Assignment 1

Class 12

Subject – Economics

Q.1 Macroeconomic different from Microeconomics? Explain.

Ans. The micro-economics differs from Macro-economics

(1) Basis of the Study

Microeconomics studies problems of scarcity and choice at the level of an individual, a household, a firm or an industry. Macroeconomics studies problems of scarcity and choice at the level of an economy as a whole.

(2) Economic Variables

Microeconomics uses microeconomic variables such as consumer's demand or producer's supply. Macroeconomics, on the other hand, uses macroeconomic variables such as aggregate demand (referring to demand for all the goods and services in the economy) and aggregate supply (referring to supply of all the goods and services in the economy).

(3) Central Issue

Allocation of resources is the central issue in microeconomics. Determination of the overall level of output (and employment) is the central issue in macroeconomics.

(4) Method of Study

Method of study in macroeconomics is often described as 'general equilibrium analysis'. On the other hand, method of study in microeconomics is often described as 'partial equilibrium analysis'.

Q.2 How are Central problems Solved in different economics?

Ans. **Solution of Central Problems in a Capitalist Economy:** There is private regulation over factors of production in capitalist economy and this economy is independent in field of production and consumption.. Economic problems are solved through Price Mechanism' in which two independent forces demand and supply become active to determine the price.

Solution of Central Problems in Socialist Economy: There is control of society over factors of production and economic activities are conducted for the welfare of entire society. Central problems in this economy are solved on the basis of social priorities through 'Economic Planning' or 'Planning Machinery'.

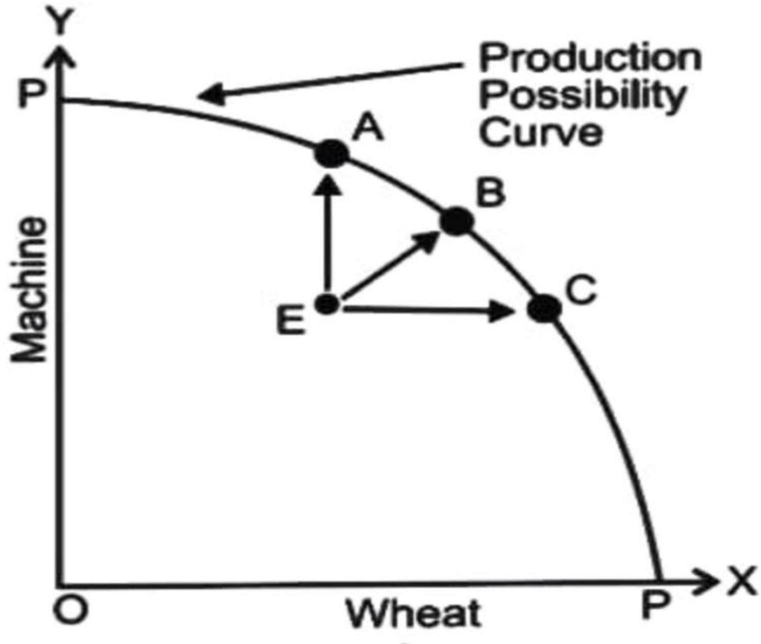
Solution of Central Problems in Mixed Economy: There is co-existence of private and public sectors in this economy and both the sectors function under the sphere of economic planning.

In mixed economy, price mechanism and planning mechanism together solve the central problems.

Q. 3. What is meant by production Possibility Curve? Illustrate The Central problem of 'what to produce' using This Curve.

Ans. Production possibility curve is based on the analysis that factors of production are limited but goods to be produced are unlimited. As a result, problem of choice appears among alternative uses. The economy faces a number of alternative. combinations of production which are called production possibilities. If these combinations are represented on a graph, the curve formed is called Production Possibility Curve".

How to Produce? Second central problem before the economy is "How to produce ? This problem is related to the choice of technique of production. This situation can be understood from Fig. It is clear from the figure that if available. resources are efficiently utilized, combinations of production A, B and C are obtained. If resources are not efficiently utilized, amount of production will be expressed at point E. Point E is situated inside the curve PP. Thus, lower production we get if resources are used with inefficient technique. But if efficient technique of production is used, production of either one or both the goods can be increased.



Q.4. Explain the Concept of opportunity Cost with example.

