

Chapter 1

II. Very Short Answer Questions:

21. What is meant by Economics?

1. The term or word 'Economics' comes from the Ancient Greek oikonomikos
2. Oikos means "households"; and, nomos means "management".
3. Thus, the term 'Economics' means 'management of households'.

22. Define microeconomics.

Micro Economics is the study of the economic actions of individual units, say individual households, individual firms or individual industries.

23. What are goods?

- ▲ In Economics, the term 'goods' implies the term 'services' also, unless specified otherwise.
- ▲ Goods (also called 'products', 'commodities', 'things' etc),

24. Distinguish goods from services.

S.no	Goods	Services
1	Tangible	Intangible
2	Have physical dimensions	Heterogeneous
3	Transferable	Perishable

25. Name any two types of utility.

- ✧ Form Utility,
- ✧ Time Utility,
- ✧ Place Utility,
- ✧ Service Utility,
- ✧ Possession Utility,
- ✧ Knowledge Utility

26. Define positive economics.

Positive economics means, it analyses a problem on the basis of facts and examines its causes. For example, at the time of a price increase, its causes are analysed.

27. Give the meaning of deductive method.

- ★ It is also named as analytical or abstract method.
- ★ It consists in deriving conclusions from general truths; it takes few general principles and applies them to draw conclusions.

III. Short Answer Questions:

28. Explain the scarcity definition of Economics and assess it.

Definition:

"Economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses".

Major Features.

- a. Ends refer to human wants.
- b. Resources or means that got to satisfy the unlimited human wants.

Criticism:

1. Robbins does not make any distinction between goods conducive to human welfare and goods that are not.
2. Robbins reduces Economics merely to theory of resource allocation.

29. What are the crucial decisions involving ‘what is produced?’

- ✧ Whether to produce more of food, clothing and housing or to have more luxury goods
- ✧ Whether to have more agricultural goods or to have industrial goods and services
- ✧ Whether to use more resources in education and health or to use more resources in military services
- ✧ Whether to have more consumption goods or to have investment goods

30. Explain different types of economic activities.

❖ Consumption:

Human wants coming under consumption is the starting point of economic activity.

❖ Production:

Production is the process of transformation of inputs into output.

❖ Exchange:

Exchange is concerned with price determination in different market forms.

31. Elucidate different features of services.

- ✧ **Intangible:** Intangible things are not physical objects but exist in connection to other things, for example, brand image, goodwill etc.
- ✧ **Heterogeneous:** Services vary across regions or cultural backgrounds.
- ✧ **Inseparable from their makers:** Services are inextricably connected to their makers.
- ✧ **Perishable:** Services cannot be stored as inventories like assets.

32. What are the important features of utility?

1. Utility is psychological.
2. Utility is not equivalent to usefulness.
3. Utility is not the same as pleasure.
4. Utility is the function of the intensity of human want.

33. Distinguish between microeconomics and macroeconomics.

S.No.	Micro Economics	Macro Economics
1	Micro means small	Macro means large.
2	Micro Economics is the study of individuals households, firms etc.	Macro Economics concerned with the economy as a whole.
3	It covers value theory and Theory of economic welfare.	It is the study of aggregates such as national output, unemployment and taxes.
4	Price theory.- Alfred Marshall	Income theory.- J.M. Keynes

34. Compare positive economics and normative economics.

S. No	Positive Economics	Normative Economics
1	Positive science deals with 'what it is'	Normative science concerned with 'what ought to be'.
2	It analyses problem on the basis of facts and examines its causes	Here the conclusions and results are not based on facts, but on different considerations.
3	Positive science, would be looked into why and how?	Normative science it would be seen whether good or bad.

IV. Long Answer Questions:

35. Compare and contrast various definitions of Economics.

PART I	Wealth Definition	Welfare Definition
Author	Adam Smith	Alfred Marshal
Year	1776	1890
“Definition”	“Economics as the science of wealth”	“Economics is a study of mankind in the ordinary business of life”

Key Concepts	<ol style="list-style-type: none"> 1. Individual in the society wants to promote his own gain and in this process 2. Man is guided and led by an “invisible hand”. 3. It means that each person works for his own good. 	<ol style="list-style-type: none"> 1. Economics studies on one side a study of wealth, on the other side, a part of the study of man 2. Man promotes primarily welfare and not wealth. 3. Economics contains the concerns of ordinary people.
Criticisms	<ol style="list-style-type: none"> 1. Economics as a ‘dismal science’, “pig science” etc. 2. As it teaches selfishness which is against ethics. 	<ol style="list-style-type: none"> 1. Does not consider immaterial things, 2. Welfare varies from person to person, country to country and one period to another.

