



**E -CONTENT-SERIES IN MICRO ECONOMICS**  
by  
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## **THE NATURE OF ECONOMIC LAWS**

### **INTRODUCTION**

In any economy laws are required for running it. Science also has certain laws its success depends on the numerical value if these laws and their reliability exactions like science. Economics also has certain laws since it also is a science, they are known as economic laws. The way in which relation between the cause and effect is determined following the laws in science, and similarly it is done in economics. In Marshall's words, "a science progress by increasing the number and exactness of the law". For understanding the nature of economic laws, it is important to understand the meaning of the word "law" first.

### **WHAT IS LAW?**

Law indicates a relationship between two incidences. According to Marshall, "laws are nothing more than a general proposition or statement of tendencies, more or less certain more or less definite."

### **TYPES OF LAWS**

Laws are applied in every branch of knowledge. Laws applicable in different fields are as follows:

#### **1. STATUTORY LAWS:**

For the proper working of government's administration of country statutory laws are required. These laws have to be compulsorily accepted, the individual who breaks these laws is punished. Economic laws have no such restriction.

#### **2. SOCIAL LAWS:**

Social laws are made by the society. They are traditional; each individual tries to maintain his society's respect by following these laws. If any person tries to go against these laws he is expelled from the society. This does not happen with economic laws.

#### **3. ETHICAL LAWS:**

Laws representing idealism between individual and society are ethical laws. These laws are followed for moral satisfaction. But economic laws cannot be forced on anybody.

#### **4. LAWS OF GAMES:**

For maintaining the discipline of a game we require some laws. On the basis of the laws winner or loser are decided.

#### **5. NATURAL LAWS:**

Natural laws are also called scientific laws. These give a relationship between a cause and its effect. For example the law of gravity states any



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object is thrown towards the sky it comes back towards the earth because of the gravitational pull.

#### MEANING OF ECONOMIC LAWS

Like other laws of science, the economic laws also while representing the relationship between 'cause' and 'effect' demonstrate some very important laws. For example, if the price of a commodity rises there is a fall in its sale and if there is a fall in price of commodity its sale rises. Here the price of commodity rise and fall of prices are the 'cause' and the fall or rise in sales is the 'result'. The law that explains the relationship between 'cause' and 'effect' is 'Law of Demand'.

#### DEFINITION OF ECONOMIC LAWS

While explaining economic laws Marshall said, 'economic laws are statements of economic tendencies are those social laws which relate to branches of conduct in which strength of the motive chiefly concerned can be measured by money price'. The points to be noted in definition are:

1. Economic laws are social laws.
2. Economic laws are statement of human tendencies.
3. Economic laws are concerned with those human activities, which can be measured by money price.

Prof Robbins has also explained economic laws but his explanation is different from that of Marshall's. According to Line, 'economic laws are statements of uniformities about human behavior concerning the disposal of scarce means with alternatives used for the achievement of ends that are unlimited'. In brief, economic laws are those laws on the basis of which we can be involved and systematic in our daily life and properly perform our tasks.

Economic laws are somewhat similar to natural laws. But there are certain differences between the two. Economic laws are similar to natural laws because for some given causes they give one certain effect and they are different from natural laws because they tell us that there is no effect of human behavior on those situations that ascertain the effects or results.

#### CHARACTERISTICS OF ECONOMIC LAWS

Economic laws have the following characteristics:

1. Economic laws are indicators of general tendencies:

Economic laws present only the tendencies. These laws indicate kind of combined tendencies that could be there. They do not have the capability of giving information regarding their exactness. These laws tell about tendencies on basis of imagination, while the laws of natural science give absolute and correct information regarding the exactness of tendencies. Economic laws are not so



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definite and universal. For example if we take up chemistry under natural science, then we have exact information that if oxygen and hydrogen are doubled: the resulting water formed will be doubled in amount. This is universal truth. There is no possibility of any mistake. But economic laws are not so exact. For example the law of demand and supply in economics does not tell us that at half the price the demand would be doubled or at double price the demand would be halved. They could only tell us that if there is a rise in price then the tendency of demand to fall is definite. But exactly how much the demand would fall cannot be predicted.

