

Chapter 1 – Introduction to Micro Economics

Question 1

What are the three central problems of Economy?

Answer: The three central problems of Economy are.

- What to Produce
- How to Produce
- For whom to Produce

Question 2

Give two examples of Micro and Macro Economy.

Answer: The two examples of Micro economy are Individual supply and demand and the two examples of Macro economy are aggregate supply and demand.

Question 3

Define Scarcity.

Answer: Scarcity refers to the deficit of resources as compared to the demand.

Question 4

A growth of resources in an economy is shown in PP by.

1. Leftward Shift
2. Unchanged PPC
3. Rightward Shift
4. None of the above

Answer: Rightward Shift

Question 5

What is another name for opportunity cost in economics?

1. Economic problem
2. Marginal Cost
3. Total Cost
4. Economic Cost

Answer: Economic problem

Question 6

The central economy in market research is solved by.

- 1. Demand for goods
- 2. Supply of goods
- 3. Planning authority
- 4. Market mechanism

Answer: Market mechanism

Question 7

Is the subject of the Jute industry studied in a macroeconomy?

- 1. True
- 2. False
- 3. Maybe
- 4. Can't say

Answer: False

Question 8

What is Production Possibility Frontier?

Answer: Production Possibility Frontier is the curve that depicts the maximum output possibility for two combination goods that are produced when the resources are fixed at a given period of time.

Question 9

Define marginal rate of transformation.

Answer: Marginal Rate of Production MRT is the ratio of a particular product sacrificed to manufacture another product. $MRT = \Delta y / \Delta x$

Question 10

From the scheduled PP evaluate MRT of good X.

PRODUCT POSSIBILITY	A	B	C	D	E
Production of good X units	0	1	2	3	4
Production of good Y units	14	13	11	8	4

Answer:

Production of good X units	Production of good Y units	$MRT = \Delta y / \Delta x$
----------------------------	----------------------------	-----------------------------

0	14	–
1	13	1:1
2	11	2:1
3	8	3:1
4	4	4:1

Question 11

The primary assumption about resources while drawing a PPC is

1. Resources are limited
2. Resources depend on the kind of products produced
3. Resources can be put to a particular use
4. Resources are constant and given

Answer: Resources are constant and given

Question 12

Which of the following is a statement of normative nature in economics

1. Economics is a study of choices /alternatives
2. The government should be concerned with how to reduce unemployment
3. According to the estimate, in spite of severe shortage, more than 10% of houses in Indian cities are vacant
4. Accommodation of refugees is posing a big problem for Europe

Answer: Economics is a study of choices /alternatives

Question 13

What are the three central problems of an economy?

Answer: The three central problems of an economy are (a) What to produce? (b) How to produce (c) For whom to produce?

Question 14

What is the opportunity cost?

Answer: Opportunity Cost is the next best alternative foregone.

Question 15

What do you mean by economizing of resources?

Answer: Economizing means making the best of the available resources.

Question 16

Define Normative Economics.

Answer: Normative Economics is a theory that understands what an actual economy should be under an ideal circumstances as compare to what actually it is. It is mostly based on judgmental analysis and a statement 'what ought to be'.

Question 17

What does the problem for whom to produce refer to?

Answer: The problem for whom to produce refers to a particular section of people who will consume the end product. Here, the problem of choices arises because the manufacturers are unable to produce each product in huge quantity to satisfy everybody's need. So, the consumers' have to make choices between which product is more important to them, so the limited resources can be distributed rationally.

Question 18

What does the opportunity cost mean? Explain with a numerical example.

Answer: Opportunity Cost is something when an individual has to give up something to achieve or acquire something else. In microeconomy, the opportunity cost is also known as alternative cost and is also used in calculating cost benefits or analyzing a project in terms of best alternative while making a choice.

For example, Dev has three career offers to choose from. Job X has a salary offer of Rs 60000, job Y offer is Rs. 70000 and job Z offer is Rs. 80000. So, in this case, Devout of three offers he has to choose what is best for him.

Question 19

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

Answer: Planned Economy – A planned economy has one person or a group who takes a decision on production, investment, pricing, and distribution, etc, and produces products and services that are pre-planned. The planned economy is a centrally planned economy and the decisions are basically taken by the government.

In another term, the planned economy is also known as a command economy because everybody has to follow one person, his command and guidelines. The aim of the planned economy is to increase production by making sure that everything required is manufactured and that everyone's requirements are fulfilled.

Most assets are controlled and owned by the state.

Market Economy- A market economy is controlled by external authority and may have one individual who might decide what to produce, whom to produce, and how to get the things done. This type of economy keeps changing according to the demand and supply and taste of a consumer. The main issue in the economy is that a company might

refuse to manufacture goods if it's unprofitable for them. Most assets are controlled and owned privately.

Few differences between the planned economy and market economy are as follows.

- The planned economy operates according to the structure planned by the government. Whereas, the market economy operates based on market demand.
- A decision on production, investment, pricing, and distribution, etc are taken by the government whereas in the market economy it is in the free market.
- A planned economy doesn't identify consumer needs, supply, and shortages. Whereas, in a market economy, demand and supply are based on those factors.

Question 20

Explain the central problem of the choices of products to be produced.

Answer: The basic economic activities are based on the production, allocation, and distribution of goods and services. These are the major problem in the economy and other difficulties revolve around them. Allocation of goods and services relates to a problem of assigning the inadequate supplies in such a way so that it fulfills that maximum number of the consumer.

As the demand for the insufficient goods is more than that of the supply it is important to utilize it in the most effective way. In other words, an economy allocates its goods and resources and pick from a different possible package of goods (what to produce), select from various ways of production (how to produce), and therefore decide who will utilize the product (for whom to produce).