

CHAPTER	
1	Introduction to Micro Economics

- [1] (c) 'Economics is a study of mankind in the ordinary business of life' is the welfare definition given by Alfred Marshal.
- [2] (a) The study of micro economics deals with how a producer allocates his resources and fixes a price of his product for the optimum utilization of resources.
- [3] (c) A capitalistic economy is characterised by absence of state intervention. This economy uses price mechanism (forces of demand and supply) to solve their basic economic problems. Demand and supply both depend upon price and therefore capitalistic economy uses price as principal means of allocating resources.
- [4] (a) Macro economics studies the economy as a whole. Therefore, increase in corporate income tax rate and its effect on unemployment is at macro level.
- [5] (b) A point inside PPC curve indicates that the resources are underutilized as the economy would not have capability to produce with the given technology.
- [6] (d) In a capitalistic economy, producers make their choices based on market forces of demand and supply. Capitalist economy works under price mechanism i.e. prices are determined by free interplay of demand and supply forces. A capitalist economy is also known as "Market Economy".
- [7] (b) Under free economy (capitalist economy) prices are determined by price or market mechanism i.e. there is no authority to determine prices but they are decided by forces of demand and supply
- [8] (c) Micro economics studies economic behavior of individual economic units. Pricing of every factor is micro concept.
- [9] (a) In a market (capitalist) economy prices are determined by market forces of demand and supply. When demand of goods increases, the supply remaining the same, the prices of goods rises.
- [10] (b) Under inductive method, conclusions are drawn of the basis of collection and analysis of facts relevant to the inquiry. The logic proceeds from particular to general. The generalizations are based on observation of individual examples.

- [11] (a) Robbins in his scarcity definition explains that there are unlimited ends (wants) and limited means (resources). Resources are limited in nature and have alternative uses.
- [12] (d) All the points on PPC curve Shows that good and services are produced at least cost and no resource is wasted i.e. an economy is productively efficient. But that does not mean that there is no scope of progress. When an economy makes progress in technology that is when scientists and engineers discover new and better ways of doing things, the production possibility curve will shift outward. Similarly Capital formation also results in expansion of economic activities which result in increase in production which shifts PPC to the right. Finally when there is an increment in population there is more demand for goods which results in the rightward shift of PPC.
- [13] (b) The slope of PPC depends upon opportunity cost. A constant opportunity cost indicates that the given resources are equally suited for the production of two goods. So when opportunity cost is constant PPC curve is a straight line.
- [14] (c) Society has scarce resources and unlimited wants. Economics is the study of how to manage the scarce resources to fulfill the unlimited ends. Economics deals with how to make optimum utilization of scarce resources.
- [15] (d) Mixed economy is characterized by the presence of both private and public sector. Under this economy prices are determined both by planning authority and market forces.
- [16] (b) Economics in terms of Dynamic Growth and Development was given by Paul A. Samuelson. Who states that "Economics is the study of how men and society choose, with or without the use of money to enjoy scarce productive resources which could have alternative uses, to produce various commodities over time and to distribute them for consumption now and in the future of amongst various people and groups of society.
- [17] (b) A free market economy also known as a capitalist economy has no central planning authority to decide what, how and for whom to produce. Such an economy uses the impersonal force of the market demand and supply or the price mechanism to solve its central problems.
- [18] (a) Normative aspect is concerned with welfare propositions. Such aspect of economics is prescriptive in nature and describes 'what should be the thing'. Example, the question like what should be the level of national income, how the fruits of national product be distributed among people. In such an aspect of economics as given by 'Alfred Marshall'.

