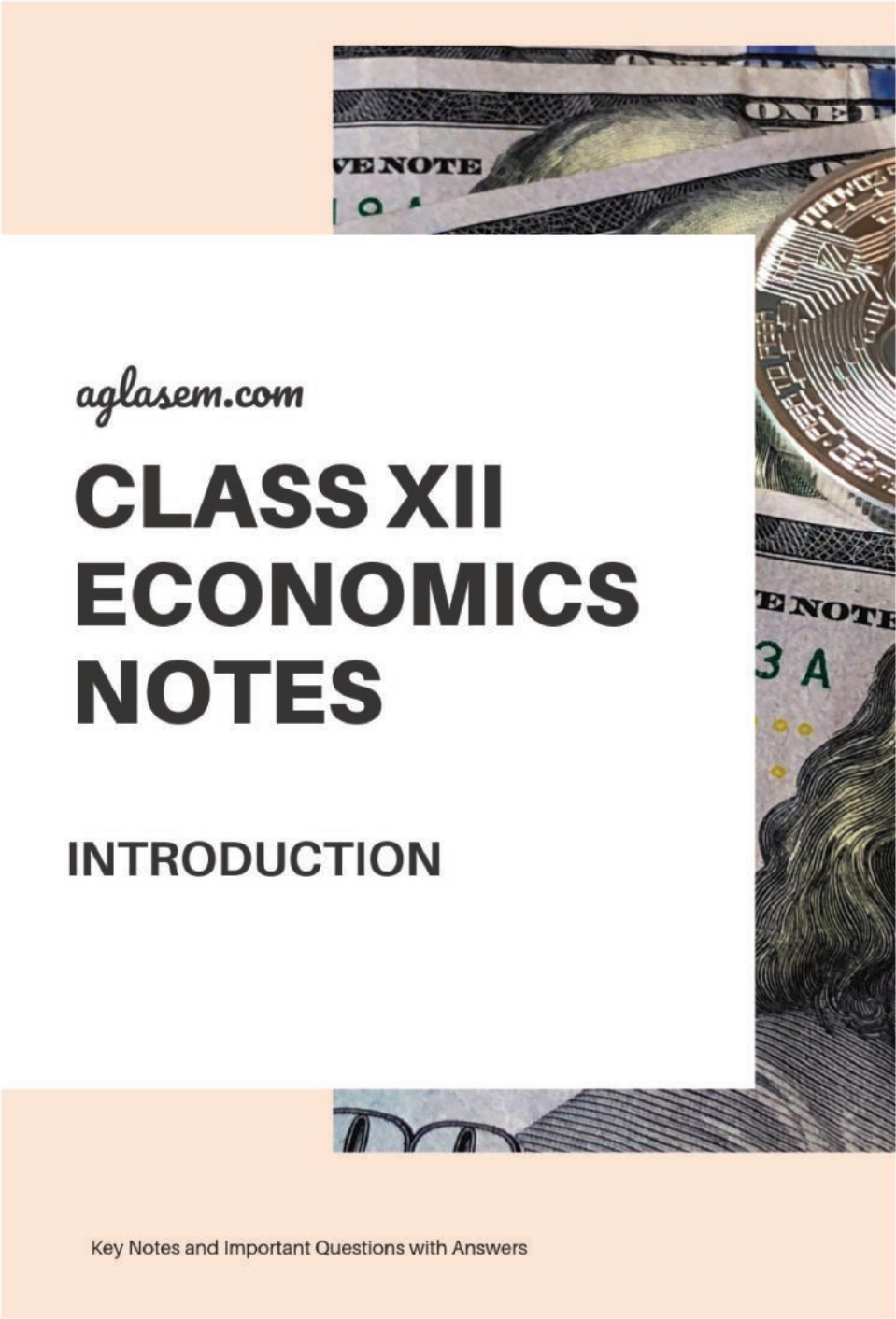


The background of the page features a collage of US currency. On the right side, there is a vertical strip showing a close-up of a US coin (likely a quarter) and a US dollar bill. The bill has "ONE NOTE" and "3 A" visible. The coin has "UNITED STATES OF AMERICA" and "QUARTER DOLLAR" visible. The left side of the page has a solid light orange background.

