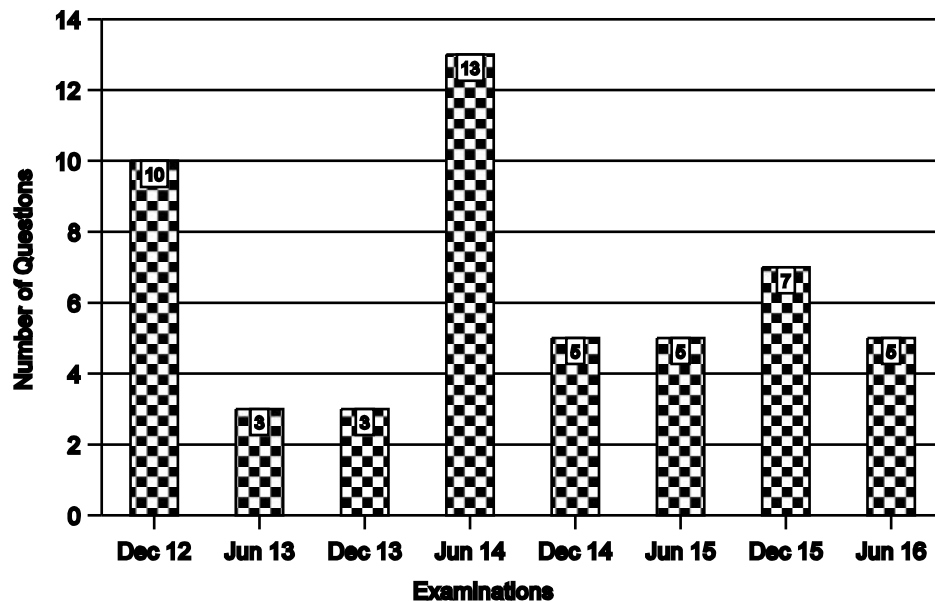


# 1

## Nature and Scope of Economics

**This Chapter Includes:** Economics: Definition, Nature and Scope, Micro and Macro Economics, Positive and Normative Economics, Central Problems of an Economy, Production Possibility Curve and Opportunity Cost, Working of Economic Systems (Capitalistic Economy, Socialistic Economy, Mixed Economy), Economic Cycles, Inflation and Recession.



### Introduction:

- Economics is a social science, originated from Greek word Oikonomikos. Oikos means 'house', Nomos Means 'management'. Economics means "House Management".
- The knowledge of economics is useful for everyone-individuals, households, business units, institutions as well as government.
- Economic issues and problems are pervasive in nature.
- In the earlier years, economics was mixed with non economic aspects of human knowledge and philosophy.

- Some of the basic elements of discipline of economics are-
  - (a) Study of working of an economy and the issues faced by it.
  - (b) The nature of economic problems and their solution is closely linked with the structure of economic system, and its progress and development.
  - (c) Economic problems of individuals and societies are not independent of other social, cultural and political aspects of human existence.
- The primary task of the discipline of economics is to study the working of an economic system and issues faced by it.
- In a simple economy, human beings are confronted with the problems of poverty and economic insecurity.
- In a developed industrial economy, the problems are mainly of distributive justice and economic instability.
- Economic problems of individuals and societies are interdependent on other social, cultural and political aspects of human existence.
- Some of the specific problems faced by market economics are-
  - (a) Labour management relations
  - (b) Exploitation of labour
  - (c) Inequalities of income and wealth
  - (d) Cyclical fluctuations etc.

**Economics is a study of an Economy:**

- Economics can be defined as a study of economic system in its various aspects like
  - (a) structure (b) working (c) performance (d) problems (d) and their possible solutions.
- Study of economy includes-
  - (a) forms of economy (capitalist, socialist, mixed)
  - (b) economic decisions and their implementation
  - (c) inter relationship between economic units and their groups.
  - (d) performance of economic units, their groups
  - (e) inter relationship with different economies.
- Economic wants are those wants which can be satisfied by the consumption of goods and services.
- Non economic wants are those wants which do not need the consumption of goods and services.

- Characteristics of wants are-
  - (a) even if they are satisfied, they have a tendency to re-emerge.
  - (b) with the passage of time, they tend to increase in number and variety.
- **Problems with wants:**
  - (a) availability of insufficient resources, to satisfy them
  - (b) mismatch between available means (resources) and wants
- **Solution for the above problems:**
  - (a) Increase the availability of resources
  - (b) Ensure that the means (resources) are not wasted and used economically.
- The entire set of arrangement for meeting the above objectives (a) increasing availability of resources (b) ensuring their economical use, is known as economy or economic system.
- J. M. Keynes explained theory of economics as “It is a method rather than doctrine, an apparatus of the mind, a technique of thinking which helps its possessors to draw correct conclusions.

**Defining Economics:**

- The subject matter of economics is too wide and therefore, no single opinion can be established for defining it.
- The various reasons for difference in opinion while defining economics are -
  - (a) structure of economy
  - (b) stage of economic development
  - (c) expertise of economist providing the definition
  - (d) purpose of studying economics.
- George Bernard Shaw Explained Economics:  
“If Economics were laid end to end, they would not reach a conclusion.”
- **Economics as a science of wealth:**
  - (a) This view of economics was expressed by Adam Smith (who is known as father of Economics) along with economist like J.B. Say and Walker.  
The central point is Smith’s is definition is wealth creation and he identified wealth with welfare.

- (b) He wrote a book named “ An Enquiry into the nature and causes of wealth of nations” in 1776, in which he explained economics as “The great object of Political Economy of every country is to increase the riches and power of that country”
- (c) **Objectives of economics according to Adam Smith:**
- to grow rich by making nation wealthy
  - acquire political and military strength
- (d) **Features of wealth definition:**
- Ignores the problem of distributive justice (emphasis on wealth)
  - Wealth does not has a universally accepted meaning . (Study on the nature of wealth)
  - Wealth represents only material goods.
  - Inquires into the creation of wealth.
- (e) **Merits of wealth definition:**
- The definitions was concerned with creation of wealth, which is the main problem of economics.
  - During early times, inequality of income was not a big problem, so Adam Smith ignored this problem.
- (f) **Demerits of economics as a wealth:**
- Neglects welfare aspect
  - With the development of economy, the problem of income inequality has arisen.
  - Economics has been reduced to a dismal science.
  - Definition is limited only to goods and not to services.
  - Concept of wealth is very narrow.
- (g) **Shift by Ricardo:** (in early 19<sup>th</sup> century)
- Ricardo emphasized on distribution of wealth (which was ignored by Adam Smith).
- (h) **Other views on economics:**
- Inductive reasoning (Historical School of Economics) - they believed in deriving generalisations from historical or fact or data base of economics.
  - Deductive reasoning - they believed in deducing conclusions logically.

- (i) In his own words, “The produce of the earth all that is derived from its surface by united application of labour, machinery and capital is divided among three classes of the labour, machinery community, namely the proprietor of land, the owner of the stock of capital necessary for its cultivation, and the labourers by whose industry it is cultivated”.

**Economics on a welfare aspect:**

- (a) The welfare aspect of economics was given by Alfred Marshall.
- (b) He expressed economics as-“study of mankind in the ordinary business of life, it examines that part of individual and social action which is most closely connected with the attainment and use of material requisites of well being”. “Thus it is on one side a study of wealth and on the other and more important side, a part of study of man”.

Alfred Marshall published his book, ‘Principles of Economics’ in 1890. ‘End is human Welfare’ Economics is being regarded as ‘an engine of social betterment’.

**(c) Features of welfare definition-(Merits)**

- Economics is the study of both wealth and man (but man is more important)
- The core subject matter of economics is economic welfare
- Concentrates on the Ordinary Business of life. (How individuals gets his income and how he uses it.)

**(d) Demerits:**

- It ignores creation of immaterial wealth like services of doctors etc.
- The term welfare is vague.

- (e) Another aspect of welfare definition was given by A.C. Pigou

**(f) Features of Pigou’s definition:**

Pigou published book ‘The Economics of Welfare’ in 1920.

- Economics is only that part of social welfare which can be measured in terms of money.
- This definition is both wide and restrictive.

**Scarcity Definition of Economics:**

- (a) The scarcity approach of economics was represented by Lionel Robbins.
- (b) This discipline of economics is based on pure reasoning and logical

investigation.

- (c) Lionel Robbins expressed economics as “it is the science that studies human behaviour between ends and scarce means which have alternative uses”.

He published book in 1932 titled ‘An Essay on the Nature and significance of Economics science’.

- (d) **Features of this definition:**

- Limited means (resources)
- Unlimited ends (wants)
- Alternative uses of means
- According to Robbins, economics should be studied only in terms of “what is” and not “what ought to be.”

He also expressed “whatever economics is concerned with, it is not concerned with the causes of material welfare”.

- The main problem is of choice making. (due to scarcity of resources)
- The “Fundamental Premise of Economics” is that individual should choose the alternative for which they believe the net gain to be greatest.

- (e) **Demerits of the definition:**

- The definition makes economics a human science rather than social science.
- Narrow and restricted scope
- Shortage of merit goods (goods which not only benefit the consumers but also non consumers like education)
- Some public services like defence, justice etc cannot be provided by the market.
- Robbins made Economics a positive science (what is) and excluded normative aspect (what ought to be) and narrowed its scope.