2. Economic laws are social laws:

Economics is a social science and human behavior is studied under it. Thus these laws concentrate on average rather than exactness. Apart from this economic facts are based on human feelings viewpoints, wants etc. These keep on changing from time to time. In this context an economist Moore says, "there is no convenient yardstick by which we can measure the current in business affairs for these are subjects to gust of fear or perhaps fantastic optimism as unpredictable as earthquakes.

Due to the above reasons the economics laws are more like social laws rather than natural laws.

3. Economic laws are relative:

Economic laws are relative; they would be appropriate at one particular place and one particular time period. On the other hand natural laws are universally applicable and appropriate. For example the law of chemistry that when oxygen and hydrogen are chemically combined, would always form water anywhere and under any situation. But the same cannot be said for Malthus' theory of population or for free trade. That is why economic laws are relative.

4. Economic laws are hypothetical:

Generally with economic laws the words "other things remaining same" are added. Economic laws are applicable under given conditions. As we already know that in economics human behavior is studied which is constantly changing. For example the law of demand states that if other things remain the same, with the increase in prices the demand for food grains would fall. Now, if there were a war, flood, or drought then the demand for food grains would rise in spite of the rise in prices. Here the law of demand does not hold good because there is an unnatural situation. Thus economic laws are hypothetical such that they are applicable even if other things remain the same.

5. Lack of certainty:

Generally it is believed that economic laws are not mathematically accurate that is why it is useless to say that economic laws are complete and definite.

6. Economic laws are human laws:

The economic laws are based on human behavior. It is not related to non-living things.



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**DISTINCTION BETWEEN NATURAL LAWS AND ECONOMIC LAWS**

Economic laws are different from natural laws because: -

1. Different subject matter:

Natural science studies substances while in economics we study human and their behavior. Man is not only influenced by economic concept but also non-economic concept. He always was of independent nature. This means that humans react on the basis of external and internal influences. Thus it becomes difficult to predict human behavior in different conditions. Natural science studies substances having no will of their own, rather they depend on others will. Thus inference drawn from them would be true and same.

In this way due to the difference in the subject matter there is a difference between the natural laws and economic laws. In Marshall's words, "the matter with which chemist deals is the same always, but economics like biology, deals with matter of which inner nature and constitution as well as the outer form are constantly changing".

2. No experiment:

Under natural science the experiments on non-living substances are performed in particular laboratory. On the contrary the subject matter of economic laws is an individual and there is no particular laboratory for conducting experiments on him. The whole world or society is a laboratory for economics. This laboratory is influenced always by external and internal factors. Even if a laboratory is constructed for economic experiments, then also we cannot just shut the laboratory and like non-living substance perform experiments. Thus because of the difference in way of experiments economic laws are different from natural laws.

3. Difference in measuring Rod:

For scientific laws there are measuring units like kilograms, meters, and liters etc, which give definite and standardized results. The conclusion drawn from these results do not have any flaw. But for economic laws the measuring rod is money which is not so reliable because

1. The utility of liquid money is different for rich and poor.
2. The value of money keeps on changing constantly.
3. The way the units of measuring are applicable for all the countries of the world likewise measuring rod unit of money is not same for different countries.
4. Dynamic nature of effective situation.

The influences of external conditions on human nature are also dynamic. Finding out the cause and its effect takes some time the external conditions change during that time period. Consequently the results based on economics laws prove to be wrong. This is not applicable in the case of non-living substances.

The above discussion does not mean that economics is in exact or incomplete science. It has been proved that economic laws are more definite and evident than the laws of science. For example it would be difficult for student of political



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science to predict forecast regarding which party is going to win the election. Reason being they do not have any, measurement on the basis of which decision can be given in economics, the use of money as a measuring rod gives it more proof than other social science laws. Thus it can be said that economics as compared to their social science is more definite. According to Marshall,

“Marshall’s viewpoint”

Keeping in mind the characteristics of economic and natural law Marshall said, “the laws of economics are to be compared with the tides whether than with the simple and exactly laws of gravitation”.

