

Micro Economics

Introduction to Microeconomics

This chapter deals primarily with the Economy, the Central Economic Crisis and describes the opportunities for the production of the Frontier and its structure, which are related to the topic. It highlights the introduction to the economy and its affiliates, namely Microeconomics and Macroeconomics.

Simple Economy

1. A Society includes people and people in the community in need of many goods and services in their daily lives including food, clothing, shelter, transportation such as roads, trains and various other resources such as teachers and doctors.
2. In fact, the list of goods and services that anyone needs is so vast that no one, from the beginning, has everything he needs.
3. For example, a teacher at a school has the necessary skills to transfer education to students and can earn money by teaching students at school and spending money to get the goods and services he or she wants.
4. Economics is a program that provides people with livelihoods and livelihoods.
5. Economics is about learning the economic problems that arise as a result of limited means (having other resources) in relation to unlimited needs.
6.
 - (1) An economic crisis is a matter of choice that involves the satisfaction of unlimited demands from limited resources with alternative uses.
 - (2) Take an example of a piece of land. It can be used to build a house, factory, school, park etc. It can be used to grow wheat, rice, vegetables etc. The economic problem here is what the field should be used for.
 - (3) Similar problems may arise in choosing the use of other resources such as personnel, finance and business.
7. The economic crisis is due to a lack of resources in terms of demand.

Wants are unlimited:

- This is the basic truth of human life.
- The needs of the people are endless.
- Not only do they have limitations but they also grow and multiply rapidly.

Resources are unlimited:

- Production facilities and services to meet people's needs are available at a limited cost. Land, labor, money and business are scarce basic necessities.
- These services are available at a reasonable price across the economy, large or small, developed or underdeveloped, rich or poor. Some economies may have one or two resources but may not have all the resources.
- For example, the Indian economy has a large workforce but little money and land. The U.S. economy has more land compared to but less staff. There is no economy in the world that is rich in all resources.

Resources are alternative uses:

- The app usually has many other options.
 - An employee can be employed at a factory, school, government office, self-employed and so on.
 - As such, almost all resources have other uses. But the problem is which resource to use.
8. Economic “scarcity” of resources in terms of demand. Economic resources are scarce as a result of which the economy cannot produce everything society needs.
 - Greater Scarcity Higher Prices- Examples: Petrol, Diamonds
 - Lesser Scarcity Lesser Prices- Example: Water
 - No Scarcity No Price- Example: Air we breathe

9. Saving resources means that resources must be used in such a way that the maximum output per unit of measurement is achieved. It also means the full utilization of resources.

Central problems of Economic:

1. The problem of choice among other uses of resources is known as the fundamental or primary economic problem.
2. There are many important problems in the economy, but according to the syllabus we should do one, namely;

Resource Distribution Problem: Every economy has limited resources that can be used to produce different goods and services. Therefore, it must diversify its resources from the production of various goods and services in such a way that it meets the needs of the community. In order to allocate resources efficiently, decisions on the following three key economic issues need to be made:

1. What to produce?
2. How to produce?
3. For whom to produce?

(a) What to produce?

1. Product refers to the problem at which decisions should be made as to which goods and services should be produced.
2. Since its resources are limited, the whole economy must decide what goods to produce and at what prices.
3. If we look at limited resources if we produce more goods, it means we will be able to produce less. Because further production of one asset may force us to spend resources on producing another asset.
4. Thus, the economy should choose between large commodities (such as machinery, tools, etc.), public goods (such as textiles, watches, radios, etc.), consumer goods (such as wheat, textiles, shoes, sugar, etc.), military goods (such as guns), bombs, tanks, etc.) the necessities of life (such as food, clothing, shelter, etc.) and luxury goods (such as cars, colored TV, etc.).
5. The guiding principle of the economy here is to allocate resources in a way that will provide maximum benefit to the community.

(b) How to produced?

1. The production method refers to the problem in which a decision has been made about the production method to be used.
2. Goods and services can be produced in two ways: by using more labor-intensive strategies, and by using more cost-effective strategies.
3. Under complex operational strategies, more workers and less money generated per unit of product are spent on the production of goods and services, and with more costly strategies and less labor per unit of product is used.
4. Therefore, the economy should determine that selected goods and services should be produced with the help of automated machinery or handicrafts. Every production method has its advantages and disadvantages.
5. For example, on the other hand, spending a lot of money; that is, machines that change, increase value and improve productivity but lead to unemployment as it requires a smaller number of workers. Crafts, on the other hand, produce more work but less productivity.
6. The guiding principle of the economy in such a situation is to decide on production strategies on the basis of production costs. Those production methods should be used that result in very low cost per unit of goods or service.

