

# Economic Applications Project-2

Arshya Garg  
Class 9-B

Strawberry Fields High School  
Session 2022-2023

# Acknowledgement

I would like to express my special thanks of gratitude to my teacher Ms. Sarika as well as our principal, who gave me this golden opportunity to attempt this delightful project. This project also helped me in doing a lot of research and I came to know about so many new things.

I am also extremely grateful to my parents and friends who gave me valuable suggestions and guidance for the completion of my project. This cooperation and healthy criticism came handy and useful with them.  
Hence, I would like to thank all the above mentioned people once again.

# Assignment Question

Identify central problems of an economy specifically with reference to the Indian economy.

- Researcher is required to use secondary data for this presentation.
- Collect information about:
  - Identify the central problems of an economy i.e., what to produce, how to produce and for whom to produce.
  - For the central problem ‘what to produce’ basically explain the significance of making appropriate choice between necessities and luxuries.
  - Analyse the issues involved in the choice between civilian goods and non – civilian goods, regarding the welfare of the nation.
  - For the central problem ‘how to produce’ – discuss the choice between Labour -intensive and Capital - intensive technique.
  - Highlight the issues involved in the choice such as the problem of employment, availability of capital resources, productivity, growth etc.
  - Discuss how the problem of ‘for whom to produce’ is significant for the Indian economy in view of the inequalities in the income distribution and massive poverty in the country.
  - Conclusion
- Researcher can complement his/her study by giving their opinion on any changes that they feel can be made to the present economic system.

# List of Contents

04	Introduction	09	basc problem 3
05	causes	10	Discussion
06	basic problem 1	11	conclusion
08	basic problem 2	12	bibliography

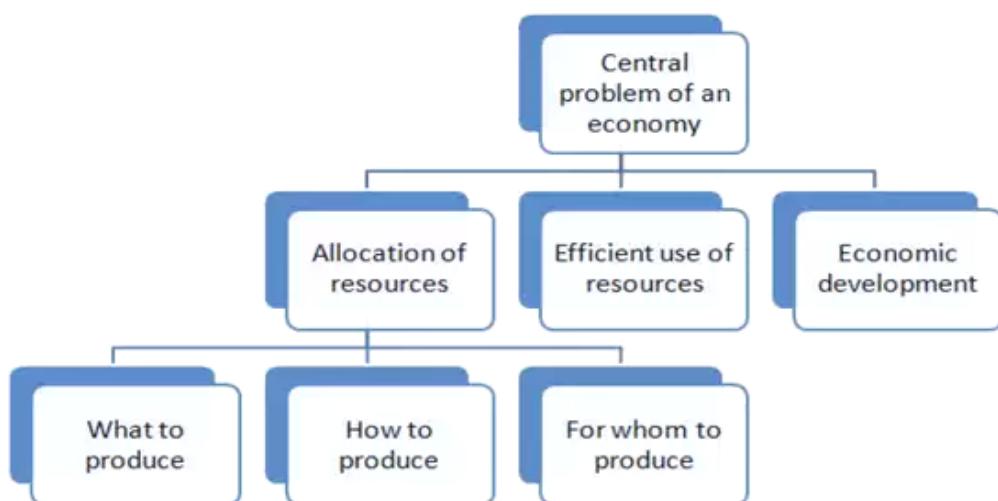
# Introduction

Production, Distribution, and Exchange of goods and services are among the basic economic activities of life. During the period of these economic activities, every society has to suffer from scarcity of resources and it is the scarcity of resources that arises the problem of choice. The scarce resource of an economy has several usages.

In other words, every society decides how to use scarce resources optimally. These are known as central problems because every society has to face them and look for its solutions. The problems of an economy are often summarized in the following three ways:

- What to produce and in what quantity?
- How to produce?
- For whom to produce?

## Central problem of an economy



# Causes of Economic Problems

- 1. Scarcity of resources:** Resources like labour, land, and capital are insufficient as compared to the demand. Therefore, the economy cannot provide everything that people want.
- 2. Unlimited Human Wants:** Human beings' demands and wants are unlimited which means they will never be satisfied. If a person's one want is satisfied, they will start having new desires. People's wants are unlimited and keep multiplying, therefore, cannot be satisfied because of limited resources.
- 3. Alternative Uses:** Resources being scarce, the same resources are used for different purposes. and it is therefore essential to make a choice among resources. For instance, petrol is used in vehicles and is also used for generators, running machines, etc. Therefore, the economy should now make a choice within the alternative uses.