PART II	Scarcity definition	Growth definition
Author	Lionel Robbins	Paul Samuelson
Year	1932	1948
“Definition”	“Economics is a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses”.	“Economics is the study of how men and society choose, with or without the use of money, to produce various commodities over time, and distribute them for consumption, now and in the future”
Key Concepts	<ol style="list-style-type: none"> 1. Human beings have unlimited wants 2. Resources are limited or scarce. 3. the scarce means are capable of having alternative uses. 	<ol style="list-style-type: none"> 1. Samuelson makes his definition dynamic. 2. Covers various aspects like production, distribution and consumption.
Criticisms	1. Does not make any distinction between goods conducive to human welfare and goods that are not	1. Samuelson’s definition is applicable also in a barter economy, where money is not used.

36. Explain various divisions of Economics.

Economics has been divided into some branches.

1. Consumption

Human wants coming under consumption is the starting point of economic activity.

2. Production

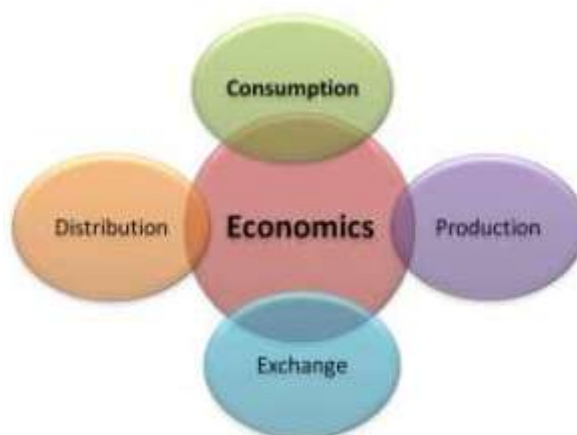
Production is the process of transformation of inputs into output. the factors of production namely Land, Labour, Capital and Organization

3. Exchange

Exchange is concerned with price determination in different market forms. This division covers trade and commerce.

4. Distribution

Production is the result of the coordination of factors of production. The reward for factors of production is studied in this division under rent, wages, interest and profit. Distribution studies about the pricing of factors of production.



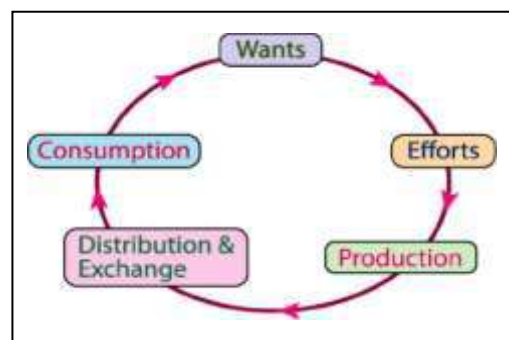
37. Elaborate the nature and scope of Economics.

I. Nature of Economics:

1. A Law expresses a causal relation between two or more than two phenomena.
2. Marshall states that the Economic laws are statement of tendencies the laws function with cause and effect.
3. Economic laws are not as precise and certain
4. Economic laws are not inviolable
5. The use of the assumption 'other things remaining the same'
6. Economics makes the Economic laws hypothetical.
7. Laws in economics are more exact, precise and accurate than the other social sciences.
8. Some economic laws are simply truisms.

II. The scope of the subject of Economics refers to on the subject-matter of Economics.

1. All human activities related to wealth constitute the subject-matter of Economics.
2. Production, consumption and capital formation are called the basic economic activities of an economy.
3. The flow chart give the scope of economics.
4. Economics focuses on the behaviour and interactions among economic agents, individuals and groups belonging to an economic system.
5. Human activities not related to wealth (non- economic activities) are not treated in Economics. For example, playing cricket for pleasure, mother's child care.



38. Explain basic problems of the economy with the help of production possibility curve.

Production Possibility Curve

Meaning

Production possibility curve shows the menu of choice along which a society can choose to substitute one good for another.

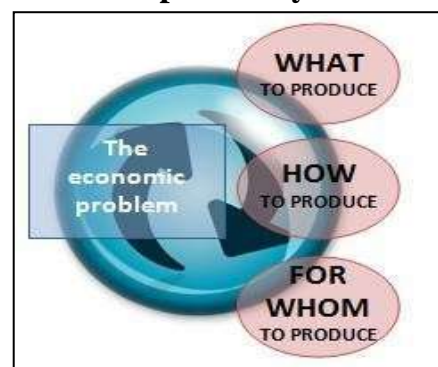
- Choice between relatively scarce commodities due to
- limited productive resources with the help of
- a "Geometric Device" (that is production possibility curve)

Assumptions

- (i) The time period does not change.
- (ii) Techniques of production are fixed.
- (iii) There is full employment in the economy.
- (iv) Only two goods can be produced from the given resources.
- (v) Resources of production are fully mobile.

Explanation

1. The quantity of food is shown on x-axis and the number of cars is shown on y-axis
2. The different six production possibilities are being shown as point P1 P2 P3 P4 P5 & P6.
3. A maximum of 500 tons of food can be produced, given the existing technology.
4. If on the other hand, all resources are instead used for producing cars, 25 cars can be produced.
5. In between these two extremes, possibilities exist.



Production possibilities schedule

Production possibilities	Quantity of food production in tons	No of car production
I	0	25
II	100	23
III	200	20
IV	300	15
V	400	8
VI	500	0

