

# 1

## NATURE AND SCOPE OF ECONOMICS

### THIS CHAPTER INCLUDES

- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>● Introduction</li><li>● Definition of Business Economics</li><li>● Nature of Business Economics</li><li>● Basic Problems of an Economy &amp; Role of Price Mechanism</li></ul> | <ul style="list-style-type: none"><li>● Basic Problems of an Economy</li><li>● Capitalist Economy</li><li>● Socialist Economy</li><li>● The Mixed Economy</li></ul> |
|---|---|

### CHAPTER AT A GLANCE

Topic	Important Highlight
<b>What is Economics about?</b>	Economics is the study of the processes by which the relatively scarce resources are allocated to satisfy the competing unlimited wants of human beings in a society.
<b>Economics</b>	Concerns itself not just with the crucial concern of how a nation allocates its scarce productive resources to various uses; it also deals with the processes by which the productive capacity of these resources is increased and with the factors which, in the past, have led to sharp fluctuations in the rate of utilisation of these resources.
<b>Meaning of Business Economics</b>	Business Economics, also referred to as Managerial Economics, generally refers to the integration of economic theory with business practice.

<b>Definitions of Business Economics</b>	Business Economics may be defined as the use of economic analysis to make business decisions involving the best use of an organization's scarce resources.
<b>Nature of Business Economics</b>	<p>Economics has been broadly divided into two major parts i.e. Micro Economics and Macro Economics.</p> <p><b>Micro Economics</b> is basically the study of the behaviour of different individuals and organizations within an economic system.</p> <p><b>Macro Economics</b> is the study of the overall economic phenomena or the economy as a whole, rather than its individual parts.</p> <p>The following points will describe the nature of Business Economics:</p> <ul style="list-style-type: none"> <li>• Business Economics is a Science</li> <li>• Based on Micro Economics</li> <li>• Incorporates elements of Macro Analysis</li> <li>• Business Economics is an art</li> <li>• Use of Theory of Markets and Private Enterprises</li> <li>• Pragmatic in Approach</li> <li>• Interdisciplinary in nature</li> </ul>
<b>Scope of Business Economics</b>	
<b>1. Micro-economics applied to operational or internal Issues</b>	<p>The following Microeconomic theories deal with most of these issues.</p> <ul style="list-style-type: none"> <li>• Demand analysis and forecasting</li> <li>• Production and Cost Analysis</li> <li>• Inventory Management</li> <li>• Market Structure and Pricing Policies</li> <li>• Resource Allocation</li> <li>• Theory of Capital and Investment Decisions</li> <li>• Profit Analysis</li> <li>• Risk and Uncertainty Analysis</li> </ul>

<p><b>2. Macro-economics applied to environmental or external issues</b></p>	<p>The major macro economic factors relate to:</p> <ul style="list-style-type: none"> <li>• the type of economic system</li> <li>• stage of business cycle</li> <li>• the general trends in national income, employment, prices, saving and investment</li> <li>• Government's economic policies</li> <li>• working of financial sector and capital market</li> <li>• socio-economic organisations</li> <li>• social and political environment</li> </ul>
--	---

## OBJECTIVE QUESTIONS

**2006 - Nov [1]** 'Economics is the study of mankind in the ordinary business of life' was given by :

- |                     |                  |                 |
|---------------------|------------------|-----------------|
| (a) Adam Smith      | (b) Lord Robbins |                 |
| (c) Alfred Marshall | (d) Samuelson    | <b>(1 mark)</b> |

**Answer:**

- (c) 'Economics is a study of mankind in the ordinary business of life' is the welfare definition given by Alfred Marshal.

**2006 - Nov [2]** The branch of economic theory that deals with the problem of allocation of resources is :

- |                     |                     |                 |
|---------------------|---------------------|-----------------|
| (a) Micro Economics | (b) Macro Economics |                 |
| (c) Econometrics    | (d) None of these   | <b>(1 mark)</b> |

**Answer:**

- (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.

