**CBSE Class–12 economics**

**Important Questions - Micro Economics 01**

**Introduction**

**VERY SHORT ANSWER QUESTIONS (1 Mark)**

**Q1. Which of the following is a statement of normative nature in economics?**

**(a) Economics is study of choices/alternatives.**

**(b) Government should be concerned with how to reduce unemployment**

**(c) According to an estimate, in spite of severe shortage, more than 10% of houses in Indian cities are lying vacant.**

**(d) Accommodation of Refugees is posing a big problem for the Europe**

**Ans. (A)**

**Q2. Define scarcity.**

**Ans. Scarcity means shortage of resources in relation to their demand is called scarcity.**

**Q3. A growth of resources in an economy is shown on PP by:**

**(a) Leftward Shift**
**(b) Unchanged PPC**
**(c) Rightward Shift**
**(d) None of the above**

**Ans. (C)**

**Q4. Name the three central problems of an economy.**

**Ans. a) What to produce? b) How to produce? c) For whom to produce?**

**Q5. What is meant by economising of resources?**

**Ans.** It means making best use of available resources.

**Q6.** Define Normative Economics with a suitable example.

**Ans.** Normative economics is the type of economics that examines the way an economy should work under ideal circumstances. The price of milk should be Rs. 20 a litre to give dairy farmers a higher living standard and to save the family farm.

**Q7.** Give two examples each of micro and macroeconomics.

**Ans.** Micro economics examples are individual demand and individual supply

Macroeconomics examples are aggregate demand and aggregate supply.

**Q8.** What does a point inside the PPC indicate?

**Ans.** Any point inside the production possibility curve indicate underutilization of resources.

**Q9.** Define marginal rate of transformation.

**Ans.** MRT is the ratio of units of one good sacrificed to produce one more unit of other goods. MRT = $\Delta y$ / $\Delta x$

**Q10.** What is opportunity cost?

**Ans.** It is the cost of next best alternative foregone.

**Q11.** The basic assumption regarding resources while drawing a PPC is

a) Resources are unlimited
b) Resources depend on the kind of goods produced
c) Resources can be put to a particular use
d) Resources are constant and given

Ans. (d)

Q12. What is the other name for opportunity cost in economics?

a) Economic problem
b) Marginal cost
c) Total Cost
d) Economic cost

Ans. (a)

Q13. In a centrally planned economy, the central problems are solved by

a) Supply of goods
b) Demand for goods
c) Market mechanism
d) Planning authority

Ans. (d)

Q14. In a market economy, the central problems are solved by

a) Demand for goods
b) Supply of goods
c) Planning authority
d) Market mechanism

Ans. (d)

Q15. The study of jute industry is a macroeconomic study. This statement is

a) Conditional

b) True

c) Can't say

d) False

Ans. (d)

## SHORT ANSWER QUESTIONS (3 / 4 Marks)

**Q16. Does massive unemployment shift the PPC to the left?**

**Ans.** Massive unemployment will shift the PPC to the left because labour force remains underutilized. The economy will produce inside the PPC indicating underutilization of resources.

**Q17. From the following PP schedule calculate MRT of good x.**

| Production possibilities | 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 |

**Ans.**

| 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 |

**Q18. What does the problem for whom to produce refer to?**

**Ans.** **This is essentially the problem of distribution of income between the different groups of the society. This problem has limited resources. Because of scarcity, city of resources, producers are unable to produce everything in desired quantity. But they will have to make a choice as to which one is important as a whole, so that limited resources can be rationally managed.**

**Q19. What is opportunity cost? Explain with the help of a numerical example.**

**Ans.** **Opportunity cost represents the benefits an individual, investor or business misses out on when choosing one alternative over another. In microeconomic theory, the opportunity cost, also known as alternative cost, is the value (not a benefit) of the choice in terms of the best alternative while making a decision.**

**For example, Johnson has three job offers to select from. Job A has salary of Rs. 60000, Job B with Rs. 70000 and Job C with Rs. 80000. If Johnson chose Job C, then in this case opportunity cost would be Rs. 70000 per month.**

**Q20. Why is a Production Possibility Curve (PPC) concave? Explain.**

**Ans.** **Production possibility curve is concave to the origin because marginal opportunity cost of the shifting resources from commodity B to commodity A tends to rise. Marginal opportunity cost tends to rise because the factors of production are not perfect substitute to each other. So when one factor is shifted from the production of one good to another, then its productivity falls, thus causing marginal opportunity cost to rise.**

