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शक्तिउत्थानआश्रमलखीसरायबिहार

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LONG ANSWER QUESTIONS (6 Marks)

Q21. What is Macroeconomics and microeconomics and what is the connection between the two?

Ans. Macroeconomics and microeconomics, and their wide array of underlying concepts, have been the subject of a great deal of writings. Microeconomics is the study of decisions that people and businesses make regarding the allocation of resources and prices of goods and services. It focuses on supply and demand and other forces that determine the price levels seen in the economy. Macroeconomics is the field of economics that studies the behaviour of the economy as a whole, not just companies, but the entire industries and economies. While these two studies of economics appear to be different, they are actually interdependent and complement one another since there are many overlapping issues between the two fields. For example, increased inflation (macro effect) would cause the price of raw materials to increase for companies and in turn affect the end product's price charged to the public. Thus according to Professor Ackley, "The relationship between macroeconomics and theory of individual behaviour is a two-way street. Microeconomics theories should provide the building blocks for our aggregate theories whereas macroeconomics may also contribute to microeconomic understanding. For example, empirically stable macroeconomic generalisations which appear inconsistent with microeconomic theories, or which relate to aspects of behaviour which microeconomics has neglected, macroeconomics may permit us to improve our understanding of individual behaviour."

Q22. Define and explain the importance of 'scarcity' and 'opportunity' in economics.

Ans. Scarcity is the condition that exists when there are not enough resources to satisfy all the wants of individuals or society. Any resource that has a non- zero cost to consume is scarce to some degree, but what matters in practice is relative scarcity. Scarcity is also referred to as "paucity". Economics is the study of how people use scarce resources to satisfy unlimited wants. At the core of economics is the idea that our world is a place plagued with scarcity — that is, we do not have all the resources we want. As a result, we must make choices. When we make a choice, that choice necessarily means that we have to give up something. The something we give up is called opportunity cost.

Economists define opportunity cost as the next best alternative or the highest valued alternative to the choice that was made. If we choose to produce a good using a resource, the opportunity cost of producing that good is the highest valued alternative use of that resource. Opportunity Costs — the next highest valued alternative that is given up when a choice is made. There are limits to the quantity available of every resource that is utilized in the economy. This is what leads to all goods and services having a price. If there was no scarcity of resources, everything would be available for free. Opportunity cost is related to scarcity as neither the consumer nor the producer has an unlimited resource of anything.