- [19] (d) The characteristic of collective ownership does not belong to capitalistic economy. The characteristic of collective ownership is that of socialistic economy where the entire control is of the Government.
- [20] (c) Mixed economy is characterised by presence of both private and public enterprise. In this economy, the government as well as private enterprises exist and hence economic decisions are taken both by government and private enterprises.
- [21] (c) **Same as Ans. 3.**
- [22] (d) Economic problem arises when wants are unlimited, resources are limited and resources have alternative uses. These reasons give rise to basic economic problems of “what to produce”, “How to produce” and “For whom to produce”.
- [23] (b) Micro Economics is also known as Price Theory. (Self Explanatory).
- [24] (b) Developed Economies have more of technology so they use capital intensive techniques in production to have minimum cost of production.
- [25] (d) The slope of PPC depends upon marginal opportunity cost. A constant opportunity cost indicates that given resources are equally suited for the production of two goods. So when opportunity cost is constant, PPC curve is a straight line.
- [26] (c) Alfred Marshall gave the definition of science of material well-being. It is on one side study of wealth and on other and more important side study of man.
- [27] (a) According to two fundamental facts, human beings have unlimited wants and the means of satisfying the wants are scarce.
- [28] (d) Micro-economics is concerned with:
- (i) Product pricing
 - (ii) Consumer behaviour
 - (iii) Factor pricing
 - (iv) Economic conditions of a section of the people
 - (v) Study of firms
 - (vi) Location of an industry
- [29] (d) A positive or pure science analyses cause and effect relationship between variables but it does not pass value judgments. This positive aspect of science was emphasized by **Professor Robbins**.
- [30] (a) Mixed economy is an economy which includes the best features of both controlled economy and market economy. The most important feature of mixed economy is the co-existence of both private and public enterprises.

- [31] (a) Micro economics is the study of economic behaviour of an individual, firm or industry in the national economy. It is the study of a particular unit. Factor pricing relates to pricing of individual factor and hence is a subject of micro economics.
- [32] (d) In macro economics we study the economic behaviour of large aggregates such as overall conditions of economy, total production etc. Therefore, all these are a subject of macro economics.
- [33] (d) A capitalistic economy has no central planning authority to decide what, how and for whom to produce. Thus, the allocation of resources is performed by the market forces of demand and supply known as price mechanism.
- [34] (a) The 'wealth' definition of Economics was given by Adam Smith and JB Say:
"An inquiry into the nature and causes of the wealth of the nations" – Adam Smith.
"Science which deals with wealth" – JB Say.
- [35] (a) A relative equality of income is an important feature of socialistic economy. Educational and other facilities are enjoyed more or less equally, thus the basic causes of inequalities are removed.
- [36] (d) An economy which incorporates the features of both capitalist and socialist economies is called a mixed economy. It has the following features –
- (a) Mixed economy is a planned economy i.e. here the government has a clear and definite economic plan.
 - (b) In mixed economy the prices are determined both by price mechanism and central planning authority. Hence dual system of pricing exist.
 - (c) There is a balanced regional development in a mixed economy as the public sector enterprises will be set up in backward areas for balanced development.
- Hence, the answer will be all of these.
- [37] (a) Normative economics is concerned with welfare propositions. It states "what should be the things." It does not deal with facts but involves value judgments. The ethical aspect of economics is normative economics. For e.g. – What should be the wage rate level? This is a normative statement.
- [38] (c) Mixed economy is a type of economy which combines the features of both capitalistic and socialistic economy. In this economy, dual system of pricing exist i.e. prices of essential commodities are determined by the government while of others is fixed by price mechanism (by interaction of demand and supply)

