Introduction of Economics

Every subject, irrespective of whether it is a science or an ‘arts’ subject, has its own set of concepts. These concepts are freely used in any discussion of the subject, without necessarily repeating the definitives of the concepts every time they are used. It is taken for granted that everybody understands what these concepts mean.

Economics also has its own set of terms & concept. At the very outset, therefore we must have a clear idea about what these concepts mean. This chapter is devoted to the task of clarifying some of the basic concepts of Economics.

STEP - 1 : Introduction of Economics

Economics is a science of human behaviour concerned with the allocation of scarce means in such a manner that consumers can maximise their satisfaction, producers can maximise their profits and the society can maximise its social welfare. Let us enumerate some examples of the economic questions with which we are concerned in Economics.

As individuals we face innumerable economic questions in our daily life. How do your parents decide how to spend their income on the purchase of various goods & services? How do producers decide ‘which commodities to produce’, ‘how to produce’ & ‘at what prices to sell’? What determines the level of national income? These are some of the questions on which Economics tries to throw light, and economists are deeply concerned with such questions. So we study economics because it sheds light on various economic issues & it enables us to understand current economic problems & consequences of various policies pursued by the government.

STEP - 2 : Definitions & scope of Economics

Different economists have defined economics in different ways. In general, Economics is the ‘social science’ that studies ‘economic activities’. Economic activities mean production, exchange & consumption of goods & services. With the progress of civilisation, the complexity have increased & economists at different times have emphasised different aspects of activities & have arrived at different definitions of Economics. The tragedy here is that views in this regard differ from economist to economist. Mrs. Barbara Wootton has rightly remarked, “Whenever six economists gathered, there are seven opinions.” The set of definitions given by different economists can broadly be classified into the following four categories.
Substep : 2. (a) Wealth Definition :
Prof Adam Smith in his book, ‘An Enquiry into the Nature & Causes of wealth of Nations’ (1776) defined economics as ‘science of wealth’. Prof J.B. Say said ‘economics as the science which treats of wealth’.

Implications:
(i) Wealth refers to gold, silver, land, building & the whole production of goods & services that can be consumed.
(ii) Only those persons engaged in production of wealth are the subject matter of economics.
(iii) Non-material goods like services of teachers, doctors, lawyers etc are not considered as wealth.
(iv) Economic liberty & free trade with no state intervention are the watch words of definition.

Substep : 2. (b) Material welfare definition :
Prof. Alfred Marshall, in his book, Principles of Economics, (1890), described “Economics as study of mankind, in the ordinary business of life. It examines that part of individual & social actions which is most closely connected with the attainment & use of material requisites of well-being”. Prof. A. C. Pigou stated that “the range of our inquiry becomes restricted to that part of social welfare that can be brought directly or indirectly into relation with the measuring rod of money.”

Implications:
(i) It is a study of part of man’s actions. Human beings undertake many different kinds of activities, social, religious etc. – economics is not concerned with all of them. It is concerned with only those activities which relate to the earning & spending of income.
(ii) It is associated with the materialistic welfare of mankind, i.e., it studies only material aspects of well-being.
(iii) Money is general measure of income by the use of which the science of ‘Economics’ can be illustrated.
Substep : 2.c) Scarcity Definition :

Prof Lionel Robbins in his book, ‘An Essay on the nature & significance of Economic Science’ (1932), has given the definition as, “Economics is the science which studies human behaviour as a relationship between ends & scarce means which have their alternative uses.”

**Implications:**

(i) Economics is the study of ‘means’ or ‘resources’ available for the attainment of the objectives of human life, are scarce, i.e., short supply relative to the demand.

(ii) It is the study of ‘ends’ or objectives like food, clothing, shelter etc., i.e., ‘ends’ provide the motives for human activity.

(iii) ‘Unlimited ends’ leads to alternative uses of ‘scarce’ means, e.g., land can be used to grow crops or to make industry. The scarcity of means forces men to choose between means with a view to adjust the available, means to the desired ends.

Substep : 2.d) Growth Definition :

Prof. Paul A. Samuelson states, “economics is the study of how men & society choose, with or without the use of money, to employ the scarce productive resources, which have alternative uses, to produce various commodities overtime & distribute them for consumption now and in the future among various people & and groups of society”. It analyses cost & benefits of improving pattern of resource allocation.

**Implications:**

(i) It is growth oriented :- Economics is concerned with determining the pattern of employment of scarce resources to produce commodities ‘Over time’. So this definition is more dynamic as the time element has been included in it.

(ii) It shows dynamic allocation of consumption :- Economics is concerned with pattern of consumption, not only now but also in the future. So choice of making of ‘present consumption’ (or less saving) or ‘future consumption’ (or more saving) has been brought in the scope of Economics.

(iii) It shows distribution :- This definition concerns with distribution of consumption among various persons & groups in a society.

(iv) It implies resource allocation :- Improvement of resource allocation & better distributive justice are synonymous with economic development – which can be viewed by this definition.

As a whole we can observe that this ‘Growth definition’ is the most comprehensive one.
**STEP - 3 : Micro & Macro Economics:**

<table>
<thead>
<tr>
<th>MICRO</th>
<th>MACRO</th>
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<tbody>
<tr>
<td><strong>(i) Basis of study</strong></td>
<td>It deals with scarcity &amp; choice at the level of an individual, a household, a firm or an industry e.g. consumer's behaviour, equilibrium of firm, producer's output maximisation etc.</td>
</tr>
<tr>
<td><strong>(ii) Degree of Aggregation :</strong></td>
<td>Limited degree e.g. equilibrium of industry comprising all firms, aggregation of demand for a particular product.</td>
</tr>
<tr>
<td><strong>(iii) Different sets of assumption &amp; aspects:</strong></td>
<td>Certain variables are assumed to be constant &amp; certain are changed e.g. total output, employment are taken as constant. Further distribution of output, income are variables. More specifically, it studies utility maximisation of individual consumer whereas for producers it should be profit maximisation/output maximisation. Further, it studies flow of economic resources or factors of production from any individual to other individual.</td>
</tr>
<tr>
<td><strong>(iv) Central Issue :</strong></td>
<td>Allocation of resources.</td>
</tr>
<tr>
<td><strong>(v) Method of Study :</strong></td>
<td>Focusing on specific mkt(s) like commodity mkt or factor mkt. Method of study is described as 'Partial equilibrium analysis'.</td>
</tr>
</tbody>
</table>
Micro & Macro economics theory can be shown by the following chart:

**STEP - 4 : Nature of Economics:**

**Economics is a science** – The term ‘science’ stands for any systematic & organised body of language. It establishes the relationship between cause & effect e.g., ‘Law of demand’, which explains the cause & effect relationship between price & demand for a commodity. Like other sciences, economics also makes generalisations – one way of making generalisation is ‘deductive method’ – under this method we move from **general to particular**. Further, by ‘inductive method’ – a mass of data is collected from actual experience with regard to economic phenomenon. On the basis of these collected observations certain generalisations are made – in this approach we move from **particular to general**.

**Economics of art** – ‘ART’ means practical use of knowledge. Science lays down certain principles while art puts these principles into practical use. Science may study the cause & effects of an event, art prescribes solution to various problems. Therefore, Economics is both a science and an art.
STEP - 5 : Economics as Positive or Normative Science :
Prof. Robbins has considered ‘Economics as positive science’ – economics should be neutral or silent between ends i.e., here we study human decisions as facts which can be verified with actual data. It makes a critical analysis of the existing facts & draws conclusions without bothering as to what should be or what should not be :—

\[ \text{e.g. } \]

(i) India is an over populated country.
(ii) A fall in the price of a good leads to a rise in its quantity demanded.
(iii) Prices have been rising in India.
(iv) Minimum wage law increases unemployment.

