

1

BASIC CONCEPTS OF ECONOMICS

THIS CHAPTER INCLUDES

- Definition and Scope of Economics
- Few Fundamental Concepts

CHAPTER AT A GLANCE

Topic		Important Highlights
1.	Definition & Scope of Economics	<p>Economics is one of the social sciences. It explains about the economic activities of a man. Any activity which is related to earning of the money and spending of the money is called economic activity.</p> <p>In economics, a want is something that is desired. Want is the starting point of economic activity. Wants leads to efforts. An effort leads to satisfaction.</p> <p>This is the subject matter of economics. This subject matter of economics is divided into four parts.</p> <ul style="list-style-type: none">(i) Consumption(ii) Production(iii) Exchange(iv) Distribution
2.	Scope of Economics	<p>Traditional Approach:</p> <ul style="list-style-type: none">• Economics is a social science.• It studies man's behaviour as a rational social being.• It considered as a science of wealth in relation to human welfare.

		<p>Modern Approach:</p> <ul style="list-style-type: none"> • An individual, either as a consumer or as a producer, can optimize his goal is an economic decision. • The scope of Economics lies in analyzing economic problems and suggesting policy measures. • Social problems can thus be explained by abstract theoretical tools or by empirical methods.
3.	Meaning of Micro economics	The word Micro is derived from Greek work 'Mikros'. Which means very small or Millionth part? It studies about the behavior of Individual units. Individual units are a consumer, a producer, a firm or industry.
4.	Macro Economics	The word "Macro" is derived from Greek word "Makros". Which means "large or very big"? The Macro economics studies the economy as a single unit. It does not deal with Individual units. It deals with the aggregates 'or' totals and averages.
5.	Central Problems of All economies	<ol style="list-style-type: none"> 1. What to produce 2. How to produce 3. For whom to produce
6.	Wealth	The stock of goods under the ownership of a person 'or' a nation is called wealth. Welfare: Welfare means well-being 'or' happiness.
7.	Money	Anything which is wide accepted in exchange of goods or in settling debts is regard as money. Constituents of Money Supply: <ol style="list-style-type: none"> 1. Rupee notes and coins to be public 2. Credit cards 3. Traveler cheques

8.	Market	<p>In ordinary language the term market refers to a place where the goods are bought and sold. But in economics it refers to a system by which the buyers and sellers establish contact with each other directly 'or' indirectly with a view to purchasing and selling the commodity.</p> <p>Function of the Market:</p> <ol style="list-style-type: none"> 1. To determine the price of the goods. 2. To determine the quantity of goods [supply] <p>Market Mechanism:</p> <p>Market Mechanism means the totality of all markets i.e. the markets were all goods and services in the market.</p>
9.	Investment	<p>An increase in the capital stock is called Investment.</p>
10.	Production	<p>It refers to creation of goods for the purpose of selling them into the market.</p> <p>Factors of production:</p> <ol style="list-style-type: none"> 1.Land 2.Labour 3.Capital 4.Organization
11.	Consumption	<p>Consumption is defined as the satisfaction of human wants through the use of goods and services.</p>
12.	Saving	<p>Saving is defined as income minus consumption. Whatever is left in the hands of an individual after meeting the consumption expenditure is called saving.</p>
13.	Income	<p>The net inflow of money (purchasing power) of a person over a certain period of time is called income.</p> <p>Wealth:</p> <p>A person ('or' a nation) consumes a part of income and saves the rest. These savings are accumulated in the form of wealth. Wealth is a stock owned at a point of time.</p>

1.6

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14.	The concept of consumer surplus	This concept was introduced by Alfred Marshall. Consumer surplus is the difference between willing price and actual price.
15.	Law of Diminishing Marginal Utility	<p>According to this law when a person goes on increasing in the consumption of any one commodity the additional utility derived from the additional unit goes on diminishing. It is called Gossans' first law of consumption.</p> <p>Concepts in this law:</p> <ol style="list-style-type: none"> 1. Total Utility: It is the total amount of satisfaction obtained by the consumer by the consumption of total units of a thing. The sum of marginal utilities is also called total utility. 2. Marginal Utility: It is the additional utility obtained by the consumer by the consumption of additional unit of a thing 'or' one more unit of a thing. The change in the total utility is also called marginal utility.
16.	Demand Forecasting	<p>Estimation of future demand for product at present is called demand forecasting.</p> <p>Methods of Demand forecasting:</p> <ol style="list-style-type: none"> 1. Expert opinion method 2. Survey of buyers intensions 3. Collective opinion method 4. Controlled experiments 5. Statistical method.
17.	Production Possibility Curve (PPC)	The PPC is also called production possibility frontier, production possibility boundary and production transformation curve. The PPC curve shows the varies combinations of two commodities that can be produced by an economy with the given resources and given technology.

