relevant only for scarcity situations. In the modern context of globalization, A.C.D has (2011), after taking into account the availability of scarce and surplus resources with the focus on sustainable development, has defined economics as a "study of choice making by individuals, institutions, societies, nations and globe under conditions of scarcity and surplus towards maximizing benefits and satisfying their unlimited needs at present and future". He further added that it is the "Study of choices by all in maximizing production and consumption benefits with the given resources of scarce and surplus, for

present and future needs.” This definition not only covers both micro and macro dimensions, includes both production and consumption activities, emphasizes choice-making as crucial, focuses on maximizing benefits with given resources, aims at achieving growth by meeting present and future needs, but also applies under conditions of both scarce and surplus.

A review of all these definitions and their evolution indicate that the core of the subject economics is ‘choice making’. No matter who does it, but, it is a subject concerned about achieving growth by optimizing the given resources, based on choices. It is noteworthy herein that Adam Smith emphasized on wealth (Production Activity), Marshal focused on (Production and Consumption Activities), Lionel Robbins highlighted the problem of scarcity (Choices under scarcity), Samuelson focused on production and consumption activities and achieving growth under scarcity (choices under scarcity and growth), and Dhas gave emphasis on choice making in maximizing production and consumption benefits under scarce and surplus, and achieving growth (choices under scarcity and surplus, and growth).

It is clearly evident from the above discussion that the core of economics is ‘Choices’, the fundamental economic activities are production and consumption, and the aim of economics is optimizing given resources and achieving growth. Production refers to the activity of creation of utilities and consumption refers to the activity of destruction of utilities. Though these activities appears to act in opposite direction, they stand as the base for creating wealth and welfare respectively and deciding the growth altogether. If there is a balance between production and consumption, the question of economic problem would not arise. If the present and future needs are met by production, the economy would be smooth and growth and welfare can be achieved and maintained. However, as and when there is a mismatch between production and consumption activities, the bridging economic activity ‘exchange’ comes into picture to balance or bridge the production and consumption activities. This makes the system further dynamic, but highly complex. As and when the Exchange activity gets failed to match the production and consumption, several supporting activities such as government regulations and interventions, storage and transportation, banking, advertising; planning, etc. are required to shape the exchange activity as well as production and consumption activities. In addition to the supporting activities, external activities from other economics such as import, export, international relations, emigration, immigration, foreign exchange earnings, etc. also influence the entire functioning of the economy. The above discussion of the functioning of an economy is depicted in the following chart.

Functioning of the Economy Based on Activities



Thus, the functioning of an economy based on activities and their linkages has been illustrated hereinabove. It is important to remember the fact that each activity is contributed by individuals, institutions, groups, societies, or States; and also that each activity is conditioned by the choices that they make.

Section 2

Role of Information in Economic Decisions

Decision making is the process of identifying alternative courses of action and selecting an appropriate alternative in a given decision situation. Choice is implicit in decision making. Information is the base for every economic decision whatever may be the activity and its level. For instance, production activity is based on number of decisions and there are several pertinent questions that need to be answered based on information to decide the production activity. Economic questions related to the production activity are: What to produce? How much to produce? How to produce? When to produce? Where to produce? Whom do we need to produce for? At what cost to produce? At what quality we need to produce? What technology to be adopted? How much to invest? How much to borrow? How to increase production? How much increase to be achieved in the production? When to increase production? What technology to be adopted to increase production? etc. etc. Taking decisions on the specified aspects related production activity needs valid information. Similar questions on other economic activities such as consumption, exchange are to be answered so as to take the right choice. Moreover, all these decisions are effective only if the information is perfect and clear. Improper or hidden or partial or lack of information would lead to wrong or

improper decision, leading to problems in economic activities and finally on the functioning of the economy and its growth.

Hidden or Partial or Incomplete information are generally coined as asymmetric information. Economic decisions and activities are badly influenced by asymmetric information. The basic and fundamental economic activities of both production and consumption could not be effectively carried out if there is no proper information support for taking economic decision or choice-making. For asymmetric information would have negative influence both on production and consumption activities. The performance of exchange activity would also fail to do justice if there is asymmetric information. For instance, a market is said to be perfect and the exchange activity would be efficient only when there is perfect knowledge and perfect sharing of information between the parties involved. If asymmetric information exists in a market, it would lead to market failure, unequal exchange, and exploitation induced demand, under consumption, surplus or deficit, fluctuations in price, dissatisfaction among parties involved and ultimately disturbs the fundamental activities of the production and consumption and consequently, the growth of an economy is heavily affected.

Section 3

Summary and Conclusion

The definitions of economics indicate that the core of the subject economics is 'choice making', the fundamental economic activities are production and consumption, and it is a subject concerned about achieving growth by optimizing the given resources, based on choices. The functioning of an economy based on activities and their linkages reveals that each activity is contributed by individuals, institutions, groups, societies, or States; and also that each activity is conditioned by the choices that they make. Information is the base for every economic decision whatever may be the activity and its level. All economic decisions are effective only if the information is perfect and clear. Improper or hidden or partial or lack of information would lead to wrong or improper decision which would create problems in economic activities and finally on the functioning of the economy and its growth. Economic decisions and activities are, therefore, badly influenced by asymmetric information.

To sum up, economic activities are dependent on choices; and choices are based on information. As information plays prime role in shaping the working of an economy based on economic activities, scrupulous efforts towards perfect sharing of knowledge and information are required to be taken to ensure smooth and efficient functioning of an economy and economic activities which would lead to maximum possible growth.

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