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Topic: Concept and Classification of Economic Activities

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CONCEPT AND CLASSIFICATION OF ECONOMIC ACTIVITIES

What are Economic Activities?

All humans perform a variety of activities on any given day. There is work that we do every day and other activities we do for personal fulfilment and joy. So as a general rule, we can say that all the activities we do to earn a living are economic activities. All other activities are non-economic activities. One way to identify economic activities is that they are driven by rationality and logic. The reason for performing such activities is for our own self-interest. We will gauge what returns we get in exchange for performing such activities. Non-economic activities, on the other hand, are done for emotional reasons or concern for another person. All religious, charitable, social, patriotic, recreational activities fall into the category of non-economic activities. But it is not always easy to determine the nature of an activity. If you enjoy painting as a hobby it is a non-economic activity. However, if you sell your paintings then it becomes an economic activity. So the motive behind doing any activity is a strong indicator of its nature.

Some of the ways to define them:

Department of Economics, Toronto University has defined economic activity as – “Economic activity is the process by which the stock of resources or stock of capital produces a flow of output of goods and services that people utilize in partial satisfaction of their unlimited wants. This process involves not only the production of goods and services but their distribution among the various members of the community.”

Cambridge Dictionary gave a simpler definition: “The activity of producing, buying, or selling products or services is termed as the economic activity.”

Characteristics of Economic Activities

Some distinguishing characteristics of economic activities that will help us to determine and identify economic activities from non-economic activities are as follows:

1] Income Generation

All economic activities will generate some form of income. It is not compulsory that such income is in monetary terms, it can be in different kinds. So, if the activity is a form of livelihood for the person, and it generates him any form of income then it is an economic activity. For example, a labourer who toils the land and gets paid in crops, this is an economic activity. So someone employs any one of the factors of production (land, capital, labour, and entrepreneur) and in return earn an income in form of wages, salary, rent, royalty, profit, etc, we will classify such an activity as an economic activity. For example, rent earned from a property.

2] Productive in Nature

If the activity is a means of livelihood it means it implies that there was some element of the production process involved. So an economic activity must be productive in nature, it must

involve some aspect of the production of goods and/or services. For example: A worker in a factory is producing goods, a software engineer is providing services, a teacher also produces services. Similarly, farming is an economic activity as again it helps in production. One point to note is that even if the production is for self-consumption it is still a productive activity and so it is an economic activity because it will still add to the overall supply of the market. Also, all other activities like warehousing, transporting, etc which help bring the products to the market are also termed as productive economic activities.

3] Consumption is also an Economic Activity

Consumption is the demand side of the market. It is what generates the production and the supply of goods and services. The consumption of goods promotes competition and introduction of better products in the market. So consumption encourages production activities, so it is in itself an economic activity.

4] Savings, Investment, Wealth

Savings is the income that is not spent. Such savings are invested in a variety of instruments such as savings account, term deposits, the stock market, mutual funds, real estate, gold, etc. So such investment turns to wealth. Then the private and public companies borrow such monies to invest in their business and further economic activities in the country.

What are the sectors of the economy?

Economic activities are broadly grouped into primary, secondary, tertiary activities. Higher services under tertiary activities are again classified into quaternary and quinary activities.

Classification of Economic Activities



- **Primary activities**
 - Hunting, gathering, grazing, agriculture, fishing, forestry, mining
- **Secondary activities**
 - Manufacturing
- **Tertiary activities**
 - Services
- **Quaternary activities**
 - Processing & dissemination of information
- **Quinary activities**
 - High-level decision-making jobs

Primary activities

Primary activities are directly dependent on the environment as these refer to utilisation of earth's resources such as land, water, vegetation, building materials and minerals. It thus includes hunting and gathering, pastoral activities, fishing, forestry, agriculture, and mining

and quarrying. **People engaged in primary activities are called red-collar workers due to the outdoor nature of their work.**

Characteristics of the Primary Activities

- It directly obtains the **resources** provided by **nature**.
- It covers the **basic needs** of human beings in order to survive.
- Most of the time, raw materials go to the **secondary sector** to produce consumer goods.
- It is in charge of providing **food** for **human** consumption and some **animals**.
- It is considered one of the **oldest** economic activities.

