Ch-1 Introduction to microeconomics

Q. What do you mean by economics?

A. Economics is a social science that studies a way that society chooses to use its limited resources which have alternate resources to produce goods & services to distribute them among diff groups of people.

Q. What do you mean by economic problem?

A. It is a problem of choice involving satisfaction of unlimited wants out of limited resources having alternative uses. The reasons of economic prob are as follows :-

(1) Limited resources → Resources like land, labour, capital, etc are limited as compared to their demand & economy cannot produce all what people want. It is the basic reason for existence of economic prob.

(2) Unlimited Wants → The human wants are unlimited which can never be fully satisfied as soon as one want is satisfied another one emerges. These wants are also diff. in terms of priorities i.e., some wants are imp. for one person & un imp for others due to this people allocate their resources in order of preference to satisfy some of their wants.

(3) Alternative Uses → Resources are not only limited but

also have alternate uses. for eg:- petrol can be used for vehicles, machines, etc. Therefore economy has to make choice b/w alternative uses of resources.

Q. What do you mean by economy?

A. An economy is a system that provides people the resources to work & to earn a living. It is an organisation that provides living to the people by using available resources to produce goods & service that people want. In this process it undertakes following three activities :—

1. Production
2. Consumption
3. capital formation.

Q. What do you mean by central problems of an economy?

A. The central problems arise due to basic economic prob in the country & these problems include following :-

1. what to produce?
2. How to produce?
3. for whom to produce?

1. what to produce ⟶ This prob involves selection of goods & services to be provides the quality to be produced for each selected commodity. we know that every economy has limited resources & it cannot produce all goods i.e., more of one good will lead to lesser production of other. for eg: production

PAGE

of more of wheat on a ~~place~~ piece of land will lead to less production of rice on the same land. This prob is basically related to allocation of resources among diff. goods. The choice should be made in such a way that it gives max aggregate satisfaction.

(2.) How to produce → It refers to selection of technique to be used for production in goods & services. A good can be produced using diff techniques. that mainly includes labour intensive & capital intensive technique.
Labour intensive means using more labour & less capital i.e, machine, tools etc.
Capital intensive means using more of capital & less of labour.

The selection of technique is basically the problem that should be solved in such a manner that maximum output is produced with minimum cost which subj. to availability of resources.
for eg: In India, labour intensive technique is used because of excess of labour & in countries like USA, Australia more of capital intensive technique is used.

(4) For whom to produce → It is related to selection of distribution of goods & services among people in an economy. In other words, it involves selection of section of people for whom goods are to be produced.
for eg:- whether to produce for richer section or poor section.
Since resources are scarce in economy it cannot produce goods for all sections in the society.

Therefore a problem of choice arises. The guiding principle for this prob. should be satisfaction of wants of each factors of production to the max possible extent.

Q. What is oppurtunity cost?

A. It is the cost of next best alternative for eg:- A person working in a bank gets a monthly salary of ₹ 10,000. He wants to start a buisness, the oppurtunity cost of starting buisness is ₹ 10,000 per month.

Since the resources are scarce the society always have to make a choice where to produce more of one good it has to ~~so~~ sacrifice certain quantity of ~~another~~ another.

DATE
PAGE

Q. Differentiate b/w positive & normitive economics.

	BASIS	POSITIVE	NORMITIVE
1.	Meaning	It deals with what are economic problems and how they are actually solved.	It deals with what ought to be & how an economic problem should be solved.
2.	Verification	It can be verified with actual data	It cannot be verified with actual data.
3.	Purpose	Its purpose is to make real description of an economic activity.	It's purpose is to determine the ideals.
4.	Suggestive	It is based on facts and it is not suggestive.	It is based on individual opinion therefore it is suggestive in nature.
5.	Value Judgements	It does not give value judgements.	It gives value judgements.
6.	Examples	Prices are rising	India should take steps to control inflation.

