

ECONOMICS

Meaning and definition of Economics.

Economics is the study of human behavior .

OR

Economics is the study of scarcity which is related with the allocation of scarce resources in such a way that.

- Consumer can maximize satisfaction;
- Producer can maximize profit and
- Society can maximize social welfare.

Branches / Types of economics

S. no	Micro economics	Macro economics
1.	It is the study of economic problem at an individual level.	It is the study of economic problem at country level or economy as a whole
2.	It's main instrument is individual demand and supply.	It's main instrument is aggregate demand and aggregate supply.
3.	It is mainly concerned with price and output determination.	It is mainly concerned with income and employment determination.
4.	It's main assumption is CETERUS PARIBUS i.e. other things remaining the same or constant.	In this, we do not take such assumption.

Nature of Economics.

S.no	Positive	Normative
1.	In this we discuss the reality of facts	In this we discuss the value judgement or ideology.
2.	It describes 'what is, what was and what will be.	It describes ' what ought to be'.
3.	For eg: economic growth rate of India is 5%	For eg: it ought to be more than 10%.

Why does an economic problem arise ?

1) Unlimited wants :-

Human wants are always unlimited i.e. they never feel satisfied due to the consumption of no : of units of a commodity.

It is the human nature that we desire more than want we get.

- 2) **Limited resources** :- Resources in every economy are limited as compared to their demand.
Hence there is always a problem of shortage.
- 3) **Resources have alternative uses (Problem of choice)**:-
This is another reason for economic problem that limited resources can be used for multiple purposes.
Hence, we have to decide that for what purpose a particular resource should be used.

Types of central problems of an economy.

1. **Problem of allocation of resources** :-
It is the basic problem related to the utilization of resources for the production of different goods and services.
It has 3 aspects :
- **What to produce and in what quantity** :-
This is the 1st and foremost problem of every economy to decide what type of goods and services it should produce i.e. whether it should produce consumer goods like wheat, cloth, sugar etc. or it should produce capital goods like P & M , tools equipments etc.
An economy has to decide the quantity of consumer goods or capital goods to be produce with the help of available resources.
 - **How to produce** :-
It is the problem of choice of technique or method of production it is to determine an optimum combination of inputs (labor and capital) to be used in production of goods and services.
It can be discuss in two parts : -
 - a) **Labor intensive technique** :-
In this we use more units of labor as compared to the machines. It is mainly popular in labor abundant countries such as India, China.
 - b) **Capital intensive technique** :- In this we use more units of machines as compared to the labor. It is mainly popular in capital abundant countries such as U.S.A., Japan.
 - **For whom to produce**:-
It is mainly related to the distribution of income in an economy.
 - If the income is unequally distributed then economy should produce goods for higher income group i.e. luxurious goods.
 - If the income is equally distributed then economy should produce the goods for average income earners i.e. necessities and comfort goods.

2. **Problem of fuller utilization of resources :-** It is mainly related to the fuller utilization of natural resources and full employment of human resources. Hence no economy can afford under utilization of resources.
3. **Problem of economic growth :-**
It is mainly related to the increase in national income and per capita income.
It is to accelerate the level of output in an economy with the help of technological advancement.

Solution of central problems in different economic system.

1. **Capitalist economy [market economy] :-**
 - In this, resources are owned and managed by private enterprises.
 - Their main motive to produce goods and services is to earn profit.
 - Economy should use that technique of production which gives least cost.
 - Economy should produce goods and services for those people who can offer higher price.
2. **Socialist economy [Planned economy] :-**
 - In this resources are owned and managed by the government.
 - Their motive to produce goods and services is social welfare.
 - Economy should use that technique of production which is socially beneficial.
 - Economy should produce goods and services for those people who are suffering from hunger or starvation.
3. **Mixed economy :-**
 - In this decisions are taken jointly on the basis of price mechanism and social consideration.
 - Economy should produce goods and services which are demanded by the market and which are socially important.
 - Economy should produce goods and services for all section of the society.
 - Economy should use such technique of production which is balanced in approach.

PPC. (Production Possibility Curve) :- It shows all possible combination of two goods which an economy can produce with full and efficient use of its given technology and available technology.