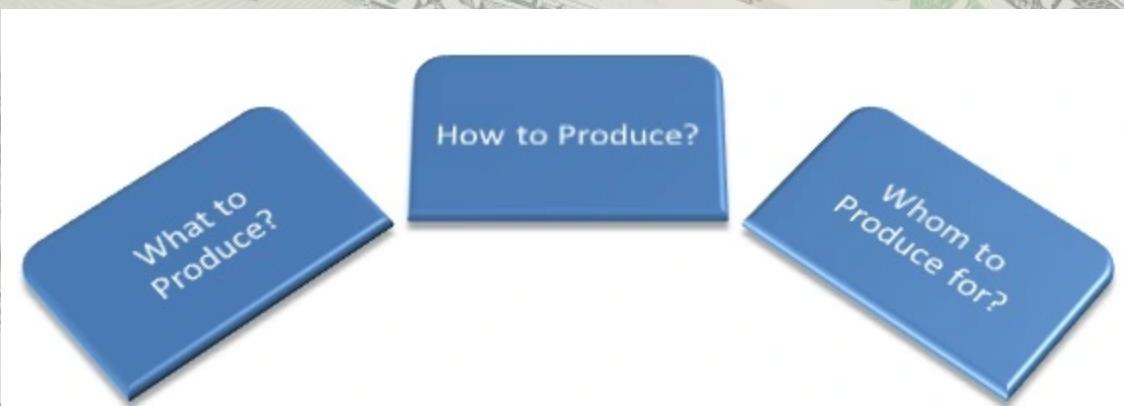


## ECONOMIC PROBLEMS



# "What to Produce"

This problem refers to the decisions regarding the selection of different commodities and the quantities that need to be produced. Labour, land, machines, capital, equipment, tools and natural resources are limited. So, it is not possible to fulfil society's every demand. Therefore, it is important to decide what goods and services are required to be produced and in what quantity? For example, if Rita has a piece of land, she needs to think about what crop she should produce on her land. Let us consider that she can grow either Jowar or wheat. Given that the natural resource i.e. land is limited, she needs to choose whether she wants to use the land to produce Jowar or wheat or both. Once Rita has taken the decision regarding the goods to be produced, she needs to think about the quantity of the crop that she would like to produce. For example, 5 quintals, 10 quintals, or 100 quintals. This problem of 'what to produce and in what quantities to produce is almost faced by everyone in society. Also, an economy needs to make decisions regarding whether it wants to use its scarce resources to produce consumer goods or producer goods. Also, to what extent should luxury goods be produced in comparison to producer goods. The line between necessities and luxuries isn't rigid. It changes over time as new goods enter the market or become obsolete. It also depends on what your social group sees as normal. That means one person's luxury could be seen as normal- even necessary - by another. If your friends don't have cars, a car could be a luxury. If everyone you know has a car, it becomes a necessity.



The economy may be faced with the question of how many civilian goods and defense goods need to be produced. The problem of what to produce and in what quantities to be produced can be solved by a government that retains the authority to allocate resources in different areas of production. Alternatively, it can be solved based on the preferences of people in an economy and on the price of goods and services available in the market.

In conclusion, This problem involves selection of goods and services to be produced and the quantity to be produced of each selected commodity. Every economy has limited resources and thus, cannot produce all the goods. More of one good or service usually means less of others.

For example, production of more sugar is possible only by reducing the production of other goods. Production of more war goods is possible only by reducing the production of civil goods. So, on the basis of the importance of various goods, an economy has to decide which goods should be produced and in what quantities. This is a problem of allocation of resources among different goods.



# "How to Produce"

The second problem which an economy has to face is how shall the goods be produced. This is the problem of choice of method or technique of production. Technique of production refers to method of producing a particular product. The question of choosing the appropriate technique arises because there are various alternative methods or techniques (using different combination of resources such as labour and capital) available to produce commodity. Broadly, there are two types of techniques of production namely, labour intensive and capital intensive. Labour intensive technique uses more of labour and less of capital to produce a given quantity of output, whereas a capital intensive technique uses more of capital and less of labour to produce the same amount of output. For example, cotton cloth can be produced either by handloom (labour intensive technique) or by powerloom (capital intensive technique).

The root cause of this problem also lies in the fact that resources are scarce. Since resources are available in limited quantity, the society cannot afford to squander away its resources. It has to be economical in the use of resources. Had the resources been available in plenty, then any technique could have been adopted.