Q. Differentiate b/w Micro and Macro Economics.

	BASIS	MICRO	MACRO
1	Meaning	It is that part of economic theory that studies the behaviour of individual units.	It is that part of economic theory which studies the behaviour of aggregates of economy.
2	Tools	Demand & Supply are the tools.	Aggregate Demand & Aggregate Supply are the tools.
3	Objective.	Determination of price of goods and factors of production.	Determination of Income & Employment
4.	Aggregation	It involves limited degree of Aggregation. for eg: finding market demand.	It involves higher degree of Aggregation. for eg: finding Aggregate demand.
5.	Basic Assumption.	It assumes all macro variables to be constant.	It assumes all micro variables to be constant.
6.	Alternative Name	It is also known as price theory.	It is also known as Income & employment theory.
7.	Examples	Individual income, Individual price.	National Income, general price level etc.

EXTRA QUESTIONS.

DATE
PAGE

Q. Discuss the subject matter of economics.

A. Micro and macro economics is the subj matter of eco.

Q. Although water is usefull yet it is cheap & on the contrary diamond is not much of use still it is very & expensive'. Give an economic reason for this paradox.

A. Economic reason for this paradox is scarcity, we know water is useful yet it is cheap due to it's abondence in economy whereas, Diamonds are not much of use but because they are scarce so they are expensive. This is also famous as 'water Diamond Paradox'.

Q. 'Only scarce goods attract price' Comment.

A. The statement is correct all resource are not scarce in economy.
for eg: Air we breath is in ~~abond~~ aboundent in relation to the requirement, such kinds of goods are available free of cost, these goods are known as non-economic goods. On the other hand some goods are scarce in relation to their wants.
for eg: Petrol, electricity etc. These kind of goods are known as economic goods and they have a price to pay.
So, this statement is rightly said 'scarce goods attract price'.

Q. 'Scarcity and choice go together'. ~~Coment~~ Comment.

A. In today's world all of us want better food, clothing, housing etc. but resources are not enough to meet our wants. It means the scarcity is a common feature of every economy & it give rise to problem of choice, where economy has to choose the best possible use of available resource. If resources were available in plenty there would not have been a problem of choice.

MCQ

Q. What do you mean by production possibility curve or production possibility frontier?

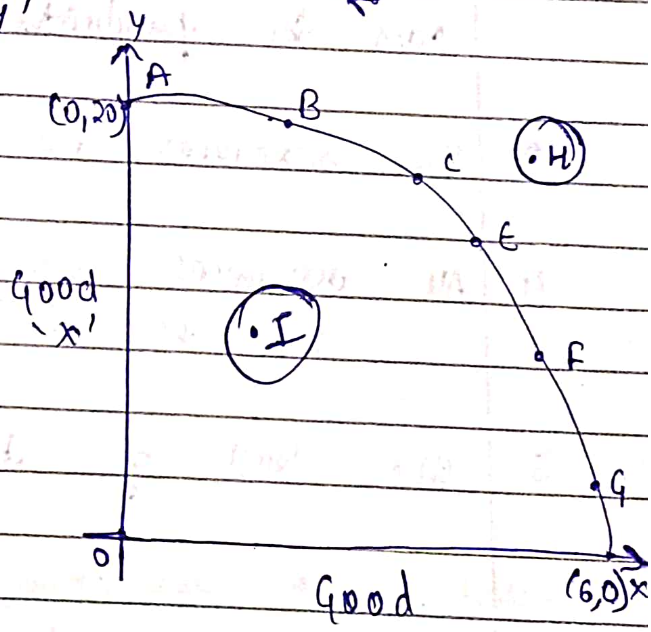
A. It is a locus of points that show combination of two goods in such a way that all the combinations can be produced within the given resources & technology.