OBJECTIVE QUESTIONS

2009 - June [1] (a) Answer the following:

- (i) Economics is
 - (a) normative science
 - (b) positive science
 - (c) human science
 - (d) political science

(1 mark)

Answer:

(b)

2009 - Dec [1] (a) Answer the following:

- (i) Scarcity definition was given by:
 - (a) L. Robbins
 - (b) Alfred Marshall
 - (c) J. M. Keynes
 - (d) Adam Smith
- (iii) Consumer's surplus was propounded by:
 - (a) Alfred Marshall
 - (b) Pigou
 - (c) Malthus
 - (d) Robbins

(1 × 2 = 2 marks)

Answer:

- (a) (i) (a) L. Robbins
(iii) (a) Alfred Marshall

2010 - Dec [1] (a) Answer the following:

- (i) Micro economics is also known as:
 - (a) Product theory
 - (b) Price theory
 - (c) Process theory
 - (d) Projection theory.

1.8

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- (v) When the utility is increasing at an increasing rate, marginal utility is:
(a) Constant
(b) Negative
(c) Increasing
(d) Decreasing
- (vi) Consumer's surplus is also known as:
(a) Elasticity of demand
(b) Differential surplus
(c) Buyer's surplus
(d) Indifference surplus

(1 × 3 = 3 marks)

Answer:

- (i) (b)
(v) (c)
(vi) (c)

2010 - Dec [1] (b) Fill in the blanks:

- (ix) _____ is the founder of Macro Economics.

(1 mark)

Answer:

Adam Smith.

2010 - Dec [1] (c) State which of the following statement is true and which is false:

- (iii) Total utility is maximum when marginal utility is at its highest point.

(1 mark)

Answer:

- (iii) False

2011 - June [1] (a) Answer the following:

- (i) Economics is
(a) Normative science
(b) Positive science
(c) Human science
(d) Political science

(1 mark)

Answer:

(a) (i) (b) Positive Science;

2011 - June [1] (c) State which of the following statements is True and which is False:

- (ii) When total utility is zero, marginal utility is maximum. **(1 mark)**

Answer:

(c) False;

2011 - June [1] (d) Define the following terms in not more than two lines:

- (i) Consumer's surplus **(1 mark)**

Answer:

Consumer surplus is the difference between the maximum price a consumer is willing to pay and the actual price they do pay.

2011 - Dec [1] (a) Answer the following:

- (v) Central Problem of all Economies are
(a) What to produce?
(b) How to produce?
(c) For whom to produce?
(d) All of the above

(1 mark)

Answer:

(v) (d)

2012 - June [1] (a) Answer the following:

- (ii) The concept of consumer's surplus was propounded by
(a) Malthus
(b) Alfred Marshall
(c) Robbins
(d) Pigou
- (iv) Economics is a
(a) Positive science
(b) Normative science
(c) Exact science
(d) Both (a) and (b)
- (v) Utility is
(a) Cardinal
(b) Ordinal

1.10

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(c) Neutral

(d) Both (a) and (b)

(1 × 3 = 3 marks)

(b) Fill in the blanks:

(i) Utility is _____ in nature.

(ii) The want satisfying power of a thing is called _____.

(c) State whether the following statement is 'True' or 'False':

(vii) Micro economics deals with behaviour of individual units.

Answer:

(a) (ii) (b) Alfred Marshall.

(iv) (d) Both (A) Positive science & (B) Normative science.

(v) (d) Both (A) Cardinal & (B) Ordinal.

(b) (i) Subjective.

(ii) Utility.

(c) (vii) True.