- (f) **Merits:**

- Study of human behaviour
- Wider scope
- Analytical
- Universal

**Growth Definition of Economics:**

- (a) This definition was propounded by Paul A. Samuelson. He published his book in 1948. Titled 'Economics: An Introductory Analysis'.
- (b) He expressed economics as:  
"Economics is the study of how people and society end up choosing, with or without the use of money, to employ scarce productive resources that could have alternative uses to produce various commodities overtime and distributing them for consumption, now or in future, among various persons or groups in society. It analyses cost and benefits of improving patterns of resource allocation".
- (c) Twin Themes of Economics → Scarcity and efficiency
- (d) **Definition:**
  - (i) growth oriented
  - (ii) dynamic allocation of consumption (i.e. concerned with the pattern of consumption, not only now but also in future.)
  - (iii) Distribution (of consumption among various person and group of society)
  - (iv) Improvement of Resources allocation.

**Scope of Economics:**

- Our economy is dynamic in nature which means as economy develops, the nature of problems keeps on changing.
- In order to understand economics model building approach is used which assumes whole economy as a small model
- The knowledge of economics can be used for the benefit of the society by-
  - (a) increasing collective welfare
  - (b) accelerating rate of economic growth
  - (c) reducing fluctuations in income and employment.

**Nature of Economics - Science or an Art:**

Economics is both science and an art . It is science in its methodology and art in its application

- **Economics as a Science:**
  - (a) **Science is a systematised body of knowledge which studies the relationship between cause and effect:**

Economics is a body of generalisations or laws and like science shows cause and effect relationship. **For e.g** - The law of demand in economics says “when price of a commodity rises (cause), its quantity demanded falls (effect).
  - (b) **Science is capable of measurement:** Like science, economics is also measured.

**For e.g.** In economics, measurement is in terms of money.
  - (c) **Science has a methodological apparatus:**

Economics can also be studied using various methods  
**For e.g.** Inductive Reasoning and Deductive Reasoning are the two methods of studying economics.
  - (d) **Science has a ability to forecast:**

Like science, the various laws of economics can help in forecasting which are beneficial for making policies.  
**For e.g.** - Consumer demand, supply of a product etc. can be predicted using various laws.
- **Economics is not a Perfect Science:**
  - (a) Reliance cannot be placed on accuracy of economic laws as these are based on humans who are unpredictable.
  - (b) Economics does not have controlled experiments (i.e. the conditions are not stable) as a result actual results differ from predicted ones.
  - (c) There is no fixed pattern of human behavior which may be used to formulate economic laws.
  - (d) While deriving economic laws only the "most important" causes are considered, which reduces the reliability of economic predictions.

Hence, economics is not an exact science but it can be termed as a science on account of nature and quality of its reasoning.
- **Economics as an Art:**
  - (a) Art tells us how to do the thing i.e. to achieve a objective. Economics is also used for achieving a variety of goals.

**For e.g.** All policies etc made in economics has the ultimate objective of solving economic problems.



(b) Art is the practical application of theoretical knowledge. Like Art, Economics also practices its theoretical laws.

**For e.g.** The various policies are made only after having a theoretical knowledge of the society and country as a whole.

Hence, economics is also an art.

**Economics as a Positive or Normative Science:**

- “Economics is a science and economics is a positive science mean the same thing”
- “Economics as an art and normative economics means two related but different things”

Let us see what is positive/normative science:

**(a) Positive Economics:**

- Cause and effect relationship.
- It investigates “what is”.
- Should be neutral between ends.
- It does not pass value judgements.
- It is not concerned with welfare propositions.
- This approach of economics was propounded by Lionel Robbins.

**(b) Normative Economics:**

- Normative is derived from the word “Norm” or “Standard” which implies “what ought to be”.
- It passes value judgements.
- It is concerned with welfare propositions.
- It decides standards which should be adhered to in achieving economic objectives.
- This approach was propounded by Alfred Marshall.

Hence, economics is both a positive and normative science however in spite of using normative economics, our economy cannot reach a happy state of affairs because of the following reasons :

- (a) Lack of uniformity in choice of objectives so the question of “what ought to be” remains undecided.
- (b) Lack of information of the economy due to which we cannot ascertain which steps should be taken to achieve the goals.
- (c) Several courses of action cannot be attained at the same time.

**Scope of Economics:**

- (i) Micro Economics
- (ii) Macro Economics
- (iii) International Economics
- (iv) Public Finance
- (v) Development Economics
- (vi) Health Economics
- (vii) Environmental Economics
- (viii) Urban and Rural Economics.

**Micro and Macro Economics:**

- The terms micro and macro were first used by the Swedish economist Rognar Frisch in 1920.
- It represented the level of aggregation of economic variables.
- Micro means small and macro means large.

**Micro Economics:**

- (a) Under this variables are not integrated but pertain to individual units.
- (b) It studies the behavior of individual economic units.
- (c) In this we use “bit by bit” approach which means breaking a big problem into small parts and then study one bit at a time.
- (d) It deals with the problem of allocation of resources.
- (e) It is also known as the price theory.
- (f) Some of the components of micro economics are-
  - theory of consumer behavior
  - theory of a firm
  - theory of an industry
  - theory of production
  - theory of product pricing
  - theory of pricing of factors of production
  - theory of welfare of individuals as compared with each other.

**Macro Economics:**

- (a) Under this variables are aggregated and relate to large groups of economic units
- (b) It studies economy as a whole
- (c) Macro economics is also known as income theory or aggregative economics

(d) Some components of macro economics are :

- National Income
- Labour force and population
- Unemployment
- Balance of payment
- Structure of economic systems etc

**Example:**

1. Micro - Determination of individual price  
Macro - Determination of general price level.
2. Micro - Determining income of an individual.  
Macro - Determination of national income.

• **Why a distinction between Micro and Macro Economics should be made?**

- (a) There are certain laws/rules/conclusions which are applicable at a micro level but not effective at a macro level.
- (b) Certain problems of the economy like poverty, unemployment etc can be solved only at a macro level.
- (c) The conclusions of micro and macro economics are supplementary to each other and hence studying only one aspect will lead to an incomplete study of economics.
- (d) A change in a variable at a macro level does not affect all individual economic units therefore these problems are overcome by dealing with aggregates.

• **Summary of Micro and Macro Economics:**

- (a) Micro economics is used to study activities of individual economic units.
- (b) The conclusions of micro economics can be used for formulating policy at a macro level.
- (c) Macro economics helps to study the reasons for faulty performance of the economy and remedial measures taken for it.

**Central Problems of an Economy-**

- Which goods should be produced and in how much quantity?
- What techniques should be adopted for production?
- For whom goods should be produced?

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- (a) Which goods are to be produced?
- Consumer goods, producer goods, capital goods, civil goods or defence goods.
- (b) What technologies are to be used for production?
- Labour intensive techniques or capital intensive
- (c) For whom to produce?
- For those who have an ability to pay.

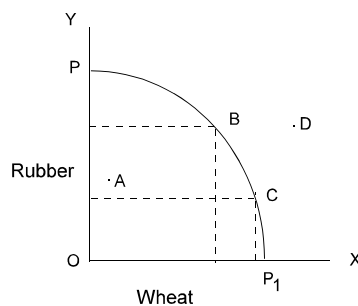
**Basic Problems or Central Problems:**

- (i) What to produce?  
(ii) How to produce?  
(iii) For whom to produce?

**Production Possibility Curve-**

- PPC is used to explain the economic problems of the economy.
- It was devised by Prof. Paul A. Samuelson
- A production possibility curve shows the various combinations of two commodities that can be produced using the given resources and technology.

A production possibility curve is the **locus** of all such combinations of two commodities which can be produced in a country with its given resources and technology.



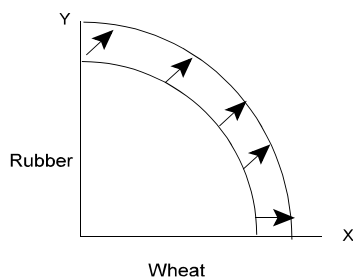
**In the above PPC curve-**

- The producer can prefer to produce any combination of Rubber and Wheat that lies on the  $PP_1$

→ PPC curve is concave to the origin because of increasing opportunity cost.

Opportunity cost is the cost of the forgone opportunity. It is the next best alternative forgone. Since the resources are limited hence growing more of rubber will require foregoing some units of wheat and vice-versa. It is different for each individual and Nation.

- The point A inside the PPC shows that the resources are under utilised and more production is possible by employing efficient technology.
- The point D outside the PPC indicates that the economy does not have sufficient resources to reach that point. Hence it is unattainable with the given resources.
- If the technology is improved, the production will increase and hence PPC will shift rightward.