Marshall believed that laws are as indefinite as tides. The law of tides tells us when and how the tide occurred under the influence of sun and moon twice. it also inform us that on a full moon day the waves will be highest and with reduction in the size of the moon there is a fall in the height of the waves. Thus why looking at the size of the moon we can predict that on a particular date the tide would be highest in the sea. But if there is heavy rain or storm or any other change in the sea than our forecast would be proved wrong. Sometimes tides even come before or after the predicted time and there could be a difference in the height of the waves similarly sudden changes in society prove the economics laws wrong. The main subject of economics is man and his actions are quite unpredictable.

Prof Marshall also accepts that the way the world “probably” is attached with laws tides. Likewise with economics the phrase “other things remaining the same” is present. The way the laws of tides are not properly executed in the same way the laws of economics has to face hindrance in their execution. Thus economic laws can only help in guessing or giving the probabilities with regard to economic behavior. That is why Marshall had to state, “the laws of economics are to be compared with the law of tides rather than with the simple and exact laws of gravitation”.

Prof Robbins defers from Marshall on this issue. He believes that economics is an ideal science and says that on the basis on which economic laws are said to be imaginary. On the same basis natural laws can also be proved imaginary. For example laws of gravitation states that anything thrown towards the sky would come back on earth due to gravitation pull, but this not applicable in the case of the balloon filled with gas. The reason being it is lighter than air and goes up instead of coming down. On this situation, like economic laws due to change in the conditions the law of gravitation proves wrong. Prof Marshall also acknowledged this exception in his book.

Similarly another example is with reference to law of chemistry-if at a particular temperature and pressure two parts of hydrogen and one part of oxygen are reacted with each other, we get water. If the temperature and pressure are changed, than we do not get the desired result. Thus without hypothesis the laws of natural science are also proved wrong when natural laws are based on certain hypothesis. Then it would be wrong not to compare economic laws with them. To conclude as Prof Robbins said that,



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if the hypotheses on which laws are based are definite, than the conclusions drawn would also be true and absolute.

In reality economic laws being based on human experience are universally applicable.

After going through the arguments of proof Robbins we cannot overlook the authenticity of Prof Marshall. We have to accept that economic laws are more hypothetical than natural laws. The reason behind this that economics is related to man who is of independent nature and experimenting on them is not possible while natural science deals with non-living substances on which experiments can be performed easily. Thus there is a part of imagination in economic laws more than in natural laws. As a result we cannot compare natural science with economic laws.

#### IS IT PROPER TO CALL ECONOMICS A SCIENCE

Marshall accepts economic as science on the basis or following arguments:

1.LOGIC OF LAW DIMINISHING MARGINAL UTILITY: There are certain laws in economics, which are neither imaginary nor universal. For example the law of diminishing marginal utility, which is not only true but also universal. Thus we cannot say that all economic laws are universal.

2.LOGIC OF LAW OF DIMINISHING RETURNS: There are some laws in economics on which nature has a stronger control than a man. For example the law of diminishing returns óas we go on increasing the units input and favors the production after certain points start decreasing. This means there is reduction in the productive capacity of the means of production because they depend on nature in this condition the law of diminishing returns is not less factual than natural science laws.

3.WEATHER FORECAST: The concerned department gives the weather forecast but sometimes the forecasted situation does not take place. In that case does anybody object to weather study being placed in science category? Thus economics should also be placed along with weather science and life science. In this regard Marshall's statement seems to be appropriate,ö the laws of economics are to compared with the laws of tides rather than with simple and exact laws of gravitation.ö But this is no way implies that economic laws are indefinite, imaginary and false. if there is no change in the conditions economic laws are also definitely and compulsorily applicable

4.LOGIC OF AGGREGATE: Sometimes it has been observed that economic laws are not true in case of an individual but are true for group behavior, thus they should be placed in the category of science.

In a nutshell it can be said that in economics there are two types of laws

1:UNIVERSAL: The laws based on human behavior are universal because human behavior remains same in all the places.

In a nutshell, in economics there are two types of laws

#### 1.UNIVERSAL LAWS



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2.

The laws based on human behavior are universal because human behavior is same at nearly all the places on this basis certain laws have been established like law of diminishing marginal utility, law of demand and supply etc. Some laws are axioms like capital is accumulated by saving, law of diminishing returns etc.

Apart from this certain laws are like trade, banking currency etc. these are based on different methods consequently they are appropriate for a particular country or at a particular time period.