QUESTION AND ANSWER OF JUNE 2013

1. When marginal utility begins to be negative, the total utility starts to

(a) become zero

(b) become negative

(c) increase

(d) decrease

(1 mark)

Answer: (d)

QUESTIONS AND ANSWERS OF SEPTEMBER 2014

1. In a Mixed Economy which sector is found?

(a) Private only

(b) Public sector only

(c) None

(d) Both (a) & (b)

(1 mark)

Answer: (d)

2. The law of diminishing marginal utility states that:
- (a) It will take larger & larger amounts of resources beyond some point to produce successive units of a product
 - (b) Total utility is maximized when consumers obtain the same amount of utility per unit of each product consumed
 - (c) Price must be lowered in order to induce firms to supply more of a product.
 - (d) Eventually additional units of a given product will yield less and less extra satisfaction to a consumer. **(1 mark)**

Answer: (d)

QUESTION AND ANSWER OF DECEMBER 2014

1. Any point beyond PPF is:
- (a) Attainable
 - (b) Unattainable
 - (c) Attainable with increase in production facilities
 - (d) None. **(1 mark)**

Answer: (c)

QUESTIONS AND ANSWERS OF MARCH 2015

1. Who defined economics as “Science which deals with wealth”?
- (a) J. B. Say
 - (b) A. C. Pigou
 - (c) Alfred Marshall
 - (d) Robbins **(1 mark)**

Answer: (a)

2. Economics cannot be given the status of science because:
- (a) Of non-uniformity of opinion and approach of economist
 - (b) Economic behaviour of human being is unpredictable
 - (c) Measuring rod of money is unstable
 - (d) All the three. **(1 mark)**

Answer: (d)

1.12

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3. The central problem of how to produce is resolved by:
- (a) Demand and supply of factor inputs
 - (b) Demand and supply of goods
 - (c) Relative prices and availability of factors of production
 - (d) Government intervention.
- (1 mark)**
- Answer:** (c)

QUESTIONS AND ANSWERS OF JUNE 2015

1. Micro economics theory deals with:
- (a) Economics behaviour of individual economic decision making units
 - (b) Economy as a whole
 - (c) Trade relations
 - (d) Economics growth of the society.
- (1 mark)**
- Answer:** (a)
2. Economic resources are:
- (a) Unlimited
 - (b) Limited in supply and use
 - (c) Limited in supply but have alternative uses
 - (d) Unproductive.
- (1 mark)**
- Answer:** (c)
3. In economic goods includes material things which
- (a) Can be transferred
 - (b) Can be exchanged for one another
 - (c) Both
 - (d) None.
- (1 mark)**
- Answer:** (c)
4. Which of the following is not a central problem of a society?
- (a) What to produce
 - (b) How to produce
 - (c) For whom to produce
 - (d) What to eat.
- (1 mark)**
- Answer:** (d)

5. PPF is negative sloped due to:
(a) Scarcity of production resources
(b) Unlimited wants
(c) Improvement in technology
(d) Increasing opportunity cost. (1 mark)
Answer: (a)
6. The _____ price that a customer is willing to pay for a given quantity is called demand price.
(a) Maximum
(b) Minimum
(c) Bargained
(d) Floor (1 mark)
Answer: (a)
7. Goods or Services that are necessary for living are:
(a) Needs (b) Desires
(c) Wants (d) Essentials. (1 mark)
Answer: (a)

QUESTIONS AND ANSWERS OF SEPTEMBER 2015

1. Which of the following is a central problem of every economy.
(a) Abundance of resources
(b) Scarcity of economic resources
(c) Poverty
(d) Moral and ethical (1 mark)
Answer: (c)
2. Who defined economics as “Science which deals with wealth?”
(a) J. B. Say
(b) A. C. Pigou
(c) Alfred Marshall
(d) Robbins. (1 mark)
Answer: (a)

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3. Human wants are:
(a) Unsatisfiable
(b) Unlimited
(c) Undefined
(d) Limited (1 mark)
Answer: (a)
4. Goods or services that are necessary for living are:
(a) Needs
(b) Desires
(c) Wants
(d) Essentials (1 mark)
Answer: (b)

QUESTIONS AND ANSWERS OF DECEMBER 2015

1. In a mixed economy which sector(s) is are found:
(a) Private only
(b) Public sector only
(c) None
(d) Both (a) & (b) (1 mark)
Answer: (a)
2. The Terms Micro economics and Macro economics were coined by:
(a) Professor A Samulson
(b) Griffen
(c) Professor, Ranger Frish
(d) Eagle (1 mark)
Answer: (d)
3. The famous book "An enquiry into the nature and Courses of wealth of nation" was published in:
(a) 1776
(b) 1750
(c) 1850
(d) 1886 (1 mark)
Answer: (a)