(c) For whom to produce?

1. Production refers to a problem in which a decision is made as to which category of people will eat the best, that is, the poor or the rich.
2. As we know, goods and services are produced by those who can afford them or who cannot afford them.

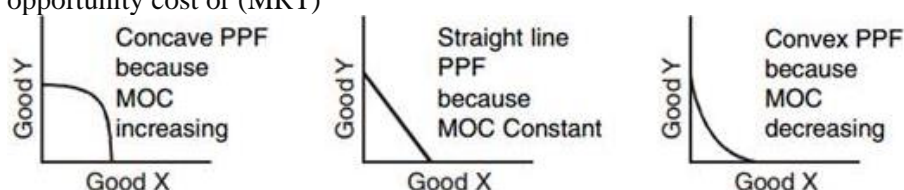
3. Purchasing power depends on how revenue is shared between production facilities. The higher the income, the higher the purchasing power and the opposite. So, this is a distribution problem.
4. We know that all of your output is still distributed among the production factors that have influenced it.
5. Since production is a combined effort of all four aspects of production, namely, land, labor, capital and business, it is shared among them in the form of income (i.e. rent, income, interest and profits). Who has to figure out how much, in that way, the problem.
6. The guiding principle is that the economy must see here whether the basic and urgent needs of citizens are met to a high degree or not.

In choosing an opportunity, sacrificing one of the next best use is called the cost of opportunity. In other words, the value of one asset should be given to increase the production of other goods.

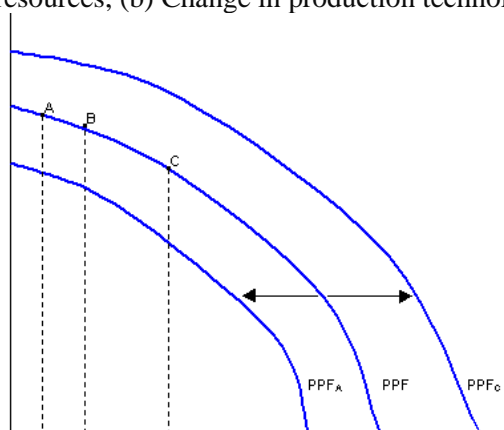
Production possibility frontier or production possibility curve reflects all possible combinations of the two sets of assets that the economy can produce with available resources and technologies provided, assuming that all resources are fully and efficiently utilized.

Economizing resources means using resources in the best way to increase productivity.

Production Possibility Frontier or Curve Features (a) Slopes downward from left to right because if production of one commodity is to be increased then production of other commodity has to be sacrificed as there is scarcity of resources. (b) Concave to the origin because of increasing marginal opportunity cost or (MRT)



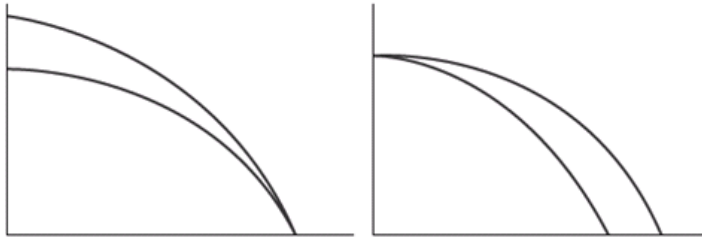
The Production Possibility Curve will change under the following two conditions: (a) change in resources, (b) Change in production technology in both assets.



Rightward shift of PPF The shift to the right of the PPF indicates an increase in resources or technological advances. Ex- Workers become more skilled, technological advances, increased land productivity.

Leftward shift of PPF A change in left PPF indicates a decline in resources or deterioration in technology in the economy.

The Production possibility curve will rotate outward under following two conditions: (a) Technological advancement through single material harvesting (b) Growth of single asset production facilities.



Marginal rate of Transformation (MRT)- The amount of one asset that should be donated to increase the production of other assets by one unit. MRT may also call Marginal Opportunity Cost. It is defined as an additional cost in terms of the number of units of good donated to produce an additional unit of other good.

