Micro and Macro - R & U - Very Short - Info & Con

Q.1. What is economics about?

Or

What is the subject matter of economics?

Ans. Economics is the study of the problems arising out of scarcity of means/resources at the micro and macro levels.

Q.2. What is microeconomics?

Ans. Microeconomics deals with economic issues (or economic problems) at the level of an individual—an individual consumer, an individual firm, an individual industry or an individual market. Example: Problem of choice of technique of production faced by a manufacturing firm.

Q.3. What is macroeconomics?

Ans. Macroeconomics deals with economic issues (or economic problems) at the level of an economy as a whole. Example: Problem of unemployment in the economy.

Q.4. Give two example of microeconomic studies.

Ans. i. Price determination in the commodity market, and

ii. Consumer's equilibrium.

Q.5. Give two examples of macroeconomic studies.

Ans. i. Problem of inflation in India, and.

ii. Problem of unemployment in India.

Q.6. Write two basic components of microeconomics

Ans. i. heory of consumer behaviour, and

ii. Theory of producer behaviour.

Q.7. Write two basic components of macroeconomics.

Ans. i. Theory related to equilibrium level of output & employment, and

ii. Theory related to price behaviour (inflation and deflation) in the economy.

PPC and Opportunity Cost - R & U – Info

Q.1. Define production possibility curve.

Ans. Production possibility curve (or transformation curve) is a curve showing different possibilities of producing a set of two goods when

(i) the given resources are fully and efficiently utilised, and

(ii) technology remains constant.

Q.2. Write the assumptions of production possibility curve.

Ans. The basic assumptions of production possibility curve are as under:.

(i) Resources are given. These are fully and efficiently utilised.

(ii) No change in technique of production.

Q.3. What does concavity implies in the context of production possibility curve?

Ans. Concavity of production possibility curve means that the marginal opportunity cost or marginal rate of transformation tends to rise as resources are shifted from Use-1 to Use-2.

Q.4. Which factors lead to a shift of the PPC?

Ans. PPC shifts when:

(i) resources increase or decrease, and/or

(ii) technology changes.

Q.5. When will production possibility curve shift to the right?

Ans. Production possibility curve shifts to the right when: .

(i) resources increase, and/or

(ii) more efficient technology is used.

Q.6. When is PPC a straight line?

Ans. PPC is a straight line when marginal opportunity cost or MRT (marginal rate of transformation) is constant.

Q.7. What is opportunity cost?

Ans. Opportunity cost refers to value of a factor in the next best (or second best) alternative use.

Q.8. Define marginal opportunity cost.

Ans. Marginal opportunity cost refers to loss of output of Good-Y for producing an additional unit of Good-X, when resources and technology are constant.

Q.9. Give two examples of underutilisation of resources.

Ans. Example 1: [Related to less developed countries]: Labour is underutilised as indicated by mass unemployment in countries like India.

Example 2: [Related to developed countries]: Capital is underutilised during depression when production is decreased owing to the lack of demand.

Q.10. Give two examples of growth of resources.

Ans. Example 1: Supply of skilled labour (like IT engineers) has increased in India causing a rightward shift in the PPC of IT industry.

Example 2: Discovery of oil reserves in the Gulf countries has caused a substantial rightward shift in the PPC of these countries.

PPC and Opportunity Cost - R & U – Reason

Q.1. Production possibility curve may sometimes be convex to the origin.

Ans. False. PPC is always concave to the origin, as marginal opportunity cost (indicating slope of the curve) must rise as more and more resources are shifted from Good-2 (on Y-axis) to Good-1 (on X-axis).

Q.2. A shift from actual level of output to the potential level of output is not indicated by shift in PPC to the right.

Ans. True. PPC would shift to the right only when the potential level of output rises.

Q.3. Technological advancement or growth of resources shift the PPC to the left.

Ans. False. Technological advancement shifts PPC to the right, because better technology means more can be produced with the given resources. Growth of resources also shifts PPC to the right because, given the state of technology, more resources means more production.

Q.4. When due to a severe cyclone in a country, lot of people die and many factories are washed away PPC will shift to the left.

Ans. True. Because death of people implies loss of manpower and destruction of factories implies loss of capital. Thus, the country's stock of resources reduces which should cause a backward/leftward shift in PPC.

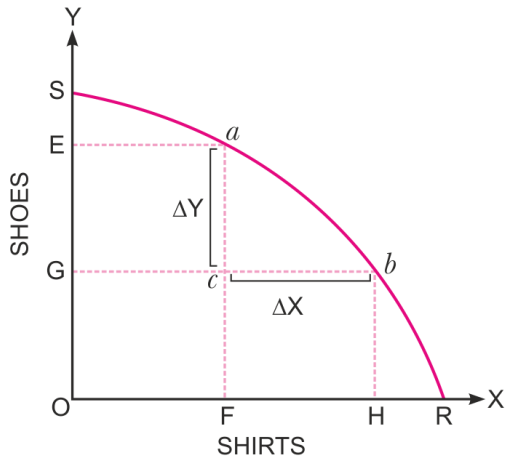
Q.5. An economy always produces on, but not inside a PPC.