**2006 - Nov [3]** Capitalistic Economy uses \_\_\_\_\_ as principal means of allocating resources.

- |            |                      |                 |
|------------|----------------------|-----------------|
| (a) demand | (b) supply           |                 |
| (c) price  | (d) all of the above | <b>(1 mark)</b> |

**Answer:**

- (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.

**2007 - Feb [4]** A study of how increase in the corporate income tax rate will affect the natural unemployment rate is an example of :

- (a) Macro Economics (b) Descriptive Economics  
(c) Micro Economics (d) Normative Economics (1 mark)

**Answer:**

- (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.

**2007 - Feb [5]** If a point falls inside the production possibility curve, what does it indicate?

- (a) Resources are over utilized  
(b) Resources are under utilized  
(c) There is employment in the economy  
(d) Both (b) and (c) (1 mark)

**Answer:**

- (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.

**2007 - Feb [6]** In which type of economy do consumers and producers make their choices based on the market forces of demand and supply?

- (a) Open Economy (b) Controlled Economy  
(c) Command Economy (d) Market Economy (1 mark)

**Answer:**

- (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".

**2007 - May [7]** Under a free economy, prices are:

- (a) Regulated
- (b) Determined through free interplay of demand and supply
- (c) Partly regulated.
- (d) None of these

(1 mark)

**Answer:**

- (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

**2007 - May [8]** Which of the following falls under micro economics?

- (a) National income
- (b) General price level
- (c) Factor pricing
- (d) National saving and investment

(1 mark)

**Answer:**

- (c) Micro economics studies economic behavior of individual economic units. Pricing of every factor is micro concept.

**2007 - Aug [9]** In a free market economy, when consumers increase their purchase of a goods and the level of \_\_\_\_\_ exceeds \_\_\_\_\_ then prices tend to rise :

- (a) demand, supply
- (b) supply, demand
- (c) prices, demand
- (d) profits, supply

(1 mark)

**Answer:**

- (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.

**2007 - Nov [10]** Under Inductive method, the logic proceeds from :

- (a) General to particulars
- (b) Particular to general
- (c) Both (a) and (b)
- (d) None

(1 mark)

**Answer:**

- (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.

**2007 - Nov [11]** According to Robbins, 'means' are:

- (a) Scarce (b) Unlimited  
(c) Undefined (d) All of these (1 mark)

**Answer:**

- (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.

**2008 - Feb [12]** Which of these would cause a rightward shift of the PPC curve?

- (a) Improvement in technology (b) Greater capital formation  
(c) Increase in population (d) All of these (1 mark)

**Answer:**

- (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.

**2008 - Feb [13]** If the opportunity cost is constant, then PPC would be :

- (a) Convex (b) Straight line  
(c) Backward bending (d) Concave (1 mark)

**Answer:**

- (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.

**2008 - June [14]** Economics is the study of :

- (a) How society manages its unlimited resources
- (b) How to reduce our wants until we are satisfied
- (c) How society manages its scarce resources
- (d) How to fully satisfy our unlimited wants.

**(1 mark)**

**Answer:**

- (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.

**2008 - June [15]** Mixed economy means :

- (a) Co-existence of small and large industries
- (b) Promoting both agriculture and industries in the economy
- (c) Co-existence of rich and poor
- (d) Co-existence of public and private sectors

**(1 mark)**

**Answer:**

- (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.

**2008 - Dec [16]** Who defines Economics in terms of Dynamic Growth and Development?

- (a) Robbins
- (b) Paul A Samuelson
- (c) Adam Smith
- (d) None

**(1 mark)**

**Answer:**

- (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.

**2008 - Dec [17]** A Free Market economy solves its Central Problems through\_\_\_\_\_.

- (a) planning authority (b) market mechanism  
(c) both (d) none (1 mark)

**Answer:**

(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.

**2008 - Dec [18]** Normative aspect of Economics is given by :

- (a) Marshall (b) Robbins  
(c) Adam Smith (d) Samuelson (1 mark)

**Answer:**

(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'.

**2009 - June [19]** Which one is not the characteristic of capitalistic economy?

- (a) Profit motive (b) Income inequality  
(c) Free employment (d) Collective ownership (1 mark)

**Answer:**

(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.