QUESTIONS AND ANSWERS OF MARCH 2016

1. Which event will shift the butter/guns production possibilities frontier outward?
- (a) an increase in the production of guns
 - (b) a reduction in the production of butter
 - (c) a new and superior method of producing butter
 - (d) a decrease in the resources devoted to the production of investment goods.
- (1 mark)**

Answer: (c)

2. The price of good X is ₹ 1.50 and that of good Y is ₹ 1. If a particular consumer's marginal utility for Y is 30 and he is currently maximizing his total utility, then his marginal utility of X must be:
- (a) 30 units
 - (b) 45 units
 - (c) 15 units
 - (d) 20 units
- (1 mark)**

Answer: (b)

3. Economics cannot be given the status of science because:
- (a) of non-uniformity of opinion and approach of economist
 - (b) economic behaviour of human being is unpredictable
 - (c) measuring rod of money is unstable
 - (d) all of these.
- (1 mark)**

Answer: (d)

QUESTIONS AND ANSWERS OF JUNE 2016

1. Micro economics theory deals with:
- (a) Economics behaviour of individual economics decision making units
 - (b) Economy as a whole
 - (c) Trade relations
 - (d) Economics growth of the society
- (1 mark)**

Answer: (a)

2. Human wants are_____.
- (a) Unsatisfiable
 - (b) Unlimited
 - (c) Under fined
 - (d) Limited
- (1 mark)**
- Answer:** (b)
3. Who defined by economics as “Science which deals with wealth”.
- (a) J. B Say
 - (b) A C Pigou
 - (c) Alfred Marshall
 - (d) Robbins
- (1 mark)**
- Answer:** (a)
4. In economics goods includes material thing with_____.
- (a) Can be transferred
 - (b) Can be exchanged for one another
 - (c) Both
 - (d) None
- (1 mark)**
- Answer:** (c)
5. The terms “micro” is derived from the _____ word which means ____.
- (a) Latin, Small
 - (b) Greek, Small
 - (c) English, Tiny
 - (d) Roman, Small
- (1 mark)**
- Answer:** (b)
6. Which of the following issue relates to micro-economic:
- (a) Impact of crude price hike on inflation
 - (b) Impact of change in bank rate on bank saving and investment
 - (c) Impact of information technology on economics growth
 - (d) Impact of shortage of wheat production on wheat prices
- (1 mark)**
- Answer:** (d)

7. Production possibility curves show maximum combinations of _____ products. (1 mark)

- (a) 1
- (b) 2
- (c) 3
- (d) 4

Answer: (b)

QUESTIONS AND ANSWERS OF DECEMBER 2016

1. Choose the correct answer from the given four alternatives:

(i) _____ defined “Economics as a science which inquired into the nature and cause of wealth of Nations”.

- (a) Adam Smith
- (b) Alfred Marshall
- (c) Robbins
- (d) Paul. A. Samuelson

(1 mark)

(ii) _____ changed the name of the subject from political economy to Economics.

- (a) Adam Smith
- (b) Alfred Marshall
- (c) Robbins
- (d) Paul. A. Samuelson

(1 mark)

Answer:

- (i) **(a)** Adam Smith
- (ii) **(b)** Alfred Marshall

2. Fill in the blank:

(i) _____ creates form utility.

(1 mark)

Answer:

Production

5. Give the answer in one sentence from the following:

- (iii) Scarcity definition
- (iv) Consumer surplus
- (vi) Investment.

(1 mark each)

Answer:

(iii) Scarcity Definition/Robbins definitions:

This definition was given by Lionel Robbins. He wrote a famous book “an essay on the nature and significance of economic science” (1932).

Definitions: “Economics is a science which studies human behavior as a relationship between ends and scarce means which have alternative uses”. **Robbins**

Main Points:

In the above definition

1. Wants are unlimited
2. Limited resources
3. Alternative uses of limited resources
4. Problem of choice

Merits:

1. According to this definition economics is an analytical science.
2. Economic turn into universal science.
3. According to Robbins. It is a positive science.
4. Neutral between ends.

(iv) The concept of consumer surplus:

This concept was introduced by Alfred Marshall. This concept is derived from law of diminishing marginal utility. Consumer surplus is the difference between willing price and actual price.

