Economics Note and Question Solve

Chapter 2:

What is the opportunity cost? Briefly explain the opportunity cost with examples. Why is opportunity cost important in decision making? [10 marks]

Definition: Opportunity cost is the value of the next best alternative that is sacrificed when a choice is made. It shows what you give up to obtain something else.

Explanation: Whenever we make a decision, we have to choose among different alternatives because resources like time, money, and labor are limited. Choosing one option always means giving up other options, and the opportunity cost measures the benefit of the option we did not choose. It helps in understanding the real cost of a decision beyond just money spent.

Examples:

1. If a student spends one hour studying economics, the opportunity cost is the time they could have used to play football or watch TV. They give up the enjoyment of leisure to study.
2. If a man spends 500 taka to buy a book, the opportunity cost is the other things that he could have bought with that money, like a T-shirt or snacks.

Importance of Opportunity Cost in Decision Making:

- ✓ Helps individuals, businesses, and governments make informed and rational choices.
- ✓ Ensures efficient use of limited resources by comparing alternatives.
- ✓ Guides in prioritizing actions that give the maximum benefit.
- ✓ Makes people aware of the real cost of their decisions, not just the monetary cost.

Trade-off (Short Note)

A trade-off happens when we give up one thing to get something else because resources like time, money, and effort are limited. Every choice involves trade-offs, as we cannot do everything at the same time. Trade-offs help us understand that making decisions means sacrificing one option for another.

Example: If a student spends Saturday night studying, the trade-off is that they cannot spend the same time with friends.

Are Opportunity Cost and Trade-off the Same?

No, they are not exactly the same. A trade-off is the act of giving up one thing for another but an opportunity cost is the value of the next best alternative that we give up from the trade-off.

Difference Between Opportunity Cost vs Trade-off:

Aspects	Opportunity Cost	Trade-off
Definition	The value of the next best alternative that giving up.	Giving up one thing to get another.
Focus	Focus on the cost of the choice.	Focuses on the choice itself.
Measure By	Always has a quantifiable value (money, time, benefit).	Can be general and not always measured.
Purpose	Helps in decision-making by considering what is sacrificed.	Shows that any choice involves giving up something.
Time Aspect	What people miss out on	What people give up right now
Example	Buying a book for 500 taka → opportunity cost = misses buying a T-shirt.	Choosing to study instead of playing → trade-off = spends time with friends.

What is Production Possibility Frontier (PPF)? Explain with example. Draw a graph of PPF of two goods and show: efficient, inefficient and unattainable point. [5-8 marks]

Production Possibility Frontier (PPF)

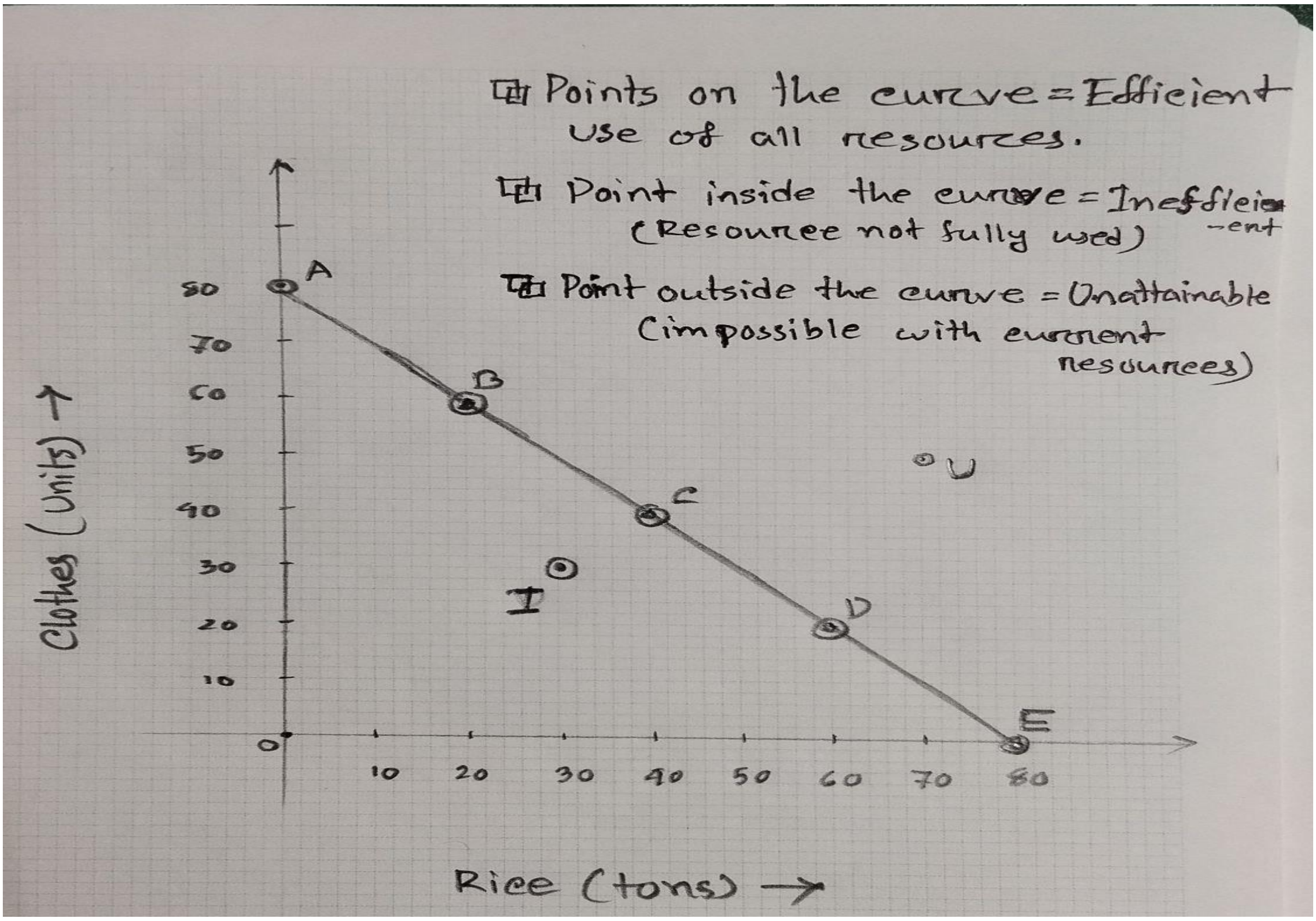
The Production Possibility Frontier (PPF) is a curve that shows the maximum possible combinations of two goods that an economy can produce using all its resources efficiently. It helps us understand scarcity, choice, and opportunity cost. If an economy wants to produce more of one good, it must produce less of the other because resources are limited. This trade-off creates the opportunity cost.