## LONG ANSWER QUESTIONS (6 Marks)

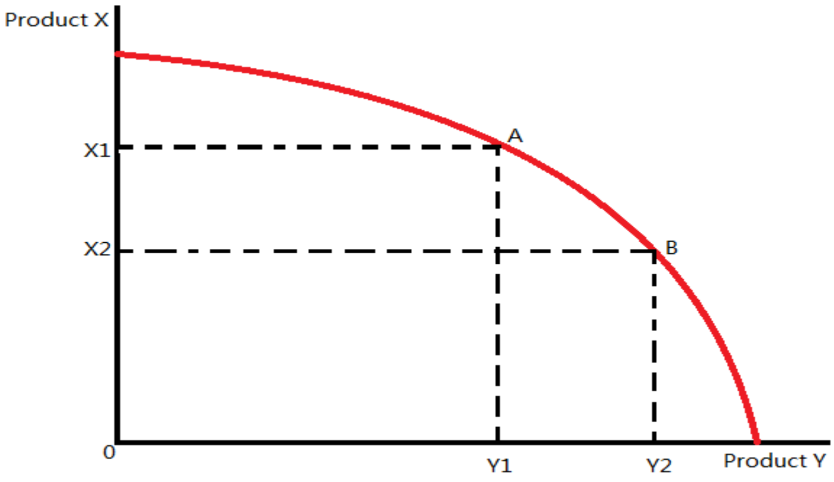
**Q21. What is production possibility frontier?**

**Ans. It is a boundary line which shows that maximum combination of two goods which can be produced with the help of given resources and technology at a given period of time.**

**Let's take an example here. An economy can produce two goods like rice and ghee by using all the given resources. The different combination of rice and ghee are as follows:-**

| Production Possibilities | Rice (quintals) | Oil (litres) |
|---|---|---|
| **A** | 0 | 10 |
| **B** | 1 | 9 |
| **C** | 2 | 7 |
| **D** | 3 | 4 |
| **E** | 4 | 0 |

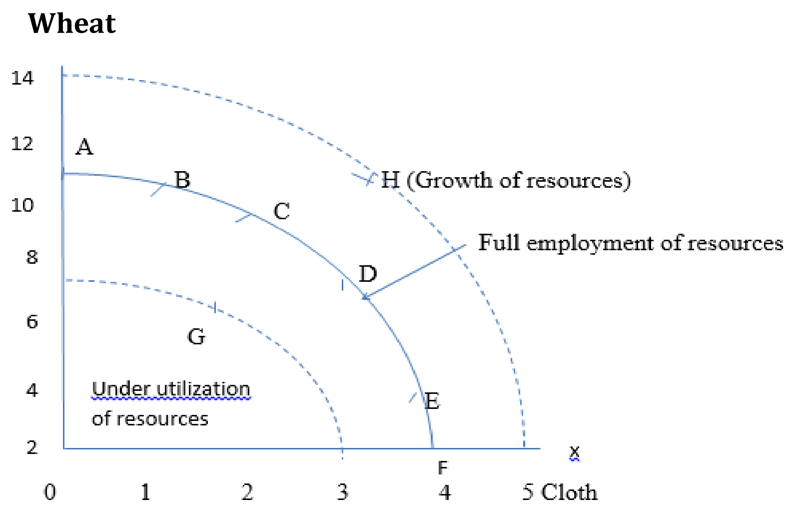
Diagram 1: An economy's production possiblity frontier




**Q22. Draw a production possibility curve and mark the following situations.**

1. **Underutilization of resources**
2. **Full employment of resources**
3. **Growth of resources**

**Ans. Every point on PP curve like ABCDEF indicates full employment and efficient uses of resources. Any point below or inside PP curve like G underutilization of resources. Any point above PP curves like H indicates growth of resources.**

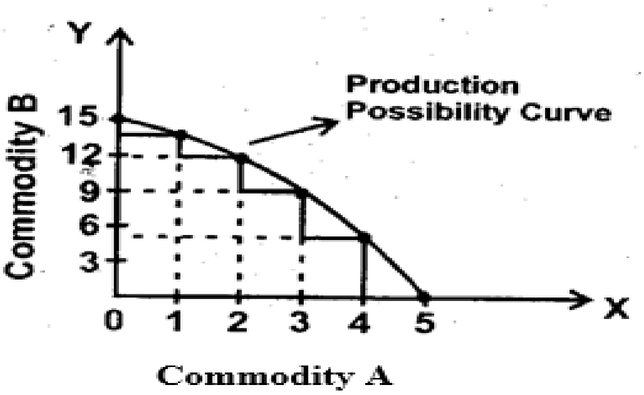



**Production possibility curve and opportunity cost:-**

**It refers to a curve which shows the various production possibilities that can be produced with given resources and technology.**

Production Possibilities

| Production Possibility | Commodity A | Commodity B | Marginal opportunity cost of commodity A |
|---|---|---|---|
| A | 0 | 15 | - |
| B | 1 | 14 | 15-14=1 |
| C | 2 | 12 | 14-12=2 |
| D | 3 | 09 | 12-9=3 |
| E | 4 | 05 | 9-5=4 |
| F | 5 | 0 | 5-0=5 |




If the economy devotes all its resources to the production of commodity B, it can produce 15 units but then the production of commodity A will be 0. There can be a number of production possibilities of commodity A & B.
If we want to produce more commodity B, we have to reduce the output of commodity A & vice versa.