**Economic Systems:**

- The system through which the economy operates is known as the economic system
- There are three types of economic systems- Capitalistic, Socialistic and mixed

• **Types of Economic Systems:**

(a) Capitalistic system - it is a free economy where government interference is not found

• **Features of Capitalist Economy:**

- (a) Right to private property
- (b) No government interference (Laissez faire)
- (c) Profit Motive

- (d) Price determination through price/market mechanism
- (e) Competition
- (f) Use of money and credit (capitalism necessitates an elaborate system of financing its economic activities which involves the use of money and credit.
- (g) Consumer sovereignty.
- **Working of Capitalist Economy:**
  - (a) Capitalist economy is guided by market forces and hence price mechanism is used to solve Central Problems.
  - (b) As a consumer, he will buy only that commodity in which his consumer surplus is maximum.  
[Consumer surplus = What we are ready to pay - what we actually pay]
  - (c) A producer will produce only that good which maximizes his profit
  - (d) The goods should be produced for those who want to pay for what they demand.
  - (e) The problem of distribution of income is solved by comparing the satisfaction from current consumption and future consumption.
- **Merits**
  - (a) Self regulated (No government interference)
  - (b) Profit motive leads to faster economic growth
  - (c) Optimum allocation of productive resource
  - (d) Capitalist system provides incentives in the form of profit for efficient decision making.
  - (e) It ensures a high degree of operative efficiency.
  - (f) Policies of laissez- faire prevails (i.e. absence of state intervention)
  - (g) Competitive in nature.
  - (h) Guided by market forces of demand and supply.
- **Demerits:**
  - (a) Heads to inequalities of income and wealth
  - (b) Law of inheritance leads to difference in economic opportunities
  - (c) Wastage of productive resources on account of competition (like advertising)
  - (d) Less production of merit goods.
  - (e) Production based on profit motive may lead to production of harmful goods.

- (f) Only profitable goods are produced.
- (g) Loss of Human values Welfare.

**(b) Socialist Economy:**

The economy in which material means of production are owned by state i.e. the Government. It has 'Frozen' operations.

- **Features:**
  - (a) Ownership of factors of production is in the hands of Government.
  - (b) Absence of market mechanism
  - (c) Existence of centralised economic planning.
  - (d) The use of money and credit is restricted to minimum
  - (e) Economic equalities and social welfare
- **Working of Socialist Economy:** Due to the absence of market mechanism, the central economic problems are solved by the Central Planning Authority.
- **Merits:**
  - (a) Distributive justice (Income inequalities)
  - (b) Social welfare and social security
  - (c) Lack of competition
  - (d) Elimination of exploitation of resources
  - (e) Centrally Planned decision making.
- **Demerits:**
  - (a) No incentives/motivation for hard work
  - (b) Low rate of economic growth, poor productivity of labour and low per capita income.
  - (c) Lack of competition
  - (d) Emergence of State Monopoly.
- **Mixed Economy:** An economic system which contains elements of both private and public sector.
- **Features:**
  - (a) Co existence of both private and public sector
  - (b) Existence of both market mechanism and planning authority.
  - (c) Balanced Regional Development
  - (d) Income inequalities are minimized.

- **Working of Mixed Economy:** In mixed economy both market mechanism and planning authority operates.
- **Mixed Economy in India:**
  - (a) In India certain sectors are reserved for government whereas in others market mechanism is allowed to operate freely.
  - (b) In India both private and public sector operate
  - (c) In a mixed economy like India public sector undertakings find a prominent place because of :
    - they help in accelerating capital formation and economic growth
    - they help in correcting imbalances in the economy.
- **Demerits:**
  - (a) Difficult to operate
  - (b) Heavy taxes
  - (c) Nepotism
  - (d) Too much of formal hassles

**Economic Cycles:**

- Economic cycles refers to the fluctuations in the economy of a country.
- These are also known as business cycles.
- They can occur in the form of–
  - (i) Rapid economic growth (boom or expansion)
  - (ii) Stagnation or decline (contraction/recession or depression)
- Business cycles are measured by considering the growth rate of real gross domestic product.
- They do not follow a mechanical or predictable periodic pattern.
- **Stages of Economic Cycles:**
  - (i) Economic boom/ inflation
  - (ii) Economic slowdown
  - (iii) Economic recession
  - (iv) Economic recovery

**Economic Boom:**

- It is a situation when national output rises at a faster rate than trend rate of growth (of about 2.5% per year)
- It leads to:



- (i) Rising demand
- (ii) Rising employment and output
- (iii) Rising demand for imports
- (iv) Rise in profits and revenue and investment increase
- (v) Danger of demand pull and cost push inflation
- (vi) Increased utilisation rate of existing resources.
- (vii) Rise in Government tax revenue.

**Economic Slowdown:-**

- It is a situation when national output rises but at a slower growth rate.
- If slowdown continues without reaching recession, it is called as soft landing.

**Economic Recession:**

- It is a situation when output starts falling and economic growth is negative
- It leads to:
  - (i) Decline in output and employment
  - (ii) Fall in business profits
  - (iii) De stocking (selling articles at heavy discounts)
  - (iv) Falling demand for imports and reduced inflationary pressure
  - (v) Fall in average living standards
  - (vi) Increased Government borrowing, lower interest rate from Central Bank.

**Note:**

- When recession continues for a long period it becomes depression.
- The last stage of economic recession is depression.

**Economic Recovery:**

- After reaching the lowest point when the output starts increasing it is known as the stage of economic recovery.
- The speed of recovery depends upon–
  - (i) how quickly aggregate demand rises
  - (ii) how quickly producers can raise output and rebuild their stock levels in anticipation of rise in demand.

**Multiple Choice Questions**

1. Which one of these is not an element of discipline of economics?
  - (a) Study of working of an economy and the issues faced by it.
  - (b) Economic problems of individuals and societies are not of other social cultural aspects of human existence.
  - (c) The nature of economic problems and their solution is closely linked with the structure of economic system and its progress and development.
  - (d) Increasing the overall economic well being of the members of the society.

**Answer:**
2. The primary task of the discipline of economics is to study:
  - (a) The progress and development
  - (b) Estimates of national income
  - (c) Analyse the demand
  - (d) The working of an economy and issues and problems faced by it.

**Answer:**
3. "Study of an economy" includes:
  - (a) Alternative forms of an economy like capitalism, socialism, a mixed economy; etc.
  - (b) Interrelationships between economic units and their groups;
  - (c) Interrelationship between different economies with each other;
  - (d) All the above.

**Answer:**
4. Which one from the following is a problem with wants?
  - (a) Inequalities of income
  - (b) Availability of insufficient of resources to satisfy them
  - (c) Mismatch between available means (resources) and wants.
  - (d) Both (b) and (c)

**Answer:**
5. Who explained the theory of economics as " It is a method rather than doctrine an apparatus of the mind, a technique of thinking which helps its possessors to draw correct conclusions".

- (a) Adam Smith (b) J.M Keynes  
(c) Lionell Robbins (d) Alfred Marshall

Answer:

6. In which year was the book named “ An enquiry into the nature and causes of wealth” was given:

- (a) 1846 (b) 1948  
(c) 1776 (d) 1775

Answer:

7. The great object of political economy of every country is to :

- (a) Increase the equalities of income  
(b) Decrease the political and military strength  
(c) Ensure regional development  
(d) Increase the riches and power of that country.

Answer:

8. Find the correct match:

- (a) An inquiry into the nature and causes of wealth. Alfred Marshall  
(b) Science which deals with wealth. Lionell Robbins  
(c) Economics is the science that studies human behavior as a relationship between ends and scarce means which have alternative uses. Lionell Robbins.  
(d) Science of material well being. Samuelson.

Answer:

9. The law of scarcity:

- (a) Does not apply to rich, developed countries  
(b) Applies only to less developed country  
(c) Implies that consumer wants will be satisfied in a socialist system.  
(d) Implies that consumer’s wants will never be satisfied.

Answer:

10. Who expressed the view that economic is neutral between ends?

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

Answer:

11. Which one of the following is a demerit of economics as a “ wealth”?

- (a) Concept of wealth is wide (b) Neglect welfare aspect

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- (c) Universally accepted (d) None of the above

Answer:

12. The shortage of “merit goods” leave a very strong argument in hand of the:

- (a) Critics of welfare approach (b) Critics of wealth approach  
(c) Critics of scarcity approach (d) Both (a) and (b)

Answer:

13. “Science has a methodological apparatus”. means

- (a) Economics can be easily measured  
(b) Economics shows causes and effect relationship  
(c) Economics can be studied through various methods  
(d) None of the above.

Answer:

14. Which one of the followings a method of studying economics?

- (a) Inductive Reasoning (b) Deductive Reasoning  
(c) Both (a) and (b) (d) Balance of Payments

Answer:

15. What does the term “Norm” or standard implies?

- (a) What should not be (b) “What is”  
(c) Value judgements (d) What ought to

Answer:

16. Who used the term “Micro and Macro Economics” for the first time?

- (a) J.M Keynes (b) Lord Robbins  
(c) Rognar Frisch (d) Karl Pearson

Answer:

17. What does the term “bit by bit” approach implies?

- (a) Solving problem of allocation of resources  
(b) Breaking a big problem into small parts  
(c) Small variable  
(d) This approach does not exist

Answer:

18. By which other name Micro-economics is known as?

- (a) Descriptive Economics

- (b) Normative Economics
- (c) Price theory
- (d) Positive Economics

**Answer:**

19. Under which economics variables are aggregated and relate to large groups.

- (a) Micro Economics
- (b) Macro Economics
- (c) Both (a) and (b)
- (d) Descriptive Economics

**Answer:**

20. Which one from the below is a component of micro economics?

- (a) Theory of national income
- (b) Theory of consumer behaviour
- (c) Theory of balance of Payments
- (d) Deficit financing

**Answer:**

21. At which level, problems of poverty and unemployment can be solved?

- (a) Macro Level
- (b) Micro Level
- (c) None of above
- (d) Both (a) and (b)

**Answer:**

22. "A free economy where government interference is not found".