MRT is the ratio of units of one good sacrificed to produce one more unit of other good.

$$\text{MRT} = \frac{\text{Unit of good Y sacrificed}}{\text{Unit of good X produced}} = \frac{\Delta y}{\Delta x}$$

(Marginal= at the border or adjacent/next to/adjoining) (Transformation= a change in form, shape appearance or size)

ECONOMY: A system that is localized that reflects the nature and level of economic activity in that area. It shows how people in a particular area make a living.

SERVICES: A form of intangible, unsafe and unsustainable economic activity. The service is used in the retail space. Services are one of the two most important parts of the economy, the other asset.biz; medical services.

WANTS: Quest is simply the desire to buy something regardless of price and power.

RESOURCES: A service or commodity used to produce goods and services that meet the needs and wants of the people is called resources.

GOODS: All tangible and tangible assets used to satisfy human needs, provide assistance and have economic value. e.g. books

HOUSEHOLD: All people living under one roof have direct access to the outside or to a different cooking area. When a family member is related by blood or by law, they form a family.

FIRMS: Firm is an organization that uses productive resources to acquire products and / or services offered in the market for profit.

PRODUCT: Production is the process by which inputs are converted into output (i.e. to make something to be used).

CONSUMPTION: The process of using goods and services to directly satisfy the needs of an individual or group is called consumption.

MICROECONOMICS: This is the economic sector responsible for the conduct of individual economic sectors as individuals or households.

MACROECONOMICS: Macroeconomic is the economic sector responsible for economic behavior or the whole. It is a study of standards such as national income, full-time employment, combined spending etc.

ECONOMIC PROBLEM: The economic crisis is a problem of choice due to the fact that resources are scarce and have other uses especially the problem of choice.

MARGINAL OPPORTUNITY COSTS: The rate at which the value of a single product is extracted to produce one unit of another asset.

Example of Opportunity Cost: (i) Mohan decides to use the train to go to work instead of driving each day. The monthly train fare will be Rs. After one month, he calculates that he spends Rs.250 less on fuel and less Rs.25 less on his car. How much does it cost to run a train?

Cost of using the train pm = Rs.350. Cost of using a car pm = Rs.250 + Rs.25 = Rs. Cost of train opportunity = Rs.350 - Rs.275 = Rs.75 per month

(ii) Ruth owns a mobile home. He wants to hire two students to work for him between June and August. He expects each employee to make Rs.250 per day for each of the 78 working hours. However, if he loses 2 days early and fully trains his employees can earn Rs.260 a day. How much does it cost to not train his staff?

Benefits from 2 employees without training = $(Rs.250 \times 78) \times 2 = Rs.39000$ If he trains employees he will lose 2 working days' income. Income will be = $(260 \times 76) \times 2 = Rs.39520$ Opportunity for non-training of its employees = $Rs.39520 - Rs.39000 = Rs.520$

(iii) Jim, an expert, earns Rs.85 an hour. Instead of working overnight, he goes to a Premier League cricket match in Delhi that costs Rs.55 and takes two hours. How much does it cost to watch football instead of working?

Jim earns Rs.85 an hour. In 2 hours you earn $2 \times 85 = Rs.170$

Opportunity to attend the match = $Rs.170 + 55 = Rs.225$

Production Possibility: A variety of goods and services that the economy can produce with available resources and technologies provided.

Production Possibility Curve: It is a curve that shows all the possible combinations of the two assets that the economy can produce through the use of available resources and production strategies. It is an important tool in solving the central economic crisis. It is also known as the transition curve or boundary that it can produce.

Labor Intensive Technology: When goods are produced using a large numbers of workers and very few simple machines it is L I technology.

The level of capacity is usually measured by the amount of money needed to produce goods or services; the higher the cost of labor required, the more the business needs more workers.

Capital Intensive Technology: Under this program, money is spent more than staff. That means investing in the acquisition, maintenance, and downgrading of capital assets is more than just workers. C Technology I.

CAUSES OF THE ECONOMIC PROBLEM:

(i) Lack of resources

(ii) Unlimited requirements

(iii) Limited resources with other uses (Shortage = shortage status) (Other = Occurrence / Act in exchange /; alternative use = other uses)

Features of resources – (1) limited (2) alternative uses

Features of wants – (1) unlimited (2) recurring (3) can be satisfied using goods and services.

CENTRAL ECONOMIC PROBLEMS

(i) Distribution of resources

(a) What to do and in what quality: - Consumer goods or bulk goods, wartime goods or peace supplies

(b) How it is produced: - technology - more money or harder

(c) To be produced: - active distribution or personal distribution

(ii). Proper use of resources - no waste - no overuse or underuse. Economic efficiency refers to efficiency in production and distribution.