**2009 - June [20]** Mixed economy means

- (a) All economic decisions are taken by Central Authority  
(b) All economic decisions are taken by private entrepreneurs  
(c) Economic decisions are partly taken by the state and partly by private entrepreneurs  
(d) None of these (1 mark)



**Answer:**

(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.

**2009 - Dec [21]** Capitalistic Economy uses \_\_\_\_\_ as principal means of allocating resources.

- (a) demand (b) supply  
(c) price (d) all of the above (1 mark)

**Answer:**

*Please refer 2006 - Nov [3] on page no. 7*

**2009 - Dec [22]** Economic Problem arises when :

- (a) Wants are unlimited (b) Resources are limited  
(c) Alternative uses of resources (d) All of the above (1 mark)

**Answer:**

(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”.

**2010 - June [23]** Micro economics is also known as\_\_\_\_\_.

- (a) public economics. (b) price theory.  
(c) income theory. (d) demand theory. (1 mark)

**Answer:**

(b) Micro Economics is also known as Price Theory. (Self Explanatory).

**2010 - June [24]** A developed economy uses \_\_\_\_\_ technique in production.

- (a) labour intensive. (b) capital intensive.  
(c) home-based. (d) traditional. (1 mark)

**Answer:**

(b) Developed Economies have more of technology so they use capital intensive techniques in production to have minimum cost of production.

**2010 - June [25]** What will be the shape of PPC Curve when marginal opportunity cost is constant?

**4.10**

■ *Solved Scanner* **CA Foundation Paper - 4A (New Syllabus)**

- (a) Concave. (b) Convex.  
(c) Backward bending. (d) Straight line. **(1 mark)**

**Answer:**

- (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.

**2010 - June [26]** Which one is the feature of Marshall's definition?

- (a) Limited ends.  
(b) Scarce means.  
(c) Study of wealth as well as study of man.  
(d) Study of allocation of resources. **(1 mark)**

**Answer:**

- (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.

**2010 - Dec [27]** Which one in the following is not correct :

- (a) There are limited wants  
(b) Means are scarce  
(c) Resources have alternative uses  
(d) Economics is science. **(1 mark)**

**Answer:**

- (a)** According to two fundamental facts, human beings have unlimited wants and the means of satisfying the wants are scarce.

**2010 - Dec [28]** Micro Economics is concerned with:

- (a) Consumer Behaviour. (b) Product pricing.  
(c) Factor Pricing . (d) All of the above. **(1 mark)**

**Answer:**

- (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

**2011 - June [29]** Who gave the positive aspect of science?

- (a) Alfred Marshall
  - (b) A.C. Pigou
  - (c) Adam Smith
  - (d) Robbins.
- (1 mark)**

**Answer:**

- (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.

**2011 - June [30]** Mixed economy means :

- (a) Coexistence of both private and public sector
  - (b) Coexistence of poor and rich people
  - (c) Both (a) and (b)
  - (d) None.
- (1 mark)**

**Answer:**

- (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.

**2011 - June [31]** Which of these is a part of micro economics?

- (a) Factor pricing
  - (b) National Income
  - (c) Balance of payment
  - (d) None.
- (1 mark)**

**Answer:**

- (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.

**2011 - June [32]** Which of these is an example of macro economics :

- (a) Problem of unemployment in India
  - (b) Rising price level in the country
  - (c) Increase in disparities of income
  - (d) All of above.
- (1 mark)**

**Answer:**

- (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.

**2011 - Dec [33]** In a capitalist economy the allocation of resources is performed by:

- (a) Producers (b) Government  
(c) Planners (d) Price mechanism (1 mark)

**Answer:**

- (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.

**2011 - Dec [34]** Which of the following statements is incorrect?

- (a) Alfred Marshall propagated the wealth definition of Economics  
(b) L. Robbins introduced the "Scarcity" definition of Economics  
(c) Samuelson emphasised upon the "growth" aspect of Economics  
(d) A.C Pigou believed in "welfare" aspect of Economics (1 mark)

**Answer:**

- (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.

**2011 - Dec [35]** Inequalities of income do not perpetuate in\_\_\_\_\_.

- (a) socialism (b) mixed economy  
(c) capitalism (d) none (1 mark)

**Answer:**

- (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.

