

NCERT SOLUTIONS

CLASS - 12th



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Class : 12th

Subject : Economics

Chapter : 1

Chapter Name : Introduction

Q1 Describe the central problems of an economy?

Answer. Three important central problems of an economy are-

1. what to produce,
2. how to produce
3. for whom to produce.

These arise due to scarcity of resources which is always confronted with unlimited human wants. Let us discuss these

What to produce- It refers to the problem of allocation of resources for production of various commodities in the economy. In this context, it is to be mentioned that commodities are broadly of two types- Consumer goods and capital goods.

- Consumer goods are durable goods like food items, semi durable items like clothing, shoes etc. And non durable like food items.
- On the other hand capital goods include machine equipment which is used in production process.

Govt. has to plan very judiciously in order to make choices of commodities to be produced keeping in view the maximum welfare of people of the country. For the same, govt. analyzes the composition of population, their financial ability .Thus, being convinced with the status, the govt. makes a combination of consumer goods and capital goods to be produced. Now after this the government needs to make an estimate of the quantities of both goods to be produced , i. e. which good is to be produced more ,which is to be produced less and in what quantity.

How to produce- It deals with the choice of the technique of production which are of 2 types-

1. capital intensive technique
 2. labour intensive technique.
- In order to make a choice between the two, the govt. needs to review the employment status of the country and in Indian unemployment being a major challenge to the govt., decisions for capital intensive technique may aggravate the unemployment problem.

- On the other hand if capital intensive technique is ignored the government has to compromise with the value of production which will directly impact the growth rate.

Thus, in such a situation the government has to decide very wisely combination of the two which will allow a stipulated growth rate without compromising with the employment condition of the country. An economy has to choose that technique which makes efficient use of resources at a minimum cost.

For whom to produce- It refers to the decision of the govt. with regard to the availability of goods and services to the people of that country. Here the government decides whether to produce goods for low income group or high income group. In this context it is important to note that per capita availability of goods and services is the best indicator to judge the welfare condition of the country. Therefore national output which is expected to distribute in an equitable manner needs to be counted with the help of functional and personal distribution of income. Proper selection for whom the goods are to be produced will help the government to solve certain crucial problems of people of the country which includes reducing poverty, reducing inequality of income and improving the standard of living of overall country.

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Q2 What do you mean by production possibilities of an economy?

Answer. The various set of all the possible combinations of goods and services which can be produced in an economy by making efficient utilization of the available resources is known as production possibility of an economy.

Possibilities	Wheat	Maize
A	10	0
B	9	1
C	7	2
D	4	3
E	0	4

If all resources are used in the production of wheat, maximum of wheat that can be produced is 10 and if all resources are used in the production of maize, maximum amount of maize that can be produced is 4.

The other various combinations are 7 units of wheat and 2 units of maize, 4 units of wheat and 3 units of maize. All these are known as production possibilities of an economy.

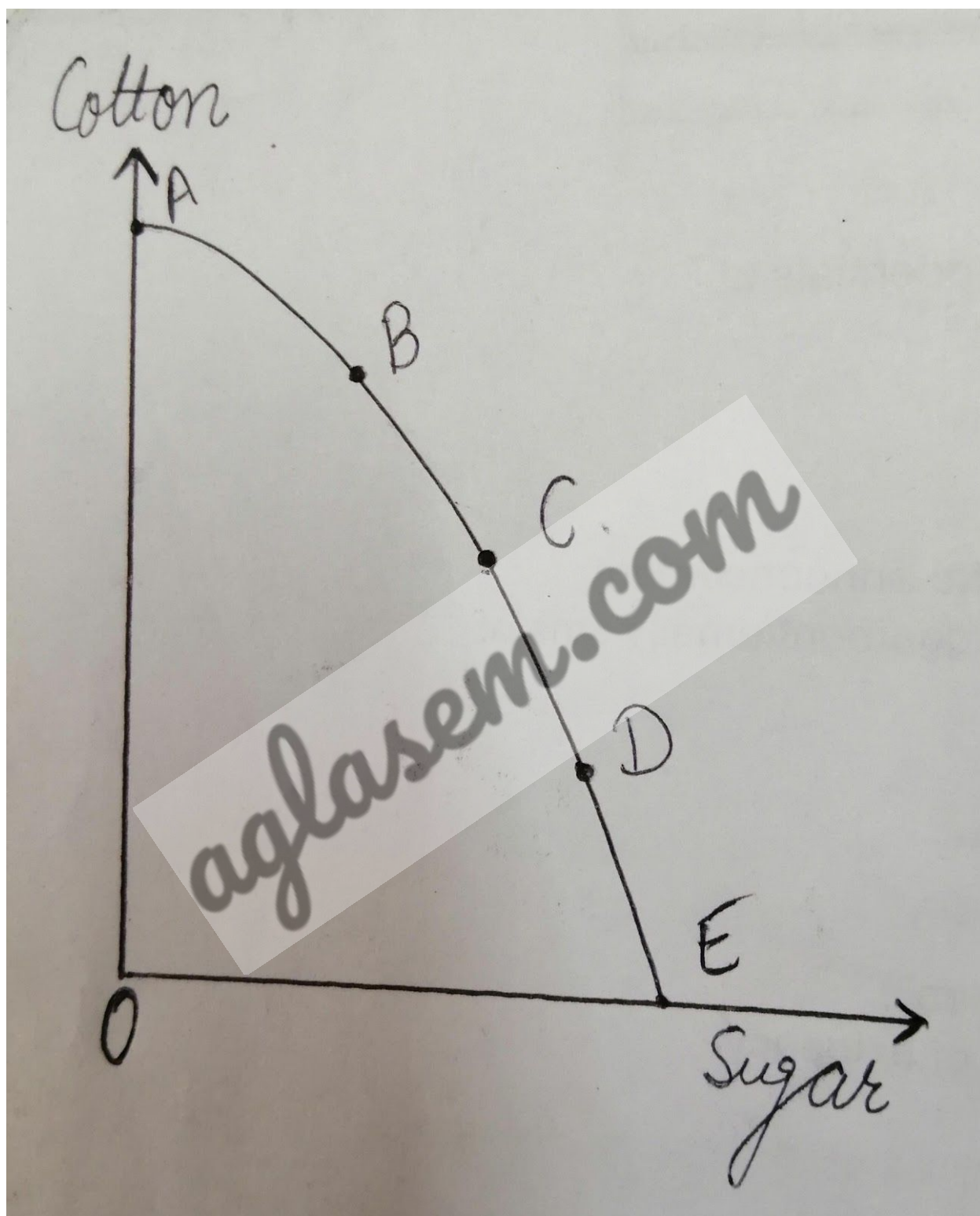
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Q3 What do you mean by production possibility frontier?