Shape of PP curve and marginal opportunity cost:-

1. PP curve is a downward sloping curve - In a full employment economy, more of one goods can be obtained only by giving up the production of other goods. It is not possible to increase the production of both of them with the available resources.
2. The shape of the PP curve is concave to the origin – The opportunity cost for a commodity is the amount of other commodity that has been foregone in order to produce the first.

The marginal opportunity cost of a particular good along the PPC is defined as the amount sacrificed of the other good per unit increase in the production of the good in question.

For example: suppose a physiotherapist having a private clinic in Mumbai is earning 7 lakhs annually. There are two other alternatives for her.

1. Joining a government run hospital in Hyderabad earning Rs. 6 lakhs annually.
2. Opening a clinic in her home town in Nagpur and earning 4 lakhs annually.

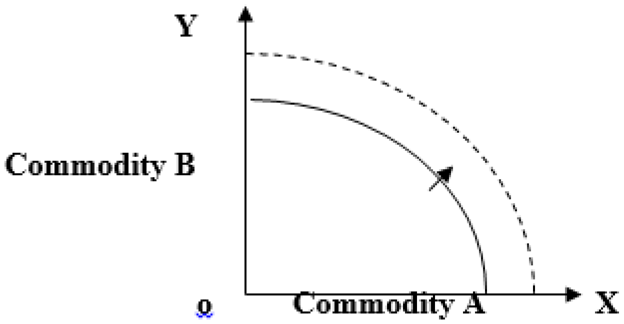
**The opportunity cost will be joining government hospital in Hyderabad, thus increasing marginal opportunity cost implies that PPC is concave.**

**Shift in PPC**

**(1) Upward shift**

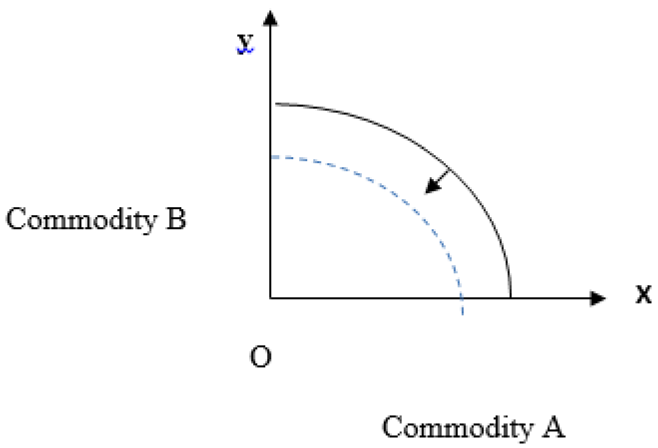
(a) When there is improvement in technology.

(b) Increase in resources.




**(2) Downward shift**

When Resources depletes




**Q23. What is the difference between planned economy and market economy?**

**Ans. Planned economic systems are referred to as centrally planned**

economies as well. The decisions on investments, production, distribution and pricing, etc. are made by the government or by an authority. Therefore, it is also referred as command economy. The aim of the planned economy is to increase the productivity by getting more information on productions and deciding the distribution and pricing accordingly. The main advantage of a planned economy is that the government gets the ability to connect labor, capital, and profit together without any intervention and thus, it will lead to the achievement of economic targets of the particular country. The opposite of planned economy is the market economy. In this economic structure, the decisions on production, investment, and distribution are taken according to the market forces. Depending on the supply and demand, these decisions may vary from time to time. There is a free price system as well. One of the main features is that the market economies decide about the investments and production inputs through market negotiation.

There are some important differences between the two, which are detailed here.

1. <u>Operating Method:</u>

When we look at the differences, the main difference is the way they both operate.

• Planned economy operates according to plans drawn in advance by the state or an authority.

• Market economy operates on the market forces; that is, based on demand and supply.

2. <u>Decision-making:</u>

• In a planned economy, the decisions on investment, production, distribution and pricing are taken by the government.

• In contrast, market economies do not have a decision maker but they operate on free market flows.

• Consumer needs, shortages and surplus:

• It is said that planned economies fail to identify the consumers' needs, shortages and surplus in the market.

But the market economies always work depending on those factors.

However, in the current world, we usually see a mixture of both these economic systems; that is, what we see now in the world is the mixed economy.

**Q24. Explain the central problem of the choice of products to be produced.**

**Ans.** Production, distribution and disposition of goods and services are the basic economic activities of life. These problems are called central problems because these are the most basic problems of an economy and all other problems revolve around them. Allocation of resources refers to the problem of assigning the scarce resources in such a manner so that maximum wants of the society are fulfilled. As resources are limited in relation to the unlimited wants, it is important to economize their use and utilize them in the most efficient manner. In nutshell, an economy has to allocate its resources and choose from different potential bundles of goods (What to produce), select from different techniques of production (How to produce), and decide in the end, who will consume the goods (For whom to produce).