

# ch-1

## MICRO AND MACRO ECONOMICS

Q 1. Define Economic Activity?

Q 2. What is subject matter of economic.

Ans: Various subject matters as per various economic are as follows:-

i) wealth related matter

It is a classical view point of economic it include wealth, earning & distribution of it. man is treated as the source or force of earning.

ii) welfare related matter → This concept include human welfare instead of wealth. It include the material and physical welfare.

iii) scarcity related matter → This include "problem of choice" which arises due to limited resources and unlimited want with limited resources.

iv) Growth related matter → This is a modern

used found it includes growth based activity in the subject matter of economics

Q 5) Prove positive and normative sciences.

Ans 7	Positive	Normative
1)	Economics is a positive science because it deals with what is or how the economic problems are actually solved.	1) Normative economics deals with what ought to be or how the economic problems should be solved.
2)	It is a positive science because various data can be verified to get the conclusion of the matter.	2) It can not verified by with actual data it is some times mental.
3)	It aims to make real description of economic activities which based upon real facts.	3) It based upon individual opinion and it suggest in nature.
		4) It give value to judgment and aims to determine the ideals.

4) It does not give any value judgment it is not a theoretical science.  
examples - prices in Indian economy are constantly rising.

example - Indian economic growth does this do central banking prices

Application Behaviour and Dev

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## CENTRAL PROBLEM OF ECONOMIC

(Q1)

Define economic problem. why does economic problem arise.

Ans: Causes of arising economic problem are:

- i) unlimited wants;— Human wants are unlimited. New wants arise as soon as a want gets satisfied. Thus, all human wants cannot be satisfied.
- ii) difference in Intensity of wants;— Intensity of wants differ for different goods. Few wants are very important for a person and less important for the other. on the basis of importance, every person keeps his unlimited wants on different priority basis.
- iii) limited or scarce Resources;— limited or scarce resources indicate that their demand exceeds their supply.
- iv) Alternative uses of Resources;— Resources are not only limited, but they have alternative uses also.

Q1) Problem of choice :- No person, family or country can fulfil all its demands as wants surpass its limited resources. Thus, they face the problem of choice.

It is clear from above analysis that problem of choice is basically an economic problem. If resources would have also been unlimited like unlimited wants, then there would have been no problem of choice. In other words, limited resources give rise to economic problems. In other words, unlimited wants and limited resources are the two pillars on which structure of all economic problem stand. Economics comes into existence only when problem of choice arises.

Q2) central problem of an economic system due to economic problem is to satisfy.

Q3) Explain the opportunity cost with an example.

Ans + opportunity cost is the value of the next best alternative in choosing an alternative. For example, suppose to produce one unit of good X, the producer has to sacrifice

problem of 2 units of Y, then X is the opportunity cost of producing one unit of Y.

Q4) Explain the three central problem of an economic system with example.

Ans + According to Prof. Samuelson, every economy has three basic problems of resource allocation:

- What to produce and how much to produce?
- How to produce?
- For whom to produce?

Q5) What to produce and how much to produce? The first central problem of economy is related to problem of choice. First and foremost problem of economy is - what to produce or which goods and services should be produced so that maximum wants and needs of people could be satisfied with limited resources. Every economy has to choose that which should be satisfied and which should be sacrificed, postponed or left? Regarding what to produce? Many production related options come before us for the solution of this problem.

b) How to produce?

Second problem before the economy is "how to produce". In fact, it is the problem related to the choice of techniques. There are two types of techniques of production:

- i) Labour-intensive technique: In this technique, more quantity of labour is used as compared to capital.
- ii) Capital-intensive technique: In this technique, more quantity of capital is used as compared to labour.  
For example -> clothes can be produced by both, handloom (i.e., labour-intensive technique) or powerloom (i.e., capital-intensive technique).

c) For whom to produce?

After getting the solutions of the problems of what? how much? and how? the next problem arises - "For whom to produce"? or "How to distribute the production?"

There are two faces of the problem of distribution of production:

1) First face is related to 'personal distribution'. It means that how the produce should be distributed between different persons and families in the society. It is also related to the problem of unequal distribution of income.