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CLASS XII ECONOMICS NOTES

INTRODUCTION

Key Notes and Important Questions with Answers

UNIT 1

INTRODUCTION

Points to Remember

- ❑ **Economics** is social science concerned with analysis of Human behaviour in respect of scarcity of means.
- ❑ **Microeconomics** studies the behaviour of an individual economic unit. It has narrow scope and specific study for an economic unit.

Examples : Demand of an individual consumer, Production of a firm etc.
- ❑ **Macroeconomics** studies the behaviour of the economy as a whole. It has broad scope and generalise for whole economy.

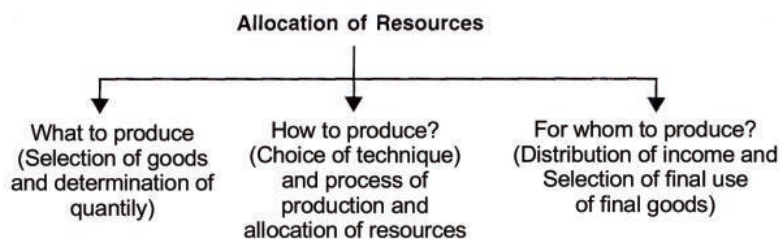
Example : Aggregate Demand, National Income etc.
- ❑ **Positive economics** explains about how the economy operates and what is occurring in the economy. It analyses the relations among variables. It is also known as descriptive economics or pure economics.
- ❑ **Normative economics** suggests how the economy ought to be operate and what should be occur in the economy. It analyses results and value judgements. It is also known as prescriptive economics or policy economics.
- ❑ **An economy** is a system that helps to produce good and services and enables people to earn their living.
- ❑ **Central economic problems** are the problems of making the choices and use of scarce resources for satisfying unlimited human wants.
- ❑ Causes of central economic problems are :

(a) Unlimited Human Wants

(b) Scarcity of Economic Resources

(c) Alternative uses of Resources

☐ **Central Problems of an Economy**



- ☐ **Opportunity cost** of a given resource can be defined as the value of the next best use to which that resource could be put.
- ☐ **Production Possibilities Frontier (PPF) or production possibilities curve (PPC)** shows all possible combinations of two goods that an economy can produce with given resources and available technology, assuming that all resources are fully and efficiently utilised.
- ☐ **Economising of resources** means use of resources in best possible manner.
- ☐ **Features of Production Possibilities Frontier (PPF)**
 - (a) Slopes downward from left to right because to increase the production of one good, some units of other good has to be sacrificed.
 - (b) Concave to the origin because of increasing Marginal Opportunity Cost (MOC) or MRT (Marginal Rate of Transformation) is increasing because all resources are not equally efficient in the production of both goods.
- ☐ Rightward shift of PPF indicates increase in resources or improvement in technology of both goods.
- ☐ Leftward shift of PPF indicates decrease in resources or degradation in technology.
- ☐ PPC will shift rightwards due to all those reasons which enhance production potential, quantity and efficiency of resources in an economy.

Reasons for Rightwards Shift	Reasons for Leftward Shift	No. Change in PPC
1. Increase in Resources	1. Decrease in Resources	1. Transfer of Resources
2. Improvement in technology	2. Technological obsolescence	2. Unemployment Eradication Programme
3. Skill Development Programme (Training)	3. Natural Calamities (Flood, Earthquake, Tsunami, Drought etc.)	
4. Education for all (Health)	4. Emigration	
5. Clean India Campaign (Health)	5. War, terrorism	
6. Yoga Enhancement Plans (Health).		
7. Make in India (Investment)		
8. Increase in Foreign Capital (Foreign Investment)		
9. Immigration		

- ❑ **Marginal Rate of Transformation (MRT)** is the ratio of number of units of a good sacrificed to increase one more unit of the other good.

$$MRT = \frac{\Delta Y}{\Delta X}$$

- ❑ MRT can also be called Marginal Opportunity Cost. It is defined as the additional cost in terms of number of units of a good sacrificed to produce an additional unit of the other good.
- ❑ When MOC increases, PPF is concave to origin. When MOC decreases PPF is convex to origin and when MOC remains constant, PPF is downward sloping straight line.