- (a) Socialist economy
- (b) Capitalistic economy
- (c) Mixed economy
- (d) Production economy

**Answer:**

23. The interaction between forces of demand and supply and prices of goods is known as:

- (a) Demand mechanism
- (b) Market mechanism
- (c) Demand analysis

(d) Supply analysis

**Answer:**

24. The problem of distribution of income is solved by:

- (a) Comparing the satisfaction from current consumption and future consumption
- (b) Price mechanism
- (c) Utility approach
- (d) None from the above

**Answer:**

25. Which economic system provides a base for efficient decision making?

- (a) Mixed system
- (b) Capitalistic system
- (c) Socialist system
- (d) Both (b) and (c)

**Answer:**

26. Capitalism is also characterized by what is known as policy of:

- (a) Laissez-faire
- (b) Price
- (c) Savings
- (d) Investments

**Answer:**

27. "Determination of individual price" is an example of:

- (a) Macro economics
- (b) Open economics
- (c) Closed economics
- (d) Micro economics

**Answer:**

28. Under which authority decisions relating to central problems of authority are taken.

- (a) Issuing authority
- (b) No such authority exist
- (c) Central Planning authority
- (d) None of the above

Answer:

29. "Profit motive leads to faster economic growth is merit of:

- (a) Open economy
- (b) Descriptive economy
- (c) Capitalist economy
- (d) Socialist economy

Answer:

30. Public sector happens to be an important feature of:

- (a) Mixed economy
- (b) Closed economy
- (c) Socialist economy
- (d) Capitalist economy

Answer:

31. "An inquiry in to the nature and causes of wealth of the nations" was defined by?

- (a) J.B Say
- (b) Alfred Marshall
- (c) Adam Smith
- (d) Robbins

Answer:

32. Who explained economics as science of dynamic growth and development?

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

Answer:

33. Micro economics is also known as:

- (a) Process theory
- (b) Product theory
- (c) Price theory
- (d) Income theory.

Answer:

34. The term economics is derived from two Greek words, \_\_\_\_\_ and \_\_\_\_\_.

- (a) Oikou, Nomos
- (b) Kiyu, Nimas
- (c) Oikou, Nimas
- (d) None of the above.

**Answer:**

35. Which of the following is not a central problem of the economy?

- (a) What to produce ?
- (b) How to produce?
- (c) For whom to produce ?
- (d) When to produce?

**Answer:**

36. Production possibilities curve is \_\_\_\_\_ to the origin.

- (a) Parallel
- (b) Convex
- (c) Concave
- (d) Perpendicular.

**Answer:**

37. Normative Science deals with \_\_\_\_\_.

- (a) What is ?
- (b) What ought to be ?
- (c) What can be ?
- (d) All of the above.

**Answer:**

38. Which economy emphasized on self interest and profit motive ?

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

**Answer:**

39. What is the "Fundamental Premise of Economics" ?

- (a) Natural resources will always be scarce.



- (b) Individuals are capable of establishing goals and acting in a manner Consistent with achievement of those goals.
- (c) Individuals choose the alternative for which they believe the net gains to be the greatest.
- (d) No matter what the Circumstances, individual choice always involves a trade-off.

**Answer:**

40. An Example of 'Positive' Economic analysis would be:

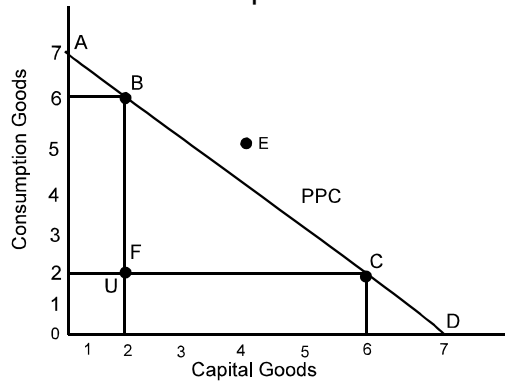
- (a) An analysis of the relationship between the price of food and the quantity purchased.
- (b) Determining how much income each person should be guaranteed.
- (c) Determining the 'fair" price for food.
- (d) Deciding how to distribute the output of the Economy.

**Answer:**

3.26

Model Solved Scanner CS FP-BE Paper 3 (New Syllabus)

Use the figure below to answer questions 41 - 42.



41. Which point on the PPF shows a "Productively efficient" level of output ?

- (a) A
- (b) B
- (c) C
- (d) All of the above.

Answer:

42. Which of the following clearly represents a movement towards greater productive efficiency ?

- (a) A movement from point A to point B
- (b) A movement from point C to point D
- (c) A movement from point F to point C
- (d) A movement from point E to point B.

Answer:

43. The branch of economic theory that deals with problem of allocation of resources is.

- (a) Micro - Economic theory
- (b) Macro - Economic theory
- (c) Econometrics
- (d) None of the above.

Answer:

44. Use the following table to answer the following question:

Production possibilities:	A	B	C	D	E	F
Good x :	0	1	2	3	4	5
Good y :	60	56	48	36	20	0

What is the opportunity cost of increasing Good X's production from 2 to 4 units =?

- (a) 28 Units of y
- (b) 20 Units of y
- (c) 4 Units of y
- (d) 48 Units of y.

Answer:

45. Government has no control over price fluctuation in \_\_\_\_\_ economic system.

- (a) Mixed Economy
- (b) Command Economy
- (c) Market Economy
- (d) None of the above.

Answer:

46. Which economist is titled as the "Father of Economics" ?

- (a) A.C. Pigou
- (b) J.B. Say
- (c) Paul A. Samuelson
- (d) Adam Smith.

Answer:

47. Which one from the below is the characteristic of capitalistic economy?

- (a) Collective Ownership
- (b) Welfare Motive
- (c) Both (a) and (b)
- (d) Right of private property.

Answer:

48. Merit goods are those consumption of which benefits :

- (a) Only consumers
- (b) Non - consumers
- (c) Not only consumers but also non - consumers
- (d) Lower income group.

**Answer:**

49. Consumer sovereignty is a feature of :

- (a) Capitalist economy
- (b) Socialist economy
- (c) Mixed economy
- (d) None of these.

**Answer:**

50. Normative approach of economics is presented by:

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

**Answer:**

51. Balance regional development is a feature of :

- (a) Capitalist Economy
- (b) Mixed Economy
- (c) Socialistic Economy
- (d) None of these.

**Answer:**

52. Which economics explains economic phenomenon according to their cause and effects ?

- (a) Applied
- (b) Positive
- (c) Empirical
- (d) All the above.

**Answer:**

53. Which of the following is related to Micro Economics ?

- (a) National Income
- (b) Inflation in the Economy
- (c) Income from railways
- (d) Problem of unemployment.

**Answer:**

54. Which economist emphasized the positive aspects of science ?

- (a) Alfred Marshall
- (b) A.C. Pigou
- (c) Robbins
- (d) Paul A. Samuelson.

**Answer:**

55. Large production of \_\_\_\_\_ goods would lead to higher production in future.

- (a) Agricultural goods
- (b) Consumer goods
- (c) Capital goods
- (c) All the above.

**Answer:**

56. In which type of economy do consumers and producers make their choices based on the market forces of demand and supply ?

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

**Answer:**

57. Last stage of recession is called:

- (a) Depression
- (b) Recovery
- (c) Slowdown
- (d) All of these.

**Answer:**

58. In the present global, liberal and knowledge based environment, the understanding of \_\_\_\_\_ has become quite indispensable.

- (a) Economic Growth
- (b) Economic Development
- (c) Economic Issues
- (d) None.

**Answer:**

59. The principle fact about economics to be remembered always is that, it is a \_\_\_\_\_.

- (a) Normal science
- (b) Ordinary science
- (c) Social science
- (d) Both (a) & (b)

**Answer:**

60. An economy is the \_\_\_\_\_ through which individuals in the society coordinates their diverse wants and desires:

- (a) Economic system
- (b) Economic Institution
- (c) Both (a) and (b)
- (d) None.

**Answer:**

61. Which is not the two - fold course of action which every society and its components adopts .

- (a) To increase the availability of resources by their own efforts.
- (b) To maximize the use of available resources in best possible economical manner
- (c) Both (a) and (b)
- (d) None of these.

**Answer:**

62. Economics was originally introduced as \_\_\_\_\_

- (a) Science of state craft
- (b) Science of coins
- (c) Art and craft
- (d) None of these.

**Answer:**

63. According to Smith, the use of labour should be primarily for \_\_\_\_\_.
- (a) Unproductive purposes
  - (b) Productive purposes
  - (c) Both (a) and (b)
  - (d) None of these.

