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The Big Questions

Economic choices are decisions made by individuals, enterprises, and governments about how to use limited resources to satisfy unlimited

Human wants are classified into *needs* (essential for survival like food, water, shelter) and *wants* (non-essential items like gadgets and vac

Needs

Wants

A market is a place where buying and selling of goods and services occur, either physically or virtually.

Exam Questions

Q1. What is the difference between needs and wants?

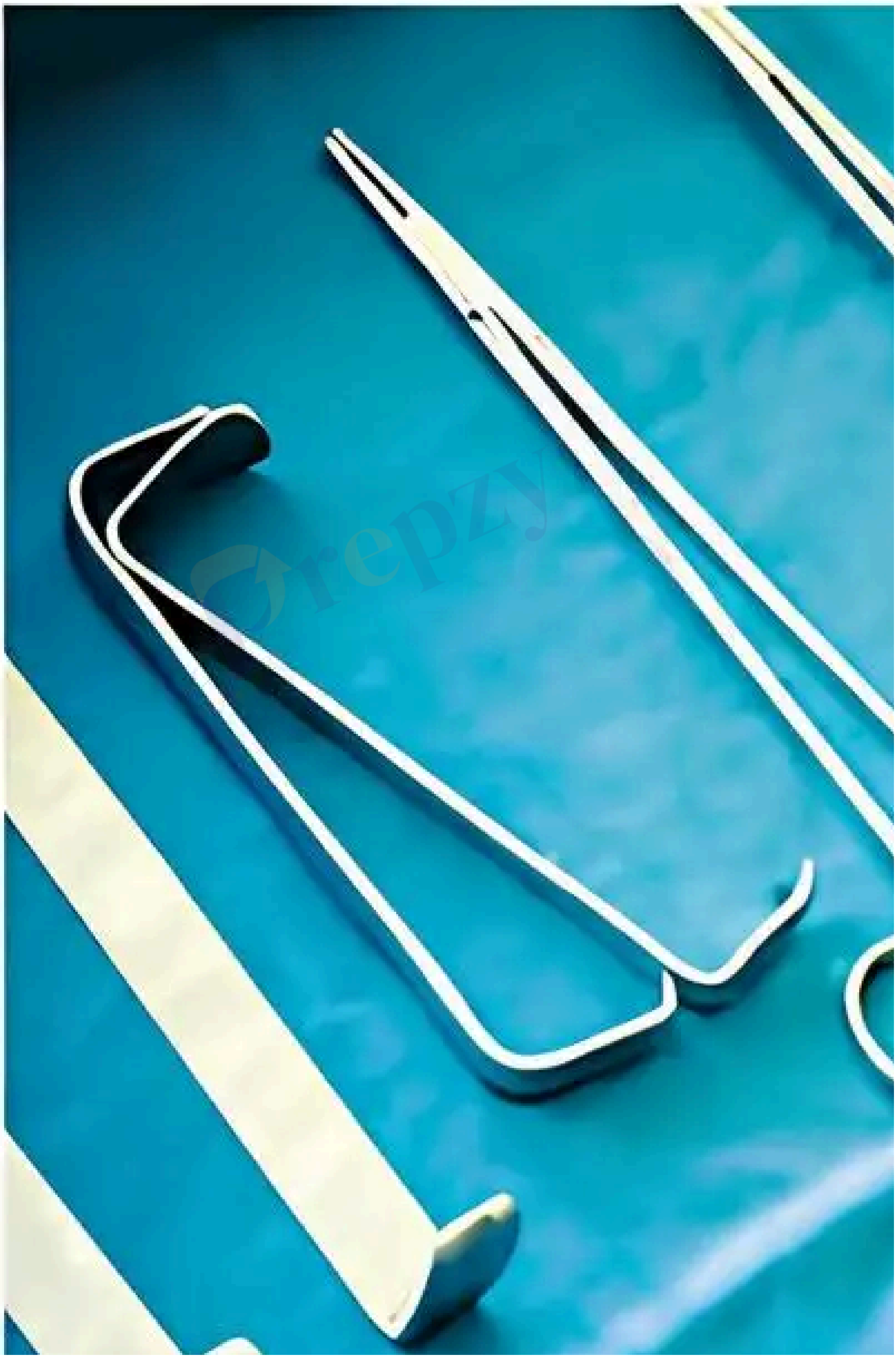
A1. Needs are essential for survival, such as food and shelter, while wants are desires that improve comfort but are not essential.