Importance

The activities carried out in the primary sector are important, necessary and indispensable for the population' survival. Farmers and stock breeders play an important role because they are in charge of helping the production of all the raw materials that will be used, for the most part, by the secondary sector in order to create products for human consumption.

Secondary Sector

The secondary sector of the economy produces finished goods from the raw materials extracted by the primary economy. All manufacturing, processing, and construction jobs lie within this sector. Activities associated with the secondary sector include metalworking and smelting, automobile production, textile production, the chemical and engineering industries, aerospace manufacturing, energy utilities, breweries and bottlers, construction, and shipbuilding. In the United States, around 12.7% of the working population was engaged in secondary sector activity in 2018. **People engaged in secondary activities are called blue-collar workers.**

Characteristics of the secondary Activities

- World industry is concentrated in the United States, China, Europe, Japan, India, and South Korea.
- Light industries are located in urban areas, while heavy industries located mostly outside urban areas.
- Capital and labour intensive.
- Depends on raw materials from the primary sector of the economy.

Tertiary Sector

The tertiary sector of the economy is also known as the service industry. This sector sells the goods produced by the secondary sector and provides commercial services to both the general population and to businesses in all five economic sectors. Activities associated with this sector include retail and wholesale sales, transportation and distribution, restaurants, clerical services, media, tourism, insurance, banking, health care, and law. In most developed and developing countries, a growing proportion of workers are devoted to the

tertiary sector. In the United States, about 61.9% of the labour force is tertiary workers. The Bureau of Labour Statistics puts non agriculture self-employed into its own category, and that accounts for another 5.6% of workers, though the sector for these people would be determined by their job. **People engaged in tertiary activities are called pink-collar workers.**

Characteristics of the Tertiary Activities

- There has been an increase in the activities of tertiary sector.
- It is an aid to primary and secondary sectors.
- It basic facilities like hospitals, banks etc.
- With the increase in PS and SS the need for storage, transport and trade increased that comes under tertiary sector.
- It provides facilities such as that base on communication and information technology.
- It is the most important sector in Indian economy, and employs the most number of people than any other sector.

Quaternary Sector

Although many economic models divide the economy into only three sectors, others divide it into four or even five. These two sectors are closely linked with the services of the tertiary sector, which is why they can also be grouped into this branch. The fourth sector of the economy, the quaternary sector, consists of intellectual activities often associated with technological innovation. It is sometimes called the knowledge economy. Activities associated with this sector include government, culture, libraries, scientific research, education, and information technology. These intellectual services and activities are what drive technological advancement, which can have a huge impact on short- and long-term economic growth. Roughly 4.1% of U.S. workers are employed in the quaternary sector. **People engaged in quaternary activities are called white-collar workers.**

Quinary Sector

Some economists further narrow the quaternary sector into the quinary sector, which includes the highest levels of decision-making in a society or economy. This sector includes top executives or officials in such fields as government, science, universities, nonprofits, health care, culture, and the media. It may also include police and fire departments, which are public services as opposed to for-profit enterprises. Economists sometimes also include domestic activities (duties performed in the home by a family member or dependent) in the quinary sector. These activities, such as child care or housekeeping, are typically not measured by monetary amounts but contribute to the economy by providing services for free that would otherwise be paid for. An estimated 13.9% of U.S. workers are quinary sector employees. **People engaged in quinary activities are called gold-collar workers.**

The difference between the tertiary and quaternary sector

The main difference between the tertiary sector and the quaternary sector is that, although both provide services, the services of quaternary activities are intellectual rather than

repetitive activities. This difference is difficult to establish in the real world but gives a notion of what the sector is about. In this way, jobs such as cashier, hairdresser, taxi driver or sweeper are easy to classify as labours from the tertiary sector due to their repetitive actions.