Ans. Opportunity cost is defined as the value of a factor in its next best alternative use or it is the cost of foregone alternatives, or it can be defined as the value of the benefit that is sacrificed by choosing an alternative. We can also say that opportunity cost of any commodity is the amount of other goods which has been given up in order to produce that commodity. It is also known as opportunity lost or transfer earning of a factor e.g., a person is working in college 'A' at the salary of ? 70,000/- per month, he has two more options to work:

1. To work in college "C" at Rs 65,000 per month.

2. To work in college "D" at Rs 62,000 per month.

In this case opportunity cost of working in college "A" is Rs 65,000 i.e., salary he would get in college "C" (cost of foregone alternative) because it is the value of next best alternative between college "C" and college "D". Thus, opportunity cost is very important concept in economics. It is because our re-sources are limited, we are always making choices from the available alternatives. Thus, the opportunity cost of using a resource is defined as the value of the next best use to which that resource could be put.

Q. 5. What is Marginal opportunity Cost ? Write the reasons for their increase

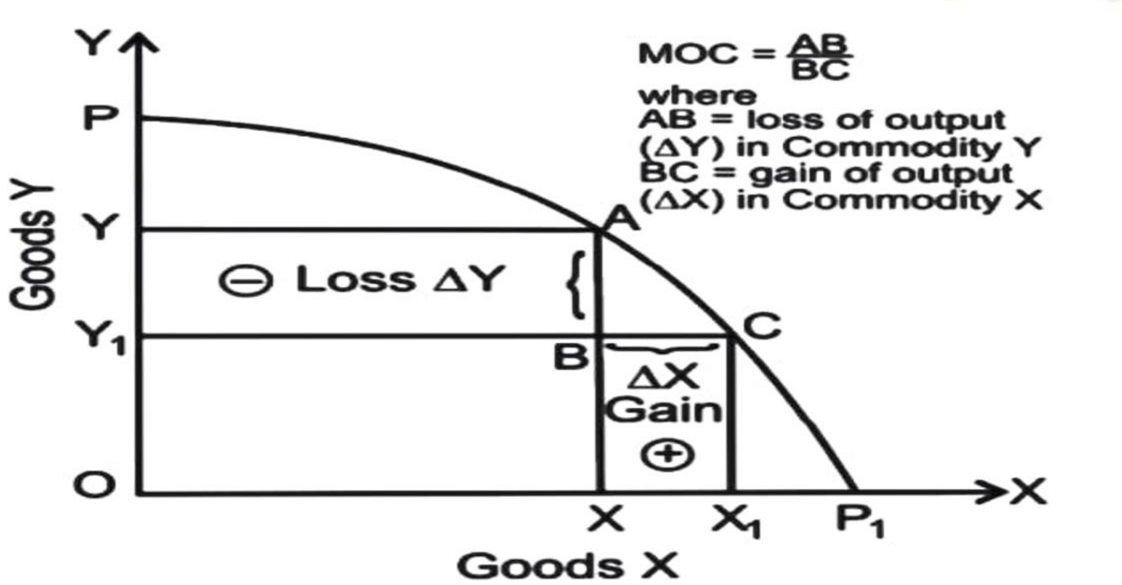
Ans. Marginal opportunity cost of a goods-X is that quantity of goods-Y which has to be sacrificed for production of an additional unit of goods-X. In other words, decrease in production of goods Y on increase in production of an additional unit of goods-X is called marginal opportunity cost of that additional unit of goods-X. Thus,

"The rate of sacrifice of commodity Y for additional production of commodity X, is called marginal opportunity cost,"

Marginal Opportunity Cost = $\Delta Y / \Delta X$

where, ΔY Decrease in production of goods-Y

ΔX Increase in production of goods-X.



Increasing Marginal Opportunity

As production of goods-X is increased, its marginal opportunity cost also increases or as we increase production of goods-X, in every step more quantity of goods-Y has to be sacrificed. Cause of increasing marginal opportunity cost is that as the production of a goods is increased, factors involved in its production become less productive. As a result of it for producing an additional unit of goods, more quantity or units of other goods is sacrificed. Thus, "Increasing marginal cost means increasing slope of production possibility curve and due to this increasing slope, the production possibility curve becomes concave to the origin."