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Introduction to Economics

Q1. Discuss the central problems of an economy.

Ans. Three central problems of an economy are as follows:

(a) **What to produce?** An economy has millions of commodities to produce. It has to decide whether to produce luxury goods or wage goods; or it may have to decide between capital goods or consumer goods. Having decided what to produce, it also has to decide how much to produce.

(b) **How to produce?** The next choice is the choice of technique of production. Every economy faces the problem of as to how resources should be combined for the production of a given commodity. Depending upon the availability of a particular factor of production, an economy may choose between labour-intensive or capital-intensive techniques.

(c) **For whom to produce?** What goods should be consumed and by whom depends upon how national product is distributed among people/factor owners.

All central problems arise due to scarcity of resources having alternative uses.

Q2. What do you mean by the production possibilities of an economy?

Ans. Production possibilities of an economy refer to different combinations of goods and services which an economy can produce from a given amount of resources and available technology.

Q3. Discuss the subject-matter of economics.

Ans. The subject-matter of economics includes micro-economics and macroeconomics. See Fig.1.

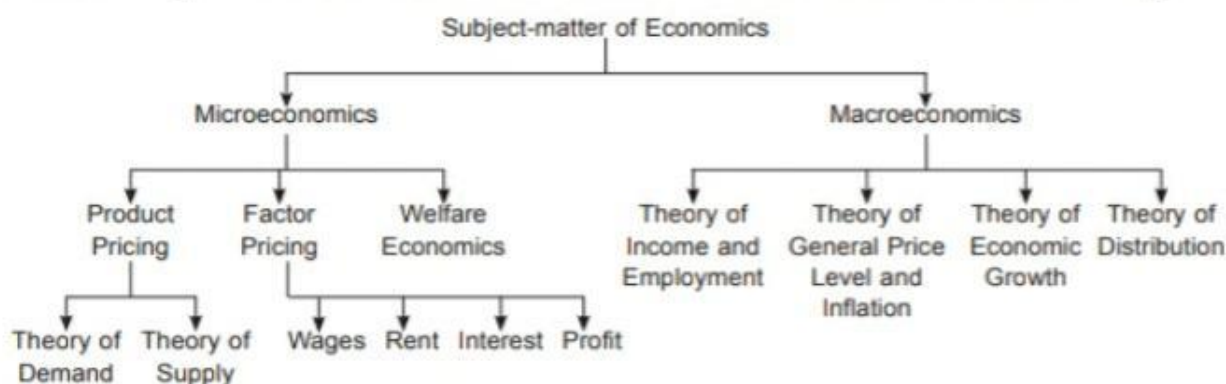
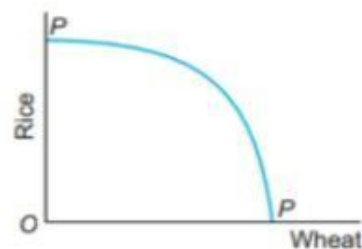


Fig. 1. Subject-matter of Economics

Q4. What is a production possibility frontier?

Ans. Production possibility curve graphically represents the various combinations of two goods which can be produced with a given amount of resources and available technology assuming that the resources are fully employed and most efficiently used. In the figure, production possibility curve, PP is drawn. It is downward sloping, concave to the origin.



Q5. Distinguish between microeconomics and macroeconomics.

Ans. Microeconomics. It studies the behaviour of individual economic units such as price determination of a commodity, behaviour of a consumer, producer or a firm. Microeconomics is also termed as price theory.

Macroeconomics. It studies the economy as a whole and its aggregates such as total consumption, total employment, national income, general price level, etc.

Difference between Microeconomics and Macroeconomics

Microeconomics	Macroeconomics
<ol style="list-style-type: none">1. It studies individual economic units.2. It deals with determination of price and output in individual markets.3. The basic parameter of microeconomics is price, that is, consumers and producers take economic decision on the basis of price.4. It uses the partial equilibrium method.5. It aims at optimal allocation of resources.6. <i>Examples:</i> Individual demand, per capita income, etc.	<ol style="list-style-type: none">1. It studies aggregate economic units.2. It deals with determination of general price level and national output in the country.3. The basic parameter of macroeconomics is income, that is, economic decision relating to consumption, saving, investment etc are on the basis of national income.4. It uses the general equilibrium method.5. It aims at determination of aggregate output, national income, price level and employment level in an economy.6. <i>Examples:</i> Aggregate demand, national income, etc.