**2012 - June [36]** Which of the following are the features of a mixed economy?

- (a) Planned economy
- (b) Dual system of pricing exists
- (c) Balanced regional development
- (d) All of the above.

**(1 mark)**

**Answer:**

**(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.

**2012 - June [37]** Normative Economics is based on:

- (a) Ethical Considerations
- (b) Facts and Generalisation
- (c) What is?
- (d) All of the above.

**(1 mark)**

**Answer:**

**(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.

**2012 - June [38]** Dual system of pricing exist in:

- (a) Free market economy
- (b) Socialistic economy
- (c) Mixed economy
- (d) None of the above

**(1 mark)**

**Answer:**

**(c)** Mixed economy is a type of economy which combines the features of both capitalistic and socialistic economy. In this economy, dual system

4.14

■ *Solved Scanner* CA Foundation Paper - 4A (New Syllabus)

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)

**2012 - June [39]** In Inductive method, logic proceeds from:

- (a) General to Particular (b) Particular to General  
(c) Both (a) and (b) (d) None of these. **(1 mark)**

**Answer:**

- (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.

**2012 - June [40]** In a capitalist economy, allocation of resources is done by:

- (a) Producers (b) Government  
(c) Planners (d) Price mechanism **(1 mark)**

**Answer:**

- (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.

**2012 - Dec [41]** A Capitalist Economy follows the policy of :-

- (a) Laissez faire (b) Regulated markets  
(c) Promoting public sector (d) None of the above. **(1 mark)**

**Answer:**

- (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.

**2012 - Dec [42]** 'Economics is the science of choice making' it implies:-

- (a) No choice is to be made  
(b) Choice to be made between alternative uses  
(c) Choice to be made between means and ends  
(d) None of the above. **(1 mark)**

**Answer:**

(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.

**2012 - Dec [43]** Which of the following is a part of the subject matter of macro economics?

- (a) Study of firms (b) Aggregate profits of a firm  
(c) Market demand for a product (d) Net national product. (1 mark)

**Answer:**

(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.

**2012 - Dec [44]** The usual shape of production possibility curve is \_\_\_\_\_ towards the origin.

- (a) convex (b) concave  
(c) straight line (d) a rectangular hyperbola. (1 mark)

**Answer:**

(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**.

**2012 - Dec [45]** What will be the shape of Production Possibility Curve (PPC) when marginal opportunity cost is constant?

- (a) Concave (b) Convex  
(c) Backward bending (d) Straight line (1 mark)

**Answer:**

- (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**.

**2012 - Dec [46]** A capitalist economy is by and large \_\_\_\_\_

- (a) a closed economy
- (b) a free market economy
- (c) a centrally controlled economy
- (d) an economy in which a government neither collects any taxes nor incurs any expenditure. **(1 mark)**

**Answer:**

- (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.

**2013 - June [47]** Deductive and Inductive methods are complimentary to each other. It is:

- (a) Absolutely correct
- (b) Absolutely incorrect
- (c) Partially incorrect
- (d) None of the above. **(1 mark)**

**Answer:**

- (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**.

**2013 - June [48]** A free market economy's driving force is:

- (a) Profit motive
- (b) Welfare of the people
- (c) Rising income and levels of living
- (d) None of the above. **(1 mark)**

**Answer:**

- (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.

**2013 - June [49]** "Economics is neutral between ends". The statement is given by:

- (a) L. Robbins (b) Mrs. Joan  
(c) Alfred Marshall (d) A.C. Pigou. (1 mark)

**Answer:**

- (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.

**2013 - June [50]** A system of economy in which all the means of production are owned and controlled by the private individuals for the purpose of profit, is called:

- (a) Socialist Economy (b) Capitalist Economy  
(c) Mixed Economy (d) All of the above. (1 mark)

**Answer:**

- (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.

**2013 - Dec [51]** Where does price mechanism exists?

- (a) Capitalist Economy (b) Socialist Economy  
(c) Both type of economies (d) None of the above. (1 mark)

**Answer:**

- (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.