- [39] (b) Under inductive method, conclusions are drawn on the basis of collection and analysis of facts relevant to the enquiry. Here the logic proceeds from particular to general. This means generalizations are made based on facts collected.
- [40] (d) In a capitalist economy there is no government intervention. In this economy the resources are allocated based on the demand of the consumers. Producers will produce those goods which are in demand without thinking about the public welfare. Hence, this economy is guided by price mechanism.
- [41] (a) One of the guiding principles of capitalistic economy is that the economic system should be **free from government intervention** and be driven by market forces. Laissez faire means **allow to pass**. Thus, capitalistic economy follows the policy of laissez – faire.
- [42] (b) Robbins gave the following definition of economics —
“Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses”.
Thus, economics is a science of choice which is to be made between alternative uses.
- [43] (d) In macro economics, we study the economic behaviour of large aggregates such as overall conditions of economy, total production etc. Out of the options given, only NNP studies the national income which is related with the entire economy.
- [44] (b) PPC shows the various combinations of two goods which the economy can produce with the given amount of resources. In this context, since there are only two goods, therefore the opportunity cost of producing one good is in terms of sacrifice made of the other good. As we step up the production of one good, more units of other good have to be sacrificed. Thus, opportunity cost goes on increasing. It is this principle of increasing opportunity cost that makes the PPC **concave to origin**.
- [45] (d) The slope of PPC depends upon marginal opportunity cost. A constant OC indicates that given resources are equally suited for the production of two goods. So, when the OC is constant, PPC is **a straight line**.
- [46] (b) A capitalist economy also known as free market economy has no central planning authority to decide what, how and for whom to produce. Such an economy uses the impersonal force of the market demand and supply or the price mechanism to solve its central problems.
- [47] (a) Deductive and inductive methods are not mutually exclusive and are used side by side in any scientific inquiry. Conclusions drawn from the deductive method of reasoning are verified by inductive method of observing concrete facts of life. Thus, it can be said that Deductive and inductive methods are **complementary** to each other is **absolutely correct**.

- [48] (a) Free market economy or capitalist economy is in which all the means of production are owned and controlled by private individuals for profit. Thus, **profit motive** is the driving force of a free market economy.
- [49] (a) According to **Prof. Lionel Robbins** "economics is neutral between ends." Ends refer to wants. Human wants are unlimited. When one want is satisfied, other wants crop up.
- [50] (b) **Capitalistic** is an economic system in which all the means of production are owned and controlled by private individuals for profit. The government do not interfere in the management of economic affairs under this system.
- [51] (a) A **capitalistic economy** has no central planning authority to decide what, how and for whom to produce. This economy uses the impersonal forces of the market demand and supply or price mechanism to solve its central problems.
- [52] (d) Normative aspects is concerned with welfare propositions. It involves value judgements. It is prescriptive in nature and describes 'what should be the things'. For **eg.** what should be the level of national income, what should be the wage rate.
Thus **Normative economics** is the correct option.
- [53] (b) Capitalism is an economic system in which all the means of production are owned and controlled by private individuals for profit. The right of private property means that productive factors such as land, factories, machinery, mines etc are under private ownership. The owners of these factors are free to use them in the manner they like.
Thus **option (B)** is correct.
- [54] (a) A positive or pure science analyses causes and effect relationship between variables but it does not pass value judgement. It states **what is** and not what ought to be
Thus, **option (A)** is correct.
- [55] (d) A mixed economy is a planned economy in which the government has a clear and definite economy plan.
Socialist economy is also known as centrally planned economy because there is central authority to set and accomplish socio-economic goals.
Thus, correct option is **none of the above.**
- [56] (c) Many classical economists defined economics in terms of wealth. **JB Say** is one of them. He said Economics is a "Science which deals with wealth."
- [57] (b) In economics, a production possibility curve is also known as **transformation curve**. It is a graph that shows different rates of production of two goods that an individual or group can efficiently produce with limited productive resources.

[58] (b) The features of a capitalist economy are:

- (1) The right of private property.
- (2) Freedom of enterprise.
- (3) Freedom to choice by the consumers.
- (4) Profit motive.
- (5) Competition.
- (6) Inequalities of income.

Hence, **restrictions on consumers right to choose** is not a feature of a capitalistic economy.