Ans. False. Producing on PPC implies fuller utilisation of resources as well as efficient utilisation of resources. This is the optimum point which we always strive to achieve. But in practice, all the resources are not fully employed or efficiently utilised all the time. Hence, inside PPC is a realistic situation while on the PPC is an ideal situation.

Q.6. PPC is affected when resources are inefficiently employed in an economy.

Ans. False. PPC is not affected (or will not shift to the right or left) when resources are inefficiently employed in an economy. Because, PPC is drawn on the assumption that the given resources are fully as well as efficiently utilised, along with the given technology. If resources are inefficiently employed in an economy, it implies that the economy is not maximising its output with the given resources. It is a situation when the concerned economy is NOT operating on the production possibility curve, but is somewhere within the production possibility curve. So that, it is possible to increase the level of output of Good-X, or Good-Y, or both X and Y.

FIGURE 1



Production Possibility Curve: SR

Opportunity cost of producing FH shirts = EG shoes

Or

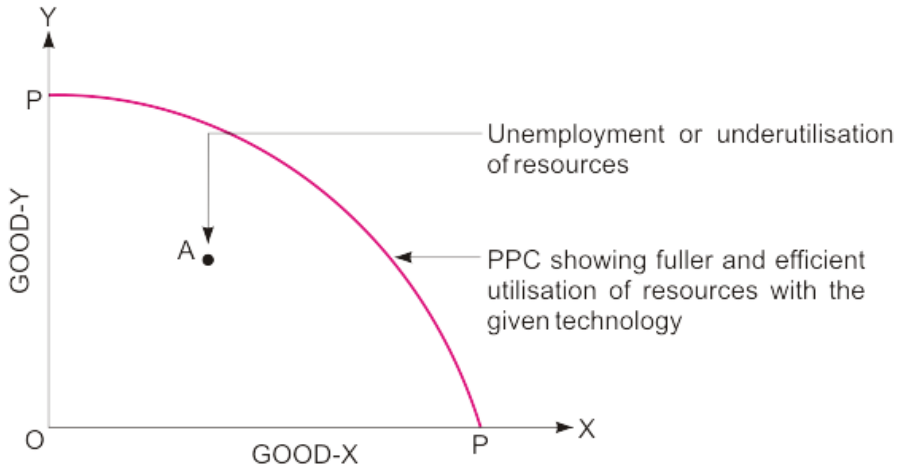
Opportunity cost of producing cb shirts = ac shoes

Marginal Opportunity Cost = $\frac{\Delta Y}{\Delta X} = \frac{ac}{cb}$ = Cost of producing an additional unit of shirts in terms of the loss of output of shoes.

Q.7. Massive unemployment shifts the PPC to the left.

Ans. False. PPC is drawn on the assumption that the given resources are fully as well as efficiently utilised. Unemployment is a situation when resources are not fully utilised. Or, it is a situation of under utilisation of resources. It would mean that the economy is not operating on the PPC but somewhere inside the PPC. PPC showing only technical possibilities of production, would not shift. Fig. 3 illustrates the situation.

FIGURE 3



PPC and Opportunity Cost - HOTS & Applications

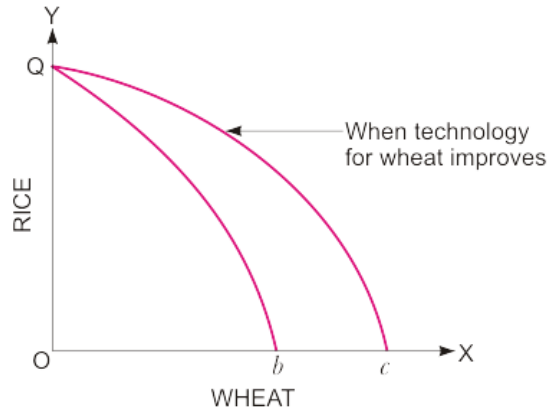
Q.1. If production possibility curve shifts to the right, should it be parallel to the old one?

Ans. Not necessarily, because slope of PPC indicates marginal opportunity cost, which may be different at different levels of output.

Q.2. If PPC relates to wheat and rice (on the X-axis and Y-axis respectively) draw diagram showing change in PPC when resources remain constant and technology improves only for wheat.

Ans. See Fig. 4, here PPC will not shift but rotate to the right showing more production of wheat from Ob to Oc when all resources are employed in the production of wheat. Production of rice remains constant at OQ corresponding to zero output of wheat when production of wheat is zero.