As we know that resources in economy are scarce & even if economy uses them in the best possible manner it cannot produce all. So, it has to make a choice among the goods that can possibly be produced. So PPC is a graphical presentation of combinations that can be produced within the given resources. Let us ~~exp~~ understand the concep using an example of two goods, say ~~A & B~~ X & Y that can be produced within the given resources using the following schedule & diagram.

Can't produce everything so we have to choose. Can consume [limited things].

Production possibility curve

combination	Good 'x'	Good 'y'
A	20	0
B	19	1
C	17	2
D	14	3
E	10	4
F	5	5
G	0	6



In this diagram production of good 'y' is show on 'ox' axis and that of good 'x' on 'oy' axis.

AG represents the production possibility curve concave to the point of origin. The combinations like ABCDEFG are all those combinations that can be produced within the given resources and technology but the combination like H is not possible to be produced because that is beyond the capacity of available resources & combination like I can be produced within the resources but here the resources are not fully utilised.

Q. What are the assumptions of Production possibility curve.

A. 1. Amount of resources in an economy is fixed but these can be transferred from one use to another.

can't increase quantity

wheat / rice

DATE

PAGE

2. with the help of given resources only 2 goods can be ~~produced~~ produced.

3. The resources are fully & efficiently used.

4. All resources are not equally efficient for all the products.

5. The level of technology is assumed to be constant.

Q. What is margenal opportunity cost?

A. It reffers to no. of units of a commodity sacrificed to gain one additional unit of another commodity. Incase of production possibility curve it is always increasing as shown in following schedule.

Combination	Good 'x'	Good 'y'	MOC	MRT
A	20	0	—	—
B	19	1	1	1:1
C	17	2	2	2:1
D	14	3	3	3:1
E	10	4	4	4:1
F	5	5	5	5:1
G	0	6	5	5:1

DATE
PAGE

Q. What is marginal rate of transformation (MRT)?

A. It is the ratio of no. of units sacrificed of a commodity to gain an additional unit of another commodity, so $MRT = \frac{\text{units sacrificed}}{\text{units gained}}$.

⇒ Reffered into the previous table as (MRT).

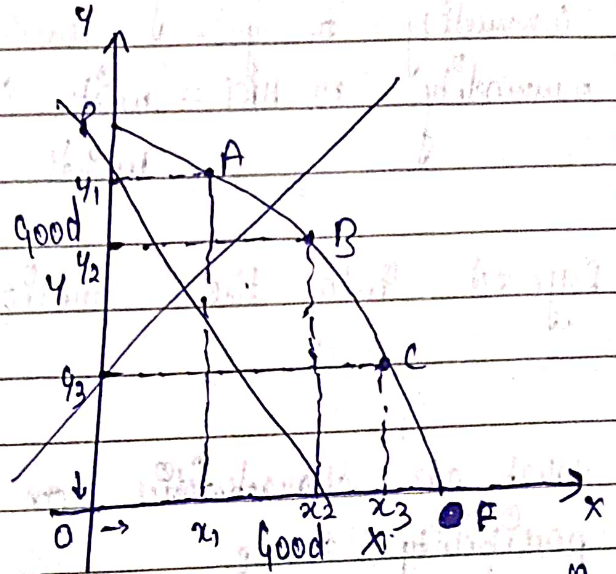
Q. What are characteristics or properties of production possibility curve.

