

I. Choose the correct answer (each question carries 1 mark)

1. The scarce resources of an economy have

- (a) Competing usages
- (b) Single usages
- (c) Unlimited usages
- (d) none of the above

Ans: (a) Competing usages

2. Which of the following in an example of micro economic study?

- (a) National income
- (b) Consumer Behaviour
- (c) Unemployment
- (d) foreign trade

Ans: (b) Consumer behaviour

3. Central problems of an economy includes

- (a) What to produce
- (b) How to produce
- (c) For whom to produce
- (d) All of the above

Ans: (d) All of the above

5. Traditionally, the subject matter of economics has been studied under the following broad branches.

- (a) Micro and macro Economics
- (b) Positive and Normative
- (c) Deductive and Inductive
- (d) None of the above

Ans: (a) Micro and Macro Economics.

II. Fill in the blanks (each questions carries 1 marks)

1. Scarcity of resources gives raise to.....

Ans: Problem of choice

2. In a centrally planned economy all important decisions are made by

Ans: Government

3. In reality all economies are

Ans: Mixed Economies.

4 is a set of arrangements where economic agents can freely exchange their endowments or products with each other.

Ans: A market

III. Match the following (each question carries 1 mark)

A

1. Market economy
2. Service of a Teacher
3. Centrally planned economy
4. Positive economics
5. Normative economics

B

- a. Government
- b. Private
- c. Skill
- d. Evaluate the Mechanism
- e. Functioning of Mechanism

Ans: 1-b; 2-c; 3-a; 4-e; 5-d;

IV. Answer the following questions in a sentence/word. (each question carries 1 mark)

1. Why does the problem of choice arise?

Ans: An economic problem arises because of limited resources and unlimited wants and alternative uses of resources. To allocate limited resources to satisfy unlimited wants the problem of choice arises.

2. What is market economy?

Ans: A market economy also known as capitalistic economy is that economy in which the economic decisions are undertaken on the basis of market mechanism by the private entrepreneurs. It functions on demand and supply conditions. Example, USA

3. What do you mean by centrally planned economy?

Ans: A planned economy also called as socialistic economy is that economy where the economic activities are controlled by the central Government. Here, the Government takes decisions about the allocation of resources in accordance with objectives to attain economic and social welfare. Example, Vietnam, Russia, China, North Korea etc.

4. Give the meaning of micro economics.

Ans: Micro economics is the study of the economic actions of individuals and small groups of individuals.

5. What do you mean by positive economics?

Ans: The positive economics is the study of 'what was' and 'what is' under the given set of circumstances. It deals with the scientific explanation of the working of the economy.

6. What is normative economics?

Ans: The Normative economics studies 'what ought to be'. It explains about 'what should be and should not be done'.

V. Answer the following in 4 sentences. (each question carries 2 marks)

1. Mention the central problems of an economy.

Ans: The central problems of an economy are as follows:

- a) What goods are to be produced and in what quantities?
- b) How the goods are to be produced?
- c) For whom the goods are to be produced?

2. Distinguish between Micro and Macro economics.

The micro and macro economics are distinguished on the following grounds:

Scope: Micro Economics study in individual units so its scope is narrow.

Macro Economics study in aggregates, so its scope is wider.

Method of study: The Micro Economics follows slicing method as it studies individual unit.

The Macro Economics follows lumping method as it studies in aggregates.

4. Distinguish between positive and normative economics.

Positive Economics

- The positive economics is the study of 'what was' and 'what is' under the given set of circumstances.
- It deals with the scientific explanation of the working of the economy.
- Here we study how the different mechanisms function.

Normative Economics

- The Normative economics studies 'what ought to be'.
- It explains about 'what should be and should not be done'.
- Here we try to understand that whether the mechanisms are desirable or not.

5. What do you mean by production possibility set?

Ans: The collection of all possible combinations of the goods and services that can be produced from a given amount of resources and a given stock of technological knowledge is called the production possibility set of the economy.

6. What is opportunity cost?

Ans: An opportunity cost is the cost of having a little more of one good in terms of the amount of the other good that has to be forgone. This is known as the opportunity cost of an additional unit of the goods.

7. What is production possibility frontier?

Ans: The production possibility frontier is a graphical representation of the combinations of two commodities (cotton and wheat) that can be produced when the resources of the economy are fully utilized. It is also called as Production possibility curve (PPC) also known as transformation curve.

VI. Answer the following question in 12 sentences. (each question carries 4 mark)

1. Briefly explain the production possibility frontier.

Ans: The production possibility frontier is a graphical representation of the combinations of two commodities (cotton and wheat) that can be produced when the resources of the economy are fully utilized. It is also called as Production possibility curve (PPC) also known as transformation curve.

It gives the combinations of cotton and wheat that can be produced when the resources of the economy are fully utilized.

This can be graphically represented as follows:

As per the above graph, the points lying strictly below the production possibility curve represents a combination of cotton and wheat that will be produced when all or some of the resources are either underemployed or are utilized in a wasteful fashion.

2. Briefly explain the central problems of an economy.

Ans: An economic system or economy is a mechanism where the scarce resources are channelized on priority to produce goods and services. These goods and services produced by all the sectors of the economy determine the national income.