(iii.) Resource growth: - Means increased productivity of resources through improved technologies.

(Distribution = the act of sharing something / the number of approved or assigned resources)

Sacrifice of resources: Lack of resources means a lack of resources in terms of their need.

Opportunity costs: It is the cost of some of the next best predictions.

Q1. Scarcity requires that people must do which of the following things?

- (a) Trade
- (b) Cooperate
- (c) Make choices
- (d) Competition

Q2. Opportunity cost is:

- (a) the additional benefit of buying an additional unit of a product.
- (b) the cost incurred in the past before we make a decision about what to do in future
- (c) a cost that is borne in terms of discomfort and pain while supplying factors of production
- (d) that which we forgo, or give up while making a choice or a decision

Q3. The opportunity cost of watching a movie will be equal to:

- (a) the time lost while watching the show
- (b) the pleasure that could have been enjoyed watching TV instead
- (c) the pleasure enjoyed by watching the show
- (d) the amount paid to buy the tickets

Q4. An economy in which all economic activities are organised through the market is called:

- (a) mixed economy
- (b) market economy
- (c) centrally planned economy
- (d) None of these

Q5. Economics is:

- (a) the study of stocks and bond market
- (b) mainly the study of business firms
- (c) the problem of choice under scarcity
- (d) the study of management decisions

Q6. According to Prof. Lionel Robbins means are

- (a) Scarce
- (b) Unlimited
- (c) Undefined
- (d) All of these

Q7. Microeconomics is not concerned with the behaviour of:

- (a) National income
- (b) A consumer
- (c) A firm
- (d) A producer

Q8. Macroeconomics deals with:

- (a) the behaviour of firms
- (b) the behaviour of electronics industry
- (c) the activities of individual units
- (d) economic aggregates

Q9. There are many economies in the world which are technologically advanced, these economies further focus upon development of latest technologies. In this way, these economies will be able to solve the economic problems once for all.

- (a) True
- (b) False

- (c) Partially True
- (d) Incomplete statement

Q10. Microeconomics deals with which of the following?

- (a) Total output of an economy
- (b) Measurement of a nation's inflation rate
- (c) How producers and consumers interact in individual market
- (d) How tax policies influence economic growth

Q11. Total output of an economy is the sum of total output of individual producers. This statement proves that:

- (a) macroeconomics depends on microeconomics
- (b) there is no correlation between micro and macroeconomics
- (c) study of micro and macroeconomics is independent of each other
- (d) microeconomics is dependent on macroeconomics

Q12. As an economic concept, scarcity applies to _

- (a) Money but not time
- (b) time but not money
- (c) Both money and time
- (d) Neither time nor money

Q13. The government of India decided to produce 1,000 million quintals of wheat this year. The decision regarding quantity of production is a part of which central problem of the economy?

- (a) What to produce
- (b) How to produce
- (c) For whom to produce
- (d) None of these

Q14. The central problem of how to produce is a problem of choice regarding:

- (a) distribution
- (b) technique of production
- (c) quantity to be produced
- (d) commodities to be produced

Q15. Which of the following is the root cause of all economic problems?

- (a) Misallocation of resources
- (b) Scarcity
- (c) Under-consumption
- (d) Over-population

Q16. Which of the following is a characteristic of normative economics?

- (a) There are individual opinions
- (b) These are not based upon facts and figures
- (c) These deal with 'What ought to be'
- (d) All of these

Q17. In the production process, if goods worth ₹2,000 are produced by four factors of production, then labour will get ₹500.

- (a) True
- (b) False
- (c) Partially true
- (d) Incomplete statement

Q18. Which of the following is a microeconomics concept?

- (a) The reasons for the rise in general prices in an economy
- (b) reducing inequality of income and wealth
- (c) Maintaining the foreign exchange reserves
- (d) None of the above

Q19. There is no degree of aggregation in microeconomics.

- (a) True
- (b) False
- (c) Partially true
- (d) Incomplete statement

Q20. The activities which are linked with use of goods and services for the satisfaction of wants directly are known as:

- (a) production
- (b) consumption
- (c) distribution
- (d) exchange

Q21. There is _____ degree of aggregation in macroeconomics.

- (a) constant
- (b) lower
- (c) higher
- (d) no

Q22. Which of the following subject matter study in microeconomics?