A. Following are the properties of PPC :-

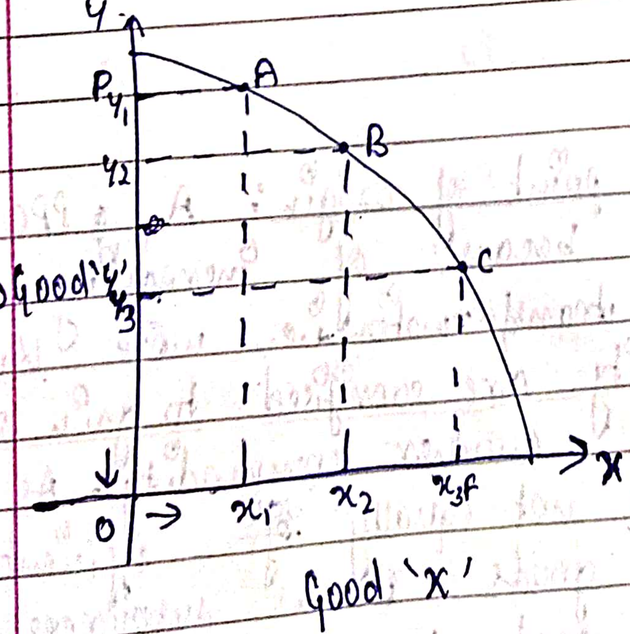
① It slopes downwards : A PPC shows all possible combinations that can be produced within the given resources. If production of 1 good has to be increased that of another will decrease. Therefore PPC is a downward sloping ~~curve~~ curve.

② It is concave to point of origin : A PPC is concave shaped because of increasing marginal rate of transformation i.e., more & more units of a commodity are sacrificed to gain an additional unit of another commodity. As all the resources are not equally ~~eff~~ efficient in production of all goods so as resources are transferred from 1 good to another less & less efficient resources have to be employed. This results cost & MRT. It is further explained through following schedule and diagram.

Good x	Good y
0	20
1	18
2	15
3	11
4	6
5	0



we can see that quantity of good x is increasing by 1 unit each time and that of y is decreasing but the decrease of or sacrifice of y is increasing with every additional unit of x as $x_1 x_2 = x_2 x_3$ but $y_2 y_3 > y_1 y_2$ this is because of increasing marginal opportunity cost and this is the reason behind concave PPC.



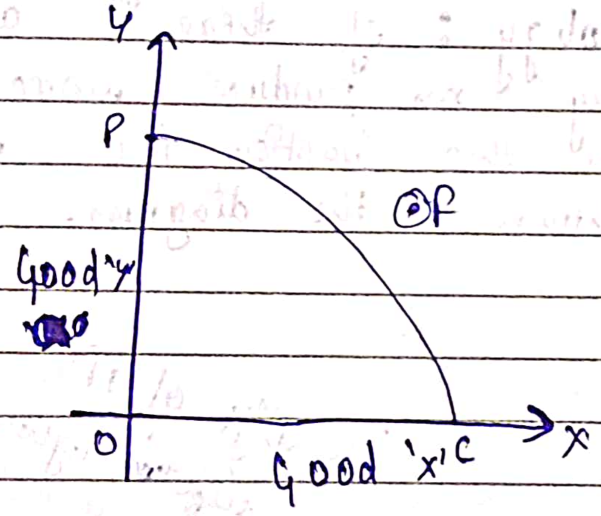
can't achieve

DATE
PAGE

Q. What are un-attainable combinations?

A: A combination of 2 goods that lie outside the production possibility curve is un-attainable combination. Such kind of combination is not possible for an economy to produce.

For eg: combination like 'f' in the diagram below.



Q. Does economy always operate on production possibility curve?

A: PPC does not show the point at which economy actually operates, it only shows the possible combinations which an economy can produce, so the possibility is:

1. Economy will operate on PPC when resources are fully utilised.

2. It will operate under PPC when resources are not fully utilised but it can never operate outside PPC because those combinations are