Q2. Why do individuals and governments have to make economic choices?

A2. Because resources are limited but wants are unlimited, choices must be made on how to allocate resources efficiently.

Choices and Limited Resources

Resources, including land, labour, capital, and technology, are limited and can be used in alternative ways. Choosing one use means giving



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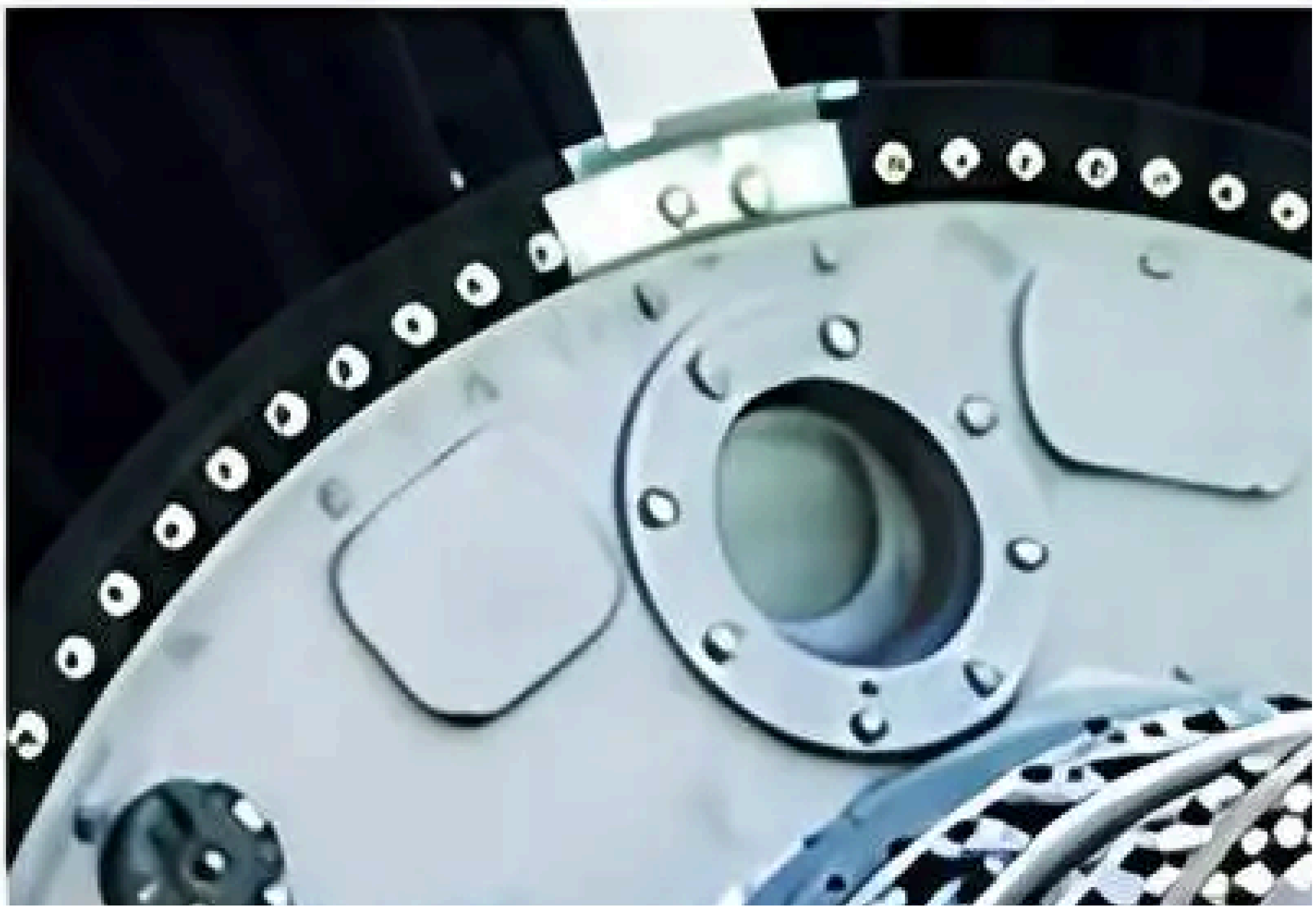

