

# VIDYA BHAWAN BALIKA VIDYA PITH

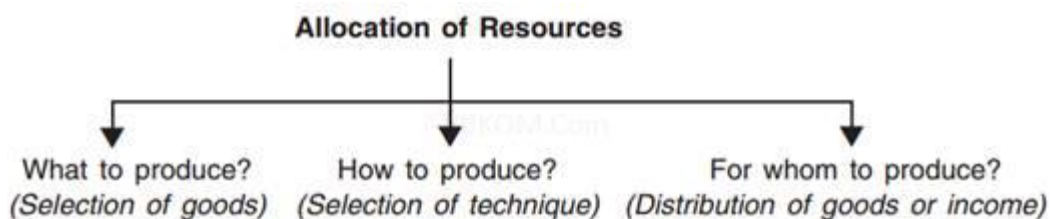
## शक्तिउत्थानआश्रमलखीसरायबिहार

Class 11 commerce Sub. ECO/A Date 08.03.2021

Teacher name – Ajay Kumar Sharma

### Cap. 1 (Revised Notes)

1. Study of Economics is divided into two branches:(a) Micro economics  
(b) Macro economics
2. **Micro economics** studies the behaviour of individual economic units.Ex-Consumer equilibrium, producers equilibrium, product pricing, factor pricing etc.
3. Micro economics is also called price theory.
4. **Macro economics** studies the behavior of the economy as a whole.Ex- National income, aggregate demand, aggregate supply, general price level, Inflation etc.
5. Macro economics is also called theory of income and employment.
6. **Economy** is a system in which people earn a living to satisfy their wants through process of production, consumption, investment and exchange.
7. **Economic problem** is the problem of choice arising from use of limited means which have the alternative use for the satisfaction of various wants.
8. Cause of economic problems are :(a) Unlimited Human Wants(b) Limited Economic Resources  
(c) Alternative uses of Resources.
9. **Central Problems of an**

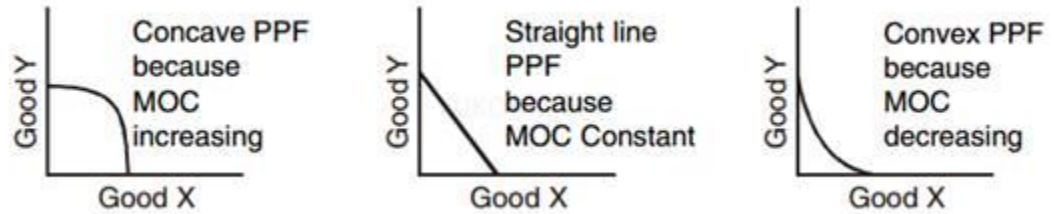


#### **Economy**

10. The central problem of "what to produce" refers to which goods and services will be produced in an economy and in what quantities. An economy has to produce those goods and services where there will be maximum social utility. This problem is studied under price theory. The central problem of "how to produce" refers to what technique of production (i.e., labour intensive or capital intensive) should be used to produce goods. An economy has to select that technique which maximizes the output at minimum cost. This problem is studied under theory of production. The central problem "for whom to produce" is related to distribution of produced goods and services (i.e., income and wealth) among factors of production in the form of rent, wages, interest and profit. This is explained under the theory of distribution.
11. For the selection of an opportunity, the sacrifice of next best alternative use is called **opportunity cost**. In other words, it is the amount of one commodity that is to be sacrificed to increase the production of other commodity.
12. **Production possibility frontier or production possibility curve** shows all possible combinations of two sets of goods that an economy can produce with available resources and given technology, assuming that all resources are fully and efficiently utilized.
13. **Economizing of resources** means utilisation of resources in the best possible manner to maximize output.
14. **Production Possibility Frontier or Curve Features**  
(a) Slopes downward from left to right because if production of one commodity is to be increased then production of other commodity has to be