Prof. Alfred Marshall & Prof Pigou have considered ‘Economics as Normative Science’ – It deals with ‘what should be, i.e., it prescribes that course of action which is desirable & necessary to achieve social goals.

\[ \text{e.g. } \]

(i) Saving potentiality should be increased to enhance national income.
(ii) Govt. should guarantee a minimum wage for every worker.
(iii) Progressive taxation should be applied for distribution of income.

Differences Between Positive & Normative Economics

<table>
<thead>
<tr>
<th>Positive Economics</th>
<th>Normative Science</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) It expresses what it is</td>
<td>(i) It expresses what should be</td>
</tr>
<tr>
<td>(ii) It is based on cause &amp; effect of facts.</td>
<td>(ii) It is based on ethics.</td>
</tr>
<tr>
<td>(iii) It deals with actual or realistic situation.</td>
<td>(iii) It deals with idealistic situation.</td>
</tr>
<tr>
<td>(iv) It can be verified with actual data.</td>
<td>(iv) It cannot be verified with actual data.</td>
</tr>
<tr>
<td>(v) Value judgements are not given.</td>
<td>(v) Value judgements are given</td>
</tr>
<tr>
<td>(vi) It deals with how an economic problem is solved</td>
<td>(vi) It deals with how an economic problem should be solved.</td>
</tr>
</tbody>
</table>

STEP - 6 : Deductive & Inductive Method :

Both the classical & neo-classical economists have made extensive use of deductive method. It starts with general assumptions & then make particular predictions through a process of logical deductions. The predictions are empirically tested & verified for their accuracy, they are accepted as an economic theory. e.g. Let the general assumptions be that man is rational. The prediction is that he aims to earn maximum wages. When this prediction is empirically tested, it is found that workers are moving from lower wage jobs to higher wage jobs. The general assumption gets verified & thus, becomes an economic theory.
**Deductive Method**

<table>
<thead>
<tr>
<th>Merits</th>
<th>Demerits</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) It uses mathematics</td>
<td>(i) The conclusions have limited applicability as the underlying assumptions keep on changing.</td>
</tr>
<tr>
<td>(ii) It is a simple method.</td>
<td>(ii) Use of mathematical model may not always be realistic.</td>
</tr>
<tr>
<td>(iii) It is based on basic facts of human nature &amp; thus universally applicable.</td>
<td>(iii) It is static approach</td>
</tr>
<tr>
<td>(iv) It brings greater accuracy &amp; exactness with the use of logic.</td>
<td></td>
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</tbody>
</table>

**Inductive Method** : Here we start with particular facts & then make general theory based on the analysis of facts. It involves collection of data, analysis of data & formulation of general principle. To start with economist has to collect data on a particular economic phenomenon & then he attempts to establish certain generalisations which follow from the data.

e.g.- Particular fact observed is that when two persons are deputed to the market to buy a good, they both buy more at a lesser price. From this particular behaviour we generalise that all men buy at a lesser price & vice versa. This establishes the general ‘Law of demand’ which states that price & qty demanded of a commodity are inversely related.

**Inductive Method**

<table>
<thead>
<tr>
<th>Merits</th>
<th>Demerits</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) The method is precise, realistic &amp; reasonable as it takes into consideration the changes in the conditions surrounding an economic activity.</td>
<td>(i) It is based on deductive logic</td>
</tr>
<tr>
<td>(ii) The method tests &amp; verifies economic facts.</td>
<td>(ii) The method is complex &amp; difficult.</td>
</tr>
<tr>
<td>(iii) It is a scientific method as facts are subject to scientific analysis.</td>
<td>(iii) It is an expensive &amp; more time consuming method.</td>
</tr>
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**STEP - 7 : Central Economic Problems & Production Possibility Curve**

**CENTRAL ECONOMIC PROBLEM:**

Human wants are unlimited and productive resources are scarce. An economy without scarcity is not found in the real world. All wants can not be satisfied with the scare productive resources for the satisfaction of wants, so problem of use scarce resources arise. This is generally called ‘the central economic problem;’. The central economic problem may be four types-
(1) What to produce - Human wants are unlimited and resources are limited to satisfy human wants. The question arises what are to be produced.

(2) How to produce - This problem is related to the choice of technique for producing a commodity. An economy has to choose between
   (a) Labour intensive technique and
   (b) Capital-intensive technique.
   The economy has to decide about technique of production on the basis of cost of labour and capital. A labour surplus economy choose labour intensive technique and a capital surplus economy choose capital-intensive technique.

(3) For whom to produce - Problem of "for whom to produce" means how the national product i.e., national income is to be distributed among the factors of production that helped to produce it. It is rent, wages, interest and profits, which determine the distribution of goods among the various individuals in the society. It have to decide about the share of different people in the national goods and services.

(4) What provision should be made for Economic Growth: - A society would not like to use all its scarce resources for current consumption only. It has to decide how much saving and investment should be made for future progress. Increase in the current level of consumption provides slower economic growth in the future. Larger production of capital goods would lead to higher production in future.
   It is to be noted here that 'when are goods produced' is not problem of an economy.

PRODUCTION POSSIBILITY CURVE (PPC)
Production Possibility Curve may be defined as a curve which shows the various combinations of two goods that can be produced in any economy with a given amount of resources and technology. PPC also known as Production Possibility Frontier (PPF) and Transformation curve.

Assumptions- While drawing PPC we assume-
1. Two types of goods - cloth and wheat produced
2. Productive resources remain fixed
3. Full employment of productive resources - No unemployment of resources
4. No change in technology
It is assumed that there are only two types of goods - cloth and wheat. The resources of economy can be alternatively used in both the commodities. If the production of a commodity is increased then the production of the other commodity will be decreased. Following table shows the production possibilities of production.

<table>
<thead>
<tr>
<th>Production Possibilities</th>
<th>Cloth</th>
<th>Wheat</th>
<th>Increasing Opportunity Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>0</td>
<td>15</td>
<td>—</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>14</td>
<td>1</td>
</tr>
<tr>
<td>C</td>
<td>2</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td>D</td>
<td>3</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>E</td>
<td>4</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>F</td>
<td>5</td>
<td>0</td>
<td>5</td>
</tr>
</tbody>
</table>
From the above table and figure it is clear that when production of cloth increases then production of food decreases and it will give concave shape of PPC because opportunity cost are increasing.

**PPC and Productivity Efficiency**

All points on PPC curve like A, B, C, D, E, and F show that goods and services produced at least cost and no resource is wasted and the economy is ‘Productively Efficient’.

**Opportunity Cost and PPC**

Opportunity cost may be defined as the value of the next best alternative. It is also called “Foregone cost’ and ‘Trade off’. In the context of PPC since there are only two goods, therefore opportunity cost of producing one good is in terms of sacrifice made of the other good. PPC is downward sloping because more production of one good is associated with less of the other good.

**PPC - Concave to the origin- due to Increasing opportunity cost-**

PPC looks concave to the origin because of increasing marginal opportunity cost. The increasing marginal opportunity cost means that for additional unit of a good, the sacrifice of unit of other good goes on increasing. Principle of increasing opportunity cost that makes the PPC concave to the origin or makes bowed-out shape. PPC may be straight line if opportunity cost is constant. PPC is negative sloped not due to increasing opportunity cost but due to ‘scarcity’ because at any point of time we have limited resources.

**Unemployment and PPC-**

When an economy produces on PPC, it means that there is no unemployment and all the resources are being used efficiently. But if an economy operates inside the PPC then there is unemployment or underemployment and/or inefficient use of resources.