**2013 - Dec [52]** Economics which is concerned with welfare propositions is called

- (a) Socialistic economics (b) Capitalistic economics  
(c) Positive economics (d) Normative economics (1 mark)

**Answer:**

(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.

**2013 - Dec [53]** In which among the following systems the 'right to property' exists

- (a) Mixed economy (b) Capitalist economy  
(c) Socialist economy (d) Traditional economy (1 mark)

**Answer:**

(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.

**2013 - Dec [54]** Positive science only explains

- (a) What is? (b) What ought to be?  
(c) What is right or wrong (d) None of the above. (1 mark)

**Answer:**

(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.

**2013 - Dec [55]** Socialist Economy is also known as

- (a) Mixed Economy (b) Planned Economy  
(c) Capitalist Economy (d) None of the above. (1 mark)

**Answer:**

(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**.

**2014 - June [56]** Who has defined economics as “Science which deals with wealth” ?

- (a) Adam Smith (b) Canon  
(c) J.B. Say (d) A.C. Pigou (1 mark)

**Answer:**

(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.”

**2014 - June [57]** Production Possibility Curve is also known as :

- (a) Demand Curve (b) Transformation Curve  
(c) Supply Curve (d) Indifference Curve (1 mark)

**Answer:**

(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.

**2014 - June [58]** Which of the following is not a feature of a capitalist economy?

- (a) Right to private property  
(b) Restrictions on consumers Right to choose  
(c) Profit motive  
(d) Freedom of enterprise (1 mark)

**Answer:**

(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.

**2014 - June [59]** The term “Mixed Economy” denotes:

- (a) Co-existence of both consumers and producers goods industries in the economy.
- (b) Co-existence of both private and public sectors in the economy.
- (c) Co-existence of both rural and urban sectors in the economy.
- (d) Co-existence of both large and small industries in the economy.

(1 mark)

**Answer:**

**(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.

**2014 - Dec [60]** The most important function of an entrepreneur is to \_\_\_\_\_.

- (a) innovate
- (b) bear the sense of responsibility
- (c) finance
- (d) earn profit

(1 mark)

**Answer:**

**(a)** Entrepreneur is one of the factors of production. He is the one who co-ordinates 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.

**2014 - Dec [61]** Under Inductive method logic proceeds from:

- (a) General to particular
- (b) Positive to normative
- (c) Normative to positive
- (d) Particular to general

(1 mark)

**Answer:**

**(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**.

**2015 - June [62]** The meaning of time element in Economics is:

- (a) Calendar time
- (b) Clock time

- (c) Operational time in which supply adjusts with the market demand
- (d) None of the above. (1 mark)

**Answer:**

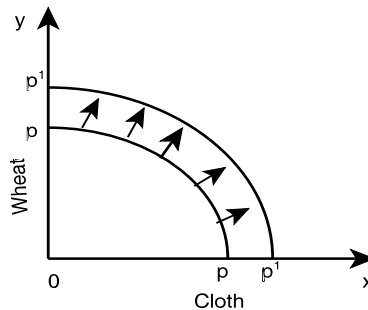
- (a) In Economics the time element is taken as per day, per week, per month, per annum etc. Hence time element should be taken as **calendar time**.

**2015 - June [63]** When the economy makes technological progress, the production possibility curve will shift?

- (a) Inward to the left
- (b) Outward to the right
- (c) A movement along the same curve
- (d) A point inside the curve. (1 mark)

**Answer:**

- (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.



**2015 - June [64]** All wants of an individual are not of:

- (a) Equal importance
- (b) Immediate importance
- (c) Fixed importance
- (d) All of the above. (1 mark)

**Answer:**

- (a) All wants of individuals are not of **equal importance** as all cannot be fulfilled.

**2015 - June [65]** \_\_\_\_\_ is another name of production possibility curve.

- (a) Indifference Curve
- (b) ISO-Product Curve
- (c) Transformation Curve
- (d) Diminishing Utility Curve

4.22

■ *Solved Scanner* CA Foundation Paper - 4A (New Syllabus)

(1 mark)

**Answer:**

(c) PPC also known as Production Possibility Curve, Production Possibility Boundry, Transformation Line/Curve.

