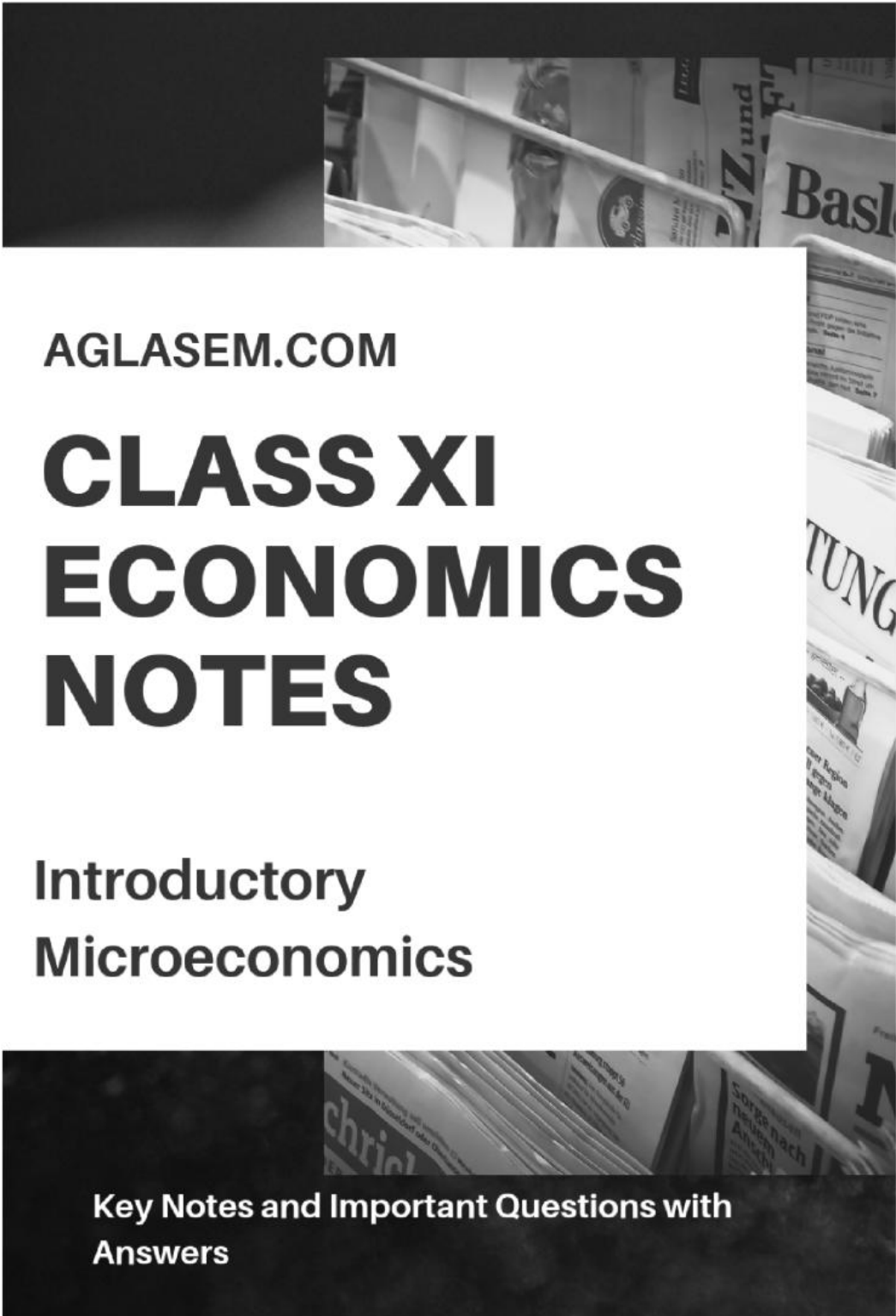




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CLASS XI ECONOMICS NOTES

**Introductory
Microeconomics**

**Key Notes and Important Questions with
Answers**

PART-A: INTRODUCTORY MICROECONOMICS

UNIT 1

INTRODUCTION

Points to Remember

- ❑ Micro economics studies the behaviour of an individual economic unit.