FIGURE 4



Q.3. What does increasing marginal opportunity cost along a PPC mean?

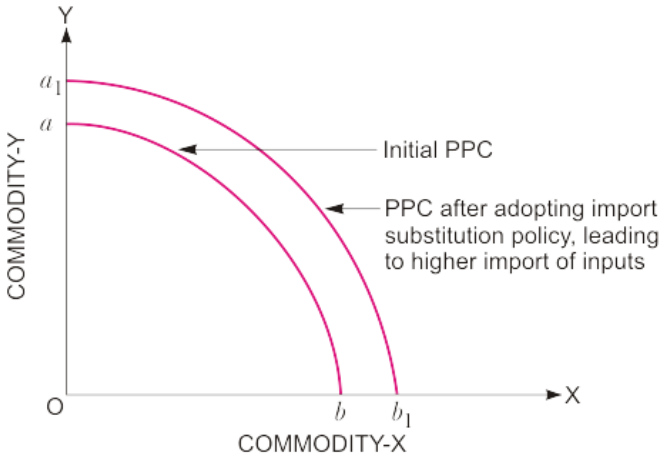
Ans. Increasing marginal opportunity cost along a PPC means that $\frac{\Delta \text{loss of Y}}{\Delta \text{gain of X}}$ Δloss of YΔ gain of X tends to increase as more and more of resources are shifted from Y to X, which is why PPC is concave to the origin. It occurs because resources are use-specific. As these are shifted from a more specialised use to a less specialised use, loss of output tends to be higher than the gain of output.

Q.4. A lot of people have died and many industrial units have been razed to the ground owing to a massive earthquake in Nepal. How will it affect the country's PPC? Explain diagrammatically.

Ans. Production possibility curve (or PPC) is drawn on the assumption of a given amount of resources. Destruction of manpower and industrial capital of the country

leads to a massive fall in the quantum of resources. Accordingly, PPC will shift to the left, as in **Fig. 5.**

FIGURE 6



Q.5. Giving reason, comment on the shape of production possibility curve based on the following schedule. Also, find the marginal opportunity cost of producing Good-1.

Good-1 (Units)	**0**	**1**	**2**	**3**	**4**	**5**
Good-2 (Units)	**25**	**20**	**15**	**10**	**5**	**0**

Ans.

Good-1 (Units)	Good-2 (Units)	Marginal Opportunity Cost $\left(\frac{\Delta y}{\Delta x}\right)$
0	25	—
1	20	$\frac{5}{1} = 5$
2	15	$\frac{5}{1} = 5$
3	10	$\frac{5}{1} = 5$
4	5	$\frac{5}{1} = 5$
5	0	$\frac{5}{1} = 5$

The above schedule shows that the marginal opportunity cost of producing more of Good-1 in place of Good-2 is constant. Accordingly, production possibility curve should be a downward sloping straight line.

Micro and Macro - R & U - Reason-Based Questions

Q.1. Study of cotton textile industry is a macroeconomic study.

Ans. False. Cotton textile industry is an individual industry. Hence, it is a microeconomic study.

Q.2. Problem of unemployment in India is a macroeconomic study.

Ans. True. Problem of unemployment in India is an economic issue related to the economy as a whole. Hence, it is a macroeconomic study.

Q.3. Aggregation is involved only in macroeconomics.

Ans. False. Both micro and macro economics involve aggregation. The difference lies in the degree of aggregation. While in microeconomics, aggregation is at the level of an individual industry (which is the aggregate of all firms producing a particular commodity), in macroeconomics, aggregation is done at the level of an economy as a whole.

Positive and Normative Economics - R & U - V-Info

Q.1. What is meant by positive economics?

Ans. Positive economics is that branch of economics which deals with such issues which are verifiable.

Q.2. What is meant by normative economics?

Ans. Normative economics is that branch of economics which deals with such issues which involve value judgement, and are not verifiable.

Q.3. State one example of positive economics.

Ans. 21% of population in India is below poverty line.

Q.4. State one example of normative economics.

Ans. Farmers should always be granted subsidies to ensure good returns on their investment.

Positive and Normative Economics - R & U – Reason

Q.1. Positive statements are the statements of truth.

Ans. False. Positive statements are not the statements of truth. Positive statements may be true or false. One can verify these statements as true or false.

Q.2. A normative statement offers suggestions or opinions.

Ans. True. Normative economics deals with such issues which are suggestive in nature and are not verifiable.

Q.3. It is a positive statement that Virat Kohli is a good batsman as he has scored highest number of centuries in test cricket.

Ans. True. It is a positive statement, as it can be verified.

Economic Problem - R & U - Very Short – Reason

Q.1. Economic problem arises only because of unlimited wants.

Ans. False. Economic problem relating to the allocation of resources (or problem of choice) arises due to the following reasons:

(i) Unlimited Wants: Human wants are unlimited.