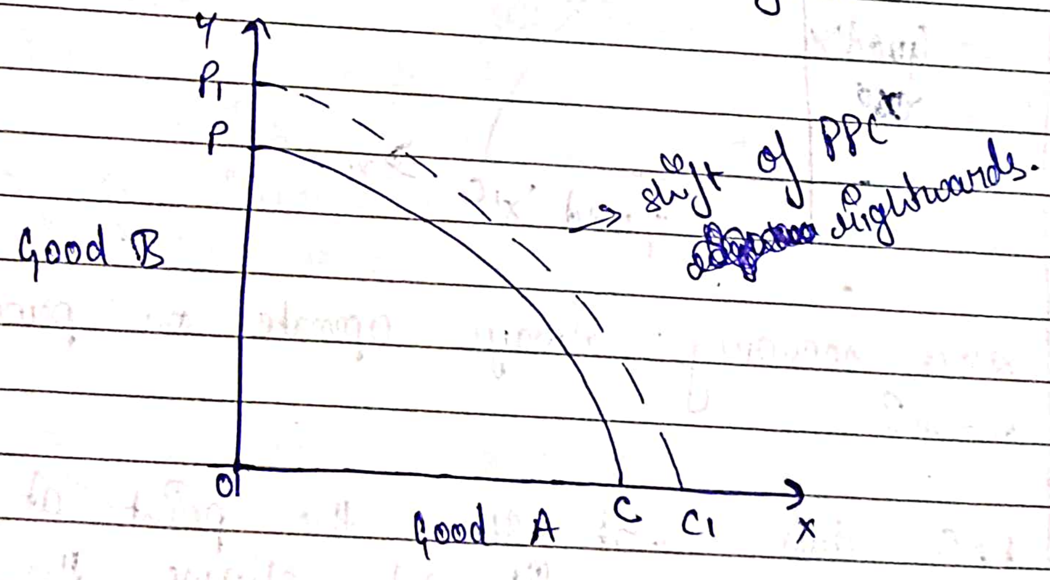
un-attainable with available resources.

Q: When a PPC can shift towards right?

A: A PPC can shift towards right under 2 possible situations:

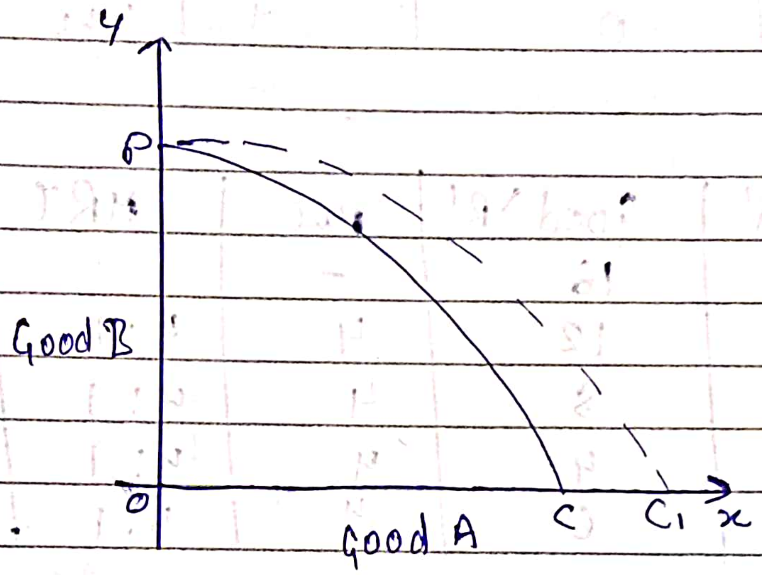
1. Growth of resources that can be discovery of new resources, increase in labour force.

2. Improvement of technology: If there is a improvement of technology economy can produce more quantity with less resources, in this situation PPC will shift towards right as shown in the diagram.



In this diagram PC was initial PPC when resources grow or technology improves PPC shifts towards right to P_1 C_1 that indicates economy is using extra resources towards production of both the goods increase economy uses the resources in production of only 1 good the PPC will rotate and not shift it'll move towards right on that axis on which good is shown whose production has Increased.

For Instance: Economy uses its resources in increasing the production of good A only, the PPC will rotate on x axis as shown in the diagram bellow.



