Under CSR Support by ipca | Foundation

missiongyan LET'S LEARN TOGETHER



CLASS – 12

ECONOMICS

Introductory Microeconomics

CH-1 : Introduction

Part – 3

Exercise

Vaishnavi Agrawal

Under CSR Support by
ipca | Foundation

Exercise

missiongyan
LET'S LEARN TOGETHER

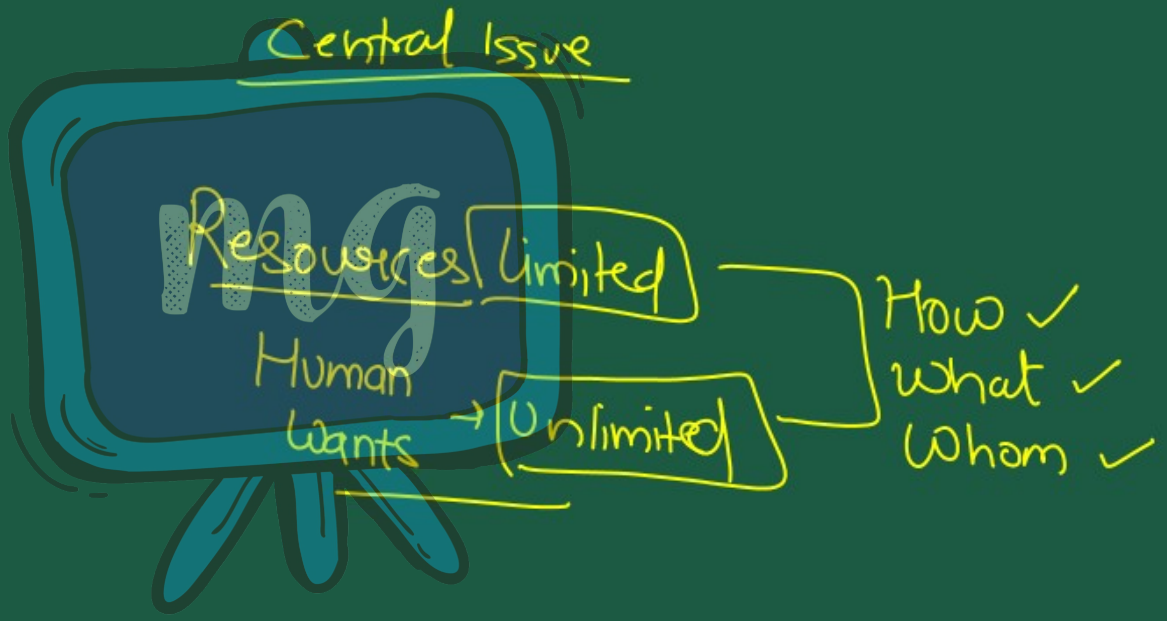


1 Discuss the Central Problems of an Economy.



Under CSR Support by
ipca | Foundation

missiongyan
LET'S LEARN TOGETHER



Under CSR Support by ipca | Foundation

Exercise

missiongyan LET'S LEARN TOGETHER



1 Discuss the Central Problems of an Economy.

Ans :

- The central problems of the economy include:
  - Allocation of scarce resources for full utilization.
  - Distribution of goods and services to the society.
  - Unlimited human wants and desires.

Exercise



- Alternative use of limited resources.
- Scarcity of resources.

☛ These problems are often summarized as –

- What is produced and in what quantities.
- How are these goods produced.
- For whom are these goods produced.

