

Question 1. Discuss the central problems of an economy.

Answer We know that resources are limited In relation to the unlimited wants, it is important to economise their use and utilise them in the most efficient manner.

It leads to following central problems, that are faced by every economy.

(i) What to Produce?

There is limited resources and thus producers can not produce all the goods, in an economy.

So, every economy has this problem that what to produce and in what quantities. It has two dimensions

- (a) Kinds of goods to be produced
- (b) Quantity of goods to be produced.

(ii) How to Produce?

This problem refers to the selection of technique to be used for production of goods and services

There are various techniques available to produce goods

- (a) Labour Intensive Techniques
- (b) Capital Intensive Techniques

Thus, it is difficult to allocate the resources efficiently and effectively.

(iii) For Whom to Produce?

Due to lack of resources in every economy, can not satisfy all the wants of its people.

So, there is problem to select the category of people who consume the goods.

Whether to produce goods for rich section or poor section of society or more for rich and less for poor section.

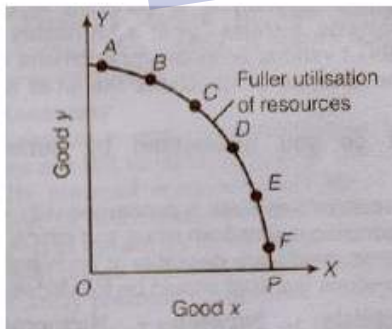
Thus, every economy faces the problem of allocating the scarce resource to the production of different possible goods and services and distribution of these among the individuals within the economy. The allocation of scarce resources and the distribution of the final goods and services are the central problem of any economy

Question 2. What do you mean by the production possibilities of an economy?

Answer We have scarce resources and there is a problem exist what to produce and in what quantity. Thus, we are taking the help from the production possibility curve. It tells us how we can combine two goods the can be produced with the given resources on the assumptions (a) resources are fully and efficiently utilised and (b) technique of production remains constant or we can say produced possibility implies the possible situation to produce two goods with given resources an technology.

Question 3. What is a production possibility frontier?

Answer It refers to a graphical representation of all the possible combinations of two products that can be produced with the given resources and technology



Question 4. Discuss the subject matter of economics.

Answer Traditionally, the subject matter of economics has been studied under two branches i. e.,

(i) Micro Economics It IS that branch of economics, which studies the problems of an individual unit of an economy. Its main tools are demand and supply e.g, Individual income, Individual expenditure.

(ii) Macro Economics It is that branch of economics. which studies the economic problems at the level of an economy as a whole. It is concerned with determination of aggregate output and general price level in the economy as a whole. Its main tools are aggregate demand and aggregate supply.

Question 5. Distinguish between a centrally planned economy and a market economy.

Answer Difference between Centrally Planned Economy and Market Economy

S. No.	Centrally Planned Economy	Market Economy
1.	It owned controlled and operated by the government	It owned controlled and operated by the private sector.
2.	All the means of production are owned by the government in case of centrally planned economy.	All resources of production (land, labour , capital and enterprise) are private property .
3.	Government plays the complete role.	Government does not play any role.
4.	The central palnning authority decides what, how and for whom to produce.	The decision of what , how and for whom to produce through price mechanism.

Question 6. What do you understand by positive economic analysis?

Answer Positive economic analysis is confined to cause and effect relationship. In other words, it states "what is." It relates to what the facts are, were or will be about various economic phenomena in the economics. e.q., it deals with the analysis of questions like what are the causes of unemployment.

Question 7. What do you understand by normative economic analysis?

Answer Normative economic analysis is concerned with what 'ought to be'. It examines the real economic events from moral and ethical angles and judge whether

certain economic events are desirable or undesirable. e.g., it deals with the analysis of questions like what should be the prices of food grains.

Question 8. Distinguish between Microeconomics and Macroeconomics.

Answer Difference between Microeconomics and Macroeconomics

	Microeconomics	Macroeconomics
Meaning	It is that part of economics, which studies the economic problems of individual unit	It is that part of economics, which studies the economic problems of aggregate level
Objective	Its aim is determine the commodity price or factors of production for an individual firm	its aim is to determine national income ,employment growth of nation in the economy as a whole.
Tools	its main tools are demand and supply	its main tools are aggregate demand and aggregate supply
Level of aggregation	it involves limited degree of aggregation	it involves highest level of aggregation
Theory	related theories are : theory of price and theory of consumer behavior	related theories are : theory of multiprice and theory related to gap in economy