- (a) Money supply
- (b) Aggregate demand
- (c) Interaction of producers and consumers in a market
- (d) National income

Q23. Macroeconomics focuses on all of the following except the

- (a) buying and selling decisions by an individual consumer and seller respectively.
- (b) affect of increasing the money supply in inflation.
- (c) effect on tobacco sales of an increase in the tax on cigarettes.
- (d) hiring decisions made by a business.

Q24. Positive economic analysis deals with things _____.

- (a) 'as they ought to be'
- (b) 'as they are'
- (c) Both a) and b)
- (d) None of these

Q25. The following headline appeared in 'Hindustan Times' dated 25th July 2018, 'Getting insurance for rain damage cars an uphill task' This statement is

- (a) Positive economics
- (b) normative economics
- (c) general economics
- (d) None of the above

Q26. Central government of India announced relief packages for migrant labourer during the pandemic of 2020. This statement is ____.

- (a) Normative Statement
- (b) Positive Statement
- (c) General Statement
- (d) None of the above

Q27. Central problem of an economy is/are

- (a) What to produce and in what quantities
- (b) How to produce
- (c) For whom to produce
- (d) All of these

Q28. Which of the following is true for microeconomics paradox?

- (a) Something which is true in microeconomics does not hold true in macroeconomics
- (b) Something which does not holds true in either microeconomics or macroeconomics
- (c) Something which holds true both in microeconomics or macroeconomics
- (d) None of the above

Q29. During the covid 19 pandemic, there was nation-wide lockdown which led to migration of labour across state. State government should have taken necessary steps to reduce the migration of people. This statement indicates

- (a) normative statement
- (b) positive statement
- (c) general statement
- (d) None of the above

Q30. Theory of production studies the problem of:

- (a) What to produce and in what quantities
- (b) How to produce
- (c) For whom to produce
- (d) All of these

Q31. Price theory studies the problem of:

- (a) What to produce and in what quantities
- (b) How to produce
- (c) For whom to produce
- (d) All of these

Q32. Darshit is working at a salary of ₹70,000 per month. He receives two job offers:

- (i) To work as an accountant at a salary of ₹60,000 per month
 - (ii) To work as a sales manager at a salary of ₹50,000 per month. In the given case, his opportunity cost will be:
- (a) ₹50,000
 - (b) ₹60,000
 - (c) ₹70,000
 - (d) ₹1,30,000

Q33. Economics cost is equal to

- (a) accounting cost
- (b) opportunity cost
- (c) sum of accounting cost and opportunity cost
- (d) difference of accounting cost and opportunity cost

Q34. In broad terms, the difference between microeconomics and macroeconomics is that

- (a) they use different schools of thought
- (b) microeconomics studies the effects of fiscal policy on the unemployment rate while macroeconomics does not.
- (c) Macroeconomics studies the effects of fiscal policy on the price of individual goods and services whereas microeconomics does not
- (d) microeconomics studies decisions of individual people and firms and macroeconomics studies the entire national economy

Q35. Scarcity refers to limitation of in relation to for a commodity.

- (a) Demand, Sale
- (b) Demand, Supply
- (c) Supply, Demand
- (d) None of these

Q36. The word 'Economics' is most closely connected with the word:

- (a) Free
- (b) Scarcity
- (c) Unlimited
- (d) Restricted

Q37. Studying the determination of prices in individual markets is primarily a concern of

- (a) negative economics
- (b) positive economics
- (c) microeconomics
- (d) macroeconomics

Q38. which part of economic theory aims to determine income and employment level of the economy?

- (a) Microeconomics
- (b) Macroeconomics
- (c) Neither a) nor b)
- (d) Both a) and b)

Q39. The central problem of 'What to produce' covers the issue relating to:

- (a) What goods are to be produced
- (b) What quantities of goods to be produced
- (c) Both a) and b)
- (d) Neither (a) nor (b)

Q40. In the context of rising prices, following statements are made by two people:

Hemant: Prices in the economy are continuously rising.

Sachin: The government should take reasonable steps to control rising prices.

Identify the statements as Positive Statement and Normative Statement

- (a) Hemant: Positive; Sachin; Normative
- (b) Hemant: Normative; Sachin; Positive
- (c) Both are Positive Statements
- (d) Both are Normative Statements

SOLUTIONS:

S1. Ans. (c)

S2. Ans. (d)

Sol. Opportunity cost is defined as the cost of the next best alternative foregone. It represents the sacrifices that people must make due to the scarcity of resources. Resources are limited but wants are unlimited, thus choices must be made.