Exercise

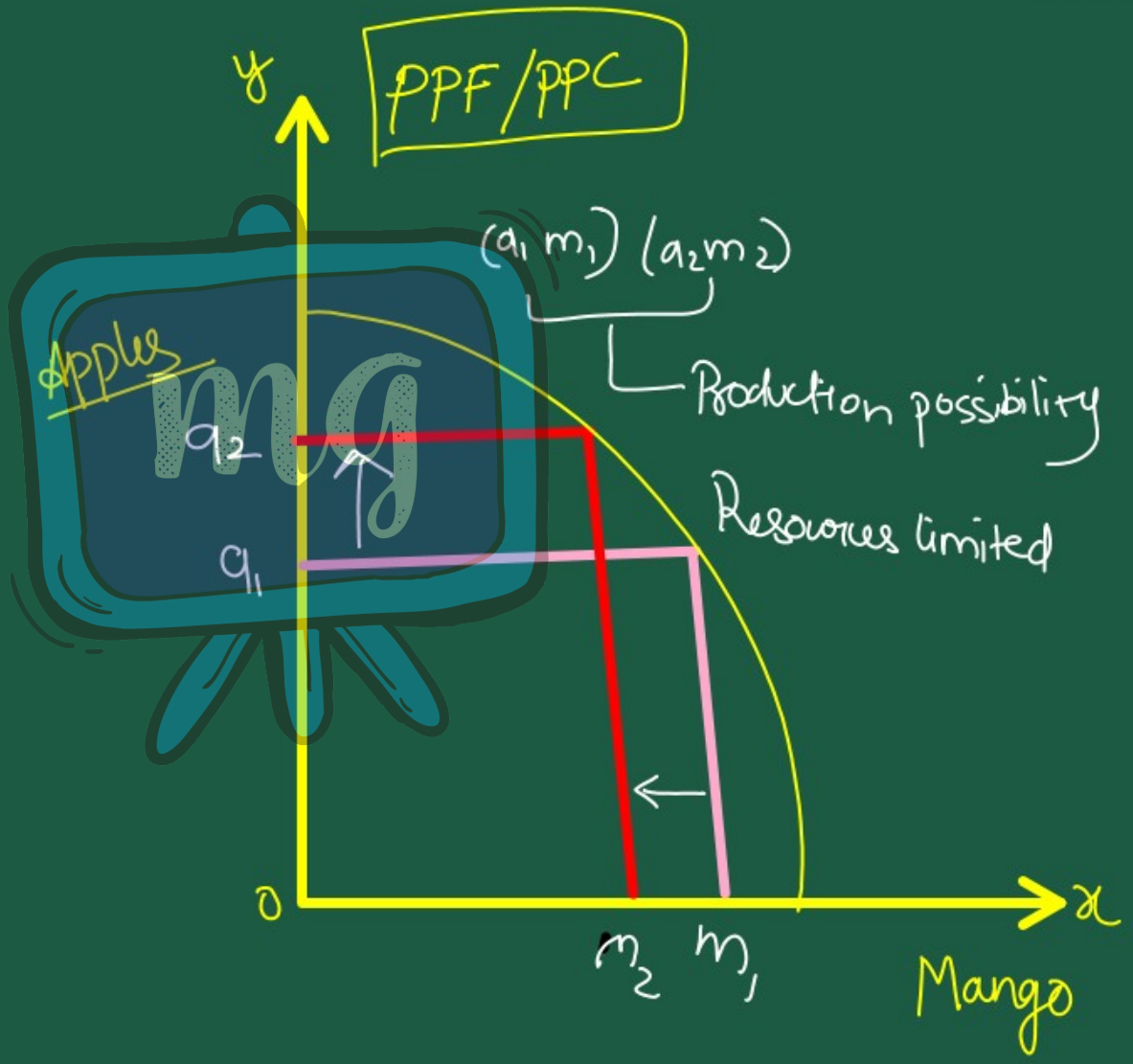


2 What do you mean by Production Possibilities of an economy?



Under CSR Support by
ipca | Foundation

missiongyan
LET'S LEARN TOGETHER



Exercise



2 What do you mean by Production Possibilities of an economy?

Ans :

☛ The production possibilities determine the collection of all possible combinations of the goods and services that can be –

- ✧ Produced from full utilization of limited resources (resource allocation).
- ✧ From a given stock of technological knowledge in an economy.

Under CSR Support by
ipca | Foundation

Exercise

missiongyan
LET'S LEARN TOGETHER



- The graph representing these combinations is called Production Possibility Frontier (PPF).
- The concept of production possibility also states that if we want to have more of one good, we will have to reduce the consumption of the other good.
- The good we sacrifice for the additional unit of first good is called out Opportunity Cost.