Q. Calculate the margenal opportunity cost and margenal rate of transformation from the following data.

Good 'A'	Good 'B'	MOC	MRT
0	15	—	—
1	14	$\frac{1}{1} = 1$	1:1
2	12	$\frac{2}{1} = 2$	2:1
3	9	$\frac{3}{1} = 3$	3:1
4	5	$\frac{4}{1} = 4$	4:1
5	0	$\frac{5}{1} = 5$	5:1

DATE
PAGE

Q.

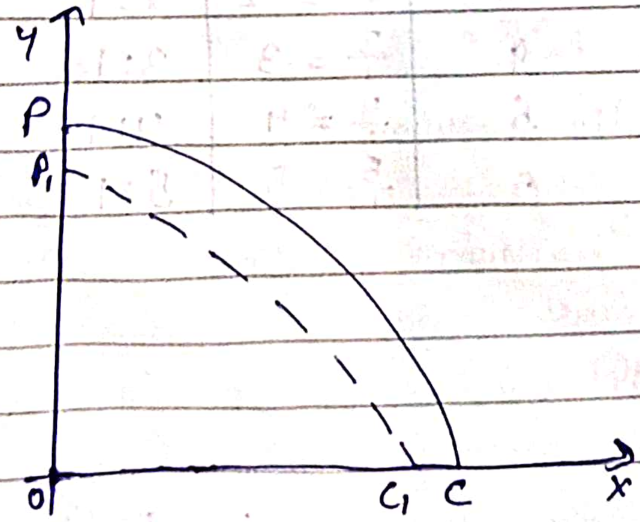
Good 'A'	Good 'B'	MOC	MRT
0	10	-	-
1	9	1	1 : 1
2	7	2	2 : 1
3	4	3	3 : 1
4	0	4	4 : 1

Q.

Good 'A'	Good 'B'	MOC	MRT
0	16	-	
1	12	4	4 : 1
2	8	4	4 : 1
3	4	4	4 : 1
4	0	4	4 : 1

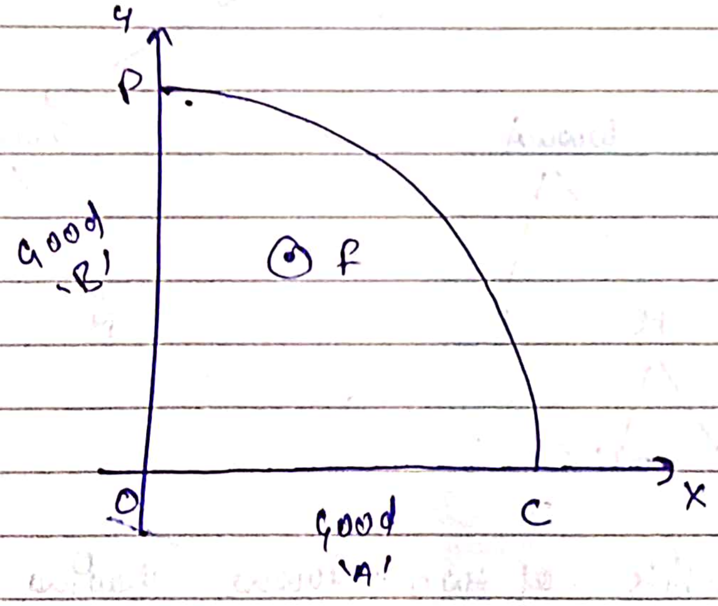
Q. A lot of people died & many factories ~~were~~ were destroyed due to earthquake. How will it affect PPE/PPC.

A. PPC of economy will shift to the left from PC to P_1C_1 because the no. of possible combinations available with the economy has decreased due to distruction of resources in economy.



Q. Massive un-employment in economy will shift the PPC to left. Defend or Refute?

A. The given statement is refuted, massive un-employment does not decrease the capacity of the economy to produce so, there will be no shift of PPC. However economy will operate somewhere inside the production possibility curve as shown by point 'F' in the diagram.