Example : Demand of an individual consumer, Production of a firm etc.

- ❑ Macro economics studies the behaviour of the economy as a whole.

Example : Aggregate Demand, National Income etc.

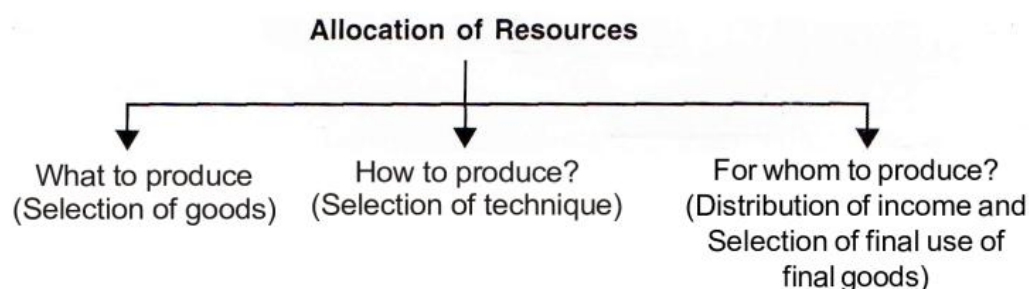
- ☐ An economy is a system that helps to produce good and services and enables people to earn their living.

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

- ❑ Causes of 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 possibility frontier 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 Possibility Frontier
 - (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 Marginal Rate of Transformation (MRT). MRT 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 enhances production potential, quantity and efficiency of resources in an economy.

Resons 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 obsoletion	2. Unemployment Eradication Programme
3. Skill Development Programme (Training)	3. Natural Calamities (Flood, Earthquake, Tsunami, Drought etc.)	
4. Education for all (Health)	4. Migration	
5. Clean India Campaign (Health)	5. War, terrorism	
6. Yoga Enhancement Plans (Health).		
7. Beti Bachao, Beti Padhao (Education)		
8. Make in India (Investment)		
9. Increase in Foreign Capital (Foreign Investment)		

- ❑ 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.

$$\text{MRT} = \frac{\Delta Y}{\Delta X}$$
- ❑ MRT can also 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.
- ❑ Positive Economic Analysis : It deals with the things 'as they are'. It represents facts like what was? What is? What will be? etc. Example : 'India is overpopulated', Prices have been rising in India'. It can be verified.
- ❑ Normative Economic Analysis : It deals with things as 'they ought to be'. It deals with idealistic situation instead of actual situation. Example : 'Rich people should be taxed more'. Free education should be given to the poor'. It can't be verified.

MULTIPLE CHOICE QUESTIONS (1 MARK)

1. Which of the following subject matter study in Micro Economics,
 - (a) Money supply
 - (b) Aggregate demand
 - (c) Market demand of a good
 - (d) National Income
2. Which subject matter does not study in macro economics,
 - (a) Employment Level
 - (b) Aggregate Supply
 - (c) National Income
 - (d) Determination of market price

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3. Economic Problem arises due to
 - (a) High population of a country
 - (b) Competition among buyers
 - (c) Resources have alternative uses
 - (d) Producer wants maximum profit
 4. Which of these is a central problem of an Economy?
 - (a) Deficit demand
 - (b) Equilibrium of an economy
 - (c) For whom to produce
 - (d) Decreasing return to a factor
 5. Any point beyond the PPF shows:
 - (a) Under utilisation of Resource
 - (b) Unattainable combination of output
 - (c) Efficient utilisation of Resources
 - (d) Decrease in resources.
 6. In which situation PPF shifts towards right
 - (a) Increase in foreign capital
 - (b) Resources are reduced
 - (c) Fully efficient use of resources
 - (d) Increase in employment
 7. Production Possibility Frontier can be a straight line: when
 - (a) Decrease in production of both goods
 - (b) More of both goods can be produced
 - (c) All resources are equally efficient in production of both goods
 - (d) All resources are not equally efficient in production of both goods.