Cloth.

In the figure given below point 'U' inside the PPC indicate underutilization of resources. In other words economy would not be utilizing its resources fully. Point 'S' indicate that an economy could not produce with the given resources and technology. If economy moving from 'U' to 'A'
and 'B' points, its indicates document of unemployment resources which were lying unutilized are now being utilized fully.

![Diagram showing economic growth and PPC shift]

**Economic Growth and shift in PPC**

When an economy produced at PPC curve it is 'productively efficient'. But there is also scope of progress and one PPC can shift to another PPC on the right, It indicates Economic Growth. PPC can shift to the right or economic growths are possible in the following circumstances:

1. Improvement in overall technology
2. Greater capital formation
3. Increase in population growth / labour force/Employment

![Diagram showing economic growth]

In the above figure PPC curve shift from 'PP' to $P_1$, $P_1$ it indicates economic growth. Sometimes PPC may shift inward when earthquake destroy resources of the country.
STEP - 8 : Economic Systems:
The term 'Economic System' is used to denote the legal & institutional framework within which economic activity takes place, i.e., it may be defined as a set of social, historical & political rules governing the economic activities of a country.
The function of an economic system is to solve three basic problems & the three types of system are:
(a) Capitalist Economy  (b) Socialist Economy  (c) Mixed Economy

Capitalist System refers to an economic system where means of production are predominately privately owned & production is primarily for sale in the market. It is based on ‘Laissez-faire’ or ‘free-market economy’.
The features of Capitalist System are :-
(i) The right to private property & ownership over the means of production.
(ii) Freedom of enterprise.
(iii) Sovereignty of consumer.
(iv) Free Price mechanism.
(v) Profit motive.

Capitalist Economy

<table>
<thead>
<tr>
<th>Merits</th>
<th>Demerits</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Self-adjusting economy</td>
<td>(i) Inequality of income</td>
</tr>
<tr>
<td>(ii) Consumer freedom</td>
<td>(ii) Economic Crisis</td>
</tr>
<tr>
<td>(iii) Competition</td>
<td>(iii) Class Struggle</td>
</tr>
<tr>
<td>(iv) Efficient utilisation of economic resources.</td>
<td>(iv) Neglect of social welfare</td>
</tr>
<tr>
<td>(v) Automatic operation</td>
<td>(v) Economic insecurity</td>
</tr>
<tr>
<td>(vi) Availability of more output at a lower price</td>
<td>(vi) Monopolist tendencies</td>
</tr>
</tbody>
</table>

Socialist System is called ‘centrally planned’ or ‘controlled economy’. It is an economic system where means of production are publicly owned & are controlled by the government.

The features of Socialist System are :
1. Social ownership of means of production.
2. Economic planning
3. Equitable distribution of income.
4. Socialism is to be achieved by peaceful & democratic methods.
### Socialist Economy

<table>
<thead>
<tr>
<th>Merits</th>
<th>Demerits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. It is completely regulated</td>
<td>1. Less attention to improve quality.</td>
</tr>
<tr>
<td>2. It provides equity</td>
<td>2. Bureaucratic set-up (they are not efficient in running business units because they lack motivation, fear of public criticism etc)</td>
</tr>
<tr>
<td>3. Optimum utilisation of resources</td>
<td>3. Loss of freedom</td>
</tr>
<tr>
<td>4. Satisfaction of consumers need</td>
<td>4. Concentration of economic &amp; political powers</td>
</tr>
<tr>
<td>5. It ensures right to work &amp; minimum standard of living to people</td>
<td>5. Consumers have to accept what state produces &amp; no choice is left.</td>
</tr>
<tr>
<td>6. Labours &amp; consumers are protected from exploitation by the employer &amp; monopolies respectively.</td>
<td>6. Extreme form of socialism is not at all practicable.</td>
</tr>
</tbody>
</table>

**Mixed Economic System** is the golden mixture of capitalism & socialism. There exists freedom of economic activities & govt intervention for the sake of social welfare.

**The features of Mixed Economic System are:**

(i) Coexistence of both private & public sectors.

(ii) Planned economy.

(iii) Balanced regional development.

(iv) Competition exists but is limited to the private sector.

(v) Private sector produces with profit motive & public sector with welfare motive.

### Mixed Economy

<table>
<thead>
<tr>
<th>Merits</th>
<th>Demerits</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Proper allocation of resources</td>
<td>(i) It never remains mixed in the long run.</td>
</tr>
<tr>
<td>(ii) Economic stability.</td>
<td>(ii) Inefficiency &amp; corruption.</td>
</tr>
<tr>
<td>(iii) Advantages of the market system</td>
<td>(iii) Concentration of economic power</td>
</tr>
<tr>
<td>(iv) Rapid economic development.</td>
<td>(iv) Inequality of income cannot be completely removed.</td>
</tr>
<tr>
<td>(v) Economic fluctuations can be avoided due to centrally planned economy</td>
<td>(v) Problems of red-tapism, favouritism etc. are found in this economy.</td>
</tr>
</tbody>
</table>
Multiple Choice Questions

Chapter- 1: (Introduction to Micro Economics)

(A) Introduction & Scope of Economics

1. The term “Economics’ owes its origin to the Greek word
   (a) Aikonomia   (b) Wikonomia
   (c) Oikonomia   (d) None of the above

2. Oikonomia means
   (a) Industry   (b) Household Management (c) Services (d) None of the above

3. “Economics is a study of.....in the ordinary business of life.” Alfred Marshall
   (a) Human   (b) Wealth   (c) Mankind   (d) Agriculture

4. The term Economics is derived from
   (a) Greek words OIKOU and NOMOS   (b) Marshall’s Principles of Economics
   (c) Greek words Eco and nomos   (d) Adam Smith’s Wealth of Nations

5. The meaning of Greek words “OIKOU & NOMOS”
   (a) Micro and macro economics   (b) The rule of economics
   (c) House Hold Management   (d) The Law of Management

6. Economics concerns
   (a) With how a nation allocates it’s various scarce resources
   (b) With only infrastructure
   (c) With how a nation allocates its human resources
   (d) With Law of household

7. Economics is called ... of social sciences
   (a) Branch   (b) Queen   (c) King   (d) None

8. Who is the father of Economics?
   (a) Lionel Robbins   (b) Alfred Marshall   (c) Adam Smith   (d) Paul Samuelson

9. The analysis of how a society utilizes its scarce resources of manpower, raw materials & capital to satisfy the material wants of its member comes under
   (a) Economics   (b) Micro Economics
   (c) Micro Economics   (d) Public & Private Sectors
10. What is the “Fundamental Premise of Economics?”
   (a) Natural resources will always be scarce
   (b) Individuals are capable of establishing goals & 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

11. Economics is different from other social sciences because it is primarily concerned with the study of ___. It is similar to other social sciences as they are all concerned with the study of ___?
   (a) Limited resources, market behaviour          (b) scarcity, human behaviour
   (c) Social behaviour, limited resources          (d) Biological behaviour, scarcity

12. Our economy is characterised by –
   (a) Unlimited wants & needs          (b) Unlimited material resources
   (c) No energy resources          (d) Abundant productive Labour

13. Economics is the study of –
   (a) How society manages its unlimited resources
   (b) How to reduce our wants until we are satisfied
   (c) How society manages its scarce resources
   (d) How to fully satisfy our unlimited wants

14. The meaning of the word ‘Economics’ is most closely connected with the word –
   (a) Extravagant          (b) Scarcity          (c) Unlimited          (d) Restricted

