

UNIT 1

INTRODUCTION

POINTS TO REMEMBER

- ❑ Study of Economics is divided into two branches
 - (a) Micro economics
 - (b) Macro economics
- ❑ Micro economics studies the behaviour of individual economic units.
- ❑ Macro economics studies the behaviour of the economy as a whole.
- ❑ Economy is an Economic Organisation which provides sources to earn livelihood.
- ❑ Economic problem is the problem of allocation of limited resources available in the economy.
- ❑ Cause of economic problems are :
 - (a) Unlimited Human Wants
 - (b) Limited Economic Resources
 - (c) Alternative uses of Resources.
- ❑ **Central Problems of an Economy**

Allocation of Resources



What to produce?

How to produce?

For whom to produce?

- ❑ For the selection of an opportunity, the sacrifice of next best alternative use is called opportunity cost.
- ❑ Production possibility frontier (PPF) shows different combinations of a set of two goods which can be produced with given resources and production technology.

- ❑ Production possibility curve PPC
 - (a) Slopes downward from left to right because if production of one good is to increase then production of other good has to be sacrificed.
 - (b) Concave to the origin because of increasing marginal opportunity cost or (MRT)
- ❑ Rightward shift of PPC indicates increase in resources and improvement in technology.
- ❑ Leftward shift of PPC indicates decrease in resources and degradation in technology.
- ❑ Marginal Rate of Transformation (MRT) is the ratio of number of units of a good sacrificed to increase one more unit of the other good.
- ❑ MRT can also be called Marginal opportunity cost. It is defined as the additional cost in terms of number of units of a good sacrificed to increase an additional unit of the other good.

VERY SHORT ANSWER TYPE QUESTIONS (1 MARK)

1. With the help of an example, define micro economics.
2. Define macro economics with the help of an example.
3. Define opportunity cost.
4. Why does an economic problem arise?
5. Write two characteristics of resources.
6. What do you mean by scarcity?
7. What do you mean by marginal opportunity cost?
8. What do you mean by an economy?

HOTS

9. What is meant by economising the use of resources?
10. What do you mean by alternative uses of resources?
11. What will be the shape of PPF when MRT is constant?
12. Unemployment in India is a subject matter of Microeconomics or Macroeconomics, give reason.

SHORT ANSWER TYPE QUESTIONS (3/4 MARKS)

1. Distinguish between microeconomics and macroeconomics. Give example.
2. Why does an economic problem arise? Explain the problem of 'How to Produce'?
3. Explain the problem of 'What to Produce' with the help of an example.
4. 'For whom to produce' is a central problem of an economy. Explain.
5. Why is a production possibility curve concave? Explain.
6. Define opportunity cost with the help of an example, how does it differ from marginal opportunity cost?
7. What is 'Marginal Rate of Transformation'? Explain with the help of an example.

HOTS

8. What is PP Frontier? Explain it with the help of an imaginary schedule and diagram.
9. Show the following situation with PPF
 - (a) Fuller utilisation of resources
 - (b) Growth of resources.
 - (c) Under utilisation of resources.
10. "An economy always produces on, but not inside a PPC". Defend or refute.
11. A lot of people die and many factories were destroyed because of a severe earthquake in a country. How will it affect the country's PPC?
12. Calculate MOC from the following table. What will be the shape of PPC and why.

Combinations	Green Chilly (Units)	Sugar (Units)
A	100	0
B	95	1
C	85	2
D	70	3
E	50	4
F	25	5

ANSWER OF VERY SHORT TYPE QUESTIONS

1. Micro Economics is that branch of economics in which economic problems are studied at individual level e.g. the behaviour of consumer, firms, etc.
2. Macro economics is that branch of economics which studies the economy as a whole and its aggregates e.g. National income, the level of employment.
3. For the selection of an opportunity, the sacrifice of next best alternative use is called opportunity cost.
4. An economic problem arises due to scarcity of resources having alternative uses in relation to unlimited wants.
5. Resources are scarce (limited) and they have alternative uses.
6. Scarcity refers to a situation in which demand is more than supply.
7. Marginal rate of transformation (MRT) is the ratio of one good sacrificed to increase one more unit of the other good.
8. An economy is an economic organisation which provides sources to earn livelihood.
9. Economising the resources means that resources are to be used in a manner such that maximum output is realised per unit of output. It also means optimum utilisation of resources.
10. Alternate use of resources mean, more than one uses to which a resource can be put.
11. Shape of PPF will be a straight line sloping down ward.
12. Unemployment in India is a subject matter of macroeconomics because it relates to economy as whole.

HINTS [3 MARKS QUESTIONS]

12.	Combinations	MOC
	A	—
	B	5
	C	10
	D	15
	E	20
	F	25