3 What is Production Possibility Frontier?

Curve (PPC)





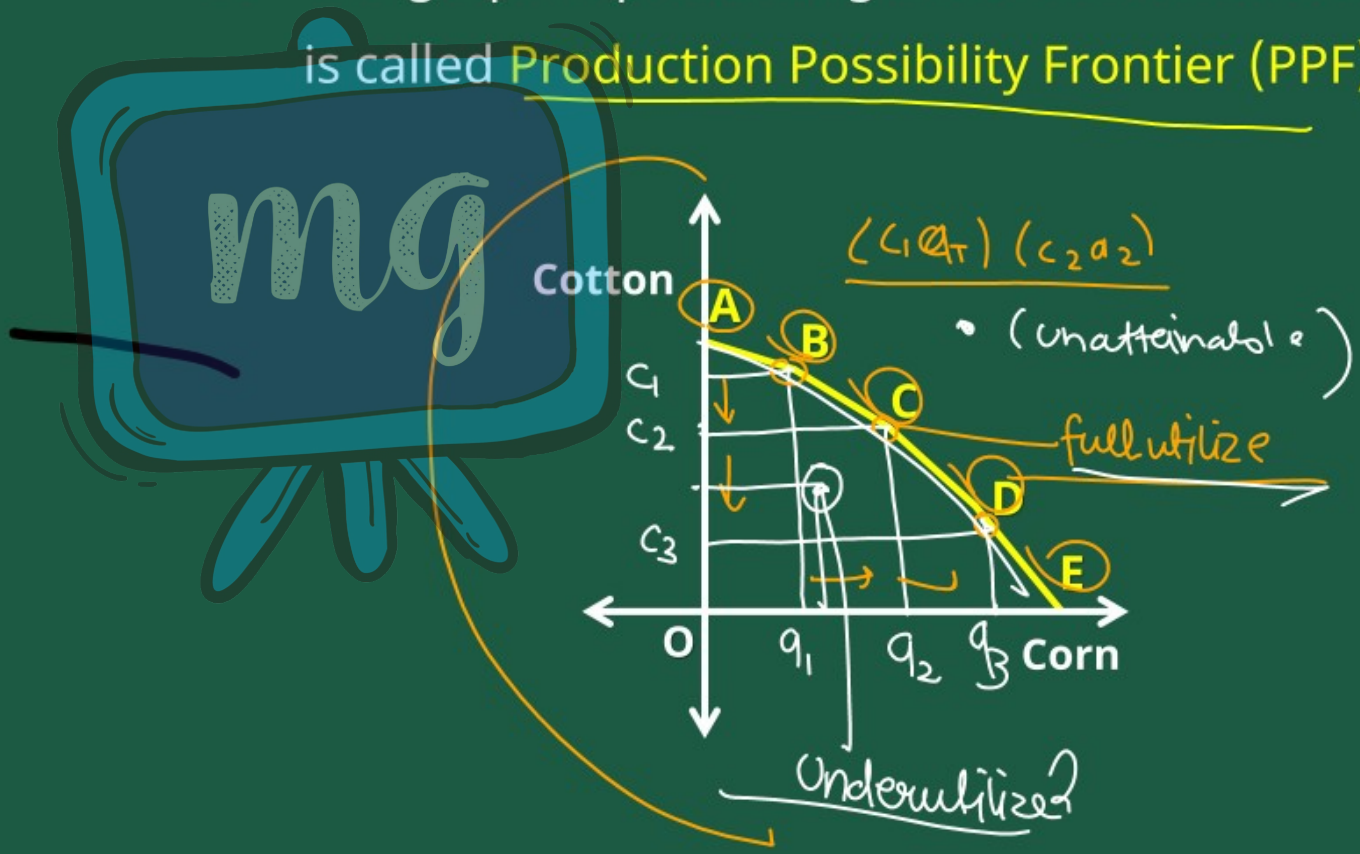
3 What is Production Possibility Frontier?

Ans :

- The collection of all possible combinations of the goods and services that can be produced from full utilization of limited resources (resource allocation).
- From a given stock of technological knowledge in an economy.