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8. Which of the followings are assumptions of PPF
 - (a) Available Resources are fully and efficiently utilized
 - (b) Technology remain stable
 - (c) Resources are not equally efficient in production of all goods
 - (d) All of the above
 9. Which of these statement is correct about Opportunity cost?
 - (a) Opportunity cost is always higher than the given price.
 - (b) Opportunity cost is always less than the given price.
 - (c) Opportunity cost is always calculated in money.
 - (d) Opportunity cost can be less than, more than or equal to given price.
 10. Which of these is Normative Economics.
 - (a) 25 percent population of India is below poverty line.
 - (b) Increase in FDI has increased the GDP of India.
 - (c) Equal distribution of income will make India poverty free.
 - (d) Higher welfare spending by government increases the Aggregate Demand.

Ans. 1. (c); 2. (d); 3. (c); 4. (c); 5. (b); 6. (a); 7. (c); 8. (d); 9. (d); 10. (c)

Short Answer Type Questions (3-4 Marks)

1. Distinguish between microeconomics and macroeconomics. Give example.
2. Why does an economic problem arise? Explain the problem of 'How to Produce'?
3. Explain the problem of 'What to Produce' with the help of an example.
4. 'For whom to produce' is a central problem of an economy. Explain.

5. Define opportunity cost with the help of an example, how does it differ from marginal opportunity cost?
6. What is 'Marginal Rate of Transformation'? Explain with the help of an example.
7. Why is a production possibility curve concave? Explain.
8. What is PP Frontier? Write its assumptions.
9. Show the following situation with PPF (PPC).
 - (a) Fuller utilisation of resources
 - (b) Increase in the resources
 - (c) Under utilisation of resources.
10. Distinguish between positive economics and normative economics.
11. A lot of people died and many factories were destroyed because of a severe earthquake in a country. How will it affect the country's PPF?
12. Calculate MRT from following table. What will be the shape of PPF and why?

Combinations	Green Chilly (Units)	Sugar Units
A	100	1
B	95	1
C	85	2
D	70	3
E	50	4
F	25	5

13. Given that no resource is equally efficient in producing all goods. Write name of such curve which shows production potential of an economy. Explain features of this curve along with the reasons?
14. If an Economy is not able to utilise its available resources efficiently, what will be the effect on PPF? What will you suggest for economic growth?

15. Govt started employment generation program MGNREGA explain its impact on PPF.
17. 'Make in India' is a Govt. policy to attract foreign investment explain its impact on PPF.

Hints (3 Marks Questions)

12.

<i>Combinations</i>	<i>MOC</i> $\frac{\Delta Y}{\Delta X}$
A	—
B	5 : 1
C	10 : 1
D	15 : 1
E	20 : 1
F	25 : 1

Exam. Oriented Questions with Answer

Very Short 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

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

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. Production will increase 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.

3 - 4 Marks Questions

Q. 1. Why is a production possibility curve concave? Explain.

Ans. The production possibility curve being concave means that MRT increases as we move downward along the curve. MRT increases because it is assumed that no resource is equally efficient in production of all goods. As resources are transferred from one good to another, less and less efficient resources have to be employed. This raises cost and raises MRT.

Q. 2. 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 scarce. 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. 3. 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, because resources are limited and have alternative uses.

Q. 4. 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. 5. 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. 6. For labourers working under MGNREGA Govt has increased minimum employment from 100 to 150 days. How will this affect real and potential level of production.

Ans. Real level of production will be increased by improvement in employment. But potential level of production will not increase (No shifting of PPC will take place). Reason being PPC is based on the assumption that available resources are fully utilised.

Q. 7. 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. 8. Giving reason 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

Since MRT is increasing, the PP curve is downward sloping and concave to the origin.

Q. 9. Explain the effects of floods in Jammu and Kashmir on its production possibilities frontier.

Ans. Floods have damaged and reduced resources. Since potential production declines, the production possibility frontier shifts to the left.