Example: Imagine a country can produce only Rice and Clothes with its available resources. As the resources are limited so it cannot produce unlimited amounts of each.

- ✓ If it uses all resources to grow Rice, it produces 0 Clothes.
- ✓ If it uses all resources make Clothes, it produces 0 Rice.
- ✓ It can also produce mix of Rice and Clothes at the same time, but not unlimited amounts of both.

PPF Table and the Graph to show the Efficient, Inefficient and Unattainable Point:

Combination	Rice (tones)	Clothes (Units)
A	0	80
B	20	60
C	40	40
D	60	20
E	80	0
I	30	30
U	70	50



To construct the PPF (Production Possibility Frontier), you might be given an algebraic equation in an exam to find the points on the X and Y axes. For example, X/100 + Y/50 = 1, or a table might be provided directly.

How many complementary social institutions in Economics? Explain with example.

There are four complementary social institutions in Economics. They are:

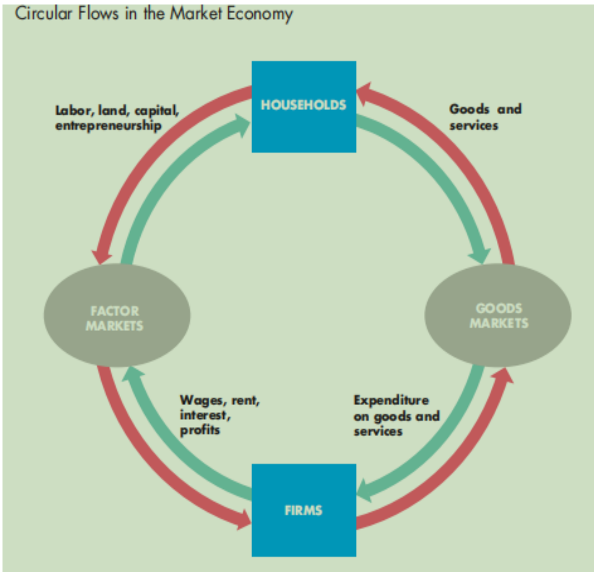
1. Firms: Firms are businesses that use resources like labor, land, and machines to produce goods or services. They decide what to produce, how to produce, and then sell those products in the market.

2. Markets: A market is any place or system where buyers and sellers meet to exchange goods and services. It may be a physical place (like a bazar) or a virtual system (like online trading).

3. Property Rights: Property rights give people the legal ownership of resources, goods, or ideas. When ownership is protected, people feel safe to produce, invest, and trade.

4. Money: Money is anything widely accepted as payment for goods and services. It makes trade easier by replacing the old system of exchanging goods directly (barter system).

Circular Flow in the Market Economy:



The circular flow shows how households and firms interact in an economy. Households provide resources like labor, land, and capital to firms, and in return, they receive income such as wages, rent, and profit.

Firms use these resources to produce goods and services, which they sell to households in the goods market. Households then spend their income to buy these goods and services. So, money flows from households to firms as spending, and from firms to households as income.