15. Economics goods are considered scarce resources because they?
   (a) Cannot be increased in quantity
   (b) Do not exist in adequate quantity to satisfy social requirements
   (c) Are of primary importance in satisfying social requirements
   (d) Are limited to man made goods

16. Economics is the study of mankind in the ordinary business of life’ was given by:
   (a) Adam          (b) Lord Robbins          (c) Alfred Marshall          (d) Samueison
17. **Every Economy is characterized by:**
   (a) Unlimited wants and needs  
   (b) No energy resources  
   (c) Unlimited Material resources  
   (d) Abundant productive labour

18. **Which of the following is an Economics activity?**
   (a) Medical facilities rendered by a charitable dispensary  
   (b) Teaching one owns child at home  
   (c) A housewife doing household duties  
   (d) Listening to music on the radio

19. **Wealth is?**
   (a) Stock  
   (b) Flow  
   (c) Both (a) & (b)  
   (d) Neither (a) or (b)

20. **Income is:**
   (a) Stock  
   (b) Flow  
   (c) Both (a) & (b)  
   (d) Neither (a) or (b)

(B) **DEFINITION OF ECONOMICS**

21. **The classical economists defined Economics as**
   (a) The science of welfare  
   (b) The science of scarcity  
   (c) The science of wealth  
   (d) the science of wealth and welfare

22. **Which one is the feature of Marshall's definition?**
   (a) Limited ends  
   (b) Scarce means  
   (c) Study of wealth as well as study of man  
   (d) study of allocation of resources

23. **Adam smith published his master piece “An Enquiry into the Nature & Causes of Wealth of Nation” in the year**
   (a) 1776  
   (b) 1786  
   (c) 1756  
   (d) 1766

   (a) 1935  
   (b) 1933  
   (c) 1932  
   (d) 1937

25. **“Economics is what Economists do” is given by:**
   (a) Jacob Viner  
   (b) Henry Smith  
   (c) Pigou  
   (d) Paul A. Samuelson

26. **According to Robbins, ‘means’ are**
   (a) Scarce  
   (b) Unlimited  
   (c) Undefined  
   (d) All of these

27. **Who defines economics in term of Dynamic Growth & development?**
   (a) Robbins  
   (b) Paul A. Samuelson  
   (c) Adam Smith  
   (d) None

28. **According to Marshall, neutrality between ends is**
   (a) Not feasible  
   (b) Not desirable  
   (c) Both (a) & (b)  
   (d) Either (a) or (b)
29. Robbins defined Economics as –
   (a) Science of wealth       (b) Science of material well-being
   (c) Science of choice making (d) Science of dynamic growth & development

30. Which of the following statements is correct?
   (a) Robbins has made economics as a form of welfare economics
   (b) The Law of demand is always true
   (c) All capital is wealth but all wealth is not capital
   (d) None of these

31. Scarcity of resources means?
   (a) Non-existence of resources       (b) Limited resources (c) Both       (d) None

32. Indicate the suitable match –
   (a) Economics is the science of wealth – Adam Smith
   (b) Economics is the science of material well-being – Samuelson
   (c) Economics is the science of choice – making – Marshall
   (d) Economics is the science of growth & development – Robbins

33. Who expressed the view that “Economics is neutral between ends”?
   (a) Robbins       (b) Marshall    (c) Pigou       (d) Adam Smith

34. Find the correct match –
   (a) An enquiry into the nature & Causes of the Wealth of Nations – A.C. Pigou
   (b) Science, which deals with wealth – Alfred Marshall
   (c) Economics is the science, which studies human behaviour as a relationship between ends & scarce means, which have alternative uses: Robbins
   (d) The range of our enquiry becomes restricted to that part of social welfare which can be brought directly or indirectly into relation with the measuring rod of money – Adam Smith

35. The Law of scarcity –
   (a) Does not apply to rich/developed countries
   (b) Applies only to the less developed countries
   (c) Implies that Consumer’s wants will be satisfied in a socialistic system
   (d) Implies that consumer; wants will never be completely satisfied

36. What implication(s) does resource scarcity have for the satisfaction of wants?
   (a) Not all wants can be satisfied
   (b) We will never be faced with the need to make choices
   (c) We must develop ways to decrease our individual wants
   (d) The discovery of new natural resources is necessary to raise our ability to satisfy
37. Match the following

<table>
<thead>
<tr>
<th>(1) Adam Smith</th>
<th>(a) Definition of welfare</th>
</tr>
</thead>
<tbody>
<tr>
<td>(2) Marshall</td>
<td>(b) Definition of wealth</td>
</tr>
<tr>
<td>(3) Robbins</td>
<td>(c) Definition of growth &amp; develop</td>
</tr>
<tr>
<td>(4) Samuelson</td>
<td>(d) Definition of scarcity &amp; develop</td>
</tr>
</tbody>
</table>

(a) b,a,c,d  
(b) a,b,c,d  
(c) b,a,d,c  
(d) d,a,b,c

38. Which of the following embody a more widely accepted definition of economics?

(a) “An Inquiry into the nature and causes of the Wealth of Nations”
(b) “The part of social welfare which can be brought directly or indirectly into Relationship with the measuring rod of money”
(c) “A study of mankind in ordinary business of life material requisite of well-being”
(d) “A science, which studies human behaviour as a relationship between Ends and scarce means, which have alternative uses.”

39. Which of the following can be regarded as law of economics?

(a) Ceteris Paribus, if the price of a commodity raises the quantity demanded falls
(b) Higher the income, greater is the expenditure.
(c) Taxes have no relation to the benefits which a person derives from the state
(d) None of these

(C) CENTRAL ECONOMIC PROBLEMS

40. Consider the following and decide which, if any economy is without scarcity:

(a) The pre-independent India economy, where most people were farmers
(b) A mythical economy where everybody is a billionaire
(c) Any economy where income is distributed equally among its people
(d) None of the above

41. Economics may be defined as the science that explains...

(a) The choices that we make as we cope with scarcity
(b) The decision made by politicians
(c) The decisions made by households
(d) All human behaviour

42. Scarcity is a situation in which.......

(a) Wants exceed the resources available to satisfy
(b) Something is being wasted
(c) People are poor
(d) None of the above
43. Economic laws establish cause & effect relationship which are true under certain.....
   (a) Procedures    (b) Valuations  (c) assumptions  (d) None

44. Which of the following are not true?
   (a) Wants are limited  (b) Resources are scarce
   (c) Resources have alternative uses  (d) Both (b) & (c)

45. The paradox of diamond is more costly than water is explained by
   (a) Relative cost of production  (b) Marginal utility
   (c) Scarcity  (d) All of the above

46. Unlimited ends leads to:
   (a) Resource allocation  (b) Alternative use
   (c) Use on priority basis  (d) All

47. Economic goods are goods which
   (a) Obey the laws of Economics  (b) Are tangible
   (c) Are limited in supply and are scarce  (d) Are intangible

48. Which of the following is not one of the four central questions that the study of economics is supposed to answer?
   (a) What to produce?  (b) When are goods produced?
   (c) Who consumes what?  (d) How are goods produced?

49. Which of the following is incorrect?
   (a) The central problem in economics is that of allocating scarce resources in such a manner that society’s unlimited needs are satisfied as well as possible.
   (b) In a mixed economy, the government and the private sector interact in solving the basic economic questions.
   (c) Micro Economics best describes the study of the behaviour of individual agents
   (d) An important theme in economics is that market systems are better than command (socialistic) economies.