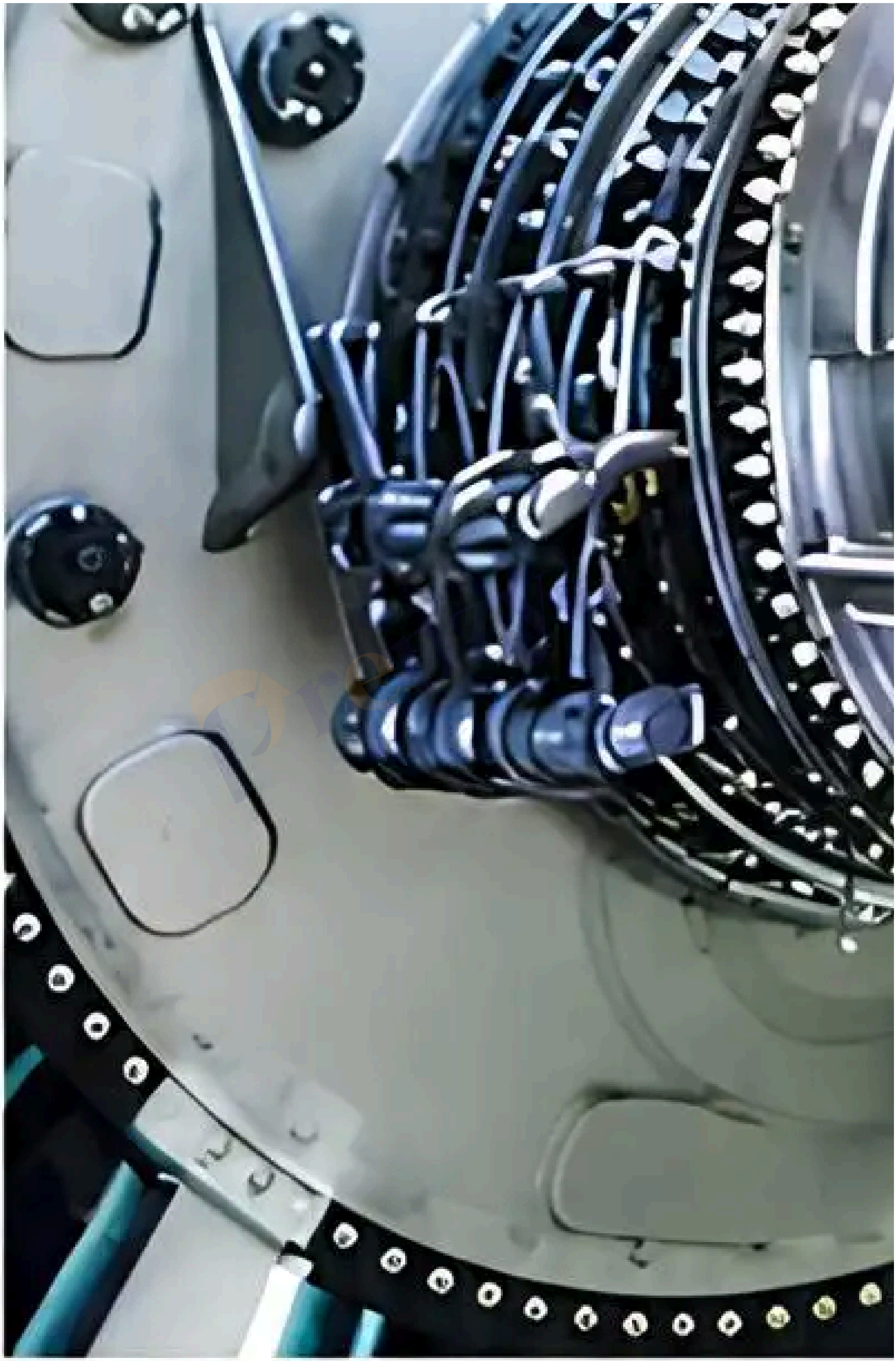

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