1 Nature and Scope of Economics


Introduction:

→ The knowledge of economics is useful for everyone-individuals, households, business units, institutions as well as government.
→ Economic issues and problems are pervasive.
→ 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.
→ 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
(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 economies 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 its development
(c) expertise of economist providing the definition
(d) purpose of studying economics.

Economics as a science of wealth:
(a) This view of economics was expressed by Adam Smith (who is known as father of Economics)
(b) He wrote a book named “An Enquiry into the nature and causes of wealth of nation” 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
   → acquire political and military strength

(d) **Features of wealth definition:**
   → Ignores the problem of distributive justice
   → Wealth does not has a universally accepted meaning.
   → Wealth represents only material goods.

(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:**
   → 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.

**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”.

(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

(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:**
- 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”.

(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.
- 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.
Growth Definition of Economics:
(a) This definition was propounded by Paul A. Samuelson
(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 various commodities and distribute them for consumption new or in future among various persons and groups in society. It analyses the cost and benefits of improving patterns of resource 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 as a Science:
  (a) **Science is a body of knowledge which shows 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 practises 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”
   • “Economies as an art and normative economics means two related but different things”
   Let us see what is positive/normative science:
   (a) Positive Economics:
      • It investigates “what is”.
      • 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 inspite 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.

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?
  (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.

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 PP₁.
- PPC curve is convex 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.

- 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.

• **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.

(b) **Socialist Economy:**
The economy in which material means of production are owned by state i.e. the Government.

• **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) Coexistence 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.

**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.

→ **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
   (v) Danger of demand pull and cost push inflation
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
  (v) Fall in average living standards

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

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.

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.
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.
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)
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) Lionel Robbins
   (d) Alfred Marshall
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
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.
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.
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.
10. Who expressed the view that economic is neutral between ends?  
   (a) Marshall   (b) Robbins  
   (c) Adam Smith   (d) Paul. A. Samuelson  

11. Which one of the following is a demerit of economics as a “wealth”?  
   (a) Concept of wealth is wide   (b) Neglect welfare aspect  
   (c) Universally accepted   (d) None of the above  

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)  

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.  

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  

15. What does the term “Norm” or standard implies?  
   (a) What should not be   (b) “What is”  
   (c) Value judgements   (d) What ought to  

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  

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  

18. By which other name Micro-economics is known as?  
   (a) Descriptive Economics   (b) Normative Economics  
   (c) Price theory   (d) Positive Economics  

19. Under which economics variables are aggregated and relate to large groups.  
   (a) Micro Economics   (b) Macro Economics  
   (c) Both of (a) and (b)   (d) Descriptive Economics  

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
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)

22. “A free economy where government interference is not found”.
   (a) Socialist economy  (b) Capitalistic economy
   (c) Mixed economy  (d) Production economy

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

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

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)

26. Capitalism is also characterized by what is known as policy of:
   (a) Laissez-faire  (b) Price
   (c) Savings  (d) Investments

27. “Determination of individual price” is an example of:
   (a) Macro economics  (b) Open economics
   (c) Closed economics  (d) Micro economics

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

29. “Profit motive leads to faster economic growth is merit of:
   (a) Open economy  (b) Descriptive economy
   (c) Capitalist economy  (d) Socialist economy

30. Public sector happens to be an important feature of:
   (a) Mixed economy  (b) Closed economy
   (c) Socialist economy  (d) Capitalist economy

31. "An inquiry into the nature and causes of wealth of the nations" was defined by?
   (a) J.B Say  (b) Alfred Marshall
   (c) Adam Smith  (d) Robbins
32. Who explained economics as science of dynamic growth and development?
   (a) Robbins  (b) Adam Smith  
   (c) Alfred Marshall  (d) Samuelson.

33. Microeconomics is also known as:
   (a) Process theory  (b) Product theory  
   (c) Price theory  (d) Income theory.

34. The term economics is derived from two Greek words,_______ and_______.
   (a) Oikou, Nomos  (b) Kiyo, Nimas  
   (c) Oikou, Nimas  (d) None of the above.

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?

36. Production possibilities curve is ___________ to the origin.
   (a) Parallel  (b) Convex  
   (c) Concave  (d) Perpendicular.

37. Normative Science deals with ___________
   (a) What is?  (b) What ought to be?
   (c) What can be?  (d) All of the above.