50. The Central Economic problem is –
   (a) What to produce?  (b) How to produce?
   (c) For whom to produce?  (d) All of above

51. Economic problem arises when:
   (a) Wants are unlimited  (b) Resources limited
   (c) Alternative uses of resources  (d) All of the above
52. The central problem in economics is that of –
   (a) Comparing the success of command versus market economies
   (b) Guaranteeing that production occurs in the most efficient manner
   (c) Guaranteeing a minimum level of income for every citizen
   (d) Allocating scarce resources in such a manner that a society's unlimited
       Needs or wants are satisfied as well possible

53. Which of the following can be regarded as the laws of Economics?
   (a) There is a direct proportionate change in price with a change in the supply of
       money
   (b) Prices are determined by total demand and total supply in the market
   (c) After a point the marginal increase in output shows a falling tendency with every
       increase in one or more of the factors of production
   (d) All of these

54. Which of the following can be regarded as the laws of Economics?
   (a) Marginal propensity to consume shows a fall with an increase in income
   (b) Price of other products show a rise with a rise in the prices of food grains.
   (c) Taxes have no relation with the benefit which a person derives from the go-
       vernment.
   (d) Economy cannot prosper without hard work and sincerity of the people.

55. Which of the following would be considered a disadvantage of allocating re-
    sources using a market system?
   (a) Income will tend to be unevenly distributed.
   (b) Significant unemployment may occur.
   (c) It cannot prevent the wastage of scarce economic resources.
   (d) Profit will tend to be low.

56. What is one of the future consequences of an increase in the current level of
    consumption in India?
   (a) Slower economic growth in the future
   (b) Greater economic growth in the future
   (c) No change in our economic growth rate
   (d) Greater capital accumulation in the future

57. Larger production of....goods would lead to higher production in future
   (a) Consumer goods   (b) Capital goods
   (c) Agricultural goods   (d) Public goods
Micro Economics is connected with......  
(a) Consumer’s Behaviour (b) Product Pricing (c) Factor Pricing (d) All of these

When we are studying how a producer fixes the prices of his products we deal with:  
(a) Macro Economics (b) Micro Economics (c) Both a& b (d) None

Micro stands for millionth part or just......  
(a) A small part of the whole (b) A big part of the whole  
(c) Aggregate part of the whole (d) All the units combined

Micro economics is also known as  
(a) Public economics (b) Price theory  
(c) Factor pricing (d) All of the above

Which of the following is related to Micro economics  
(a) Inflation in the economy (b) Problem of unemployment  
(c) National income (d) Income from the railways

Which of the following statements is correct?  
(a) Employment and economic growth are studied in micro economics  
(b) Micro economics deals with balance of trade  
(c) Economic condition of a section of the people is studied in micro economic  
(d) External value of money is dealt with in micro economics

The branch of Economic theory that deals with the problem of allocation of resources is –  
(a) Micro Economics (b) Macro Economics  
(c) Econometrics (d) None of these

Which of the following is a study of particular units rather than all the units combined?  
(a) Macro Economics (b) Micro Economics  
(c) Welfare Economics (d) None

Which of the following refer to the micro economic aspects from a national angle-  
(a) Per capita income of the country (b) Capital-output ratio in steel industry  
(c) Income from the railways (d) Both (a),(b),&(c)
67. State which refers to micro economic approaches from a national angle:
   (a) Unemployment among the educated people
   (b) Inflation in the Economy
   (c) Lockout in Indian Airlines
   (d) Distribution of coal in the country

68. From the national point of view which of the following indicates micro approach?
   (a) Per capita income of India
   (b) Underemployment in agriculture sector
   (c) Lock-out in TELCO
   (d) Total savings in India

69. Which of the following falls under Micro Economics?
   (a) National Income
   (b) General Price level
   (c) Factor Pricing
   (d) National Saving and investment

70. Which of the following is not a micro Economic subject matter?
   (a) The price of mangoes
   (b) The cost of producing a fire truck for the fire department of Delhi, India
   (c) The quantity of mangoes produced for the mango market
   (d) The national Economy’s annual rates of growth

71. Price theory is also known as
   (a) Positive Economics
   (b) Normative Economics
   (c) Micro Economics
   (d) Macro Economics

(E) MACRO ECONOMICS

72. Macro Economics is the study of.....
   (a) All aspects of scarcity
   (b) The national Economics and the global Economy as a whole
   (c) Big businesses
   (d) The decisions of individual businesses and people

73. When we study why saving rates are high or low, we are studying
   (a) Macro Economics
   (b) Micro Economics
   (c) Econometrics
   (d) Both a) & b)

74. Identify the correct statement –
   (a) In the deductive method logic proceeds from the particular to the general
   (b) Micro and macro Economics are interdependent
   (c) In a capitalist Economy economic problem are solved by Planning Commission
   (d) Higher the prices, lower is the quantity of a product is a normative statement
75. A study of how increases in the corporate income tax rate will affect the national unemployment rate is an example of –
   (a) Macro Economics    (b) Descriptive Economics
   (c) Micro Economics    (d) Normative Economics

76. Which of the following refer to the macroeconomic approaches a national angle-
   (a) Per capita income of the country
   (b) Capital-output ratio in steel industry
   (c) Income from the railways
   (d) Both (a) and (b)

77. Which of the following does not suggest a macro approach for India?
   (a) Determining the GNP
   (b) Finding the causes of failure of X and Co.
   (c) Identifying the causes of inflation in India
   (d) Analysing the causes of failure of industry in providing large-scale employment

(F) POSITIVE SCIENCE

78. ...... establish cause and effect relationships which are under certain assumptions
   (a) Economics              (b) Economic laws or theories
   (c) Economics Principles   (d) Economics models

79. An example of positive Economic analysis would be-
   (a) An analysis of the relationship between the price of food and the quantity .
   (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

80. Economics as a positive science should be between ends.
   (a) Unique             (b) socially responsible  (c) Neutral       (d) Inspiring

81. Normative aspect of Economics is given by:
   (a) Marshall              (b) Robbins           (c) Adam Smith     (d) Samuel Son

82. Which of the following is an example of normative science?
   (a) Rich people should be taxed more
   (b) Free education should be given to the poor
   (c) India should spend more money on defence
   (d) All of the above
(G) NORMATIVE SCIENCE

83. Normative aspect of Economics is given by:
   (a) Marshall  (b) Robbins  (c) Adam Smith  (d) Samuelson

84. Economic models are
   (a) Mathematical exercises  (b) Non-Mathematical exercises
   (c) Constructed to study human behaviour  (d) none of these

85. Which of the following is a normative statement?
   (a) Planned Economies allocate resources via government departments
   (b) Most transitional Economies have experienced problem of falling output and rising prices over the past decade.
   (c) There is a greater degree of consumer sovereignty in market Economies than planned Economies
   (d) Reducing inequality should be a major priority for mixed Economies

86. Which of the following statements would you consider to be a normative one?
   (a) Faster economic growth should result if economy has a higher level of investment.
   (b) Changing the level of interest rates is a better way of managing the Economy than using taxation and government expenditure.
   (c) Higher level of unemployment will lead to higher level of inflation.
   (d) The average level of growth in the Economy was faster in the 1990s than the 1980s.