[59] (b) The term “Mixed Economy” denotes **co-existence of both private & public sectors in the economy**. In fact, in a mixed economy, there are three sectors of industries:

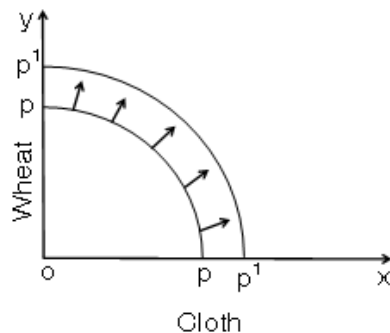
- (a) Private sector
- (b) Public sector
- (c) Combined sector.

[60] (a) Entrepreneur is one of the factor of production. He is the one who co-ordinate with other factors like land, labour, capital etc. Various functions of entrepreneur are decision-making, managerial function, organizational functions etc. while the most important function of an entrepreneur is to innovate.

[61] (d) Under Inductive Method Conclusions are drawn on the basis of collection and analysis of facts relevant to the enquiry. The logic in this case proceeds from the **particular to general**.

[62] (a) In Economics the time element is taken as per day, per week, per month, per annum etc. Hence time element should be taken as **calendar time**.

[63] (b) PPC points show that goods and services produced are at least cost and no resource is wasted. As economy makes progress in technology the PPC will shift **outward and to the right** showing that more of both goods can be produced than before.



- [64] (a) All wants of individuals are not of **equal importance** as all cannot be fulfilled.
- [65] (c) PPC also known as Production Possibility Curve, Production Possibility Boundry, Transformation Line/Curve.
- [66] (b) **Science of wealth:**
Although the activity of acquiring and increasing material wealth is as old as civilisation, a disciplined study of the wealth producing activities commenced about 235 years back (in 1776) when **Adam Smith**, the father of Economics, published "The Nature and Causes of wealth of Nations".
- [67] (c) Micro Economics is the study of particular firms, particular households, individual price, wage income, individual industries and particular commodities
We mainly study the following:
(i) Product Pricing
(ii) Consumer Behaviour
(iii) Factor Pricing
(iv) Economic conditions of a section of the people
(v) Study of firms
(vi) Location of industry
- [68] (b) **Micro and Macro Economics are interdependent** on each other because they both play a vital and in most cases they play a complementary role Ex. National income cannot grow unless the production in individual firms and factories rises.
- [69] (d) A movement of point inside PPF to on the PPF indicates the actual growth in an economy and wherever there is a decrease in unemployment it shows that an economy is making progress towards growth by optimizing its full resources.
- [70] (a) The term micro economics is derived from the Greek word mikros, meaning "small". In micro economics we study the economic behaviour of an individual, firm or industry. In the national economy. It is thus a study of a particular unit rather than all the units combined.
- [71] (d) According to J. B. Say "Economics is a science which deals with wealth".
- [72] (b) Freedom of choices is the advantage of capitalism.
- [73] (b) Definition of economics given by Rabbins does not deal with limited ends as in the definition. He deals with unlimited ends.
- [74] (c) Capitalist economy is a system of economy in which all means of production are owned and controlled by private individuals for profit.
- [75] (d) Production possibility curve is also known as Transformation curve.

- [76] (c) **Inductive Method:** Under this method conclusions are drawn on the basis of collection and analysis of facts relevant to the inquiry. The logic in this case proceeds from the particular to general. The generalizations are based on observation of individual examples. Thus, **option (c)** is correct.
- [77] (c) Mixed economy is described by Schumpeter as "Capitalism in the oxygen tent". According to him it is only a trick of the capitalists to cheat the working class by offering them some temporary advantages like social security, upliftment of the depressed classes etc. Thus, option c is correct.
- [78] (c) Production-possibility curve is also known as transformation curve. It is a graph that shows the different rates of production of two goods that an individual or group can efficiently produce with limited productive resources.
- [79] (b) Every economic system, be it capitalist, socialist or mixed, has to deal with this central problem of scarcity of resources relative to wants for them. The central economic problem is further divided into four basic economic problems.
These are:
- i. What to produce
 - ii. How to produce
 - iii. For whom to produce
- What provisions (if any) are to be made for economic growth?