38. Which economy emphasized on self interest and profit motive?
   (a) Capitalist Economy  (b) Socialist Economy  
   (c) Mixed Economy  (d) All of the above.

39. What is the "Fundamental Premise of Economics"?
   (a) Natural resources will always be scare.
   (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.

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.
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.

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.

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.

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

<table>
<thead>
<tr>
<th>Production possibilities:</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good x:</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Good y:</td>
<td>60</td>
<td>56</td>
<td>48</td>
<td>36</td>
<td>20</td>
<td>0</td>
</tr>
</tbody>
</table>

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

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.

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
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.
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.
49. Consumer sovereignty is a feature of :
   (a) Capitalist economy  (b) Socialist economy  
   (c) Mixed economy  (d) None of these.
50. Normative approach of economics is presented by:
   (a) Marshall  (b) Robbins  
   (c) Adam Smith  (d) Samuelson.
51. Balance regional development is a feature of :
   (a) Capitalist Economy  (b) Mixed Economy  
   (c) Socialistic Economy  (d) None of these.
52. Which economics explains economic phenomenon according to their cause and effects ?
   (a) Applied  (b) Positive  
   (c) Empirical  (d) All the above.
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.
54. Which economist emphasized the positive aspects of science ?
   (a) Alfred Marshall  (b) A.C. Pigou  
   (c) Robbins  (d) Paul A. Samuelson.
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.
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.
57. Last stage of recession is called:
   (a) Depression  (b) Recovery  
   (c) Slowdown  (d) All of these.
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.

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)

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.

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.

62. Economics was originally introduced as ________
   (a) Science of state craft  (b) Science of coins
   (c) Art and craft  (d) None of these

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

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

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

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
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

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

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

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

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

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

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.

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

75. ________is also described as price and value theory __
   (a) Macro Economics
   (b) Development Economics
   (c) Micro Economics
   (d) Health Economics
76. PPC is given by __
   (a) Adam Smith  (b) L. Robins
   (c) Paul A. Samuelson  (d) J.B. Say

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

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

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

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.

81. If PPF is linear ie. 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.

82. Which of the following is a reason for the curvature or bowed-out shape of the PPF?
   (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.

83. Which is one of the reason for negative slope of PPF?
   (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.
84. ‘Economics is what economist do’ is given by __
   (a) Jacob Viner (b) Henry Smith
   (c) Pigou (d) Paul. A. Samuelson.
85. PPC is also known as __
   (a) Demand curve (b) Supply curve
   (c) Indifference curve (d) Transformation curve
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.
87. Which market is also known as ‘frozen market’ __
   (a) Capitalist economy (b) Socialist Economy
   (c) Mixed economy (d) None of these.
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.
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).
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.
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)
92. Economics means __
   (a) Management (b) Business Management
   (c) House Management (d) Both (b) and (c)
93. Human wants may be classified into __
   (a) Economic wants (b) Non-economic wants
   (c) Either (a) or (b) (d) Both (a) and (b).
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.
95. “Principles of economics” was published by Alfred Marshall in the year —
(a) 1890  (b) 1776  (c) 1900  (d) 1756

96. According to Alfred Marshall, end is ________
(a) Wealth  (b) Human welfare  (c) Growth  (d) Development

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

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

99. The Book “Economics : An Introductory Analysis” was published in which year?
(a) 1890  (b) 1948  (c) 1776  (d) 1932

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

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.

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

1. (d)  2. (d)  3. (d)  4. (d)  5. (b)  6. (c)  7. (d)  8. (c)  9. (d)  10. (b)  11. (b)  12. (c)  13. (c)  14. (c)  15. (d)  16. (c)  17. (b)  18. (c)  19. (b)  20. (b)  21. (a)  22. (b)  23. (b)  24. (a)
### 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:

<table>
<thead>
<tr>
<th>Features</th>
<th>Stage of Business Cycle</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Rising employment and real wages</td>
<td>(A) Recession</td>
</tr>
<tr>
<td>(ii) Fall in the rate of growth</td>
<td>(B) Boom</td>
</tr>
<tr>
<td>(iii) Fall in the level of real national output</td>
<td>(C) Slowdown</td>
</tr>
<tr>
<td>(iv) Setting in of the rising trend of national outputs</td>
<td>(D) Recovery</td>
</tr>
</tbody>
</table>

(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) 

   ![Diagram](image)

   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.

   ![Diagram 2](image)

   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
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.