**Answer:**

64. Ignoring the higher values of life and reducing it to dismal science, it is related with whose definition
- (a) A. Marshall
  - (b) L. Robins
  - (c) Paul A. Samuelson
  - (d) Adam Smith.

**Answer:**

65. Rational decision making requires that
- (a) One's choices to be arrived at logically and without error
  - (b) One's choices should be consistent with one's goal
  - (c) One's choices never vary.
  - (d) One makes choice that do not involve trade-off.

**Answer:**

66. "Economics is a study of man in the ordinary business of life, this is written by \_\_\_\_\_
- (a) Adam Smith
  - (b) A.C. Pigou
  - (c) A Marshall
  - (d) L. Robbins.

**Answer:**

67. "The range of our inquiry becomes restricted to that part of social welfare that can be brought directly or indirectly into relation with measuring rod of money". This definition was written by \_\_\_\_\_ .
- (a) Adam Smith
  - (b) Alfred Marshall
  - (c) A.C. Pigou
  - (d) Paul. A. Samuelson.

**Answer:**

68. Marshall's welfare definition is restrictive in the sense that it
- (a) Excludes economies, which were not guided by monetary and market forces.
  - (b) Excludes that part of human welfare which is derived from material goods and services and not from social and political aspects of life.
  - (c) Both (a) and (b)
  - (d) None of these.

**Answer:**

69. Any problem marked by the scarcity of means and multiplicity of ends becomes an economic problem known as —
- (a) Ipso Facto
  - (b) Ispo Facto
  - (c) Iso Facto
  - (d) None of these.

**Answer:**

70. Economics according to Lionel Robbins is a
- (a) Normative science
  - (b) Applied Science
  - (c) Positive science
  - (d) Experimental science.

**Answer:**

71. Samuelson emphasised upon the twin themes of economics —
- (a) Scarcity and Efficiency
  - (b) Scarcity and Growth
  - (c) Growth and Efficiency
  - (d) None of these

**Answer:**

72. A study of how an increase in the corporate income tax rate will affect the nation's unemployment is example of —
- (a) Macro - Economics
  - (b) Descriptive Economics
  - (c) Micro - Economics
  - (d) Normative Economics

**Answer:**



73. Economic goods are considered scarce resources because they —
- (a) Cannot be increased in quantity.
  - (b) Does not exist in adequate quantity to satisfy the social requirement
  - (c) Are of primary importance in satisfying social requirements.
  - (d) Are limited to man made goods.

**Answer:**

74. “Complete neutrality between end is however neither feasible nor desirable”, it’s the part of –
- (a) Economics as an art
  - (b) Positive economics or science
  - (c) Normative science
  - (d) Micro Economics

**Answer:**

75. \_\_\_\_\_ is also described as price and value theory —
- (a) Macro Economics
  - (b) Development Economics
  - (c) Micro Economics
  - (d) Health Economics

**Answer:**

76. PPC is given by —
- (a) Adam Smith
  - (b) L. Robins
  - (c) Paul. A. Samuelson
  - (d) J.B. Say

**Answer:**

77. A capitalist economy uses \_\_\_\_\_ as the principle means of allocating resources.
- (a) Demand
  - (b) Supply
  - (c) Efficiency
  - (d) Prices

**Answer:**

3.34

■ Model Solved Scanner CS FP-BE Paper 3 (New Syllabus)

78. In a free market economy, the allocation of resources is determined by—
- (a) Votes taken by consumers
  - (b) A central planning authority
  - (c) Consumer Preference
  - (d) The level of profits of firms

**Answer:**

79. In a free market economy, when consumers increases their purchases of a good and the level of \_\_\_\_\_ exceeds \_\_\_\_\_, then prices tend to rise.
- (a) Demand, supply
  - (b) Supply, demand
  - (c) Prices demand
  - (d) Profits, supply

**Answer:**

80. An economy achieves “Productive efficiency” when —
- (a) Resources are employed in their most highly valued uses.
  - (b) The best resources are employed.
  - (c) The total number of goods produced is greatest.
  - (d) Goods and services are produced at least cost & no resources are wasted.

**Answer:**

81. If PPF is linear i.e. a straight line, which one of the following is correct—
- (a) As the production of good increases, the opportunity cost of that good rises.
  - (b) As the production of a good increases, the opportunity cost of that good falls.
  - (c) Opportunity cost remains constant
  - (d) The economy is not at full employment when operating on PPF.

**Answer:**

82. Which of the following is a reason for the curvature or bowed-out shape of the PPC ?
- (a) Falling unemployment as we move along the curve.
  - (b) The economy having to produce less of one good in order to produce more of another good
  - (c) Opportunity cost increases as more of a good is produced.
  - (d) None of these.

**Answer:**

83. Which is one of the reason for negative slope of PPC?
- (a) The inverse relationship between the use of technology and the use of natural resources.
  - (b) Scarcity at any point, we have limited amount of productive resources.
  - (c) Resource specialisation
  - (d) Increasing opportunity cost.

**Answer:**

84. 'Economics is what economist do' is given by—
- (a) Jacob Viner
  - (b) Henry Smith
  - (c) Pigou
  - (d) Paul. A. Samuelson.

**Answer:**

85. PPC is also known as —
- (a) Demand curve
  - (b) Supply curve
  - (c) Indifference curve
  - (d) Transformation curve

**Answer:**

86. 'What ought to be' or ' what should be the thing', it's the nature of—
- (a) Positive Economics
  - (b) Normative Economics
  - (c) Positive Art
  - (d) Normative Art.

**Answer:**

87. Which market is also known as 'frozen market' —

- (a) Capitalist economy
- (b) Socialist Economy
- (c) Mixed economy
- (d) None of these.

**Answer:**

88. Which is not one of the demerits of capitalist economy?

- (a) Inequalities of income and wealth
- (b) Difference in economic opportunities
- (c) Wastage of resources
- (d) Immobility of choice of working.

**Answer:**

89. Economic Boom/Inflation is a situation where \_\_\_\_\_

- (a) National output falls
- (b) National output rises
- (c) Growth Rate is 2.5%
- (d) Both (b) and (c).

**Answer:**

90. "Prices rises due to which factor of production?"

- (a) Demand pull inflation
- (b) Cost push Inflation
- (c) Both (a) & (c)
- (d) None of these.

**Answer:**

91. An economic slump is a situation when there is —

- (a) A sudden fall in prices or demand
- (b) A sudden rise in prices or demand
- (c) A sudden fall in national output
- (d) Both (a) and (c).

**Answer:**

92. Economics means —

- (a) Management
- (b) Business Management
- (c) House Management
- (d) Both (b) and (c).

**Answer:**

93. Human wants may be classified into—

- (a) Economic wants
- (b) Non-economic wants
- (c) Either (a) or (b)
- (d) Both (a) and (b).

**Answer:**

94. “If economists were laid end to end, they would not reach a conclusion”.

This definition is given by—

- (a) George Bernard Marshall
- (b) George Bernard Shaw
- (c) Adam Smith
- (d) A. L. Ligou.

**Answer:**

95. “Principles of economics” was published by Alfred Marshall in the year—

- (a) 1890
- (b) 1776
- (c) 1900
- (d) 1756

**Answer:**

96. According to Alfred Marshall, end is \_\_\_\_\_

- (a) Wealth
- (b) Human welfare
- (c) Growth
- (d) Development

**Answer:**

97. “Economics as a science of scarcity and choice”. This definition of economics was given by—

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

**Answer:**

98. "An essay on the nature and significance of economic science". This book was published in which year ?

- (a) 1776 (b) 1890  
(c) 1932 (d) 1756

**Answer:**

99. The Book "Economics : An Introductory Analysis" was published in which year ?

- (a) 1890 (b) 1948  
(c) 1776 (d) 1932

**Answer:**

100. For whom to produce is basically the problem of –

- (a) Distribution of produced goods  
(b) Distribution of produced services  
(c) Both (a) and (b)  
(d) Allocation of resources.

**Answer:**

101. \_\_\_\_\_ is the locus of all such combination of two commodities which can be produced in a country with its given resources and technology?

- (a) Production possibility curve  
(b) Marginal rate of substitution  
(c) Indifference curve  
(d) None of the above.

**Answer:**

102. \_\_\_\_\_ is the value of alternative foregone in order to have some thing else

- (a) Opportunity Curve  
(b) Production Possibility Curve  
(c) Indifference Curve  
(d) Opportunity cost.