Exam. Oriented Questions with Answer

VERY SHORT TYPE ANSWER QUESTION (1 MARK)

Q. 1. Define Economy.

Ans. An economy is a system that helps to produce goods and services and enables people to earn their living.

Q. 2. What is the meaning of scarcity of resources?

Ans. Scarcity of resources means shortage of resources as compared to its demand.

Q. 3. Write the meaning of Economic Problem.

Ans. Economic problem is the problem of making the choice of the use of scarce resources for satisfying unlimited human wants.

Q. 4. Define MRT.

Ans. Marginal Rate of Transformation (MRT) is the ratio of number of units of a good sacrificed to increase one more unit of the other good.

$$MRT = \frac{\Delta Y}{\Delta X}$$

Q. 5. Define opportunity cost.

Ans. Opportunity cost of a resource is its value in next best alternative use.

Q. 6. Govt. has started promoting Foreign investments. What will be its economic value in the context of PPF?

Ans. Resources of Production will improve with more foreign investments. Thus PPF will shift rightward.

Q. 7. What is the meaning of economising of resources?

Ans. Economising of resources means best possible use of available resources.

SHORT ANSWER TYPE QUESTIONS (3 - 4 MARKS)
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Q. 1. Explain properties of a production possibility curve.

Ans. There are two properties of a production possibility curve.

1. **Downward sloping** : It is because as more quantity of one good is produced some quantity of the other good must be sacrificed as resources are limited more of both goods can't be produced.
2. **Concave to the origin** : It is because the marginal rate of transformation increases as more of one good is produced.

Q. 2. Explain the problem of 'What to produce'?

Ans. An economy can produce different possible combinations of goods and services with given resources. The problem is that, out of these different combinations, which combination is produced. If production of one good increases then less resources will be available for other goods.

Q. 3. What is 'Marginal Rate of Transformation'? Explain with the help of an example.

Ans. MRT is the rate at which the units of one good have to be sacrificed to produce one more unit of the other good in a two goods economy. Suppose an economy produces only two goods X and Y. Further suppose that by employing these resources fully and efficiently, the economy produces $1X + 10Y$. If the economy decides to produce $2X$, it has to cut down production of Y by 2 units. Then $2Y$ is the opportunity cost of producing $1X$. Then $2Y : 1X$ is the MRT.

Q. 4. Explain the problem 'How to produce'?

Ans. The central problem 'How to Produce' is the problem of choosing the appropriate technique of production for producing goods. There can be more than one method for producing a good. More labour and less capital (i.e., labour intensive technique) or more capital and less labour (i.e., capital intensive technique) can be used for production of a good. Since resources are scarce, decision has to be taken about which technique should be used on the basis of availability of resources.

Example : A given quantity of cloth can be manufactured by combining factors of production in different proportions, making it capital-intensive or labour intensive method.

Q. 5. Explain the central problem 'For whom to produce'.

Ans. For whom to produce means that who will buy the goods and services produced. Clearly those who have income will be able to buy. So, the problem amounts to how the national income is distributed in an economy.

Q. 6. Give the reason and comment on the shape of Production Possibilities curve based on the following schedule :

Good X (units)	0	1	2	3	4
Good Y (units)	10	9	7	4	0

Ans.

Good X (units)	Good Y (Units)	MRT
0	10	—
1	9	1Y : 1X
2	7	2Y : 1X
3	4	3Y : 1X
4	0	4Y : 1X