

28

(1) Discuss the basic problems in an economy.

OR

"Economic problem is the problem of scarcity and choice" - elucidate.

OR

Discuss the central economic problem of a country.

Ans. → unlimited wants and scarce resources lead to the origin of the basic economic problems in all types of economies whether they are rich and poor. The scarcity of resources in relation to wants compels us to choose among the different ~~channels~~ ^{channels} of productions to which resources are to be devoted. In other words we have the problem of allocating scarce resources so as to achieve the greatest possible satisfaction of wants. An eminent English economist Lord Robbins defines economics in terms of basic economic problem and according to him "Economics is a science which studies human behaviour as a relationship between ends and scarce resources, which have alternative ~~uses~~ ^{uses}."

The problem of scarcity gives rise to some problems generally known as basic economic problem, which a society has to solve so as to promote material well being of its people. These basic economic problems related to what commodities are to be produced, how they are to be produced, how the national output is to be distributed among the ~~people~~ ^{people} and how much to provide for future growth.

Following are the basic problem of scarcity confronting an economy.

1 \Rightarrow what goods are produced and in what quantities by the given productive resources.

2 \Rightarrow How are the different goods produced that is what production method are employed for the production of different goods and services.

3 \Rightarrow How is the total national output distributed among its people.

4 \Rightarrow whether all available productive resources with a society are being fully utilized or some of them lying unutilized.

5 \Rightarrow Are the use of productive resources economically efficient.

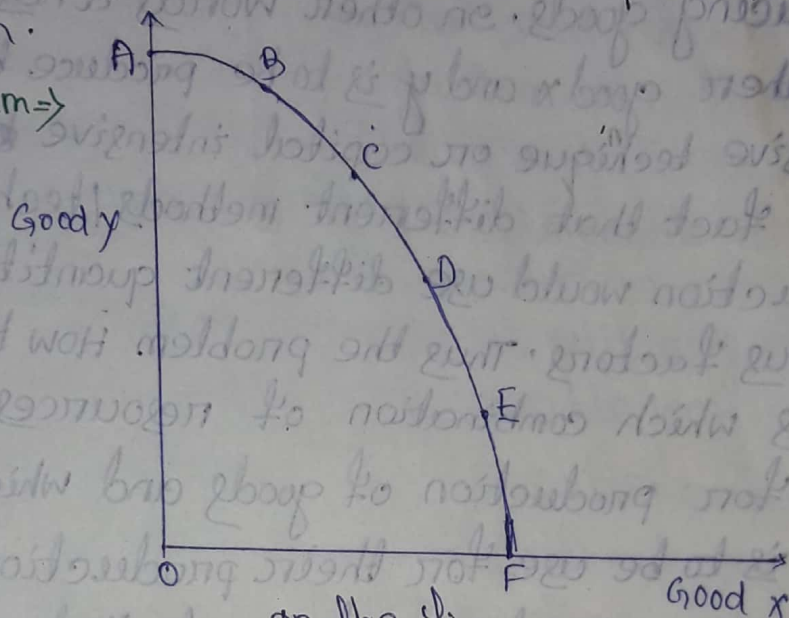
6 \Rightarrow Is the economy's productive capacity, increase decreasing or remaining same overtime.

① What to produce (problem of allocation of resources)

The problem of what goods are to be produced and in what quantities arises directly from the scarcity of resources. Since all wants can not be satisfied due to scarcity of resources, we face the problem of choice, if it is decided to use more resources in one line of production, some resources must be withdrawn from another commodity thus the problem of choice from the society point of view refers to which goods and in what quantities are to be produced to satisfy the wants of the people and to achieve greatest

possible satisfaction. The question of selecting goods for production implies which wants should be satisfied and which wants to be left unsatisfied. The nature of problem of allocation of resources can be illustrated with the help of following graph.

Diagram \Rightarrow



on the figure as we move from possibility A to F, we draw away some resources from the production of good y and devote them to the production of good x. In other words, we give up some units of good y in order to have some more units of good x. It is therefore clear that in a fully employed economy more of one good can be obtained only by cutting down from the production of another good. This means that limited resources prevent an economy from having more of both the goods. On the other hand, if we move up from F to A, we will be giving up some of x for the sake of more of y.

(2) How to produce (problem of choice of suitable method of production)

The problem^{of} how to produce deals with the problem of choice of method of production of producing goods. In other words it has to decide whether goods x and y is to be produce by labour intensive technique or capital intensive ~~technique~~ ^{technique}. It is fact that different methods / technique of production would use different quantities of various factors. Thus the problem How to produce means which combination of resources is to be used for production of goods and which technology is to be use for their production. Scarcity of resources always demands that goods should be produced with most efficient technique. In other words in efficient use of resources of a country results in less output. The choice between different methods of production by a society depends on the available resources and the prices of factors of production. It is in the interest of the society that those methods of production be employed that make the greatest use of relatively plentiful resources and economise the scarce resources.

(3) For whom to produce (The problem of distribution of national output)

This problem relates to the distribution of

national output among different section of society. Moreover distribution of national output depends on the distribution of income and people who have larger income would have greater share of output and viceversa. Generally factors like land, labour, capital and entrepreneurship contribute to the production of national output and get prices for their contribution.