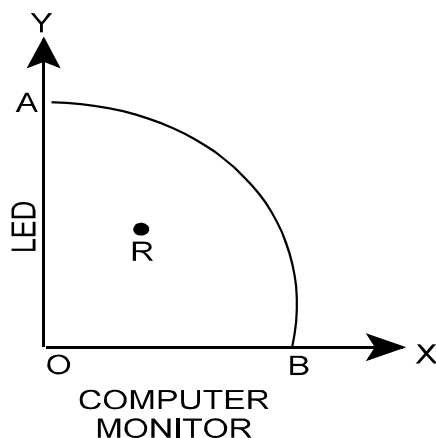
**Answer:**

**Answer**

<b>1</b>	(d)	<b>2</b>	(d)	<b>3</b>	(d)	<b>4</b>	(d)	<b>5</b>	(b)	<b>6</b>	(c)
<b>7</b>	(d)	<b>8</b>	(c)	<b>9</b>	(d)	<b>10</b>	(b)	<b>11</b>	(b)	<b>12</b>	(c)
<b>13</b>	(c)	<b>14</b>	(c)	<b>15</b>	(d)	<b>16</b>	(c)	<b>17</b>	(b)	<b>18</b>	(c)
<b>19</b>	(b)	<b>20</b>	(b)	<b>21</b>	(a)	<b>22</b>	(b)	<b>23</b>	(b)	<b>24</b>	(a)
<b>25</b>	(b)	<b>26</b>	(a)	<b>27</b>	(d)	<b>28</b>	(c)	<b>29</b>	(c)	<b>30</b>	(c)
<b>31</b>	(c)	<b>32</b>	(d)	<b>33</b>	(c)	<b>34</b>	(a)	<b>35</b>	(d)	<b>36</b>	(c)
<b>37</b>	(b)	<b>38</b>	(a)	<b>39</b>	(c)	<b>40</b>	(a)	<b>41</b>	(d)	<b>42</b>	(c)
<b>43</b>	(a)	<b>44</b>	(a)	<b>45</b>	(c)	<b>46</b>	(d)	<b>47</b>	(d)	<b>48</b>	(c)
<b>49</b>	(a)	<b>50</b>	(a)	<b>51</b>	(b)	<b>52</b>	(b)	<b>53</b>	(c)	<b>54</b>	(c)
<b>55</b>	(c)	<b>56</b>	(d)	<b>57</b>	(a)	<b>58</b>	(c)	<b>59</b>	(c)	<b>60</b>	(b)
<b>61</b>	(d)	<b>62</b>	(a)	<b>63</b>	(b)	<b>64</b>	(d)	<b>65</b>	(b)	<b>66</b>	(c)
<b>67</b>	(c)	<b>68</b>	(a)	<b>69</b>	(a)	<b>70</b>	(c)	<b>71</b>	(a)	<b>72</b>	(d)
<b>73</b>	(b)	<b>74</b>	(b)	<b>75</b>	(c)	<b>76</b>	(c)	<b>77</b>	(d)	<b>78</b>	(c)
<b>79</b>	(a)	<b>80</b>	(d)	<b>81</b>	(c)	<b>82</b>	(c)	<b>83</b>	(b)	<b>84</b>	(a)
<b>85</b>	(d)	<b>86</b>	(b)	<b>87</b>	(b)	<b>88</b>	(d)	<b>89</b>	(d)	<b>90</b>	(b)
<b>91</b>	(d)	<b>92</b>	(d)	<b>93</b>	(b)	<b>94</b>	(a)	<b>95</b>	(a)	<b>96</b>	(b)
<b>97</b>	(d)	<b>98</b>	(c)	<b>99</b>	(b)	<b>100</b>	(c)	<b>101</b>	(a)	<b>102</b>	(d)

## Questions of December 2012

1. The definition of Economics as a Science of development & growth with the twin objectives of scarcity and efficiency, was given by:—
  - (a) Paul A. Samuelson
  - (b) A.K. Sen
  - (c) Lionel R. Robbins
  - (d) Adam Smith
2. One of the following statements is not a positive statement—
  - (a) To check inflation, the RBI should raise the bank rate
  - (b) Inflation has impact on consumer price index
  - (c) Unemployment is the major cause of widespread poverty
  - (d) An increase in the income of the households results in a rightward shift in the demand curve.
3. Microeconomics does not study:—
  - (a) The level of output that an individual firm produces during a period of time
  - (b) The determination of wage rate by the automobile industry during a given period
  - (c) The determination of causes that result in hyper inflation in an economy.
  - (d) The determination of equilibrium output of an individual firm in a perfectly competitive market.
- 4.





In the above figure, the point R represents—

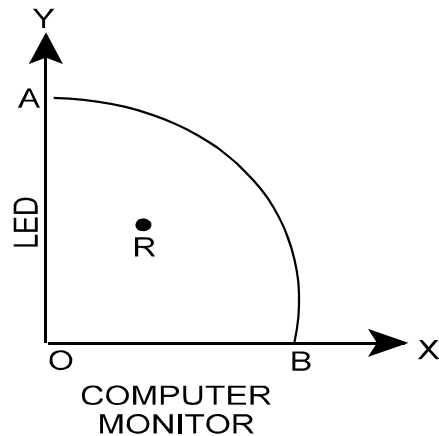
- (a) The best level of output in the given situation
  - (b) The equilibrium level of output in the given economy
  - (c) The full utilization of resources in the economy
  - (d) The under-utilization of resources in the economy.
5. Given the amount of available resources in the economy as demonstrated in figure above, if the technology to produce computer monitor improves, so that with the help of given resources more monitors can be produced, the production possibility curve\_\_\_\_\_.
- (a) Will remain unchanged
  - (b) Will shift to the left
  - (c) Will shift to the right
  - (d) Will form the intercept at point A, but the intercept at point B will shift to the right.
6. 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.
7. Match the following:
- | <b>Features</b>   | <b>Stage of Business Cycle</b> |
|---|--------------------------------|
| (i) Rising employment and real wages                    | (A) Recession                  |
| (ii) Fall in the rate of growth                         | (B) Boom                       |
| (iii) Fall in the level of real national output         | (C) Slowdown                   |
| (iv) Setting in of the rising trend of national outputs | (D) Recovery                   |
- (a) (i) (B), (ii) (C), (iii) (A), (iv) (D)
  - (b) (i) (A), (ii) (B), (iii) (B), (iv) (D)
  - (c) (i) (D), (ii) (C), (iii) (C), (iv) (A)
  - (d) None of the above.

8. After your Board Examination you could have got a job that would pay you ₹ 10,000 per month. Instead you go in for further studies spending ₹ 8,000 per month on books, fees, etc. The opportunity cost of higher studies for you is—
- (a) ₹ 8,000
  - (b) ₹ 10,000
  - (c) ₹ 2,000
  - (d) ₹ 18,000
9. A country discovered a huge stock of gold lying buried in deep earth. It begins to mine out the gold and also finds a foreign buyer. Graphically, this position would be shown as—
- (a) Downward shift of production possibility curve
  - (b) Upward shift of production possibility curve
  - (c) Downward movement on a given production possibility curve
  - (d) Upward movement on a given production possibility curve.
10. Macroeconomics came into picture after the publication of the book 'The General Theory of Employment, Interest and money' which was written by
- (a) Alfred Marshall
  - (b) Manmohan Singh
  - (c) J.M. Keynes
  - (d) Kaushik Basu

**Solutions of December 2012**

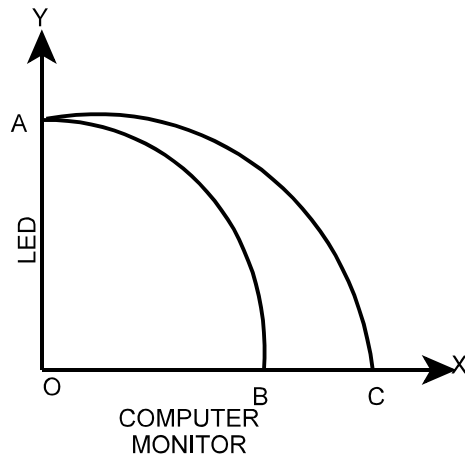
1. (a) The definition of Economics as a science of development and growth with the twin objective of scarcity and efficiency was given by **Paul A Samuelson** as he described his objective like.
- "Economics is the study of how people and society end up choosing, with or without the use of money, to employ scarce productive resources that could have alternative uses to produce various commodities over time and distributing them for consumption, now or in future, among various persons or group in society. It analysis cost and benefits of improving patterns of resource allocation".

2. (a) **“To check inflation, the RBI should raise the bank rate”** is not a positive science  
As normative science, economics involves value judgement. It is prescriptive in nature and described ‘what ought to be’ or ‘what should be the things’. Thus, option A is a normative statement.
3. (c) Micro economics does not study **the determination of causes the result in hyper inflation in an economy** as Micro economics may be defined as that branch of economic analysis which studies the economic behaviour of the individual unit.
4. (d)



Point R in the above figure explains the **under utilization of resources in the economy**. In this situation country needs to increase the production of computer Monitor and LED, so as to reach the point on the curve AB. Point R shows inefficient utilization of resource.

5. (d) Given the amount of available resources in the economy as demonstrated in figure above, if the technology to produce computer monitor improves, so that with the help of given resources more monitors can be produced, the **production possibility curve will form the intercept at point A, but the intercept at point B will shift to the right**



BC is the amount of production of computer monitor that has increased.

6. (b) A capitalist economy is by and large a **free market economy**. A capitalist economic system in one which is characterized by free markets and the absence of government intervention in the economy. Capitalism derives its names from the fact that in this system, means of production are not owned by the government.
7. (a) **Boom:-** It means rising employment and real wages. Boom occurs when national output is using strongly at a rate faster than the trend rate of growth.

**Slowdown:-** It means fall in rate of growth. A slowdown occurs when the rate of growth decelerates but national output is still rising.

**Recession:-** It means fall in the level of real national output. A national output declines leading to contraction in employment, incomes and profit.