Generally, human wants are unlimited and resources to satisfy them are limited. If there was a perfect match between human wants and availability of resources there would have been no scarcity, no problem of choice and no economic problems at all. So, one has to select the most essential want to be satisfied with limited resources. In economics, this problem is called 'Problem of Choice'.

The problem of choice arising out of limited resources and unlimited wants is called economic problem. Every economy whether developed or underdeveloped, Capitalistic or socialistic or mixed economy, there will be three basic economic problems viz., What to produce, How to produce and For whom to produce. Let us discuss in detail.

a) What to Produce i.e., what is to be produced and in what quantities: Every country has to decide which goods are to be produced and in what quantities. Whether more guns should be produced or more foodgrains should be grown or whether more capital goods like machines, tools, etc., should be produced or more consumer goods (electrical goods, daily usable products etc.) will be produced. What goods to be produced and in what quantity depends on the economic system of the country. In socialistic economy, the Government decides and in Capitalistic economy market forces decided and in mixed economy both the Government and market forces provide solutions to this problem.

b) How to Produce i.e., how are goods produced: There are various alternative techniques of producing a product. For example, cotton cloth can be produced with either handloom or power looms. Production of cloth with handloom requires more labour and production with power loom use of more machines and capital. It involves selection of technology to produce goods and services.

There are two types of techniques of production viz., (a) Labour intensive technology and (b) capital intensive technology.

The society has to decide whether production be based on labour intensive or capital intensive techniques. Obviously, the choice of technology would depend on the availability of different factors of production (land, labour, capital) and their relative prices (rent, wages, interest).

c) For whom to produce i.e., for whom are the goods to be produced: Another important decision which an economy has to take is for whom to produce. The economy cannot satisfy all wants of all the people. Therefore, it has to decide who should get how much of the total output of goods and services. The society has to decide about the shares of different groups of people- poor, middle class and the rich, in the national output.

Thus, every economy faces the problem of allocating the scarce resources to the production of different possible goods and services and of distributing the produced goods and services among the individuals within the economy. The allocation of scarce resources and the distribution of the final goods and services are the central problems of any economy.

3. Write a short note on a centrally planned economy.

Ans: A planned economy also called as socialistic economy is that economy where the economic activities are controlled by the central Government. Here, the Government takes decisions about the allocation of resources in accordance with objectives to attain economic and social welfare. Example, Russia, China, North Korea etc.

In a centrally planned economy, the basic economic problems are solved as follows:

In centrally planned economy, the Government takes decisions about the allocation of resources in accordance with the predetermined goals and objectives to attain maximum social welfare. Government decides what to produce, how to produce and what prices are to be fixed.

- Regarding what to produce, the Government may produce those goods and services which are most useful for its society.
- Regarding how to produce, the most suitable technique in production is adopted whether labour intensive or capital intensive in accordance with the situation in the economy.
- Regarding whom to produce, the goods and services are produced to those people who are suffering from hunger though there is a loss.
- It gives importance to the quality of life rather than quantity of production.
- It focuses the resources on rapid economic development.

4. Write a short on market economy.

Ans: A market economy also known as capitalistic economy is that economy in which the economic decisions are undertaken on the basis of market mechanism by the private entrepreneurs. It functions on demand and supply conditions. In USA, Japan, Australia, UK and other countries we can see Market Economic systems.

In market economy, private individuals own the factors of production. Here, the profit is the main goal of business. There is least intervention of Government.

Price mechanism plays a major role in market economy. It is a balancing wheel of the market mechanism. Prices coordinate decisions of the producers and consumers. The price is determined by demand and supply in the market. No individual organization or Government is responsible for the production and distribution or pricing of goods. All depend on market mechanism.

Regarding basic problems of an economy, the problem of what to produce is solved on the basis of demand and profit. The producers produce those products which bring more income.

The problem - how the goods are to be produced is determined by the competition among different entrepreneurs. The select least cost combination of technology so that they can get more returns with less cost.

In market economy, the problem of whom to produce is decided on the basis of purchasing power of consumers. The producers produce commodities to the rich as they can afford to pay more but poorer sections of the society are neglected.

In Market economy, profits and losses play a predominant role in growth and development of every producer.

5. Briefly explain, how the Family farm, Weaver, Teacher can use their resources to fulfil their needs in a simple economy.

In a simple economy each individual can use their resources to fulfil their needs in the following way;

(i) Family farm: A family farm may own a plot of land, some grains, farming implements, may be a pair of bullocks and also the labour services of the family members. It can produce corn, use part of produce for consumption and rest is used for clothing, housing and various other services.

(ii) Weaver: A weaver may have some yarn, some cotton and other instruments required for weaving cloth. The weaver can get goods and services that she wants in exchange for the cloth she produces in her yarn.

(iii) Teacher: The teacher in her local school has the skill required to impart education to the students. The teacher can earn some money by teaching students in the school and use the money for obtaining the goods and services that she wants. No individual has unlimited resources to fulfil her needs. Everyone faces scarcity or resources, and therefore, has to use the limited resources in the best possible way to fulfil their needs.