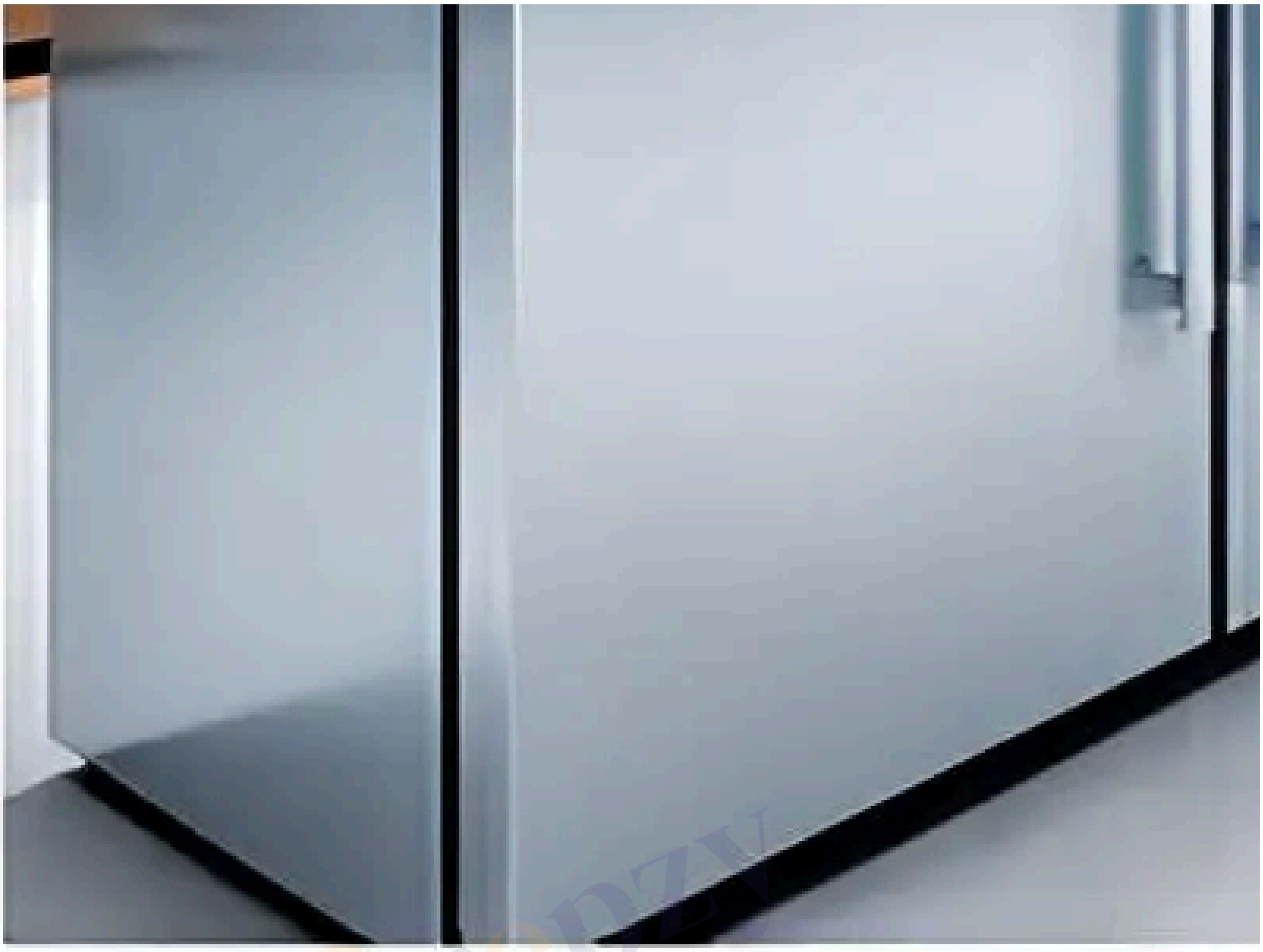