(4) The problem of full employment of resources

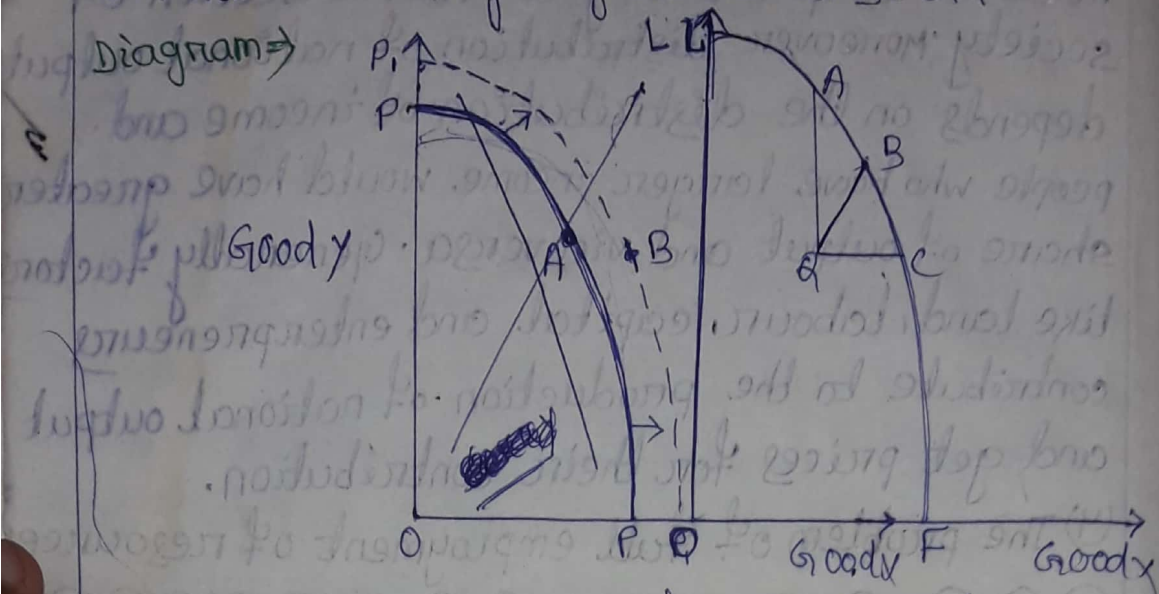
A community should aim at utilizing its scarce resources in the best possible way in order to achieve maximum possible satisfaction of the people. Thus a community will not consciously allow the resources to lie idle (unutilize).

(5) The problem of economic efficiency

Since resources are scarce, it is desirable that they should be most efficiently used. In other words it is important to know wheather the production and distribution of national product decided by an economy is efficient. The production is said to be efficient if the productive resources are utilized in such a way that it is impossible to produce more of one goods without reducing the output of any other goods. Likewise the distribution of national output product is efficient if it is impossible to make any one person better

of it without making any other worse off.

Diagram →

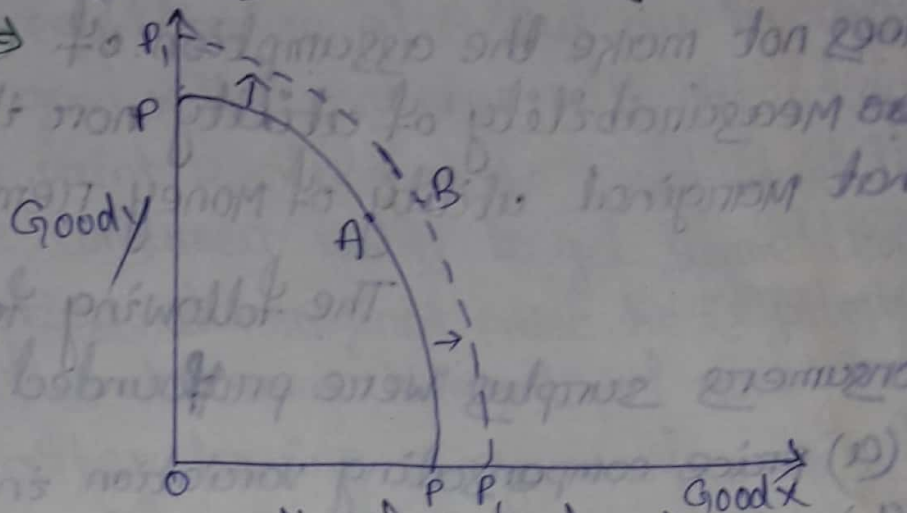


on the figure at point A the economy would not be utilizing its resources fully. In other words point A reflects economics in a ~~efficient~~ efficiency. Since it lies way inside the current PPC (LF of the country). On the other hand combination of output of two goods (X and Y) reflected by point A, B and C on the PPC not only indicate efficiency in an economic system but also reflect full employment level of output. Thus with the given resources being fully employed, the combination of goods produced by the economy can lie on the PPC but not inside.

⑥ (6) The problem of economic growth

If the productive capacity of the economy is growing, it will be able to produce more and more goods and services with the result that the living standard of its people will rise (increase). Moreover technological advancement, increase in human skill and increase in rate of capital

formation are crucial in order to achieve the growth of resources in an economy. It will be diagram \Rightarrow



on the figure due to increase of supply resources or due to improvement technology the PPC shifts outwards from PP to $P'P'$. on PPC $P'P'$, the economy can produce more goods than on curve PP . Thus with growth an economy the PPC curve shifts outwards.