

Economy and Its Central Problems-R&U – Reason

Q.1. The problem ‘how to produce’ relates to ‘choice of technique’ in the process of production.

Ans. True. The term ‘how’ refers to technology. Accordingly, how to produce is the problem relating to choice of technique in the process of production. The technique of production is broadly classified as:

(i) labour-intensive, and

(ii) capital-intensive. Labour-intensive absorbs more labour, but is low in efficiency. Capital-intensive is high in efficiency but low in labour absorption. Hence, the problem of how to produce implying the choice of technology.

Q.2. The problem ‘for whom to produce’ is related to the distribution of output.

Ans. True. The problem ‘for whom to produce’ is a problem relating to the distribution of output (or income) in the economy. Who gets how much? It has two aspects:

(i) Factoral distribution of income, and

(ii) Inter-personal distribution of income.

Factoral distribution of income relates to income-share of different factors of production, viz., wages for labour, interest for capital and rent for land. Inter-personal distribution refers to income-share of individuals and households in the society. Whether, it is factoral distribution or inter-personal distribution, the problem revolves around equality (or inequality) in the society.

Q.3. In a mixed economy, production decisions are guided only by the consideration of profit.

Ans. False. It is wrong to say that in a mixed economy, production decisions are guided by the consideration of profit only. Mixed economy is a combination of private and public sectors. While in the private sector, profit maximisation is the principal consideration, in the public sector, it is ‘social welfare’.