

# VIDYA BHAWAN BALIKA VIDYA PITH

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## Revised notes

**Q. 1.** Define Economy.

**Ans.** An economy is a system that helps to produce goods and services and enables people to earn their living.

**Q. 2.** What is the meaning of scarcity of resources?

**Ans.** Scarcity of resources means shortage of resources as compared to its demand.

**Q. 3.** Write the meaning of Economic Problem.

**Ans.** Economic problem is the problem of making the choice of the use of scarce resources for satisfying unlimited human wants.

**Q. 4.** Define MRT.

**Ans.** Marginal Rate of Transformation (MRT) is the ratio of number of units of a good sacrificed to increase one more unit of the other

$$\text{good MRT} = \frac{\Delta Y}{\Delta X}$$

**Q. 5.** Define opportunity cost.

**Ans.** Opportunity cost of a resource is its value in next best alternative use.

**Q. 6.** Govt. has started promoting foreign investments. What will be its economic value in the context of PPF?

**Ans.** Production will increase with more foreign investments. Thus PPF will shift rightward.

**Q. 7.** What is the meaning of economising of resources?

**Ans.** Economising of resources means best possible use of available resources.

**Q. 1.** Why is a production possibility curve concave? Explain.

**Ans.** The production possibility curve being concave means that MRT increases as we move downward along the curve. MRT increases because it is assumed that no resource is equally efficient in production of all goods. As resources are transferred from one good to another, less and less efficient resources have to be employed. This raises cost and raises MRT.

**Q. 2.** Explain properties of a production possibility curve.

**Ans.** There are two properties of a production possibility curve.

1. **Downward sloping** : It is because as more quantity of one good is produced some quantity of the other good must be sacrificed as resources are scarce. More of both goods can't be produced.
2. **Concave to the origin** : It is because the marginal rate of transformation increases as more of one good is produced.

**Q. 3.** Explain the problem of 'what to produce'.

**Ans.** An economy can produce different possible combinations of goods and services with given resources. The problem is that, out of these different combinations, which combination is produced. If production of one good increases then less resources will be available for other goods, because resources are limited and have alternative uses.

**Q. 4.** What is 'Marginal Rate of Transformation'? Explain with the help of an example.

**Ans.** MRT is the rate at which the units of one good have to be sacrificed to produce one more unit of the other good in a two goods economy. Suppose an economy produces only two goods X and Y. Further suppose that by employing these resources fully and efficiently, the economy produces 1X + 10Y. If the economy decides to produce 2X, it has to cut down production of Y by 2 units. Then 2Y is the opportunity cost of producing 1X. Then 2Y : 1X is the MRT.

**Q. 5.** Explain the problem 'How to produce'.

**Ans.** The central problem 'How to Produce' is the problem of choosing

the appropriate technique of production for producing goods. There can be more than one method for producing a good. More labour and less capital (i.e., labour intensive technique) or more capital and less labour (i.e., capital intensive technique) can be used for production of a good. Since resources are scarce, decision has to be taken about which technique should be used on the basis of availability of resources.

Example : A given quantity of cloth can be manufactured by combining factors of production in different proportions, making it capital-intensive or labour intensive method.

**Q. 6.** For labourers working under MGNREGA Govt has increased minimum employment from 100 to 150 days. How will this affect real and potential level of production.

**Ans.** Real level of production will be increased by improvement in employment. But potential level of production will not increase (No shifting of PPC will take place). Reason being PPC is based on the assumption that available resources are fully utilised.

**Q. 7.** Explain the central problem 'for whom to produce'.

**Ans.** For whom to produce means that who will buy the goods and services produced. Clearly those who have income will be able to buy. So, the problem amounts to how the national income is distributed in an economy.

**Q. 8.** Giving reason comment on the shape of Production Possibilities curve based on the following schedule :

|                |    |   |   |   |   |
|----------------|----|---|---|---|---|
| Good X (units) | 0  | 1 | 2 | 3 | 4 |
| Good Y (units) | 10 | 9 | 7 | 4 | 0 |

**Ans.**

| Good X (units) | Good Y (Units) | MRT     |
|----------------|----------------|---------|
| 0              | 10             | —       |
| 1              | 9              | 1Y : 1X |
| 2              | 7              | 2Y : 1X |
| 3              | 4              | 3Y : 1X |
| 4              | 0              | 4Y : 1X |

