

Chapter 1: Basic Concepts in Economics

EXERCISE 1 [PAGE 8]

Exercise 1 | Q 1 | Page 8

QUESTION

Choose the correct option:

Statements related to Economics

- a) Economics is a social science.
 - b) Concept of economics is derived from Greek word 'Oikonomia'.
 - c) Economics is related to the study of human economic behavior.
 - d) Economics is related to management of the household
- a, b and c
 - a and b
 - b and c
 - a, b, c and d

SOLUTION

a, b, c and d

Exercise 1 | Q 2 | Page 8

QUESTION

Choose the correct option:

Statements incorrect with reference to Adam Smith's definition

- a) Adam Smith is a classical economist.
 - b) Wealth of Nations is authored by Adam Smith.
 - c) Economics is the science of wealth.
 - d) Economics studies common man.
- d
 - a, b and c
 - a and d

- c and d

SOLUTION

d

Exercise 1 | Q 3 | Page 8

QUESTION

Choose the correct option:

Key points in Lionel Robbins' definition

- a) Wants are unlimited
- b) Means are limited
- c) Wants are not gradable
- d) Means have alternative uses.

- a and b
- b and c
- a, b and c
- a, b, c and d

SOLUTION

a, b and d

Exercise 1 | Q 4 | Page 8

QUESTION

Choose the correct option :

Statements related to wealth

- a) Wealth means anything which has market value and can be exchanged for money.
- b) It is external to human being.
- c) Wealth has no utility.
- d) Wealth is scarce and exchangeable

- a, b and d
- a, c and d
- b, c and d

- none of the above

SOLUTION

a, b and d

Exercise 1 | Q 5 | Page 8

QUESTION

Choose the correct option :

Aspects considered in National Income :

- a) Final goods and services are included in national income.
- b) Produced goods and services in a financial year are included in national income.
- c) Double counting is avoided.
- d) Value is considered as per market price

- a and c
- b and c
- a, b and d
- a ,b ,c, and d

SOLUTION

a ,b , c and d

EXERCISE 2 [PAGE 8]

Exercise 2 | Q 1 | Page 8

QUESTION

Complete the correlation :

Natural sciences : Exact sciences : : Social sciences : _____

SOLUTION

Natural sciences : Exact sciences : : Social sciences : **Abstract sciences**

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QUESTION

Complete the correlation:

Physics : _____ : : Psychology : Social science

SOLUTION

Physics : **Natural science** : : Psychology : Social science

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QUESTION

Complete the correlation :

Arthshastra : Kautilya : : Wealth of Nations : _____

SOLUTION

Arthshastra : Kautilya : : Wealth of Nations : **Adam smith**

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QUESTION

Complete the correlation :

Necessity : _____ : : Comforts : Washing machine

SOLUTION

Necessity : **Food** : : Comforts : Washing machine

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QUESTION

Complete the correlation :

Free goods : Value-in-use : : Economic goods : _____

SOLUTION

Free goods : Value-in-use : : Economic goods : **value-in-exchange**

EXERCISE 3 [PAGE 8]

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QUESTION

Identify and explain the concept from the given illustration :

My father purchased a two wheeler vehicle. This helps to fulfil my travel needs.

SOLUTION

(A) **Identified concept** : Individual want

(B) **Explanation of concept** : Individual want is that want which is satisfied at individual level.

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QUESTION

Identify and explain the concept from the given illustration :

A study of the annual income of the family of Ramesh

SOLUTION

(A) **Identified concept** : Microeconomic variable

(B) **Explanation of concept:** Microeconomic variable is that element that can be used to describe the behavior of an individual economic unit like particular individual, particular family, particular industry, etc.

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QUESTION

Identify and explain the concept from the given illustration :

As per the data for financial year 2018-19, the country's production of goods and services increased by 20%

SOLUTION

(A) **Identified concept** : Economic growth

(B) **Explanation of concept:** Economic growth refers to quantitative increase in real national Income (production of final goods and services).

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QUESTION

Identify and explain the concept from the given illustration :

Karuna's mother saves 1000/- every month out of her given salary.

SOLUTION

(A) **Identified concept** : Savings

(B) **Explanation of concept** : Savings can be defined as that portion of disposable income/ salary which is not spent currently on consuming goods or services.

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QUESTION

Identify and explain the concept from the given illustration :

Ram's father utilized his provident fund amount to set up grocery store

SOLUTION

(A) **Identified concept:** Investment

(B) **Explanation of concept :** Investment refers to creation of capital assets through mobilization of savings.

EXERCISE 4 [PAGE 8]

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QUESTION

Answer the following:

Explain the features of wealth?