87. Mr. A: My corn harvest this year is poor.
   Mr. B. Don’t worry. Price increase will compensate for the fall in quantity supplied
   Mr. C: Climate affect crop yields some years are bad, other are good
   Mr. D: The government ought to guarantee that our income will not fall
   In this conversation, the normative statement is made by—
   (a) Mr. A  (b) Mr. B  (c) Mr. C  (d) Mr. D

88. Which of the following statements is normative?
   (a) Large government deficits cause an Economy to grow more slowly
   (b) People work harder if the wage is higher
   (c) The unemployment rate should be lower
   (d) Printing too much money cause inflation

89. Normative science is concerned with the following aspects.
   (a) Value judgement  (b) welfare proposition
   (c) What is ideal  (d) all the above
(H) **DEDUCTIVE METHOD**

90. The other names of ...... methods are abstract analytical and priori method  
   (a) Inductive method (b) Economic method  
   (c) Deductive method (d) Name of the above  

91. When specifying Economic models, Economists often make assumptions about the real world. The purpose of assumptions in Economic theory is to –  
   (a) Make the model more realistic  
   (b) Simplify the model and provide a primary focus for theory  
   (c) Ensure that the model only covers specific conditions  
   (d) Guarantee the accuracy of theory  

92. A normative economic statement is :  
   (a) The United States spends a $1 trillion on national defence  
   (b) Economics is a social science that studies human behavior  
   (c) Economics is not a social science that studies human behavior  
   (d) The federal minimum wages should be raised to $4.50 per hour  

(I) **INDUCTIVE METHOD**

93. Inductive method is also known as ....  
   (a) Abstract method (b) Historical method (c) Realistic method  
   (d) None  

94. Inductive Method is  
   (a) That method through which on the basis of genital trout we try to know by reasoning particular truth  
   (b) That method in which we proceed from particular myth  
   (c) That method in which we again on a particular myth  
   (d) The method in which we proceed from particular truth to generate truth  

95. Under Inductive method, the logic proceeds from:  
   (a) General to particulars (b) Particular to general  
   (c) Both (a) and (b) (d) None  

96. Competitive mkt structure and inequality of wealth are the main features of :  
   (a) Mixed economy (b) Socialistic economy  
   (c) Capitalistic economy (d) None of the above
J. CAPITALISM

97. In which economic system all the means of production are owned and controlled by private individuals for profit:
   (a) Socialism    (b) Capitalism
   (c) Mixed economy (d) Communism

98. Freedom of choice is the advantage of
   (a) Socialism    (b) Capitalism
   (c) Mixed economy (d) Communism

99. A developed economy uses____ technique in production (J10)
   (a) Labour intensive   (b) Capital intensive
   (c) Home-based         (d) Traditional

100. In which type of economy do consumers and producers make their choices based on the market forces of demand and supply? (Feb07)
    (a) Open Economy    (b) Controlled Economy
    (c) Command Economy  (d) Market Economy

101. In a free market economy, when consumers increase their purchase of a goods and the level of____exceeds____then prices tend to rise:( Aug07)
    (a) Demand, supply   (b) supply, Demand
    (c) Prices, Demand    (d) Profit, Supply

102. Capital intensive technique would get chosen in a (S)
    (a) labour surplus economy (b) Capital surplus economy
    (c) Developed economy     (d) Developing economy

103. Labour intensive technique would get chosen in a (S)
    (a) Labour surplus economy (b) Capital surplus economy
    (c) Developed economy (d) Developing economy

104. In a capitalist economy resources are on the basis of :
    (a) Demand       (b) Supply
    (c) Price-mechanism (d) All of the above

105. In a free market economy the allocation of resources is determined by (s)
    (a) Votes taken by consumers  (b) A central planning authority
    (c) By consumer preference    (d) The level of profits of firms

106. In capitalism Price Mechanism is directed by?
    (a) Individuals        (b) Government
    (c) Market forces      (d) Corporate organizations
107. A Free Market economy solves its central problems through
   (a) Planning authority   (b) Market mechanism
   (c) Both               (d) None

108. Which one is not the characteristic of capitalistic economy?
   (a) Profit motive       (b) Income inequality
   (c) Unplanned economy   (d) Collective ownership

109. Mixed economy means
   (a) All economic decisions are taken by central authority
   (b) All economic decisions are taken by private entrepreneurs
   (c) Economic decisions are partly taken by the state and partly by private
   (d) None

110. Capitalistic Economy uses ....as principal means of allocating resources
    (a) Demand             (b) Supply
    (c) Price              (d) All of the above

111. Under a free economy, prices are –
    (a) Regulated          (b) By demand & supply
    (c) Partly regulated   (d) None of these

112. Under a capitalist economy –
    (a) Government plays a major role (b) Government plays no role
    (c) Government plays minor role (d) None

113. Right of private property is found in –
    (a) Socialism          (b) Capitalism
    (c) Mixed economy      (d) None of these

114. In an economy, people have the freedom to buy or not to buy the goods offered in the market place and this freedom to choose what they buy dictates what producers will ultimately produce. The key term defining this condition is-
    (a) Economic power of choice
    (b) Consumers sovereignty
    (c) Positive economy
    (d) Producer sovereignty
(K) SOCIALISM

115. One of the following is demerit of socialism
   (a) Class conflict               (b) Trade cycles
   (c) Ignores Social welfare      (d) Bureaucracy

116. One of the following is merit of socialism
   (a) Private Property            (b) Incentive to hard work
   (c) Works automatically         (d) Ensures right to work

117. Under a controlled economy___.
   (a) State plays a major role
   (b) Central authority decides how much will be produced
   (c) Both (a) & (b)
   (d) Neither (a) nor (b)

(L) MIXED ECONOMY

118. Mixed economy.
   (a) All economic decisions are taken by the central authority
   (b) All economic are taken by private entrepreneurs
   (c) Economic decisions are partly taken by the state and partly by the private entrepreneurs
   (d) None

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

120. Under a mixed economy____
   (a) A dual system of pricing exists
   (b) State regulates prices of essential goods
   (c) Both (a) & (b)
   (d) Neither (a) nor (b)

(M) PRODUCTION POSSIBILITY CURVE (PPC)

121. What does an outward shift of the PPC indicate?
   (a) Improvement in technology       (b) Greater capital formation
   (c) Increase in the population growth (d) All of the above

122. Production possibilities curve is also known as:
   (a) Demand curve                  (b) Supply curve
   (c) Indifference curve            (d) Transformation curve
123. If a point falls inside the production possibility curve, what does it indicate?
   (a) Resources are over utilized  (b) Resources are under utilized
      (c) There is unemployment in the economy  (d) Both (b) & (c)

124. Which of the following illustrates a decrease in unemployment using the PPF?
   (a) A movement down along to PPE
   (b) A rightward shift of the PPF
   (c) A movement from a point on the PPE to a point inside the PPE
   (d) A movement from a point inside the PPE to a point on the PPE

125. Which of these would cause a rightward shift of the PPC curve?
   (a) Improvement in technology  (b) Greater capital information
      (c) Increase in population  (d) All of these

126. Which of the following illustrates a decrease in unemployment using the PPC?
   (a) A Movement down along the PPC
   (b) A rightward shift of the PPC
   (c) A movement from a point on the PPC to a point on the PPC
   (d) A movement from a point inside the PPC to a point on the PPC

127. Which of the following is likely to cause an inward shift in a country's PPC?
   (a) Earthquake destroying resources of the country
   (b) Scientists discovering new machines
   (c) Workers getting jobs in the new metro project
   (d) The country finds new reserves of crude oil

128. Consider the following table

<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>
<th>G</th>
<th>H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guns</td>
<td>0</td>
<td>10</td>
<td>20</td>
<td>30</td>
<td>40</td>
<td>50</td>
<td>60</td>
<td>30</td>
</tr>
<tr>
<td>Breads</td>
<td>105</td>
<td>100</td>
<td>90</td>
<td>75</td>
<td>55</td>
<td>30</td>
<td>0</td>
<td>45</td>
</tr>
</tbody>
</table>