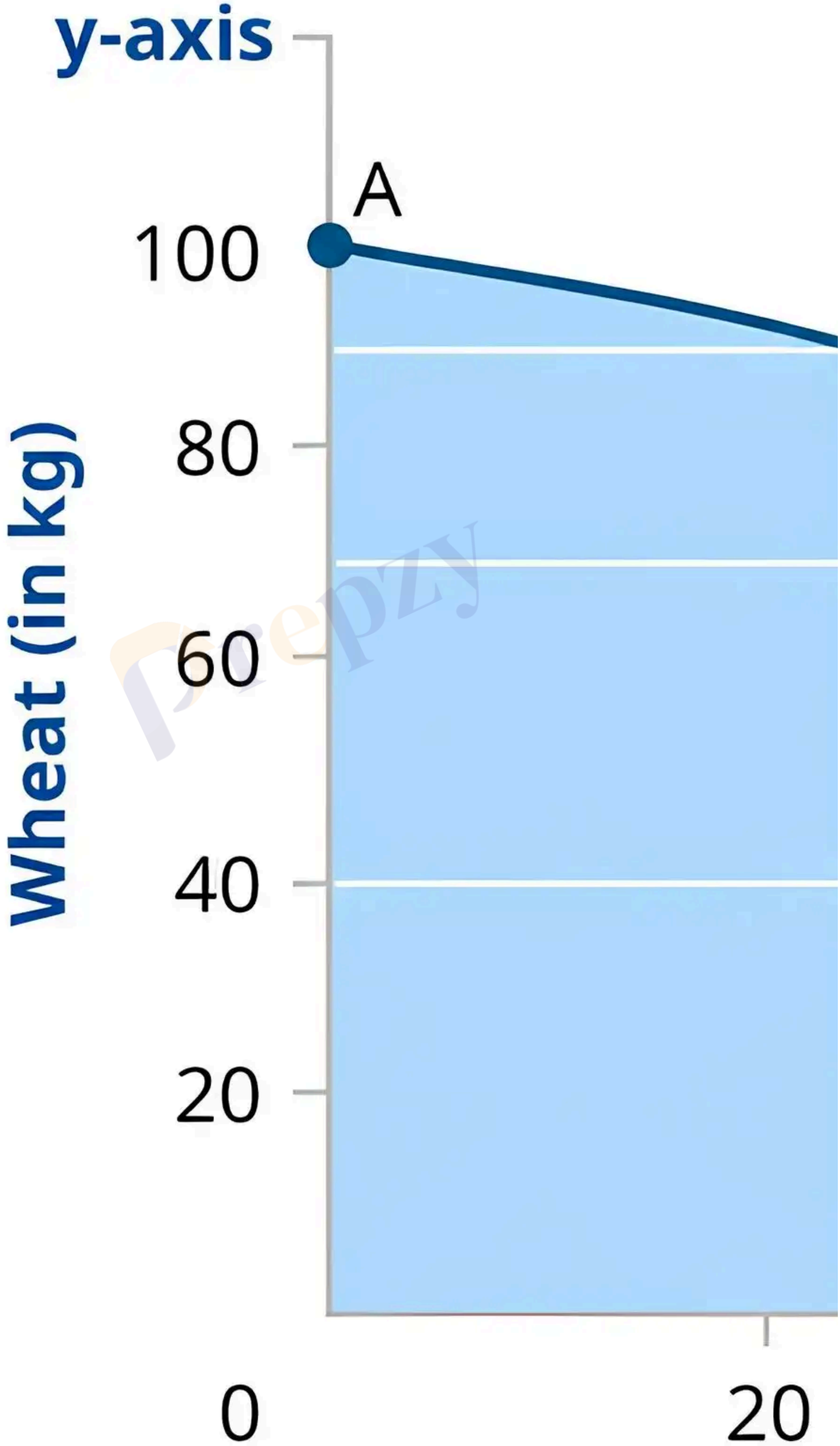
Refriger

Fig. 8.2. A

Example: Steel is used in medical equipment, aircraft manufacturing, and refrigerators, showing its versatility.

Opportunity cost is illustrated by a farmer choosing between growing barley or wheat on limited land. The Production Possibility Curve (PPC

Combination
A
B
C
D
E


y-axis
A
100
80
60
40
20
0
20
Wheat (in kg)

The PPC curve is downward sloping and bowed outwards, indicating increasing opportunity costs as more of one good is produced.