C.S. = Willing Price – Actual Price

or

C.S. = Demand Price – Market Price

(vi) Investment: An Investment is an asset or item i.e. purchased with the hope, that it will generate income or will appreciate in future. In an economic sense, an investment is a purchase of goods that are not consumed today but are used in the future to create well.

QUESTIONS AND ANSWERS OF JUNE 2017

1. (a) Choose the correct answer from the given four alternatives.
- (i) Wealth was defined by
(a) Alfred Marshall (b) Adam Smith
(c) Robbins (d) Jacob (1 mark)
- (ii) Income minus Savings is equal to _____.
(a) Consumption (b) Production
(c) Investment (d) Demand (1 mark)
- (v) Production creates _____ utility.
(a) Place (b) Time
(c) Form (d) Possession (1 mark)
- (c) State whether the following statement is True or False:
(iv) Macro-economics is also called as Income and Employment Theory. (1 mark)

Answer:

- (a) (i) (b) Adam Smith
(ii) (a) Consumption
(v) (c) Form
(c) (iv) True

QUESTIONS AND ANSWERS OF DECEMBER 2017

1. (a) Choose the correct answer from the given four alternatives.
- (i) _____ is the father of Economics.
(a) Adam Smith (b) Alfred Marshall
(c) Lionel Robbins (d) J. R. Hicks (1 mark)
- (ii) _____ is an act to use the goods or service to satisfy the wants.
(a) Production (b) Consumption
(c) Savings (d) Distribution (1 mark)

QUESTIONS OF DECEMBER 2018

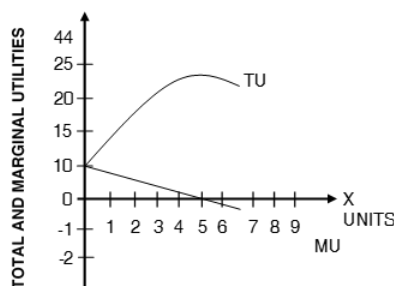
1. (a) Choose the correct answer from the given *four* alternatives.
- (i) _____ defined economics as a science which deals with wealth.
(a) J. B. Say
(b) A. C. Pigou
(c) Alfred Marshall
(d) Lionel Robbins (1 mark)
- (ii) _____ goods are known as scarce goods.
(a) Economic
(b) Durable
(c) Free
(d) Consumer (1 mark)
- (iii) _____ is the first Law of Consumption.
(a) The Law of Diminishing Marginal Utility
(b) The Law of Demand
(c) The Law of Increasing Returns
(d) All of the above (1 mark)
- (c) State whether the following statement are True or False:
(i) According to Adam Smith, man is an economic man. (1 mark)

DESCRIPTIVE QUESTIONS

2009 - June [4] Explain the law of diminishing marginal utility. What are the limitations of the law? (8 + 4 = 12 marks)

Answer:

The law of Diminishing Marginal Utility can be stated as follows: “The additional benefit which a person derives from a given increase in stock of a thing or commodity diminishes with every increase in the stock that he already has.”



TOTAL AND DIMINISHING MARGINAL UTILITIES

The law of diminishing marginal utility can be explained with the help of the following illustration:

Units of commodities	Total Utility	Marginal Utility
1	10	10
2	15	$15 - 10 = 5$
3	18	$18 - 15 = 3$
4	20	$20 - 18 = 2$
5	20	$20 - 20 = 0$
6	19	$19 - 20 = -1$
7	17	$17 - 19 = -2$

From the above table we can clearly see that as the consumer consumes the first unit of a commodity, his propensity to consume the second unit of that commodity increases. This continues so long till the consumer achieves full satisfaction by consuming the commodities and reaches the saturation point. Thereafter his propensity to consume that commodity decreases instead of increasing. Therefore we can see in the above table that the total utility increases till 4th unit of the commodity and remains constant in the 5th unit. Thereafter it decreases. At the same time if we take a look on the marginal utility we will notice that the MU decreases when the TU increases and when the TU is maximum MU is zero. When the TU starts decreasing the MU becomes negative. Thus, we see that the Marginal Utility decreases throughout. The law of diminishing marginal utility can be explained graphically from the given above figure.