Answer. Production possibilities curve of an economy refers to locus of various combinations of two commodities that can be produced from a given set of resources having no change in the technology of production of both commodities. It is known as production possibility frontier or transformation curve.

Assumptions of production possibility curve are following:

- There is availability of proper resources to be used in production.
- Resources should be fully and efficiently utilised and in best possible manner.
- Technique of production cannot change for any of the two commodities to be produced.



Here the above graph shows the different possibilities of cotton and sugar that can be produced. Here A, B, C, D, E are the points which indicate different choices of the two commodities that can be produced by efficient utilization of available resources in an economy.

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Q4 Discuss the subject matter of economics?

Answer. Economics is the branch of science which is concerned with the administration of scarce resources which have unlimited uses and is confronted with unlimited human wants.

The scarce resources are insufficient to fulfil the human wants; these wants therefore can be satisfied partially. This raises the problems of administration which are subject matter of economics. Thus it is important to ensure that resources are fully utilized and human needs are satisfied.

There are two types of subject matter of economics that is micro economics and macro economics.

- **Microeconomics** is the study of individual decision making unit. It includes determination of price and quantity of goods in market , theory of demand and supply in the market, factor prices that is rent ,wages, profit and interest .
- **Macro economics** includes study of economy as a whole and deals with determination of aggregate price level in an economy, economic growth, theory of national income and employment.

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Q5 Discuss between centrally planned economy and market economy?

Answer.

Basis	Centrally planned economy	Market economy
Meaning	The economy where decisions are controlled by the government that is the central authority to achieve the desired growth of an economy.	In market, economy decisions are taken by individuals in the market so as to attain profit maximization.

Ownership of factors of production.	Government owns all the factors of production.	Private individuals can own the factors of production.
Objective	Social welfare is the prime objective.	Profit maximization is the main objective.
Governing mechanism	Production is governed as per the government plans that is via planning mechanism.	The market demand and supply that is price mechanism is the governing factor.
Distribution of income	The inequality of income distribution is low.	There is unequal distribution of income.

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Q6 What do you mean by positive economic analysis?

Answer. In positive economic analysis, we study how the different mechanism in an economy functions. It focuses on facts and causes which effect behavioural relationships .It also includes economic theories of development and testing.

The positive economic analysis answers the question 'what is'. It tells us about the facts and figures without analysing them whether they are good or bad for the economy. This theory was given by Lionel Robbins.

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Q7 What do you understand by normative economic analysis?

Answer. In normative economic analysis, we try to understand whether the mechanisms involved to solve the central problems of an economy are desirable or not. It includes the value judgements of economic fairness or what the outcome of the economy is to be.

It answers the question 'what ought to be'. This theory was propagated by Marshall. It decides whether the facts and data presented are good or bad as per the judgement made by various people.

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Q8 Distinguish between microeconomics and macroeconomics?

Answer.

Basis	Micro Economics	Macro Economics
Meaning	It refers to the branch of economics which deals with the individual decision making units.	It refers to the branch of economics which deals with the economy as a whole.
Nature	It includes study of consumer behaviour, producer behaviour etc.	It includes study of employment status of a country, growth rate, import and export and imports of the country.
Focus	It focuses on supply and demand.	It focuses on determinants of price level.

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