**Recovery:-** It means setting in of the rising trends of national outputs. A recovery occurs when real national output picks up from the trough reached at the low point of recession.

8. (d) After your Board Examination you could have got a job that would pay you ₹10,000 per month. Instead you go in for further studies spending ₹ 8,000 per month books, fees etc. The opportunity cost of higher studies for you is **₹18,000**. Opportunity cost is the value of the alternative foregone in order to have something else.
9. (c) A country discovered a huge stock of gold lying buried in deep earth. It begins to mine out the gold and also finds a foreign buyer. Graphically this position would be shown as **downward movement on a given possibility curve**. Any point on PPC shows the commodities which can be produced in a country with its given resources and technology.
10. (c) **JM Keynes** wrote the book 'The General Theory of Employment, Interest and Money' which brought Macro economics into the picture.

**Questions of June 2013**

1. Match the following:
- |   |                         |
|---|-------------------------|
| X. Growth oriented definition of Economics                                  | (i) Normative statement |
| Y. Government should reduce taxes to promote growth                         | (ii) India              |
| Z. Supply of a commodity is less than the quantity demanded at a zero price | (iii) Paul Samuelson    |
| W. Second largest populated country   | (iv) Scarcity           |
- The correct option is:
- (a) X(iii); Y(i); Z(iv); W(ii)  
(b) X(iv); Y(iii); Z(ii); W(i)  
(c) X(i); Y(ii); Z(iii); W(iv)  
(d) X(ii); Y(iii); Z(iv); W(i).
2. Laissez faire refers to \_\_\_\_\_ with no or little intervention by the government in economic activities. Which one of the following is the correct option to fill in the blank space?

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Model Solved Scanner CS FP-BE Paper 3 (New Syllabus)

- (a) Centrally planned economies
  - (b) Controlled socialist economies
  - (c) Free market economies
  - (d) Mixed socialist economies.
3. Marshall's views on the nature of economics were supported by:
- (a) Lionel Robbins
  - (b) Adam Smith
  - (c) A.C. Pigou
  - (d) Paul Samuelson.

### Solutions of June 2013

1. (a) **Paul Samuelson** give the growth oriented definition of economics- "Economics is the study of how people and society end up choosing, with or without the use of money, to employ scarce productive resources that could have alternative uses to produce various commodities over time and distributing them for consumption, now or in the future, among various persons or groups in society. It analysis cost and benefits of improving patterns of resource allocation".
- Normative Statements** are based on value judgements. It describes what ought to be or what should be the things. E.g.- Government should reduce the terms to promote growth.
- Scarcity means that the supply of a commodity is less than the quantity demanded at zero price.
- India is a country with the second largest population in the world.
2. (c) In free market economics, it is decided that working of the selected segment of the economy should be guided by free market economies. The net effect of this arrangement is expected to be beneficial for the society as a whole.
- So, Laissez Faire refer to free **market economies** with no or little intervention by the government in economic activities.

3. (c) Marshall's definition is an admirable example of economics as a science of material well-being. Pigou also emphasized on social welfare but only that part of it which can be related with measuring rod of money.

Thus, both Marshall's and Pigou's definitions of economics take into account the aspect of social welfare.

**Questions of December 2013**

1. Among the following, which of the statement is reflecting both positive and normative economics —
- (a) If the general price level goes up, borrowers gain but lenders gain more
  - (b) Inflation hurts the poor more but they can find employment opportunities
  - (c) Inflation hurts the poor class more; therefore, the government should arrange to supply commodities at subsidised rates to this section of the society
  - (d) If the government supplies luxurious goods at cheaper rates, demand for such goods may fall.
2. An economic problem arises primarily due to scarcity of resources. Scarcity of resources is best reflected in the market supply of —
- W. Wheat and rice
  - X. Sand at sea shore
  - Y. High-brand jewellery
  - Z. Free air.
- Correct option is —
- (a) WX
  - (b) XZ
  - (c) WY
  - (d) YZ.

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3. Indian economy, at present juncture can be best represented as a —
- (a) Mixed socialist economy
  - (b) Mixed capitalist economy
  - (c) Purely capitalist economy
  - (d) Perfectly competitive market economy.

### Solutions of December 2013

1. (c) The options A, B and D are statements of only positive economics as it reflects – “What is ?” whereas option C is the statement of both positive and normative economics as it reflects both “What is?” and “What should be?”  
Thus, **option c** is correct.
2. (c) The problem of scarcity of resources arises when the resources are limited and the wants are unlimited.  
Amongst the given options, sand at sea shore and free air both are available in unlimited quantity. Thus, scarcity of resources is best reflected in the market supply of –
- wheat and rice
  - high brand jewellery.
- Therefore, the answer is **WY**.
3. (a) In the present juncture, Indian economy can be best represented as a **mixed socialist economy** because currently the major powers of the country are in Government hand and even the power which have been distributed to the private sector are greatly affected by all the Government’s decisions.

### Questions of June 2014

1. What is the effect of economic slow down on employment level?
- (a) Level of unemployment increases
  - (b) Level of unemployment decreases
  - (c) Employment opportunity is unaffected
  - (d) None of the above



2. Who is the writer of the book “The Economics of Welfare”?
  - (a) Alfred Marshall
  - (b) Lionell Robinns
  - (c) Paul A. Samuelson
  - (d) Pigou
3. In which direction PPC moves when technology improves : -
  - (a) Shift towards right
  - (b) Shift towards left
  - (c) No movement
  - (d) Shift upwards
4. Consumer sovereignty is found in which type of economy?
  - (a) Sociolistic Economy
  - (b) Mixed Economy
  - (c) Capitalistic Economy
  - (d) None of these
5. AC Pigou is related with material welfare definition.
  - (a) True
  - (b) False
  - (c) Partly True
  - (d) Partly False
6. Word ‘Oikonomikos’ is originated from which language?
  - (a) Greek
  - (b) Latin
  - (c) German
  - (d) French
7. “Principles of Economics” was given in which year?
  - (a) 1776
  - (b) 1890
  - (c) 1932
  - (d) 1948
8. When national output falls down, what does it mean?
  - (a) Economic Boom
  - (b) Economic Slowdown
  - (c) Economic Recession
  - (d) Economic Recovery

9. Wealth definition is given by-
  - (a) Alfred Marshall
  - (b) Paul Samuelson
  - (c) Lionnel Robbinson
  - (d) Adam Smith
10. When any point lies outside the PPC curve it means a situation of-
  - (a) Over utilization
  - (b) Under utilization
  - (c) Both (a) & (b)
  - (d) None of the above
11. If income and demand both has increased then it is an-
  - (a) Economic boom
  - (b) Economic slowdown
  - (c) Economic recovery
  - (d) economic recession
12. Inequalities and income & wealth is in which type of economy?
  - (a) Capitalist
  - (b) Socialist
  - (c) Mixed
  - (d) None
13. \_\_\_\_\_ is the value of alternative forgone in order to have something else.
  - (a) Opportunity Cost
  - (b) Incremental Cost
  - (c) Indifference Curve
  - (c) None of these

**Solutions of June 2014**

1. (c) In case of economic slowdown, the national output rises but at a slower rate without reaching recession. It leads to no change in employment. Hence, the effect of economic slowdown on employment level is that **employment opportunity is unaffected.**

2. (d) **Pigou** defined economics in terms of material welfare. He published his book "The Economics of Welfare" in 1920.
3. (a) If the technology is improved, the production will increase and hence PPC will shift rightward.
4. (c) In **capitalistic economy**, all economic activities are guided by market forces. Producers produce only those goods and services which are demanded by consumers in the market. The entire economy operates to meet the need and preferences of the consumers. This characteristic of capitalism is known as that of consumer sovereignty.
5. (a) Economics is the study of that part of human behaviour which could be measured in money terms and which could be attributed to a desire for economic growth under this definition of material welfare, the emphasis was given by two economists namely Alfred Marshall and A.C. Pigou. Thus it is **true** that Pigou is related with material welfare definition.
6. (a) The word Economics originates from the **Greek** word "Oikonomikos" which means – Oikos → House and Nomos → Management i.e. economics is house management.
7. (b) **Principles of Economics** was the book of Alfred Marshall in which he describes economics as a study of mankind in the ordinary business of life. This book was published in the year **1890**.
8. (c) When national output falls down, i.e. the period when the rate of economic growth is negative is termed as recession, Negative output declines leading to unemployment, contraction in projects and income. It is also called as **Economic Recession**.
9. (d) **Adam Smith** identified wealth as welfare. He assumed that; the wealthier a nation, the happier its citizens are.
10. (d) In case the resources are limited any point outside the PPC, the country cannot choose it as it is unachievable with the present resources. Hence, none of the above conditions represents the situation of PPC curve.

11. (a) Economic boom refers to a situation when national output rises at a faster rate than trend rate of growth.  
It leads to:  
(a) Rise in demand  
(b) Rising employment and output  
(c) Rising demand for imports  
(d) Rise in profits and revenue  
(e) Danger of demand pull and cost push inflation.  
Thus, in case income and demand both rises, it is a case of **economic boom**.
12. (a) **Capitalist** economy is a free economy where government interfaces is not found which leads to inequalities of income and wealth.
- 13 (a) **Opportunity Cost** is the cost of the opportunity forgone. It is the next best alternative forgone, since the resources are limited hence growing more rubber will require forgoing some units of wheat and *vice versa*.