SOLUTION

The features of wealth are as follows:

Utility: The commodities that have the capacity to satisfy human wants are included in wealth. For example, furniture, refrigerator, etc.

Scarcity: The commodities which are limited (scarce) in supply in relation to their demand are included in wealth. For example, all economic goods for which prices are paid are wealth.

Transferable: The commodities which are transferable are included in wealth. It should be possible to transfer commodities from one person to another person and from one place to another place. For example, vehicles, jewellery, etc.

Externality: The commodities that are external to the human body are included in wealth, for example, bag, chair, goodwill of a company. etc. are external to the human body and therefore are wealth.

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QUESTION

Answer the following :

Explain the characteristics of human wants?

SOLUTION

The characteristics of human wants are as follows:

Wants are unlimited: Human wants are unlimited and never ending. When one want is satisfied another arises. The endless circle of wants continues throughout human life.

Wants differ with gender: The wants of men and women differ according to their needs.

Wants differ due to preferences : The taste, habit, preference, etc. of a person differ from others. So wants to differ with the preference.

Wants differ with seasons: Human wants also keep changing with seasons. For example, cotton clothes are needed in summer and woolen clothes are needed in winter.

Wants are recurring: Several human wants arise again and again. For example, want of food, clothing, etc. Whereas, some wants may occur occasionally.

Wants differ with age: Human wants and their satisfaction differs with age. For example, A toy may satisfy the want of a child but it will not satisfy the want of a college student.

EXERCISE 5 [PAGE 8]

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QUESTION

State with reasons whether you agree or disagree with the following statement:

All wants can be satisfied at a time.

- Agree
- Disagree

SOLUTION

No, I do not agree with this statement.

Reasons:

- (1) Human wants are unlimited and the means to satisfy human wants are comparatively limited.
- (2) Unlimited wants to compete among themselves to be satisfied first.
- (3) For example, a person may want a fridge and a TV. or anything else at the same time but he/she can not buy all because of limited resources (income). Thus, all wants cannot be satisfied at a time.

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QUESTION

State with reasons whether you agree or disagree with the following statement:

Human wants change as per the seasons and preferences.

- Agree
- Disagree

SOLUTION

Yes, I agree with this statement.

Reasons:

(1) Human wants to change according to change in the seasons, taste and preferences, etc.

(2) Human wants change as per the change in season. For example, A person may want an umbrella during the rainy season but will want woolen clothes during winter.

(3) Individual tastes, habits, preferences also determine his/her wants, an office going person will want formal clothes more whereas, the college students will want more of casual clothes. Thus, wants changes as per the change in seasons and preferences.

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QUESTION

State with reasons whether you agree or disagree with the following statement:

Value-in-use and Value-in-exchange are the same

- Agree
- Disagree

SOLUTION

No, I do not agree with this statement.

Reasons:

(1) Value-In-use refers to the utility of the commodity in day to day life. Whereas value-in-exchange refers to the worth of commodity expressed in terms of price.

(2) Commodities like water, air are highly essential for human life. Thus, these commodities have high value-in-use. But as these commodities are available on a large scale. So they have low value-in exchange.

(3) Commodities like gold, diamonds are not very essential for human life. Thus, these commodities have less value-in-use. But as these commodities are available on a small scale or scarce they have high value-in-exchange. Therefore, Value-in-use and value-in-exchange are two different concepts.

EXERCISE 6 [PAGE 8]

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QUESTION

Answer in detail:

Explain the basic concepts of macro economics.

SOLUTION

According to Kenneth Bounding, "Macro economics deals not with individual quantities as such, but with the aggregate of these quantities, not with the individual income but with the national income not with individual prices but with the price level, not with individual output but with the national output".

The basic concepts of macroeconomics are as follows:

(1) **National Income:** National Income is the aggregate monetary value of all final goods & services produced in the economy in a year.

(2) **Aggregate Saving:** Saving is a part of income which is kept aside to satisfy future needs. Aggregate saving is the aggregate monetary value of total savings in an economy.

(3) **Aggregate Investment:** Investment refers to the mobilization of savings and the creation of capital assets such as furniture, machinery, building, etc. Aggregate investment is the aggregate monetary value of total investments in an economy.

(4) **Trade cycle:** Trade cycles are the fluctuations in business. They are ups and downs in the overall economic activity.

These fluctuations are caused by (a) inflation (b) deflation/depression.

(a) **Inflation:** Inflation refers to a general rise in the price of overall goods and services.

(b) **Deflation:** Deflation refers to a fall in the price of overall goods and services.

(5) **Economic growth:** Economic growth implies an increase in the real national income, over a long period of time. It is a quantitative concept.

(6) **Economic development:** Economic development indicates economic growth plus progressive changes. It has a qualitative dimension as it is related to the overall well-being of people.