

## ANSWER

Here are the brief definitions for the terms mentioned in the question:

### 1. Economics:

Economics is the **study of how individuals, businesses, governments, and societies allocate scarce resources** to satisfy unlimited wants and needs. It focuses on the production, distribution, and consumption of goods and services.

### 2. Positive and Normative Economics:

- **Positive Economics:** Deals with **objective, fact-based analysis**. It describes and explains economic phenomena without making value judgments.
  - *Example:* "An increase in taxes will reduce consumer spending."
- **Normative Economics:** Involves **subjective judgments and opinions** about what the economy should be like. It focuses on policy recommendations.
  - *Example:* "The government **should** reduce taxes to improve living standards."

### 3. Determinants of Consumption:

These are the factors that influence how much individuals or households spend on goods and services. Key determinants include:

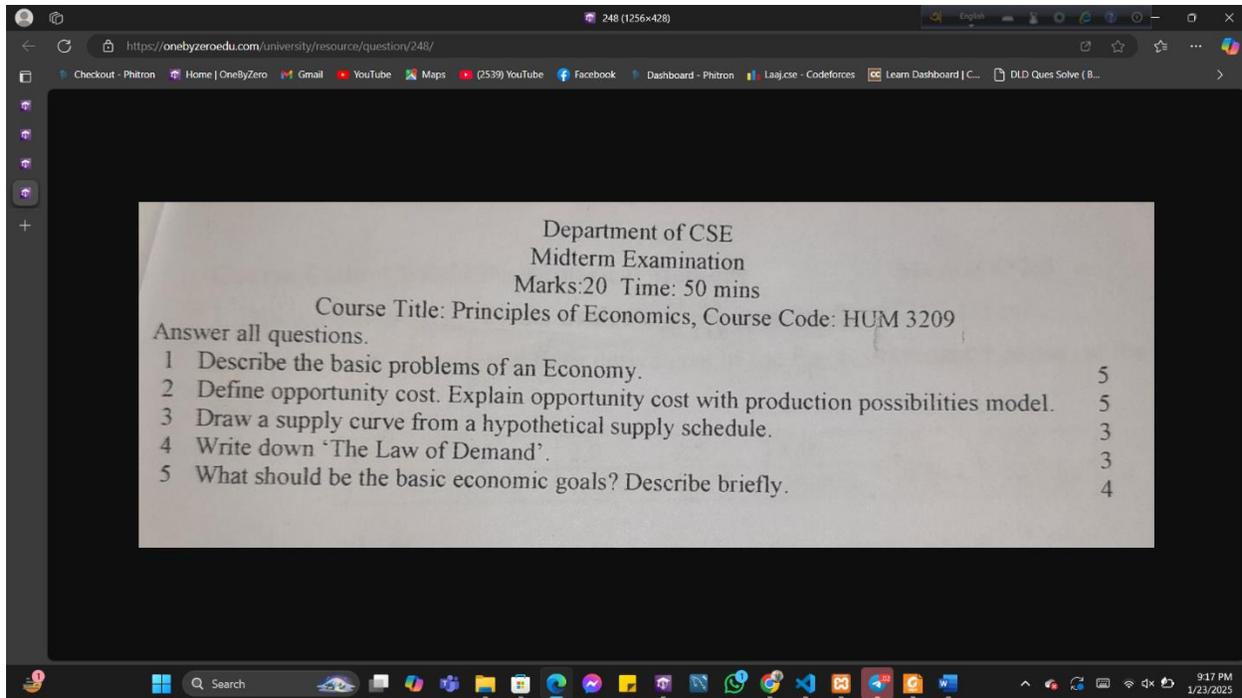
- **Income levels**
- **Consumer confidence**
- **Interest rates**
- **Wealth**
- **Future expectations**

#### 4. Savings and Investment:

- **Savings:** The portion of income that is **not spent** on current consumption but set aside for future use.
- **Investment:** The process of **using savings** to purchase assets like machinery, stocks, or real estate with the expectation of generating future income or profit.