2) Second face of the problem of distribution is 'functional distribution'. It is related to determine how the produce should be distributed among various factors of production as land, labour, capital and entrepreneur. It is not related to problem of inequality of income distribution.

96 Ques the assumption of PPC?

Ans -> The production possibility curve is based on following assumptions:

i) Fixed and limited quantity of factors of production: Factors of production are limited but they can be transferred from one use to the other.

ii) Fuller and efficient utilisation of the available resource: All factors are fully and efficiently utilised in the economy.

(iii) constant and given technology: Technology of production remains constant, i.e. there is no change in the technology used.

(iv) Two goods: For consumers, it is assumed that only two goods or two sets of goods are being produced in the economy (e.g., wheat and cloth or capital and consumer goods).

Q3 what are the important of micro and macro economic?

Ans 3 Importance of Micro Economic

1. Necessary to study the economy as a whole: Addition of individual units makes the entire economy. Hence, knowledge of individual units is necessary. For economic analysis of the entire economy.
2. Helpful in determining economic problems: Price determination and distribution problem find important place in economic analysis. These problems are solved with micro economic analysis. Price determination takes place with demand and

supply forces which is a part of micro economic analysis.

3. Helpful in policy formulation: Individual units analysis in micro economics helps government in formulating economic policies.
4. Helpful in understanding the problems of Applied Economics: Micro economic analysis helps in understanding the problems of various branches of applied economics like public finance, International Economics etc.
5. Helpful in understanding the working of capitalist economy: Capitalist economy is a free economy in which central problems of the economy are solved by 'Price Mechanism' (i.e. by inter-play of demand and supply forces). Micro economic analysis is helpful in solving the economic problems of capitalist economy.

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## Importance of Macro Economics

1. **Formulation of Economic policies of the Government**  
Macro economic analysis is essential for formulating various economic policies. The objective of the State is to maximise the social welfare. The State has to deal with various macro units like total production, total consumption, total investment, general price level, etc., and for it, the use of macro tools is essential.
2. **Economic Growth**: Both developed and underdeveloped countries have a primary goal of achieving a higher rate of economic growth. It requires appropriate growth-oriented policies after a detailed investigation of forces operating in the economy. Macro economics helps in providing basic raw materials in this study.
3. **To study the working of the economy**: For studying the economy as a whole, macro economic analysis is needed. Nature of the economy, population, total employment level, national income, production, natural and human resources, savings, investment, consumption in an economy all are to be

studied in an economy which needs the help of macro economics.

4. **Helpful in Studying micro economics**: Aggregative economics and policies act as a guidelamp to individuals while designing their policies. An investor may decline to invest when an economy is passing through the phase of recession or contraction. A proper appreciation of individual problems can only be made if an overview of the entire economic system is made.
  5. **International comparisons**: The factors related with the comparison of economic progress in different countries are the part of Macro economics. Comparison between national income, consumption, saving, investment become the basis for international comparison.
- Q3 Give the five subjects of matters of economics activities?

Ans 4 On the basis of economic activity, the subject matter of economics can be divided into five

categories :

- i. **consumption** : It is the first branch of economic in modern times. wants satisfying activities are called consumption. consumption destroys the utility of goods and services. Hence subject matter of economics includes wants, their classification and methods of satisfying these wants.
- ii. **Production** : Creation of utility for satisfying human wants is called production. Human effort is essential in creation of utility otherwise it will not be included in production. Such activities become the part of subject matter of economics.
- iii. **exchange** : Barter of goods is called exchange. ex. ec. exchange mechanism (i.e., market, money, banking etc.) becomes the subject matter of economics.
- iv. **Distribution** : Production is the result of collective contribution of various factors of production. Hence, the distribution of rewards to various factors come under the subject matter of economics.

v. **Public finance** : It studies various aspects of public expenditure, public revenue, public debt, financial administration etc. which have become important part of subject matter of economics.

Q3 why PPC is concave to origin.

Ans -> Production possibility curve is concave to the origin which signifies that if we want to increase production of one goods (goods-X), then we have to sacrifice production of second goods (goods-Y) and the sacrifice of Y goods for every additional X-goods will continuously increase. Due to this reason, the production possibility curve become concave to the origin.