The opportunity cost of increasing gun's production from 20 to 30 units is equal to____
   (a) 10 units of bread  (b) 15 units of bread
   (c) 25 units of bread  (d) 24 units of bread
129. If one moves successively from point A to points B, C, D, E and F the opportunity cost of guns
(a) Increases as more of guns are produced
(b) Decreases as more of guns are produced
(c) Remains constant as more of guns are produced
(d) Nothing can be said

130. If point D is efficient while point H is inefficient. Why?
(a) point D is outside the PPC while point H is on PPC
(b) point D is inside the PPC while point H on the PPC
(c) point D is on the PPC while point H is inside the PPC
(d) Nothing can be said

131. Consider the following table:

<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>Goods-A</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Goods-B</td>
<td>30</td>
<td>28</td>
<td>24</td>
<td>18</td>
<td>10</td>
<td>0</td>
</tr>
</tbody>
</table>

The opportunity cost of increasing Good-A’s production from 2 to 4 units is equal to
(a) 10 units of B (b) 14 units of B
(c) 24 units of B (d) 2 units of B

132. Production Possibility Curve is applicable for:
(a) Three goods (b) Four goods
(c) Scarce resources (d) Both b & c

Use the figure given below to answer 133 to 137

133. Point N Shows
(a) Over utilisation of resources
(b) Unemployment of resources.
(c) Best utilisation of resources.
(d) Full employment of resources

134. The concept of trade-off is shown by
(a) Point N to M (b) Point A to M
(c) Point B to N (d) Point A to B
(135) Which factor will not move the PPF for this economy closest to point M?
(a) Discovery of new stock of resources
(b) Use of latest technology.
(c) Fall in the level of unemployment
(d) Use of outdated technology.

(136) Opportunity cost of moving from point B to P₁ is
(a) 50 units of Bullet
(b) 100 units of Bullet
(c) 180 units of gun
(d) 110 units of gun

(137) Which point on PPF shows production of only one commodity that is, guns?
(a) Point A
(b) Point P
(c) Point B
(d) None

(138) Which points on or around PPF solve the problem of allocation of resources?
(a) Points A, B, P
(b) Point M
(c) Point N
(d) None

(139) Which central problem is not solved by PPF?
(a) What to produce?
(b) How much to produce?
(c) For whom to produce?
(d) Economic growth.

Use the following figure & answer 140 to 142

(140) Which point on the PPF shows a productively efficient level of output?
(a) A (b) B (c) C (d) All

(141) Which of the following clearly represents a movement toward 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.

(142) Which of the following illustrates a decrease in unemployment using the PPF?
(a) A movement down along the PPF.
(b) A rightward shift of the PPF.
(c) A movement from a point on the PPF to a point inside the PPF.
(d) A movement from a point inside the PPF to a point on the PPF.
Use the figure and answer question No. 143 to 148

(143) Shift in PPF from PP₁ to PP₂ is due to

(a) Full employment of resources.
(b) Improvement in technology
(c) Improvement in technology in only bullet production.
(d) Improvement in technology in only gun production.

(144) What does the shift in PPF from PP₁ to PP₂ show?

(a) What to produce?
(b) How to produce?
(c) For whom to produce
(d) Economic growth.

(145) The slope of PPC is called

(a) Marginal rate of substitution
(b) Marginal Cost
(c) Marginal Opportunity Cost
(d) None

(146) If the PPF curve becomes downward linear:

(a) Marginal opportunity cost increases.
(b) Marginal opportunity cost decreases.
(c) Marginal opportunity cost is constant.
(d) None

(147) A convex to the origin PPC implies

(a) Increasing marginal cost
(b) Constant marginal cost
(c) Decreasing marginal cost.
(d) None.

(148) If there is a natural calamity, what will happen to PPC

(a) PP₁ shifts to PP₂
(b) PP₁ remains unchanged
(c) PP₂ shifts to PP₁
(d) All

(149) With the same amount of resources a farmer can feed the following combinations of goats & horses:

<table>
<thead>
<tr>
<th>Options</th>
<th>Goats</th>
<th>Horses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>168</td>
<td>44</td>
</tr>
<tr>
<td>2</td>
<td>150</td>
<td>50</td>
</tr>
</tbody>
</table>

Given the option available with him what is the opportunity cost to the farmer of feeding one horse?

(a) 1 goat
(b) 3 horses
(c) 3 goats
(d) 18 goats
(150) Which of the following is likely to cause an inward shift in a Country’s PPC?
(a) Earthquake destroying resources of the country.
(b) Scientists discovering new machines
(c) The country finds new reserves of crude oil    (d) None

(151) Which of the following is not one of the four central questions that the study of economics is supposed to answer?
(a) Who produces what?    (c) Who consumes what?
(b) When are goods produced?    (d) How are goods produced?

(152) The central problem in economics is that of:
(a) Comparing the success of command versus market economics.
(b) Guaranteeing that production occurs in the most efficient manner.
(c) Guaranteeing a minimum level of income for every citizen.
(d) Allocating scarce resources in such a manner that society’s unlimited needs or wants are satisfied as well as possible.

(153) 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 costs increase as more of a good is produced.
(d) None of the above.

(154) Which of the following is a reason for the negative slope of the PPF?
(a) The inverse relationship between the use of technology & the use of natural resources.
(b) Scarcity at any point of time we have limited amounts of productive resources.
(c) Resource specialization.
(d) Increasing opportunity costs.

(155) Capital intensive technique would get chosen in a:
(a) Labour surplus economy.    (c) Developed economy.
(b) Capital surplus economy.    (d) Developing economy.

(156) The various combinations of goods that can be produced in any economy when it uses its available sources & technology efficiently are depicted by:
(a) Demand curve    (b) Production curve
(c) Supply curve    (d) Production Possibility Curve
In 1940, Hitler’s air force bombed Rotterdam, a beautiful city in Holland. Twenty-five thousand homes, 1200 factories, 69 schools and 13 hospitals were destroyed. Nearly 75,000 people became homeless and 1000 people died. 35% of the port was gutted by the German army. The above destruction would mean:

(a) A complete wipe off of the production possibilities curve (PPC) of Rotterdam.
(b) An outward shift of the PPC of Rotterdam.
(c) An inward shift of the PPC of Rotterdam.
(d) A downward movement on the same PPC of Rotterdam.

If immediately after the war, Rotterdam rebuilt its port with the help of most up-to-date cranes, docks and cargo handling technology. By the end of the reconstruction, ships were loading and unloading faster at lower cost than anywhere in the world. It became more efficient that it was the destruction. This means:

(a) Rotterdam has come back to its original PPC.
(b) Rotterdam has shifted to a higher PPC.
(c) Rotterdam has shifted to a lower PPC.
(d) Nothing can be said.

Use the table and answer questions 159 to 161

<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 A</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Good B</td>
<td>30</td>
<td>28</td>
<td>24</td>
<td>18</td>
<td>10</td>
<td>0</td>
</tr>
</tbody>
</table>

According to Table the opportunity cost of increasing Good A’s production from 2 to 4 units is equal to:

(a) 10 units of B
(b) 14 units of B
(c) 24 units of B
(d) 2 units of B
According to Table, the opportunity cost of increasing one unit of Good B from 10 units to 18 units is:

(a) 3 units of A  
(b) 1 units of A  
(c) 0.125 units of A  
(d) 0.5 units of A

Give the data in Table, as one moves successively from point A to point B, C, D, E and F, the opportunity cost of Good A:

(a) Increase as more of good A is produced  
(b) Decreases as more of good A is produced  
(c) Remains constant  
(d) Is always equal to one unit of B.