Assumption:-

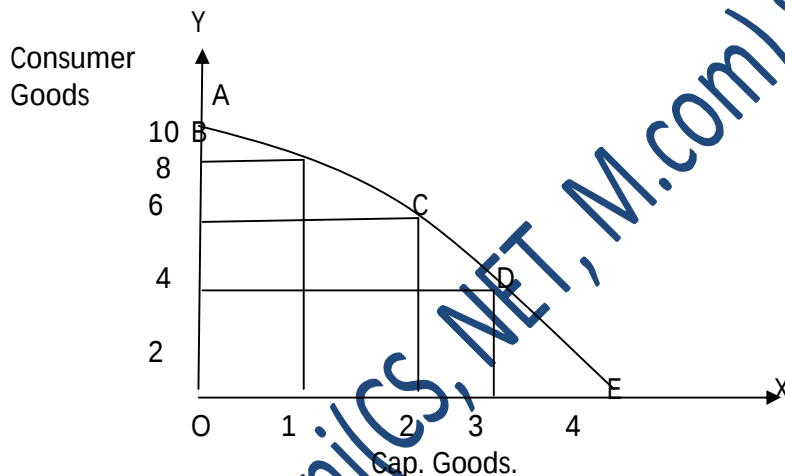
- Resources are fully and efficiently utilized.
- Technology remains constant.

PPC is also called “transformation curve” because when we want to increase the production of one type of commodity, then we have to transfer our resources from the production of one commodity to the production of other commodity.

OR

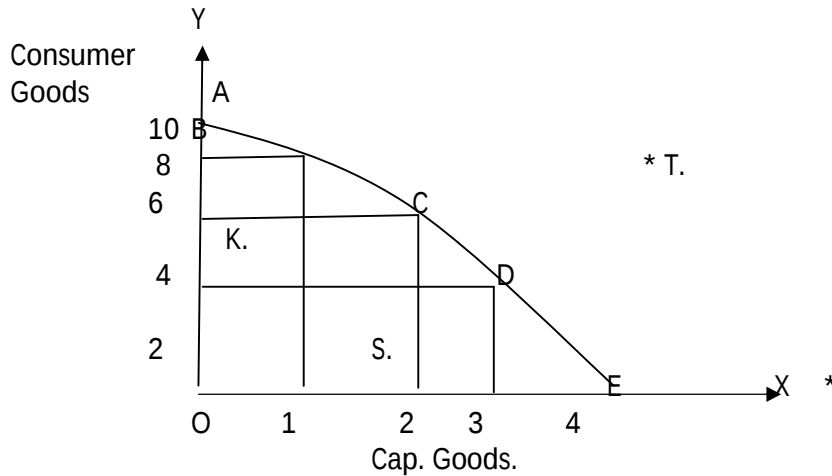
We have to sacrifice the production of other type of commodity.

Production possibility	‘X’ [cap. Goods]	‘Y’ [consumer goods]
A	0	10
B	1	8
C	2	6
D	3	4
E	4	0



Two basic characteristics :

- **It is downward sloping :-**
It slopes downwards from left to right because when we have to increase the production of 'X' commodity then we have to sacrifice the production of 'Y' commodity. Hence the relationship between the production of 'X' and 'Y' commodity is inverse.
- **It is concave to the point of origin :-**
It is because of increasing marginal opportunity cost i.e. we have to shift our resources from the production of 'Y' commodity to 'X' commodity. As a result resources become less and less efficient.



1. When economy is producing on PPC, every point on it shows :-
 - o Full and efficient utilization of resources.
 - o Full employment of resources.
 - o Efficient technology.
2. When economy is operating at any point below or inside PPC, then it shows.
 - o Under utilization of resources.
 - o Inefficient utilization of resources.
 - o Inefficient technology.
 - o Some of the resources remains unemployed.
3. Any point outside PPC (Point T) shows unattainable combination of output of two goods.

Shifting / Rotation of PPC.

- o **Right word shifting:-** It shows that production possibility of an economy increases. It can be under 2 situations :

a) **Increases in resources :-**

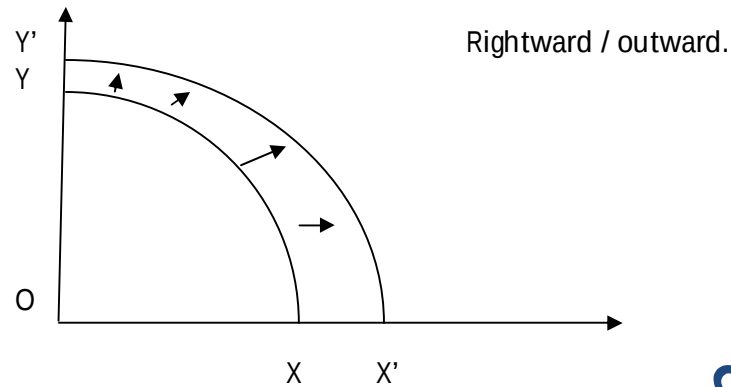
When resources are increased in economy, then economy can produce more output than before.