S3. Ans. (b)

S4. Ans. (a)

S5. Ans. (c)

Sol. Problem of choice under scarcity.

The study of how people make decisions in times of scarcity is known as economics.

Individuals, families, businesses, and even communities make decisions.

Product, service, and resource demands outweigh what is available.

Labour, tools, land, and raw materials are all required to produce the goods and services that we desire, yet they are in short supply. We can only produce a certain number of products and services with these resources since they are finite.

When human goals appear to be boundless, it's easy to see how scarcity becomes an issue.

S6. Ans. (a)

Sol. By means he meant the way through which human satisfy their wants which was described as scarce due to scarce resources in the economy.

S7. Ans. (a)

Sol. Microeconomics is not concerned with the behaviour of National income. Explanation:

Microeconomics studies the decisions of individuals and firms to allocate resources of production, exchange, and consumption.

S8. Ans. (d)

S9. Ans. (b)

S10. Ans. (c)

S11. Ans. (c)

S12. Ans. (c)

S13. Ans. (a)

S14. Ans. (b)

Sol. Central problem of choice of technique refers to the problem of how to produce. Every society must decide on how much of which of the resources to use in the production of each of the different goods and services. Whether to use more labour or more machines. Which of the available technologies to adopt in the production of each of the goods?

S15. Ans. (b)

Sol. Scarcity, or limited resources, is one of the most basic economic problems we face. We run into scarcity because while resources are limited, we are a society with unlimited wants. Therefore, we must choose. We must make trade-offs. We must efficiently allocate resources. We must do those things because resources are limited and cannot meet our own unlimited demands.

Without scarcity, the science of economics would not exist. Economics is the study of production, distribution, and consumption of goods and services. If society did not have to make choices about what to produce, distribute, and consume, the study of those actions would be relatively boring.

Society would produce, distribute, and consume an infinite amount of everything to satisfy the unlimited wants and needs of humans. Everyone would get everything they wanted, and it would all be free. But we all know that is not the case. The decisions and trade-offs society makes due to scarcity is what economists' study.

S16. Ans. (d)

S17. Ans. (b)

S18. Ans. (b)

S19. Ans. (b)

S20. Ans. (b)

S21. Ans. (c)

Sol. macroeconomics involves the highest degree of aggregation. For example, aggregate demand (macro concept) is derived for the entire economy. It means, microeconomics and macroeconomics differ in degree of aggregation.

S22. Ans. (c)

Sol. Interaction of producers and consumers in a market is the subject matter of Microeconomics. Microeconomics is that part of economics which deals with the individual units of the economy. It considers the demand and supply of individual units. All the other options are the concern of macroeconomics.

S23. Ans. (b)

S24. Ans. (b)

S25. Ans. (a)

S26. Ans. (b)

S27. Ans. (d)

S28. Ans. (a)

S29. Ans. (a)

S30. Ans. (b)

S31. Ans. (a)

Sol. Because price theory depends on the relationship of demand and supply of the product so, we can say that Price theory studies the problem of what good to produce and how much to produce.

S32. Ans. (b)

S33. Ans. (c)

S34. Ans. (d)

Sol. Microeconomics is a branch of economics that studies the behaviour of individuals and firms in making decisions regarding the allocation of scarce resources and the interactions among these individuals and firms. Whereas, macroeconomics attempts to measure how well an economy is performing, to understand what forces drive it, and to project how performance can improve. Hence option (d) is correct.

S35. Ans. (c)

Sol. Scarcity refers to the limitation of Supply in relation to Demand for a commodity.

S36. Ans. (b)

Sol. The meaning of the word 'Economic' relates to scarcity as only scarcity is related to the problem to satisfy unlimited wants through limited available resources.

S37. Ans. (c)

S38. Ans. (b)

Sol. Theory of income and employment explains how aggregate demand and supply decide the level of income and employment in an economy. Thus, it is a part of macroeconomics.

S39. Ans. (c)

Sol. Due to the basic economic problem of scarcity, it is essential to choose which of the unlimited human wants and needs will be fulfilled by using the limited resources. This choice is usually made collectively by each economy, the laws of demand govern what people want and then the laws of supply aim to match it at an equilibrium seeking to make a profit. Thus the "what to produce?" considers what goods will be produced and how much of the good will be produced.

S40. Ans. (a)