Exam Questions

Q1. What is opportunity cost?

A1. Opportunity cost is the value of the next best alternative given up when a choice is made.

Q2. What does the Production Possibility Curve show?

A2. It shows the maximum possible combinations of two goods that can be produced with available resources and the trade-offs involved.

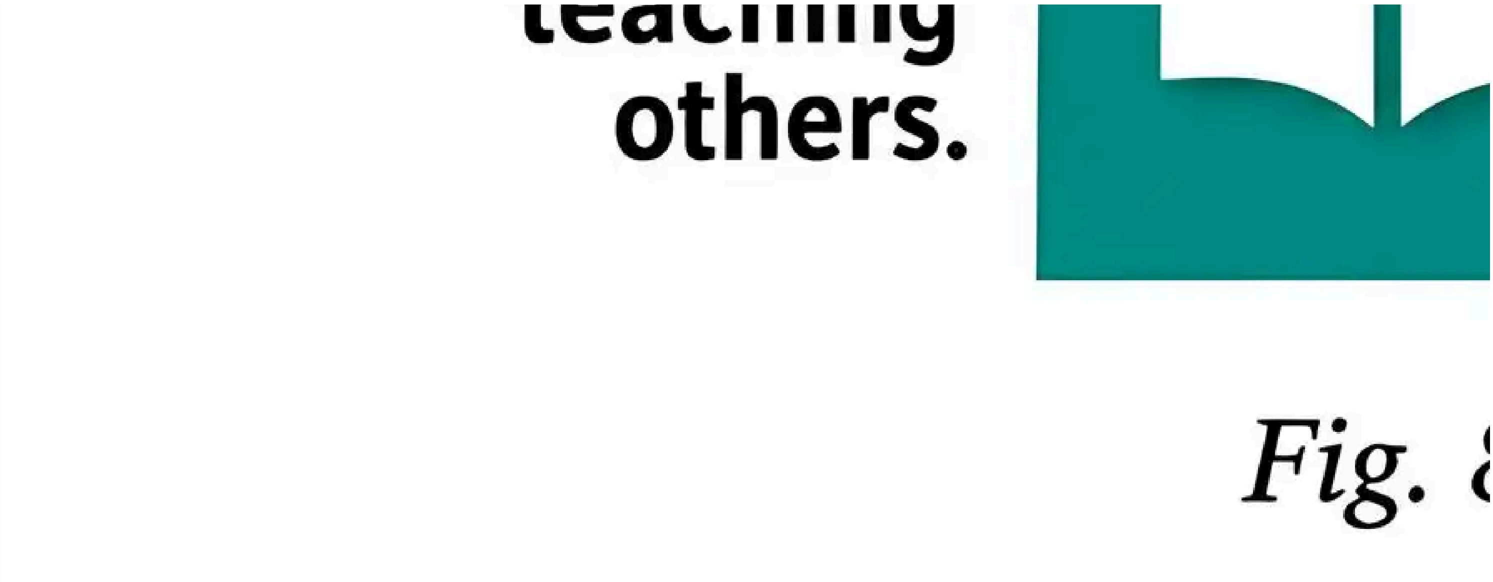
What does Economics Deal with?

Economics, derived from Greek words meaning household management, studies how individuals, enterprises, and governments make choi

It explains interactions among consumers, producers, governments, and financial institutions, covering topics like wages, wealth distributio

Policy-making: Guiding governments on taxation or welfare spending.

Research and education: Studying economic trends and teaching



Economists work in policy-making, business consulting, research and education, and finance to help optimize resource use.

Exam Questions

Q1. What is the scope of economics?

A1. Economics studies how choices are made to allocate limited resources among competing uses to satisfy needs and wants.

Q2. How do economists help society?

A2. They analyze data and alternatives to guide individuals, enterprises, and governments in making informed economic decisions.

Key Questions in Economics

Economics addresses three fundamental questions arising from scarcity:

- What to produce?
- How to produce?
- For whom to produce?

Unli
V

Fig. 8.5. Key

What to Produce and for Whom?