Exercise

- The graph representing these combinations is called Production Possibility Frontier (PPF).



Under CSR Support by
ipca | Foundation

Exercise

missiongyan
LET'S LEARN TOGETHER



- Points on/inside the curve are attainable (A, B, C, D, E) but points below show underutilization.

→ under PPF : Underutilization
→ On PPF : Complete utilization
→ above PPF : Unattainable

Under CSR Support by
ipca | Foundation

Exercise

missiongyan
LET'S LEARN TOGETHER



4 Discuss the difference between Centrally Planned Economy and Market Economy.





Under CSR Support by ipca | Foundation

Exercise

missiongyan LET'S LEARN TOGETHER



4 Discuss the difference between Centrally Planned Economy and Market Economy.

Ans :

Centrally Planned Economy :

- Planned approach. Other name.
- The government plans all major economic activities.
- Key decisions on production, exchange, and consumption are made centrally.

Under CSR Support by ipca | Foundation

Exercise

missiongyan LET'S LEARN TOGETHER



Govt. & Welfare

- The government allocates resources.
- Focus on goods/services like education or healthcare if individuals fail to produce them adequately.
- The central authority ensures survival and welfare by redistributing goods fairly.
- Intervenes when certain individuals receive insufficient resources for basic needs.
- Example : China.

Under CSR Support by
ipca | Foundation

Exercise

missiongyan
LET'S LEARN TOGETHER



The Market Economy :

- Free market forces
- Economic activities are organized through free interaction in markets. (Demand & Supply)
- Markets enable individuals to exchange products or endowments without requiring a physical location.
  (e.g., village-chowk, supermarket, phone, internet).

Under CSR Support by ipca | Foundation

Exercise

missiongyan LET'S LEARN TOGETHER



- Exchange takes place through the price of goods and services and handled freely through demand and supply of the products.
- The central problems regarding how much or what to produce are solved through price signals that determine economic activity.
- Example : United States of America (USA).
- Defined by arrangements that allow free buying and selling of commodities.

Under CSR Support by
ipca | Foundation

Exercise

missiongyan
LET'S LEARN TOGETHER



- Price signals help solve central economic problems.
  (e.g., what and how much to produce).
- Prices act as signals for coordination in economic activities.

What, Quantity, How much.

Exercise

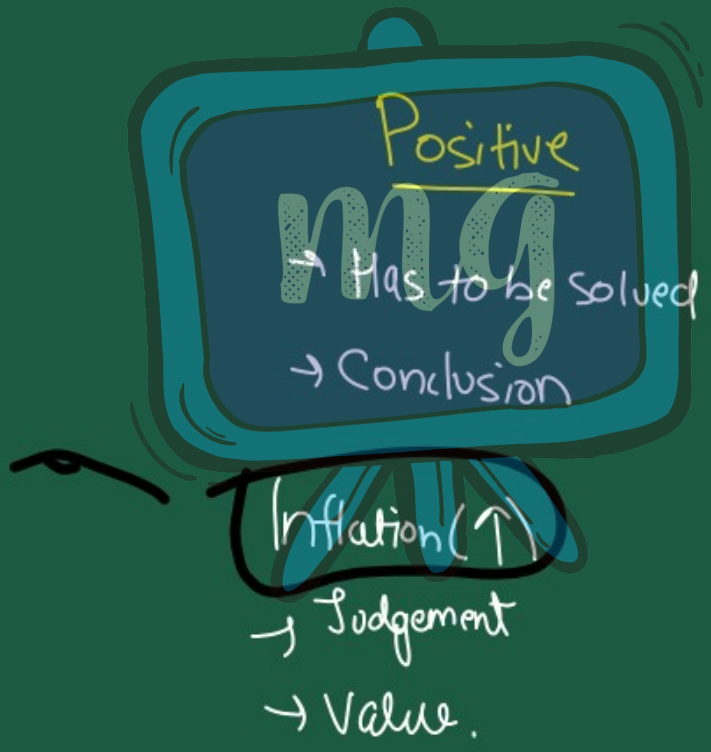


5 What do you understand by Positive Economic analysis?



Under CSR Support by ipca | Foundation

missiongyan LET'S LEARN TOGETHER



Normative

→ How it should be solved.
(Ideal Solution)