(ii) Limited or Scarce Means: Resources are scarce in relation to human wants.

(iii) Alternative Uses: Resources have alternative uses. Land, for example, may be used to produce rice or wheat or it may be used for the construction of buildings.

Q.2. Problem of choice is the basic economic problem.

Ans. True. Problem of choice is the basic economic problem. It is the problem of allocating scarce resources to alternative uses. It arises primarily because resources are scarce (and they have alternative uses) and because human wants are diverse and unlimited.

Q.3. Problem of choice would not have arisen, if resources were not having alternative uses.

Ans. True. If resources were not having alternative uses, then there is no problem of choice. Example: If only rice could be grown on land, then grow rice and relax! Where is the problem of choice?

Scarcity - R & U - Very Short – Info

Q.1. What is scarcity?

Or

What is meant by scarcity of resources?

Ans. Scarcity is a situation when the requirement of goods (or resources) exceeds their availability so that goods (or resources) acquire market value or price.

Q.2. What is meant by economising the use of resources?

Ans. Economising the resources means that resources are to be used in a manner such that maximum output is realised per unit of input. (It also means optimum utilisation of resources.)

Q.3. Why does the need for economising the use of resources arise?

Ans. Resources are to be economised because they are scarce in relation to our requirement.

Scarcity - R & U - Reason-Based

Q.1. Scarcity and choice go together.

Ans. True. Resources are not only scarce but also have alternative uses. Thus, land can be used for producing wheat or for constructing warehouses or factories. Hence, the problem of choice is the essence of any economic problem. However, if resources were not scarce, one could have anything any time and there would be no problem of choice.

Q.2. Economics is about making choices in the presence of scarcity.

Ans. True. If there were no scarcity, there would not have been any economic problem, or the problem related to ‘choices’. In the absence of scarcity (of resources) the concept of unlimited wants does not exist. When resources are not limited and wants are no longer unlimited, where is the problem of choice? The problem of choice then ceases to exist; accordingly, there should not be any economic problem, and no economics as such.

Economy and Its Central Problems-R&U - Very-Info

Q.1. What is meant by an economy?

Ans. Economy is a system comprising all economic activities directed towards the satisfaction of unlimited wants using the scarce means.

Q.2. Who are economic agents?

Ans. Economic agents are the producers, households (consumers) and the government who take economic decisions in the economy.

Q.3. Define capitalist economy.

Ans. Capitalist economy refers to a market economy in which decisions relating to what, how and for whom to produce are governed by the market forces of supply and demand. The government does not interfere in the process of decision-making.

Q.4. Define centrally planned economy.

Ans. A centrally planned economy (or a planned economy) is the one in which decisions relating to what, how and for whom to produce are taken by some central authority appointed by the government. Market forces operate only notionally and economic activity is guided exclusively by the consideration of social welfare.

Q.5. Define mixed economy.

Ans. Mixed economy is the one in which both private as well as public sectors simultaneously exist and undertake the process of growth and development. Production of most goods is left to the free play of the market forces. However, there are government controls as well as regulations with a view to maximising social welfare.

Q.6. State the two characteristics of a centrally planned economy.

Ans. Two characteristics of a centrally planned economy are as follows:

(i) In centrally planned economy, decisions relating to what, how and for whom to produce are taken by some central authority appointed by the government.

(ii) Market forces are regulated or controlled by the government.

Economy and Its Central Problems-R&U – Reason

Q.1. The problem 'how to produce' relates to 'choice of technique' in the process of production.

Ans. True. The term 'how' refers to technology. Accordingly, how to produce is the problem relating to choice of technique in the process of production. The technique of production is broadly classified as:

(i) labour-intensive, and

(ii) capital-intensive. Labour-intensive absorbs more labour, but is low in efficiency. Capital-intensive is high in efficiency but low in labour absorption. Hence, the problem of how to produce implying the choice of technology.

Q.2. The problem 'for whom to produce' is related to the distribution of output.

Ans. True. The problem 'for whom to produce' is a problem relating to the distribution of output (or income) in the economy. Who gets how much? It has two aspects:

(i) Factoral distribution of income, and

(ii) Inter-personal distribution of income.

Factoral distribution of income relates to income-share of different factors of production, viz., wages for labour, interest for capital and rent for land. Inter-personal distribution refers to income-share of individuals and households in the society. Whether, it is factoral distribution or inter-personal distribution, the problem revolves around equality (or inequality) in the society.

Q.3. In a mixed economy, production decisions are guided only by the consideration of profit.

Ans. False. It is wrong to say that in a mixed economy, production decisions are guided by the consideration of profit only. Mixed economy is a combination of private and public sectors. While in the private sector, profit maximisation is the principal consideration, in the public sector, it is 'social welfare'.