The economic analysis expect the consumer to behave in a manner which is:

(a) Rational  
(b) Irrational  
(c) Emotional  
(d) Indifferent

Use table for question 163 to 165:

<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>Hot Potatoes</td>
<td>15</td>
<td>12</td>
<td>9</td>
<td>6</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Eggs</td>
<td>0</td>
<td>6</td>
<td>11</td>
<td>15</td>
<td>18</td>
<td>20</td>
</tr>
</tbody>
</table>

According to the production possibilities curve in Table, a combination of 12 Hot Potatoes and 11 Eggs:

(a) Is attained and it involves an efficient use of society’s resources.  
(b) Is attained but involves the unemployment of inefficient use of society’s resources.  
(c) Is not attained given society’s current resources and technology  
(d) May be produced only if the production possibilities curve shift inward.

According to the production possibilities curve in Table, a combination of 3 Hot Potatoes and 15 Eggs:

(a) Is attained and it involves an efficient use of society’s resources.  
(b) Is attained but involves the unemployment of inefficient use of some of society’s resources.  
(c) Is not attained given society’s current resources and technology  
(d) May be produced only if the production possibilities curve shift inward.
(165) Referring to Table, in moving from point D to point C, the opportunity cost of 1 more Hot Potatoes is:
(a) 4 eggs
(b) 3 eggs
(c) 1 egg
(d) 4/3 eggs

(166) Given the data in Table, as one moves successively from point A to points B, C, D, E, and F the opportunity cost of eggs:
(a) Increase as more eggs are produced
(b) Decreases as more eggs are produced
(c) Remains constant as more eggs are produced
(d) Cannot be measured.

(167) Give the data in Table, as one moves successively from points E, D, C, B, and A, the opportunity cost of Hot Potatoes:
(a) Increases as more hot potatoes are produced.
(b) Decreases as more hot potatoes are produced.
(c) Remains constant as more hot potatoes are produced.
(d) Cannot be measured.

(168) Which of the following would not cause an economy’s production possibilities curve to shift to the right?
(a) The discovery of new superconductivity materials, which makes manufacturing more efficient.
(b) A decrease in unemployment
(c) Improvements in technology
(d) Widespread application of irrigation to agricultural land.

(169) In drawing a production possibilities curve, which of the following is (are) held constant?
(a) The supply of natural resources and the supply of labour.
(b) Technology and the education attainment of the work force.
(c) Both (a) and (b)
(d) None of the above
Question 170, 171, 172 are based on Figure I which shows production possibilities curve (PPC) for grape juice and wine.

(170) The opportunity cost of increasing wine production from D to E is:
   (a) 0 litres of grapes juice
   (b) 5 litres of grapes juice
   (c) 1 litre of wine
   (d) 0.2 litres of wine

(171) Assuming that the PPC does not shifted which of the following is true?
   (a) Point A is desirable but is inefficient.
   (b) Point D represents a more efficient allocation of resources than points A and F.
   (c) Point H is desirable but is not attainable.
   (d) If wine production equals 7 litres, the maximum amount of grape juice that can be produced simultaneously is 28 litres.

(172) The PPC in the diagram reflects:
   (a) Increasing opportunity cost of more wine production and constant opportunity cost of more grape juice production.
   (b) Increasing opportunity cost of more wine production and decreasing opportunity cost of more grape juice production.
   (c) Decreasing opportunity cost of more wine production and decreasing cost of more grape juice production.
   (d) Increasing opportunity cost of more wine production and increasing opportunity cost of more grape juice production.

(173) Which of the following is correct?
   (a) The production possibilities frontier shows the maximum combination of output that the economy can produce using all the resource available.
   (b) Increasing opportunity cost implies a production possibility frontier concave to the origin.
   (c) Free markets are the market in which the government do not intervene.
   (d) All of the above are correct.
(174) Production possibility curve is also known as

(a) Demand curve  (c) Indifference curve
(b) Supply curve  (d) Transformation curve

(175) ………………… helps us to understand the problem of scarcity better, by showing what can be produced with given resources and technology.

(a) Isoquant curve  (c) Giffen’s paradox
(b) Production possibility frontier  (d) Isocost curve

(176) Opportunity costs are a result of …………..

(a) Scarcity  (c) Technology obsolescence
(b) Overproduction  (d) Abundance of resources

(177) The PPC does not give the desirable point of production it only indicates the possible combination of ………….. that can be produced with the available resources.

(a) Two goods  (c) Number of goods
(b) Three goods  (d) Single good

(178) Which of the following is an important message that a production possibility curve conveys to an economy?

(a) It indicates the limited number of production possibility during a given period of time.
(b) It shows the maximum amount of any good can be produced with the available resources.
(c) It shows the maximum expected demand in the near feature
(d) Both a and b.

(179) A production possibility curve presents valuation information about production. Which of the following statements describes the information best?

(a) The maximum output of any two products that can be produced with given resources.
(b) The rise and fall of total when resources and techniques are fixed.
(c) The production pattern in an economy when resources and techniques are fixed.
(d) The growth of production over a period of time with given resources.
(180) Point inside the production possibility curve given represents.
(a) Attainable combination of good x and good y
(b) Full utilization of resources
(c) Under utilization of resources
(d) Economically efficient combination of good x and y.

(181) PPC shifts to leftward because of:
(a) Draught
(b) Floods
(c) Starvation
(d) All

(182) Suppose you find ₹200. If you choose to use, ₹200 to go to a football match, your opportunity cost of going to the game is ______________.
(a) Nothing, because you found the money.
(b) ₹200 (because you could have used to buy other things) plus the value of your time spent at the game.
(c) ₹200 (because you could have used the ₹200 to buy other things) plus the value of your time spent at the game, plus the cost of the dinner you purchased at the game.
(d) ₹200 (because you could have used the Rs. 200 to buy other things)
Science of Dynamic Growth and Development: - Paul A. Samuelson According to Henry Smith, Economics is the “the study of how in a civilized society one obtains the share of what other people have produced and of how the total product of society changes and is determined.

According to Jacob Viner, “Economics is what Economists do”.

DIFFERENCE BETWEEN MICRO AND MACRO ECONOMICS

<table>
<thead>
<tr>
<th>Basis</th>
<th>Micro Economics</th>
<th>Macro Economics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Study of</td>
<td>It is the study of individual economic units.</td>
<td>It is the study of the economics as a whole and its aggregates.</td>
</tr>
<tr>
<td>Deals with</td>
<td>It deals with individual income, individual prices and individual output etc.</td>
<td>It deals with national income, price level, national output etc.</td>
</tr>
<tr>
<td>Tools</td>
<td>It’s main tools are demand and supply of a particular commodity.</td>
<td>It’s main tools are aggregate demand and aggregate supply of the economy as a whole.</td>
</tr>
<tr>
<td>Central Problem</td>
<td>It’s central problem is price determination of commodities or factors of production.</td>
<td>It’s central problem is determination of level of income and employment.</td>
</tr>
<tr>
<td>Prices</td>
<td>Prices determined under this are called ‘relative prices’.</td>
<td>Prices determined under this are called ‘absolute price’.</td>
</tr>
<tr>
<td>Type of Analysis</td>
<td>It is a partial equilibrium analysis.</td>
<td>It is a general equilibrium analysis.</td>
</tr>
<tr>
<td>Scope</td>
<td>It is narrow in scope.</td>
<td>It is wider in scope.</td>
</tr>
<tr>
<td>Examples</td>
<td>(a) Lock out in TELCO (b) Finding the causes of failure of X and co.</td>
<td>(a) Per capita income (b) corporate income tax (c) Economy growth</td>
</tr>
</tbody>
</table>

Note: It should be noted that micro and macro economics are interdependent.