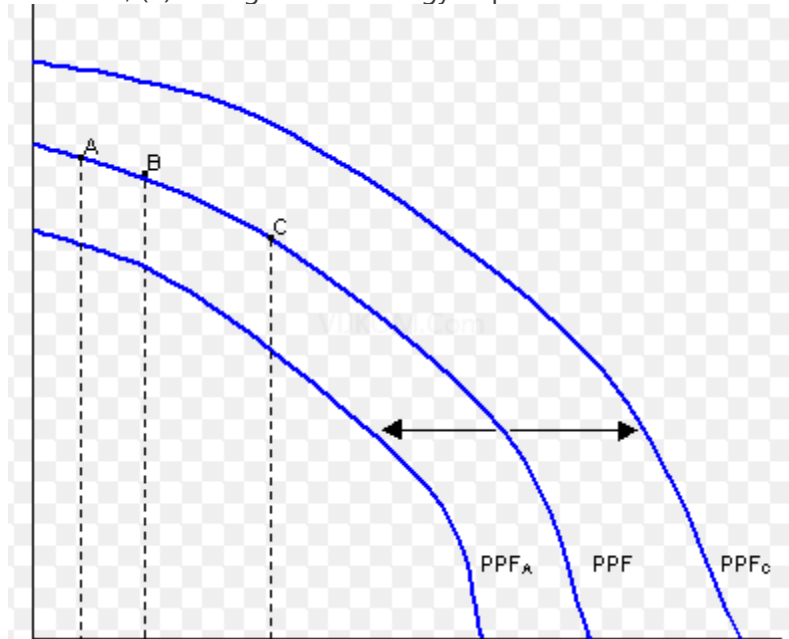
sacrificed as there is scarcity of resources.

(b) Concave to the origin because of increasing marginal opportunity cost or

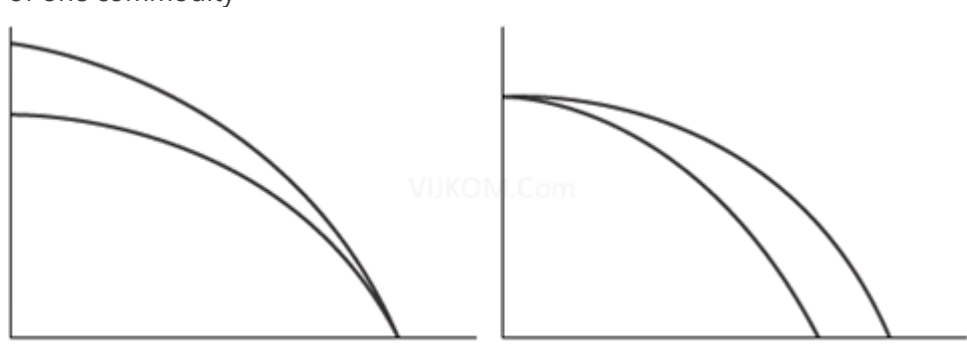


(MRT)

15. **The Production possibility curve will shift under following two condition:**(a) change in resources, (b) Change in technology of production for both the goods.



- 16.
17. **Rightward shift of PPF** shows increase in resources or improvement in technology. Ex- Labour becoming more skilled, improvement in technology, increase in productivity of land.
18. **Leftward shift of PPF** shows the decrease in resources or degradation of technology in the economy.
19. **The Production possibility curve will rotate outward under following two condition:** (a) Improvement in technology in favour of one commodity (b) Growth of resources for the production of one commodity



- 20.
21. **Marginal Rate of Transformation (MRT)**– It is the amount of one commodity that is to be sacrificed to increase the production of other commodity by one unit.
22. **MRT can also called Marginal Opportunity Cost.** It is defined as the additional cost in terms of number of units of a good sacrificed to produce an additional unit of the other good.

23. **MARGINAL RATE OF TRANSFORMATION:** MRT is the ratio of units of one good sacrificed to

$$\text{MRT} = \frac{\text{Unit of good Y sacrificed}}{\text{Unit of good X produced}} = \frac{\Delta y}{\Delta x}$$

produce one more unit of other good.

(Marginal= at the border or adjacent/next to/adjoining)

(Transformation= a change in form, shape appearance or size)