

NCERT Solutions for Class 12 Micro Economics

Chapter 1 – Introduction to Micro Economics

1.

Discuss the central problems of an economy.

Ans: Because resources are limited, any economy faces three main issues. In order to meet the limitless demands, this scarcity makes it difficult to make the greatest use of the resources that are available. The following are an economy's three main issues:

- **What should be produced, and how much of it?** Determining what things should be produced and in what amounts is the first issue any economy faces. Many decisions need to be made, such as whether to create luxury or consumer goods, agricultural or investment goods, or to support the nation's military or the education and healthcare sectors. The Latin American country of Costa Rica established a suitable example when it disbanded its army in 1949 and used the funds that had previously been used for army maintenance to fund healthcare and education. After deciding what to manufacture, the next step is to determine how much should be produced. Therefore, deciding what to create and in what quantities is a perpetual fight for the economy.
- **What is the production process?** How to harvest the provided or accessible resources is the second issue that arises. In other words, what method should be applied while creating different products and services? When choosing the best method, the country's resource endowment plays a key role. Whether labour intensive or capital intensive techniques can achieve efficient manufacturing must be determined. This choice is based on the current state of the economy and the assumption that the chosen method will improve social and economic well-being in addition to lowering manufacturing costs. For instance, it is prudent to choose labor-intensive techniques in order to reduce unemployment if a nation is experiencing high unemployment, which may be caused by a large population.
- **To whom should I produce?** The deliberate allocation of the finished commodities and services generated (national revenue) is the last step; who receives what and how much? The economy must determine the most effective way to distribute the finished goods among the various societal groups. Reducing economic disparity, poverty, and improving people's social welfare and standard of living are the goals of choosing such a system.

2.

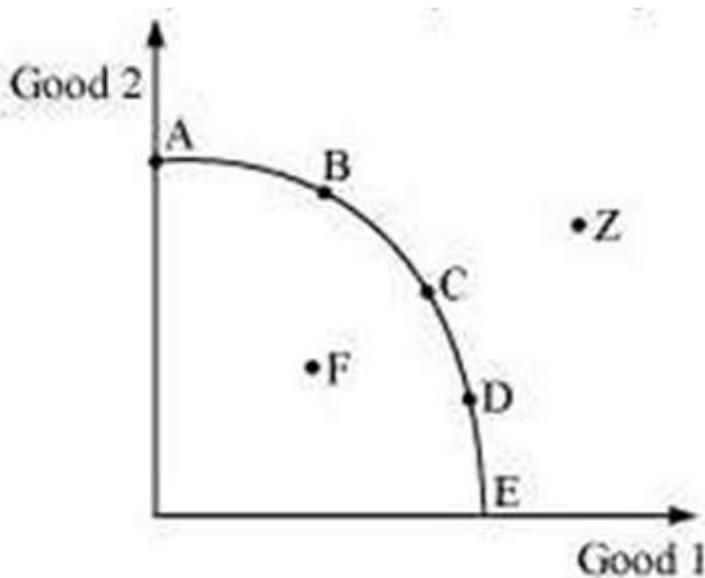
What do you mean by the production possibilities of an economy?

Ans: The different combinations of commodities and services that an economy can generate with a certain amount of resources and a given stock of technology are referred to as production possibilities.

3.

What is a production possibility frontier?

Ans: The production possibility frontier (PPF) is a curve illustrating the alternative combinations of two goods that can be produced through the efficient use of available resources and technology. It is referred to as the production possibility curve (PPC).



All points on the PPC, represented by curve AE, correspond to various quantities of good 1 and good 2 produced through the full and efficient utilization of available resources. Any point located beneath the curve, such as F, represents inefficiency or underutilization of available resources. A point outside the curve, such as Z, indicates overutilization of the available resources and technology, rendering it infeasible.