It may be due to increase in human resource due to the development of education and training or due to the discovery of new reserve of natural resources such as coal, petrol etc.

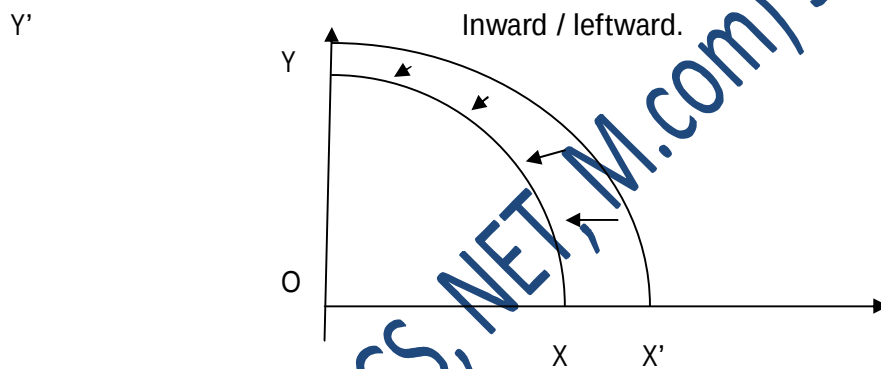
b) **Improvement in technology :-**

Whenever there is an improvement in the technique of production then we are able to produce more than before.

Hence PPC shifts outwards for it's origin.

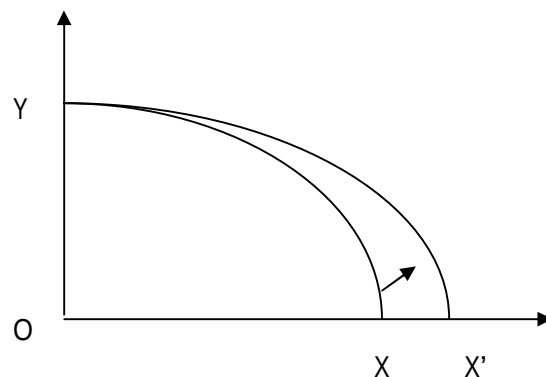


- o **Leftward shifting** : - PPC can shift leftward/ inward from the original point towards its origin due to decrease in resources of an economy which might take place due to natural calamities such as earthquake, floods etc. As a result the production possibility would decrease.

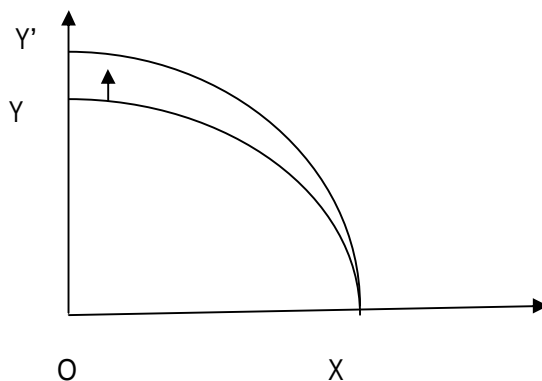


Change in technology.

- When technology of 'X' commodity improves then the production area of 'X' commodity will expand from OX to OX' .



- When technology of 'Y' commodity improves then the production area of 'Y' commodity will expand from OY to OY'



Opportunity cost :-

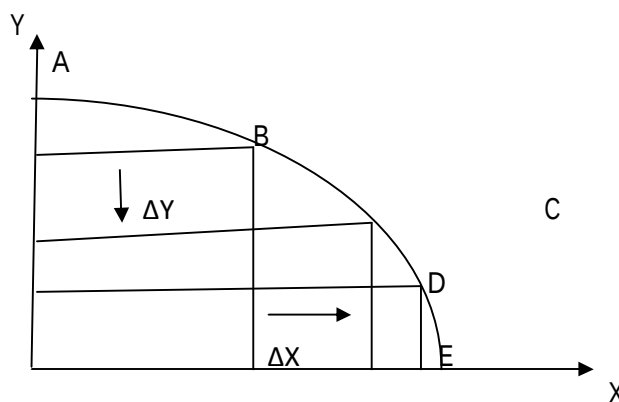
It is the next best alternative use of the factor which an economy has to sacrifice for the production of other commodity i.e. when resources are used for one purpose then it has to be sacrificed for another purpose.