**2015 - Dec [66]** Who is the author of “The Nature and causes of wealth of Nation”?

- (a) Karl Mars (b) Adam Smith  
(c) J B Say (d) A C Pigou. (1 mark)

**Answer:**

**(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”.

**2015 - Dec [67]** Micro economics does not study

- (a) Consumer behaviour  
(b) Factor pricing  
(c) General price level  
(d) Firms equilibrium. (1 mark)

**Answer:**

(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

**2015 - Dec [68]** Find out the correct statement

(a) Higher the prices, lower the quality demanded of a product are a

normative statement

- (b) Micro and macro-economics are interdependent
- (c) In a capitalist economy, the economic problems are solved by planning commission
- (d) In deductive method logic proceeds from particular to the general.

(1 mark)

**Answer:**

- (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.

**2015 - Dec [69]** Which of the following illustrate a decrease in unemployment using the PPF?

- (a) A movement down along the PPF
- (b) A rightward shift of the PPF
- (c) A movement from a point on the PPF to a point inside the PPF
- (d) A movement from a point inside the PPF to a point on the PPF.

(1 mark)

**Answer:**

- (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.

**2016 - June [70]** Micro Economics is the study of:

- (a) Individual parts of the economy
- (b) The economy as a whole
- (c) Choice making
- (d) Development of the economy.

(1 mark)

**Answer:**

- (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.

**2016 - Dec [71]** According to \_\_\_\_\_ “Economics is a Science which deals with wealth”.

- (a) Walker (b) Fairchild  
(c) Adam Smith (d) J.B. Say (1 mark)

**Answer:**

(d) According to J. B. Say “Economics is a science which deals with wealth”.

**2016 - Dec [72]** Freedom of choice is the advantage of

- (a) Socialism (b) Capitalism  
(c) Mixed Economy (d) Communism (1 mark)

**Answer:**

(b) Freedom of choices is the advantage of capitalism.

**2016 - Dec [73]** Definition of economics given by Robbins does not deal with one of the following aspect. Indicate that aspect.

- (a) Scarce means (b) Limited ends  
(c) Alternative uses (d) Economics is a science (1 mark)

**Answer:**

(b) Definition of economics given by Robbins does not deal with limited ends as in the definition. He deals with unlimited ends.

**2016 - Dec [74]** An economic system in which all means of production are owned and controlled by private individuals for profit is called:

- (a) Mixed Economy (b) Socialist Economy  
(c) Capitalist Economy (d) Developed Economy (1 mark)

**Answer:**

(c) Capitalist economy is a system of economy in which all means of production are owned and controlled by private individuals for profit.

**2016 - Dec [75]** Production possibility curve is also known as:

- (a) Demand Curve (b) Supply Curve  
(c) Indifference Curve (d) Transformation Curve (1 mark)

**Answer:**

(d) Production possibility curve is also known as Transformation curve.



**2017 - June [76]** In which of the following methods conclusions are drawn on the basis of collection and analysis of facts?

- (a) Deductive method (b) Scientific method  
(c) Inductive method (d) Experimental method. **(1 mark)**

**Answer:**

- (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.

**2017 - June [77]** Which Economic System is described by Schumpeter as 'capitalism in the oxygen tent'?

- (a) Laissez- Faire Economy (b) Command Economy  
(c) Mixed Economy (d) Agrarian Economy. **(1 mark)**

**Answer:**

- (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.

**2017 - June [78]** Production Possibility Curve (PPC) is also known as:

- (a) Indifference Curve (b) Supply Curve  
(c) Transformation Curve (d) Demand Curve. **(1 mark)**

**Answer:**

- (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.

**2017 - June [79]** The Central problem in every economic society is:

- (a) To ensure a minimum level of income for every individual.  
(b) To allocate scarce resources in such a manner that societies unlimited wants are satisfied in the best possible manner.  
(c) To ensure that production occurs in the most efficient manner.

4.26

■ *Solved Scanner* CA Foundation Paper - 4A (New Syllabus)

(d) To provide job to every job seeker.

(1 mark)

**Answer:**

**(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?