There are two major determinants of the type of tech need to be used. What techniques are to be used for producing different products depend on the technical knowledge available to an economy. This explains partly why different economies use different techniques of production. The second factor which determines the choice of technique is the relative availability of different types of resources. Thus, labour surplus economies make more use of labour intensive techniques as compare to labour scarce economies.

# "For whom to Produce"

The economic problem for whom to produce basically focuses on the distribution mix of the final goods and services produced. The distribution of the final foods and services is equivalent to the distribution of national income among the factors of production such as land, labour, capital and entrepreneur.

The economy needs to decide the mechanism of distributing the final goods and services among the different segments of the population, so as to reduce the inequality of income. This problem is concerned about who gets more or who gets less? Which foods should be made available free or at low (nominal) price and to which segment?

The problem for whom to produce can be divided into two main aspects:

- 1. Personal distribution**- it implies the distribution of the national income of a country among the different groups of people in society .
- 2. Functional distribution**- it implies how the total national product of a country is shared among the different factors of production

**FOR WHOM to Produce**

- This decision is about who will receive the things produced
- Are houses for low-income workers, professionals, or the very rich?
- Think about target audience and who will buy the product
  - Who is the target audience for the new Call of Duty game?
  - Who is the target audience for the Twilight series?

As we know the third problem which an economy faces is for “whom to produce.” It is the problem of dividing the total output of goods and services produced in an economy among its members. Or, to put it in another way, how is the national product to be divided among different individuals and families? Obviously, goods and services would be acquired by those who can pay for them that is, those who possess money income. Those who have more income can get more goods. So, the problem of “whom to produce” tantamounts to the problem of distribution of income among various income earners. Distribution of income determines distribution of goods and services. Various factors of production cooperate to produce goods and services during a year. The Sum total of these goods and services ( final goods and services)is called national product. National product, therefore, generates national income. National income is distributed among the owners of various productive resources in the form of various types of factor incomes such as wages, interest, rent, etc.

Different economies have different patterns of distribution of income. Distribution of income is more an equal in a capitalist economy as compare to a socialist economy. It is generally believed that extreme any qualities of income or undesirable from economic, social, ethical and humanitarian grounds. But at the same time complete equality is in the distribution of income and either feasible nor desirable. Therefore, what is important is to achieve a reasonable equity in the distribution of income. Equity does not mean equal incomes of all the individuals, it means a reasonable degree of inequality.

# Conclusion

In addition to the three fundamental economic problems explained above, there are three other basic problems which are of vital importance to all the economies. These are discussed below:

1. problem of fuller utilisation of resources: this is the problem of employment and unemployment of resources. As explained above, sufficient amount of resources is not available in an economy to produce all the commodities. Therefore, it is not advisable to leave the resources idle or unemployed. Yet, one of the disturbing characteristics of most of the economies is that resources are not fully utilised. Unemployment of resources is a waste. Unemployment of resources means that the society is not able to get those goods and services that could have been produced with all these resources.

2. The problem of economic growth: the problem of economic growth is the problem of expansion of economy's capacity to produce goods and services over time. Expansion of production capacity of the economy will lead to increased availability of goods and services. The capacity to produce in an economy increases with the increase the availability of resources as well as through increase in their efficiency.

To sum up every economy faces various economic problems as discussed above. The first three fundamental problems, namely 'what to produce', 'how to produce' and 'for whom to produce', are concerned with the allocation of resources. Problems of efficient utilisation of resources and fuller utilisation of resources relate to utilisation of resources. Problem of economic growth is related to the growth of resources.

# Bibliography

1. <https://www.youtube.com/watch?v=KDtHttjQFeM>
2. [https://www.youtube.com/watch?v=1cYMW5d\\_bn4](https://www.youtube.com/watch?v=1cYMW5d_bn4)
3. <https://www.vedantu.com/commerce/central-problems-of-an-economy>
4. <https://in.video.search.yahoo.com/search/video?fr=mcafee&ei=UTF-8&p=scarcity+video&type=E211IN714G0#id=4&vid=6ee5bba55badff5892b6b2164adc6ebf&action=click>
5. <https://in.video.search.yahoo.com/search/video?fr=mcafee&ei=UTF-8&p=scarcity+video&type=E211IN714G0#id=10&vid=073a57f373834d356e4b0571b9216696&action=view>
6. <https://studiousguy.com/what-to-produce-how-to-produce-and-for-whom-to-produce/>