MOC [Marginal opportunity cost / marginal rate of transformation] MRT. :-

It is the rate at which output of 'X' commodity is increased by sacrificing output of 'Y' commodity.

$$\text{MOC} = \frac{\Delta \text{ loss of output of 'Y' commodity}}{\Delta \text{ gain of output of 'X' commodity}}$$

Combination	X	Y	MOC
A	0	100	-
B	10	90	1
C	20	70	2
D	30	40	3
E	40	0	4



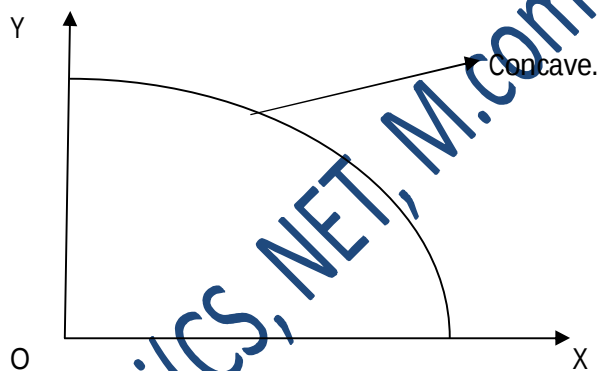
NOTES

1. Capitalist economy is also known as 'Market economy'.
2. Socialist economy is also known as 'Planned economy'.

3. Relationship between PPC & MOC.

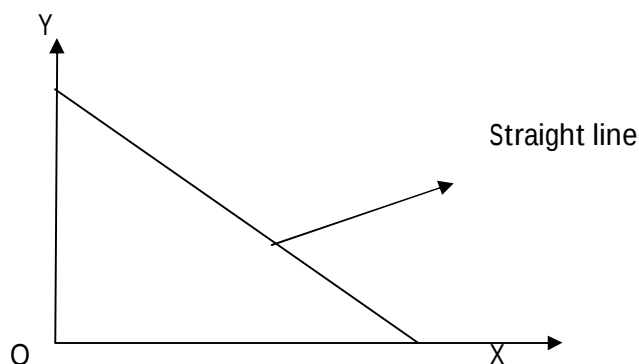
- A. When MOC increase then PPC is concave to the point of origin.

Combination	X	Y	MOC
A	0	10	-
B	1	9	1
C	2	7	2
D	3	4	3
E	4	0	4



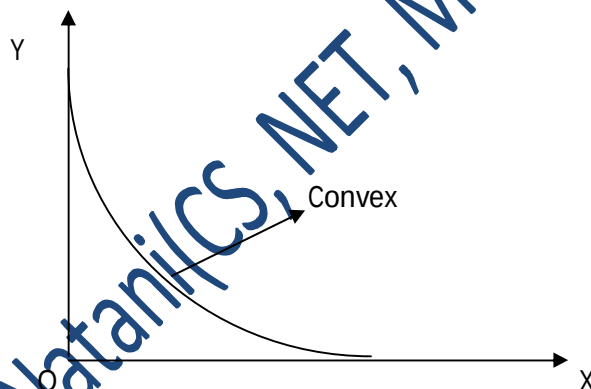
- B. When MOC is constant then PPC is a straight line curve.

Combination	X	Y	MOC
A	0	10	-
B	2	8	1
C	4	6	1
D	6	4	1
E	8	2	1
F	10	0	1



C. When MOC diminishes, then PPC is convex to the point of origin.

Combination	X	Y	MOC
A	0	10	-
B	1	6	4
C	2	3	3
D	3	1	2
E	4	0	1



Q 1 Explain the problem of what to produce with the help of PPC ?

In every economy, resources are limited and wants are unlimited as a result it is not possible for any economy to produce all types of goods and services. As a result the problem would arise that what to produce.

PPC shows the various combinations of a pair with the help of given resources and given technology.

An economy can choose any combination of PPC to solve the problem of what to produce.

Hence PPC is the effective tool to solve the problem of what to produce.

Q.2 What is a different in a situation of an unemployment and availability of less employment with respect to PPC ?

When there is a situation of unemployment in an economy, then PPC remains as it was but only a point that can shift inside the PPC.

Whereas there is availability of less employment then PPC can shift inside indicating the decreasing productions possibility of the economy.

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