#### 5. Production and Exchange:

- **Production:** The process of **creating goods or services** by combining land, labor, capital, and entrepreneurship.
  - **Exchange:** The act of **trading goods or services** between individuals or entities, often facilitated through money or barter systems.
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ANSWER

### 1. Describe the Basic Problems of an Economy (5 Marks)

The **basic problems of an economy** arise due to **scarcity of resources** and **unlimited human wants**. These fundamental economic questions are:

- **What to produce?**
  - Deciding which goods and services should be produced and in what quantities.
- **How to produce?**
  - Determining the production methods, whether labor-intensive or capital-intensive.
- **For whom to produce?**
  - Identifying who will consume the produced goods, focusing on income distribution and accessibility.

These problems exist in **all types of economies**—capitalist, socialist, or mixed.

### 2. Define Opportunity Cost. Explain with Production Possibilities Model (5 Marks)

- **Opportunity Cost:**

The **opportunity cost** is the value of the **next best alternative** foregone when a choice is made. It reflects the cost of sacrificing one option for another.

- **Production Possibilities Model (PPF):**

The **Production Possibility Frontier (PPF)** shows the **maximum combinations of two goods** that an economy can produce with available resources.

- **Example:**

Imagine an economy producing **guns** and **butter**:

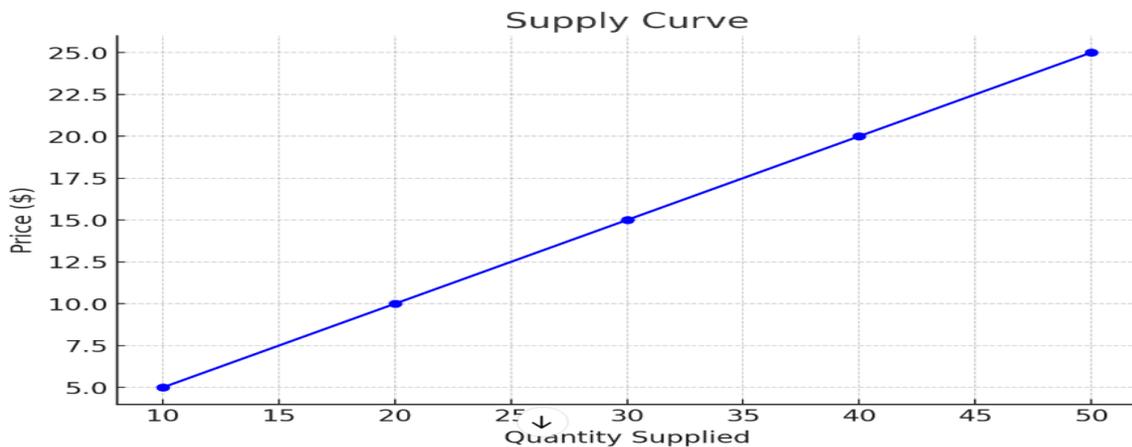
- If resources are shifted from producing butter to guns, the opportunity cost is the **amount of butter sacrificed**.
- This trade-off is shown as a **downward-sloping curve** on the PPF.

### 3. Draw a Supply Curve from a Hypothetical Supply Schedule (3 Marks)

Hypothetical Supply Schedule:

Price (in \$)    Quantity Supplied (Units)

5	10
10	20
15	30
20	40
25	50



Here is the **Supply Curve** based on the hypothetical supply schedule. It shows the direct relationship between **price** and **quantity supplied**—as the price increases, the quantity supplied also increases, following the **law of supply**.

#### 4. Write Down 'The Law of Demand' (3 Marks)

The **Law of Demand** states that:

**"Other things being equal, the quantity demanded of a good falls when the price of the good rises, and rises when the price falls."**

- **Inverse Relationship:** There's an **inverse relationship** between price and quantity demanded.
- **Example:** If the price of apples decreases from \$3 to \$2 per kg, consumers will buy more apples.

#### 5. What Should Be the Basic Economic Goals? Describe Briefly (4 Marks)

The **basic economic goals** of an economy are:

1. **Economic Growth:** Increase in the production of goods and services over time.
  2. **Full Employment:** Ensuring job opportunities for all who are willing to work.
  3. **Economic Efficiency:** Optimal use of resources to maximize output.
  4. **Price Stability:** Controlling inflation and deflation to maintain economic stability.
  5. **Equitable Distribution of Income:** Reducing income inequality to ensure fairness.
  6. **Sustainability:** Promoting practices that protect the environment for future generations.
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