The limitation of law of diminishing marginal utilities is as follows:

1. Cardinal measurability of utility is unrealistic - Cardinal utility analysis of demand is based on the assumption that utility can be measured in numbers such as 1, 2, 3, 4 and so forth. But in real life utility cannot be measured in such quantitative or cardinal terms, because utility is a psychic feeling and a subjective thing.
2. Hypothesis of independent utilities is wrong - Utility analysis also assumes that utilities derived from various goods are independent. This means that the utility which a consumer derives from a good is the function of the quantity of that good and of that good alone.
3. Assumption of constant cardinal utility of money is not valid - An important assumption of cardinal utility analysis is that when a consumer spends varying amount on a good or various goods or when the price of a good changes, the marginal utility of money remains unchanged. But in actual practice this is not correct. As a consumer spends his money income on the goods, money income left with him declines.

Thus, in case of a Giffen good quantity demanded varies directly with the price and the Marshall's law of demand does not hold good.

4. Cardinal utility analysis assumes too much and explains too little - Cardinal utility analysis is also criticized on the ground that it takes more assumptions and also more restrictive ones. Therefore it is not realistic in nature.
5. Not applicable for luxurious commodities - This law is not applicable for luxurious commodities because for luxurious commodities the satisfaction level never reaches. Its propensity increases when more and more units are consumed.

2017 - Dec [2] Discuss briefly the branches of Economics. (5 marks)

Answer:

Micro and Macro Economics:

The terms 'Micro' and 'Macro' are introduced by Ragnar Frisch in economics. He is the Prof. of Oslo University in Britain. According to him the economics is studied in two ways i.e., Micro level and Macro level.

Meaning of Micro Economics:

The word Micro is derived from Greek work 'Mikros'. Which means very small or Millionth part. It studies about the behavior of Individual units. Individual units are a consumer, a producer, a firm or industry. Marshall developed the Micro economics very well. According to Marshall, the Micro economics divide the economy into small units or small parts each part is studied. It explains how a consumer gets maximum satisfaction how the producer gets maximum output and how the firm gets maximum profits.

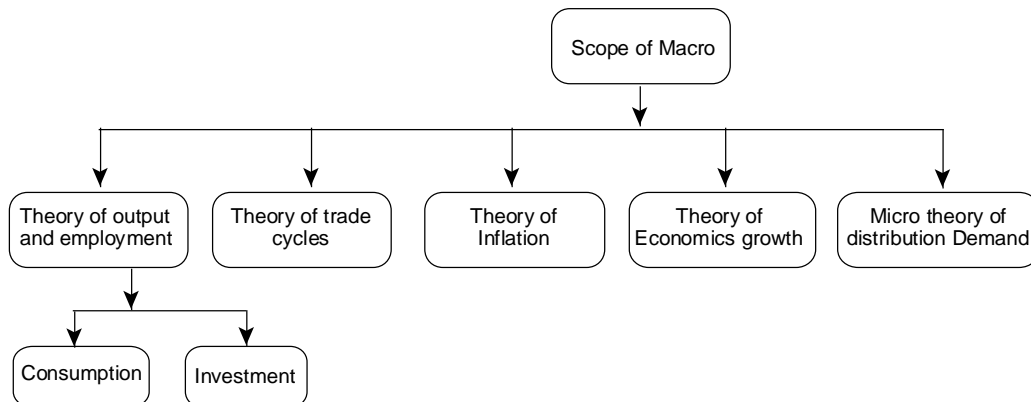
Definition:

"Micro economics is study of particular firm particular household, individual prices, wages, incomes, individual Industries, particular commodities".

K. E. Boulding

Scope of Micro Economics:

The Micro economics explains how the price of a good is determined and how the price per unit of factors of production is determined and it is also deals with theories of economics welfare. So, Micro economics is called "Price theory".

**Users or Significance of Micro Economics:**

1. Understanding the operations of economy
2. Economic welfare of people
3. Managerial economics

Macro Economics: The word “Macro” is derived from Greek word “Makros”. Which means “large or very big”. The Macro economics studies the economy as a single unit. It does not deal with Individual units. It deals with the aggregates ‘or’ totals and averages.