Q. What will be the impact of recently launched Swach bharat mission on the PPC of economy & why?

A. Cleanliness reduces the chances of people falling ill and it can ensure better health. This will result in reduction of absenteeism and will raise the efficiency so PPC will shift towards right.

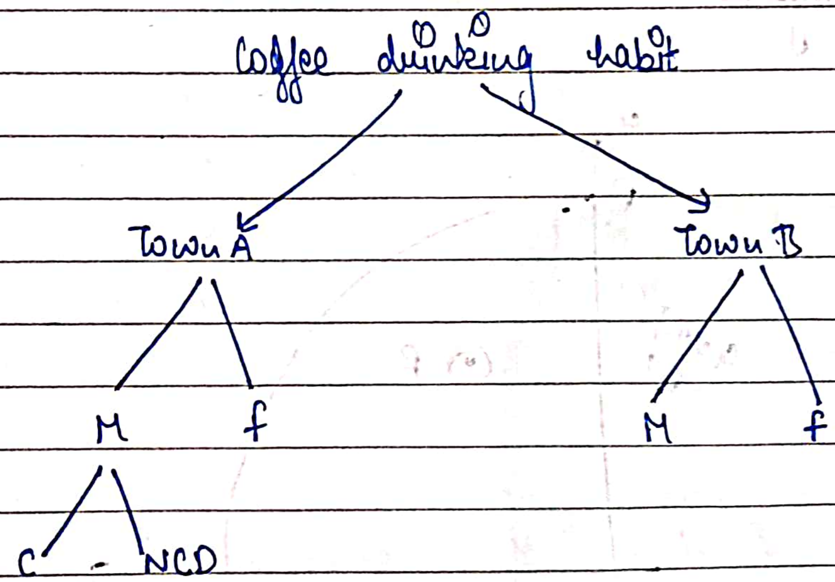
STATS

DATE

PAGE

Q. Prepare an appropriate table from the following!
- In a sample study about coffe drinking in two towns following information was recieved.
- Town 'A' - females were ~~were~~ 40%. Total coffee, drinkers were 45%. Male non coffee drinkers were 20%.
- Town 'B' - Males were 55%, male non coffee drinkers 30% and female coffee drinkers 15%.

A.



Q. Smoking habits of two towns having ~~male~~ males x females.

Particulars	Town A	Town B
Males	52%	54%
Smokers	26%	28%
Male Smokers	18%	20%

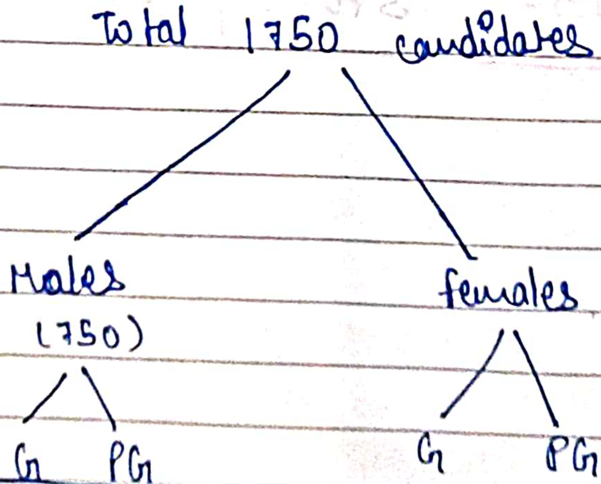
DATE________ PAGE________

A.

Smoking Habits.

	Town A			Town B		
	Male	Female	Total	Male	Female	Total
Smokers	18	8	26	20	8	28
Non-Smokers	34	40	74	24	~~8~~48	72
Total %	52	48	100	54	46	100

Q. Out of total number of 1750 candidates who applied for job in MNC, 750 are females. Out of total applicants 1400 are graduates and others are post graduate, the number of male applicants who are graduate are 850.



	Male	Female	Total
Graduate	850	550	1400
Post Graduate	150	200	350
Total	1000	750	1750