#### Questions of December 2014

1. According to Marshall, "wealth acted as only means to attain ends & the wealth should not be treated as an end in itself".  
Here Marshall used the word end for:  
(a) Economic welfare concept  
(b) Welfare concept  
(c) Human welfare concept  
(d) Material welfare concept
2. What is the nature of the concept of opportunity cost?  
(a) Subjective  
(b) Objective  
(c) Both a & b  
(d) Can't say
3. Economics is considered as a science because it studies the relationship between \_\_\_\_\_ of economic phenomena.  
(a) Price and Value  
(b) Cause and Effect  
(c) Profit and Loss  
(d) Export and Import

4. Which of the following graph shows all the combinations of goods and services that can be produced if all of society's resources are used efficiently?
  - (a) Demand Supply curve
  - (b) Production Possibility curve
  - (c) Lorenz Curve
  - (d) None of the above
5. Which of the following is a characteristic of capitalist economy?
  - (a) Equality of wealth and income
  - (b) Inequality of wealth and income
  - (c) Equal opportunity of earning wealth & income
  - (d) Can't say

**Solutions of December 2014**

1. (c) According to Marshall "Wealth acted as only means to attain ends and the wealth should not be treated as an end in itself". Here Marshall used the word end for "**Human Welfare**". He expressed economics as-study of mankind in the ordinary business of life, it examines that part of individual and social action which is most closely connected with the attainment and use of material requisites of well being.
2. (a) Opportunity cost is the value of alternative foregone in order to have something else. The evaluation of choices and opportunity costs is **subjective**. Such evaluation helps a country to decide how to best allocate its available and limited resources according to its opportunity cost.
3. (b) Economics as a Science:- A subject is considered science if:-
  - It is a systematised body of knowledge which studies the relationship between **cause and effect**.
  - It is capable of measurement.
  - It has its own methodological apparatus.
  - It should have the ability to forecast.
  - If we analyse economics, we find that it has all the features of science.

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■ **Model Solved Scanner CS FP-BE Paper 3 (New Syllabus)**

4. (b) A production-possibility curve [PPC] or “transformation curve” 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.
5. (b) Characteristics of Capitalist Economy:
- (i) Right to private property.
  - (ii) No government interference [laissez faire]
  - (iii) Profit Motive.
  - (iv) Price determination through price/market mechanism.
  - (v) Competition.
  - (vi) Use of money and credit [capitalism necessitates an elaborate system of financing its economic activities which involves the use of money and credit.
  - (vii) Consumer sovereignty.
- So, option (b) is the correct answer i.e. Inequality of wealth & Income is a characteristics of Capitalist Economy.

**Questions of June 2015**

1. Who authored the famous book titled as “The Economics of welfare” which was published in 1920?
- (a) David Ricardo
  - (b) Alfred Marshall
  - (c) J. B. Say
  - (d) A.C. Pigou.
2. In a Capitalist economy, who decides what to produce and for whom?
- (a) Government
  - (b) Freely decided by Industry
  - (c) Society
  - (d) Can't say.
3. Economics is considered as a science because it studies the relationships between \_\_\_\_\_ of economic phenomena.
- (a) Cause and effect
  - (b) Price and value
  - (c) Profit and loss
  - (d) Export and import.

4. Which of the following graph shows all the combinations of goods and services that can be produced if all of the society's resources are used efficiently:
  - (a) Demand Supply Curve
  - (b) Production Possibility Curve
  - (c) Lorenz Curve
  - (d) None of the above.
5. In which of the following stage of economic cycle both employment and output expand and level of aggregate demand for goods and services is high?
  - (a) Economic Recession
  - (b) Economic Boom
  - (c) Economic Recovery
  - (d) Economic Slowdown.

**Solutions of June 2015**

1. (d) A. C. Pigou, published his book 'the economics of welfare' in 1920.
2. (b) Capitalist economy is one which is characterised by free market and absence of government intervention in economy. The areas of private enterprise firms are free to decide what to produce and for whom.
3. (a) Economics is considered as a science because it studies the relationship between **cause and effect** of economic phenomena.
4. (b) **Production possibility curve** is the locus of all such combination of two commodities which can be produced in a country with its given resources and technology.
5. (b) Boom occurs when national output is rising strongly at a faster rate than the trend rate of growth. In boom condition output and employment are both expanding and the level of aggregate demand for goods and services is very high.

**Questions of December 2015**

1. Micro are more related to internal environment than:
  - (a) Micro
  - (b) Macro
  - (c) External
  - (d) Can't say
2. Economic development will lead to except which of the following:
  - (a) Increase in per capita income
  - (b) Unemployment
  - (c) Decline in unemployment
  - (d) Both (a) and (c)
3. During the slowdown of economy:
  - (a) GDP is decreasing
  - (b) GDP is increasing
  - (c) GDP is increasing at a slower rate
  - (d) None of the above
4. Who among the following gave the definition of development and growth:
  - (a) Adam Smith
  - (b) Paul A. Samuelson
  - (c) Lionel Robbins
  - (d) Alfred Marshall
5. Opportunity cost comes under which:
  - (a) Individual
  - (b) Group want
  - (c) Government policy
  - (d) None of the above
6. A recession is a period of:
  - (a) decline in aggregate output
  - (b) decline in unemployment
  - (c) Both (a) and (b)
  - (d) None of the above



7. What is another name for soft landing?
- (a) Recession
  - (b) Economic slowdown
  - (c) Revival
  - (d) None of the above

**Solutions of December 2015**

1. (b) Micro economics is considered to be the basic economics. It may be defined as that branch of economic analysis which studies the economic behaviour of the individual unit. It is a study of one particular unit, whereas the macro economics is a study in aggregates. Hence, micro economics are more related to internal environment than **macro** economics.
2. (d) Economic development will lead to the following:
- (i) Increase in per capita Income
  - (ii) Increase in National Income
  - (iii) Decline in unemployment
  - (iv) Increased utilization rate of existing resources.
- Thus, options both (a) & (c) are correct.
3. (c) A slowdown occurs when the rate of growth decelerates, but national output is still rising. The economy continues to grow at a slower rate without falling into outright recession. So, in slowdown **GDP is increasing at a slower rate.**
4. (b) The definition of economics as a science of development and growth with the twin objective of scarcity and efficiency was given by **Paul. A Samuelson** as he described his objective like.
- “Economics is the study of how people and society end up choosing, with or without the use of money, to employ scarce productive resources that could have alternative uses to produce various commodities over time and distributing them for consumption, now or in future, among various persons or group in society. It analysis cost and benefits of improving patterns of resource allocation.”

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■ **Model Solved Scanner CS FP-BE Paper 3 (New Syllabus)**

5. (a) Opportunity cost is the value of alternative foregone in order to have something else. This value is unique for every **individual**. Hence, it comes under individual want.
6. (a) A recession means a fall in the level of real national output i.e. a period when the rate of economic growth is negative. National output declines, leading to a contraction in employment, income and profits.
7. (b) A slowdown occurs when the rate of growth decelerates but national output is still rising. If the economy continues to grow without falling into outright recession, this is known as soft-landing.

**Questions of June 2016**

1. For which of the following qualities, economics is considered as science?
  - (a) It is capable of doing scientific experiments
  - (b) It is used for achieving a variety of goals
  - (c) Its results are absolute
  - (d) It is capable of measurement.
2. Name the economist whose definition of economics is considered to be material welfare centered:
  - (a) Adam Smith
  - (b) A.C Pigou
  - (c) David Ricardo
  - (d) Alfred Marshall.
3. Which of the following is one of the main reason for three central problems of economy?
  - (a) Unavailability of demand law
  - (b) Uncertainty of consumer preferences
  - (c) Scarcity of resources
  - (d) None is applicable.
4. In which type of an economic system, profit maximization is one of the main motives of entrepreneur?
  - (a) Mixed Economy
  - (b) Socialist Economy
  - (c) Capitalist Economy
  - (d) Communist Economy.

5. An indifference curve slopes down to right since more of one commodity and less of another result in:
- (a) Maximum satisfaction
  - (b) Same satisfaction
  - (c) Greater satisfaction
  - (d) Decreasing expenditure.

**Solutions of June 2016**

1. (d) Like science, economics is capable of being measured, the measurement is in terms of money. It has its own methodology of study and it forecast the future market conditions with the help of various statistical and non-statistical tools.
2. (d) Economics is considered to be material welfare centered by **Alfred Marshall**. According to him, wealth acted only as means to attain the ends and the wealth should not be treated as an end in itself. Thus, on the other hand it is a part of study of man.
3. (c) The problem of **scarcity of resources** which arises before an individual consumer also arises collectively before an economy is one of the main reasons for three central problems of economy. On account of this problem, the economy has to choose between what to produce?, how to produce?, and for whom to produce?
4. (c) In case of **capitalist economy** profit maximization is one of the main motives of entrepreneur as it is the main driving force for the capitalist to work.
5. (b) When indifference curve slopes downward towards right with one amount of good in combination increased and other reduced. The level of satisfaction remains same on an indifference curve.