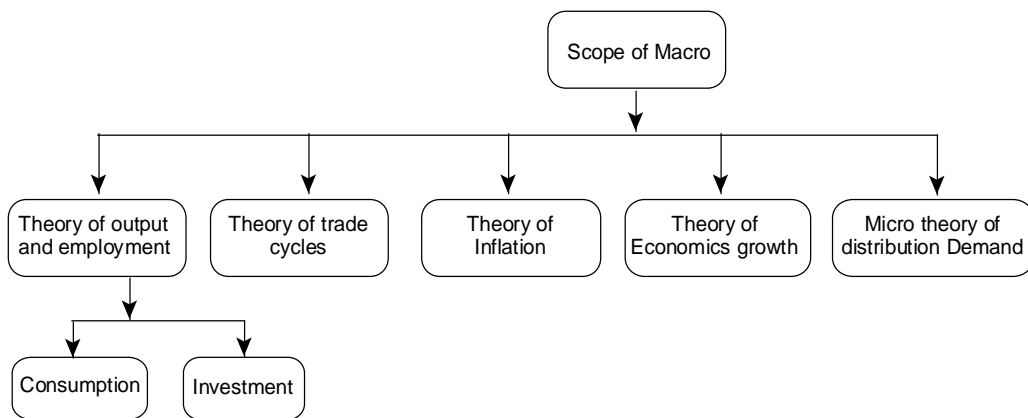
For Example: National income, full employment, total output, total investment, total consumption etc.

Definition: According to Gardner Ackaly, “Macro economics is concerned with such variables as a aggregate volume of output of a economy with the extend to this resources are employed with the size of the National Income and with the general price level.

Scope of Macro Economics: Macro economics studies about the National Income i.e. calculation of the national income, trends in the national income etc., It also deals with total employment (full employment), total output etc., It also studies about trade cycles, Inflation etc., It also deals with theories of economic growth and macro theory of distribution. It is also called Income and Employment theory.

Both Micro and macro economics are interdependent. From 1930 onwards there is an importance to the Macro economics.

Scope of Macro economics can be explained by the following chart:



1.26

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The Macro economics analysis some problems of the economy:

1. Level of output and employment
2. Fluctuate in level of output, employment and National Income
3. Changes in the general price level
4. Economic growth and economic development
5. Theories of distribution.

2018 - Dec [2] Enumerate any five features of want.

(5 marks)

TOPIC NOT YET ASKED BUT EQUALLY IMPORTANT FOR EXAMINATION

DISTINGUISH BETWEEN

Q1. What is the difference between market economy and planned economy?

Answer:

The difference between market economy and planned economy can be summarized as follows:

Market Economy	Planned Economy
1. Economic resources are owned by private individuals. The right to own private property exists.	1. All economic resources are owned by the State. The right to own private property is absent.
2. Producers, resource owners and consumers are free to take economic decisions relating to production, allocation of resources and consumption respectively.	2. There is loss of economic freedom with regard to consumers' choice and allocation of resources by individuals.
3. Price mechanism is allowed to operate freely.	3. Price mechanism is not allowed to operate.

4. Price or market mechanism is the basic coordinating mechanism. All economic decisions are taken through price mechanism.	4. Planning takes the place of market mechanism. All important economic decisions are taken by the central planning authority.
5. Maximisation of profit is the principal objective of producers.	5. Maximisation of social welfare is the chief motivating force behind all economic activities.
6. Competition is an essential part of a capitalistic economy.	6. Competition of all types is eliminated from this type of economy.

Q2. Distinguish between "total utility" and "marginal utility".

Answer:

The utility means satisfaction derived by the consumer from the consumption of a commodity. It is also defined as want-satisfying power of a commodity.

The marginal utility can be defined as the change in total utility due one extra unit of consumption of a commodity.

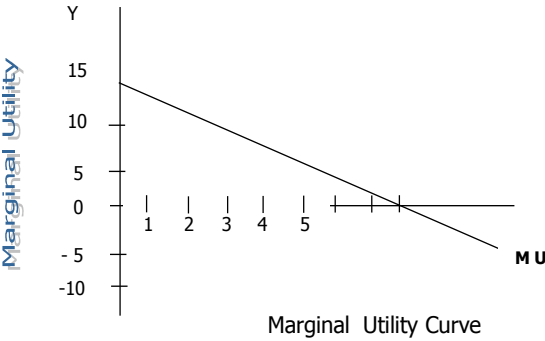
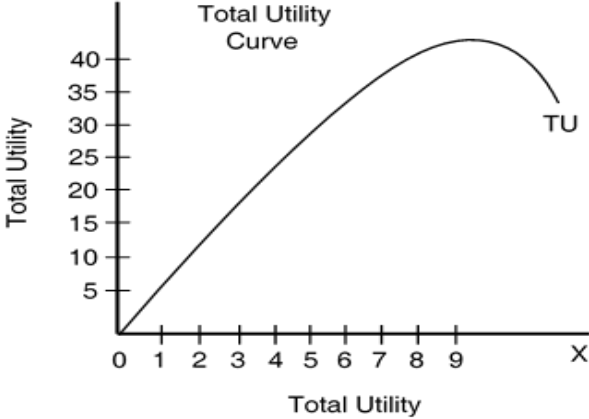
Total utility and marginal utility can be distinguished as follows:

Total Utility	Marginal Utility
1. Total utility of a commodity to a consumer is the sum of utilities which he obtains from consuming a certain number of units of the commodity per period.	1. Marginal utility is the utility derived by a consumer from consumption of an extra unit of a commodity.
2. If a person consumes 10 units and receives utility of 15 and on consuming 11 units he derives utility of 18. Then 15 and 18 are the total utility derived from consuming 10 and 11 units.	2. Marginal utility is 3 i.e., (18 – 15) which is change in total utility.

1.28 ■ Scanner CMA Foundation Paper - 1A (2016 Syllabus)

<p>3. Total utility is the sum of individual utilities derived from consumption of a commodity.</p>	<p>3. Marginal utility is the addition made to the total utility when one more unit of a commodity is consumed by an individual.</p>
<p>4. In terms accounting equation total utility can be expressed as the utility derived from consumption of “n” no. of units.</p>	<p>4. Marginal utility can be expressed as $MU_n = TU_n - TU_{n-1}$, where n is the no. of units consumed.</p>

The Total Utility Curve and the marginal utility curve can be graphically shown as below:



Q3. What are the points of difference between Macro economics and Micro economics?

Answer:

The major differences between micro and macro economics can be summarized as below:

Micro economics	Macro economics
1. Micro economics has been derived from the Greek word 'micros' which means 'small'.	1. Macro economics has been derived from the Greek word 'macros' which means 'large'.
2. Micro economics studies the individual units of an economic system.	2. Macro economics studies the entire economy as a whole.
3. Micro economics is concerned with small segments of the total economy – individual consumer and producer, groups of consumers and producers that are known as market or industry.	3. Macro economics is concerned with broad economic aggregates, such as total employment, total income, total consumption etc.
4. Micro economics covers areas such as theory of consumers behavior, theory of production, pricing of goods, pricing of factor services, welfare economics etc.	4. Macro economics covers theory of income and employment, economics of growth, monetary economics.
5. Micro economics determines the price of individual economic units.	5. Macro economics determines the general price level of the economy.

DESCRIPTIVE QUESTIONS

Q1. Explain the main features of a mixed economy.

Answer:

A mixed economy is an economy which combines the elements of both the capitalist and socialist economies. A mixed economy is characterized by coexistence of both the private sector and the public (government) sector.

The main features of a mixed economy can be summarized as follows:

1.	Coexistence of public and private sectors	The main feature of a mixed economy is the coexistence of public and private sectors. Public sector represents that part of the economy which is operated and managed by the State or the government. The private sector, on the other hand, includes that part of the economy which is owned, managed and operated by the private individuals.
2.	Coexistence of capitalist and socialist features	A mixed economy combines the features of both the capitalist and socialist economies. It is characterized by the presence of private property, profit motive, competition, price mechanism etc. On the other hand, there is the presence of economic planning, state regulation of economic activities and emphasis on economic equality, which characterizes a socialist economy.
3.	Economic planning	An important feature of a mixed economy is economic planning. Economic planning is essential to promote economic development, to ensure smooth and systematic operation of the economy, to regulate the entire economy and to have coordinated operations of the public and private sectors.
4.	Regulation and control of the private sector	The government plays an important part in the mixed economy by regulating the private sector. The government tries to regulate the private sector so as to promote the larger welfare interest of the entire economy.

5.	Promotion of social welfare	Promotion of social welfare is a very important objective of a mixed economy. The government makes efforts to promote the welfare of the entire community. It provides various facilities like education, health, sanitation, etc., free of cost. It tries to minimize economic and regional inequalities.
6.	Profit motive	Though the public sector is guided largely by social welfare motive, profit motive remains the guiding motive for the private sector. Profit motive and private sector go together. However, the private sector cannot maximize profit at the cost of social interest.