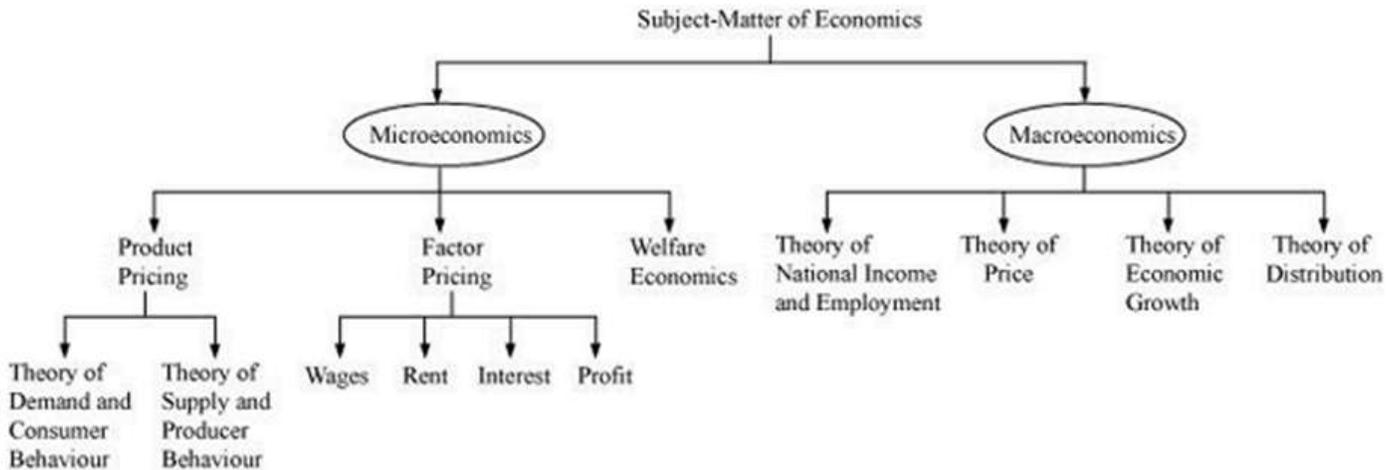
4.

Discuss the subject matter of economics.

Ans:

- Microeconomics and macroeconomics are both part of the subject matter of Economics.

- The study of how different economic entities, such as homes, businesses, individual customers, and producers, behave within an economy is known as microeconomics.
- It doesn't research the entire economy.
- The area of economic theory known as macroeconomics examines the economy as a whole, including aggregate employment, national income, general price levels, aggregate investment, and consumption.



5.

Distinguish between a centrally planned economy and a market economy.

Ans:

Points of Difference	Centrally Planned Economy	Market Economy
Ownership of factors of production	Factors of production are publically owned; i.e., public ownership.	Factors of production are privately owned.
Production motive	The motive of production is social welfare. Factors of production are publically owned; i.e., public ownership.	The main motive is profit making.
Governing factor	The production is governed by planning mechanism; i.e. according to the government plans.	The production is governed by price mechanism; i.e., by demand and supply.

Points of Difference	Centrally Planned Economy	Market Economy
Income distribution	The degree of inequality of income is low.	There exists unequal distribution of income.
Government's role	The main role is played by the government—from production to distribution.	The main role is played by private players. They decide what to produce, while the role of a government is limited to maintaining law and order in the nation.

6.

What do you understand by positive economic analysis?

Ans: The study of what is or how an economic problem is resolved by examining different positive statements and procedures is known as positive economic analysis. These claims are true and tell us about what was, what is, and what will be. You can test these claims and either prove or disprove them. They don't involve making personal value judgments. For instance, if someone claims that it is raining outside, it is possible to confirm that this is true. It addresses real-world or realistic scenarios.

7.

What do you understand by normative economic analysis?

Ans: Normative economic analysis pertains to the examination of whether a specific mechanism is deemed desirable or not. This analysis examines the ideal circumstances and the various approaches that should be taken to address economic challenges. In essence, it addresses the distinctions between what ought to be and what ought not to be, as well as what is deemed desirable and what is not. In the realm of normative economic analysis, one encounters statements that are inherently untestable due to their reliance on subjective value judgments. It engages with utopian scenarios and is grounded in moral principles. An illustration of a normative statement might be, 'The central government ought not to cease the provision of minimum support prices to farmers.'

8.

Distinguish between microeconomics and macroeconomics.

Microeconomics	Basis	Macroeconomics
Microeconomics is the study of the behaviour of individual economic units within an economy, such as households, enterprises, individual customers, and producers.	Degree Of Aggregation	Macroeconomics is the branch of economic theory that examines the economy as a whole, including national income, aggregate employment, general price levels, aggregate consumption, aggregate investment, etc.
The objective of microeconomics is to study the principles, problems, policies concerning the optimum utilisation of resources.	Objective	Its objective is to study the problems, policies and principles relating to the full employment of resources.
In this, laws are based on the assumption of other things being constant (ceteris paribus). This indicates that we demonstrate the effect of a single variable while holding other factors constant. This method of study is called partial equilibrium analysis.	Method Of Study	In this, laws are formulated so that mutual interdependence between different economic variables such as total savings, total employment could be studied easily. This method of study is called general equilibrium analysis.
Its main instruments are demand and supply.	Instrument	Its main instruments are aggregate demand and aggregate supply.
It is also called 'Price Theory'.	Alternative Name	It is also called 'Income Theory' or 'Employment Theory'.