5 What do you understand by Positive Economic analysis?

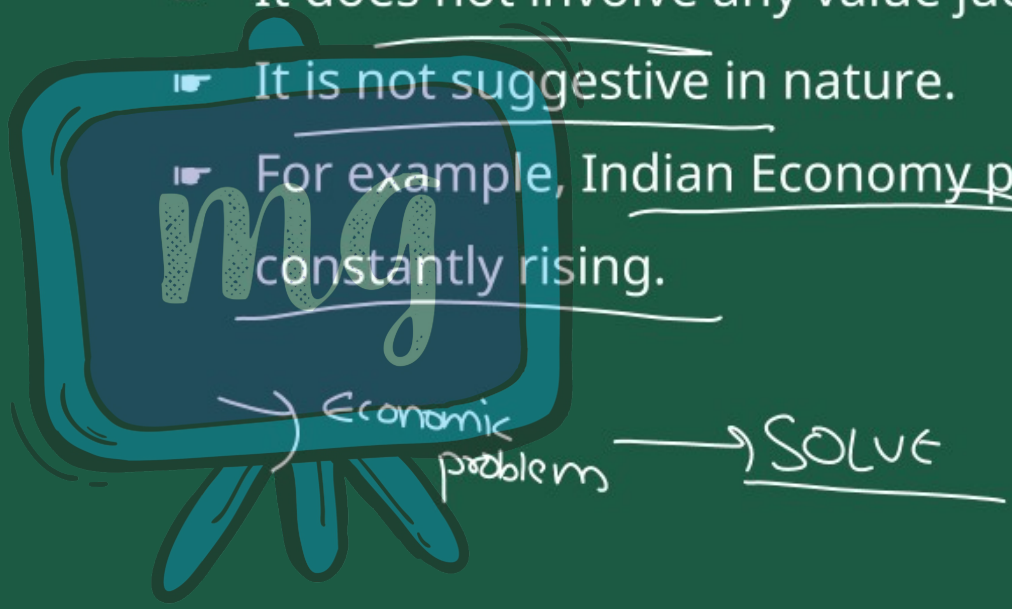
Ans :

- Positive Economics deals with how economic problems gets solved.
- It aims to understand the outcomes of specific mechanism.
- It can be verified through actual data.

Exercise



- It does not involve any value judgements.
- It is not suggestive in nature.
- For example, Indian Economy prices are constantly rising.





6 What do you understand by Normative Economic analysis?





6 What do you understand by Normative Economic analysis?

Ans :

- Normative Economics deals with how economic problems should be solved.
- It aims in providing the ideals about what is good or bad for economic activities.
- It cannot be verified through actual data.

Under CSR Support by
ipca | Foundation

Exercise

missiongyan
LET'S LEARN TOGETHER



- It involves value judgements.
- It is suggestive in nature.
- For example, India should take control steps for rising prices.

Monet.

Exercise

7 Distinguish between Microeconomics and Macroeconomics.



Microeconomics

VS



Macroeconomics

Under CSR Support by ipca | Foundation

Exercise

missiongyan LET'S LEARN TOGETHER

Ans :

Basis	Micro Economics	Macro Economics
Meaning	Studies the behaviour of individual units of an economy.	Studies the behaviour of aggregates of the economy as a whole.
Tools	Demand and Supply are the main tools.	Aggregate Demand and Aggregate Supply are main tools.
Objectives	Aims to determine price of a commodity or factors of production.	Aims to determine income and employment level of the country.

Under CSR Support by ipca | Foundation

Exercise

missiongyan LET'S LEARN TOGETHER

Basis	Micro Economics	Macro Economics
Assumptions	Assumes that all macro variable such as National Income, saving, consumption are constant in nature.	Assumes that all micro variable such as price of a specific good are constant in nature.
Other names	'Price Theory'	'Income and Employment theory'
Examples	Individual Income, Individual Output.	National Income, National Output.