This question involves deciding which goods and services to produce and in what quantities, balancing short-term profits and long-term su

Deciding for whom to produce involves targeting different consumer groups based on income, needs, and preferences, such as different ty

Exam Questions

Q1. Why is the question 'what to produce' important?

A1. It determines the allocation of resources to produce goods that meet the needs and wants of society efficiently.

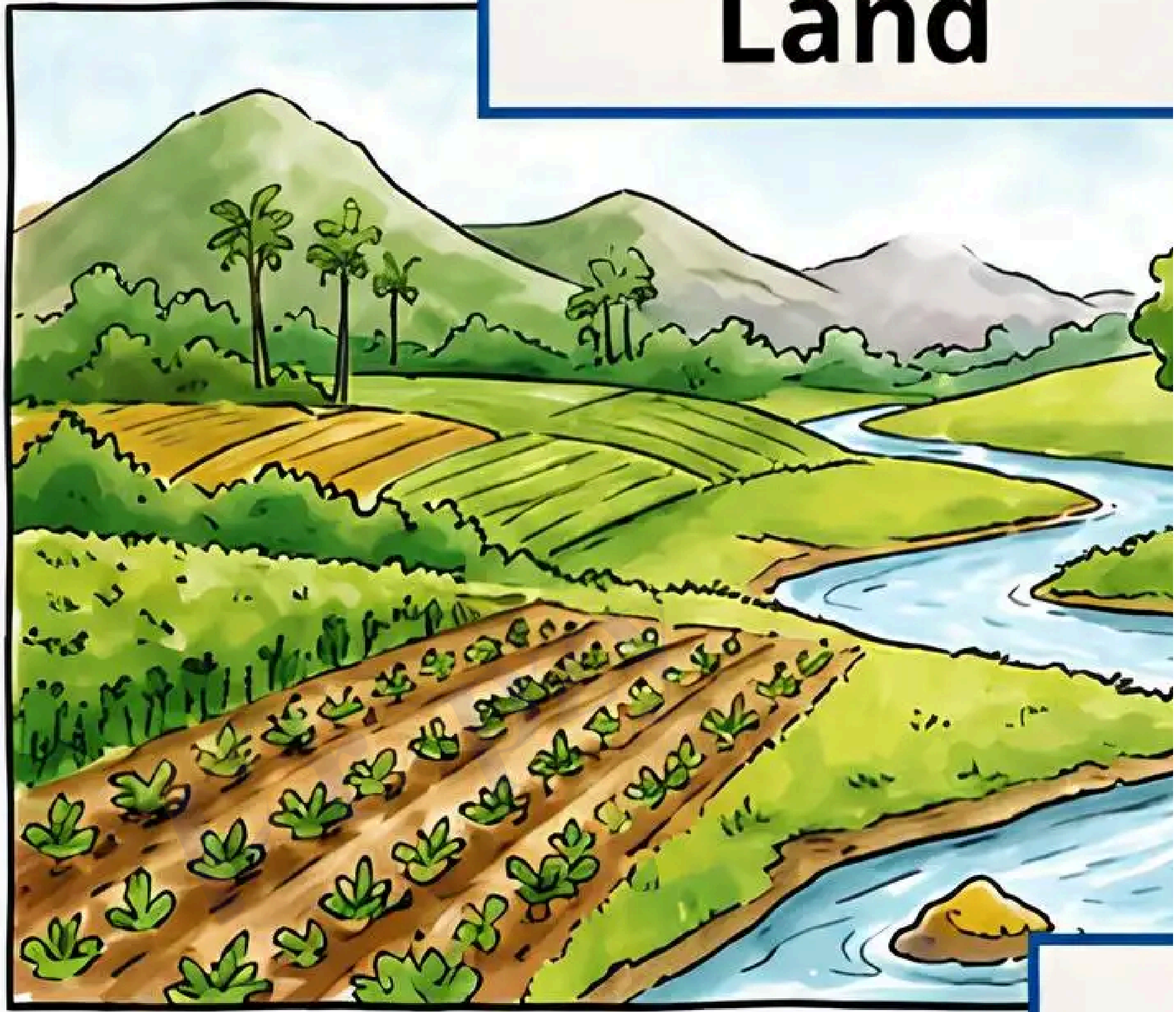
Q2. How does 'for whom to produce' affect production?

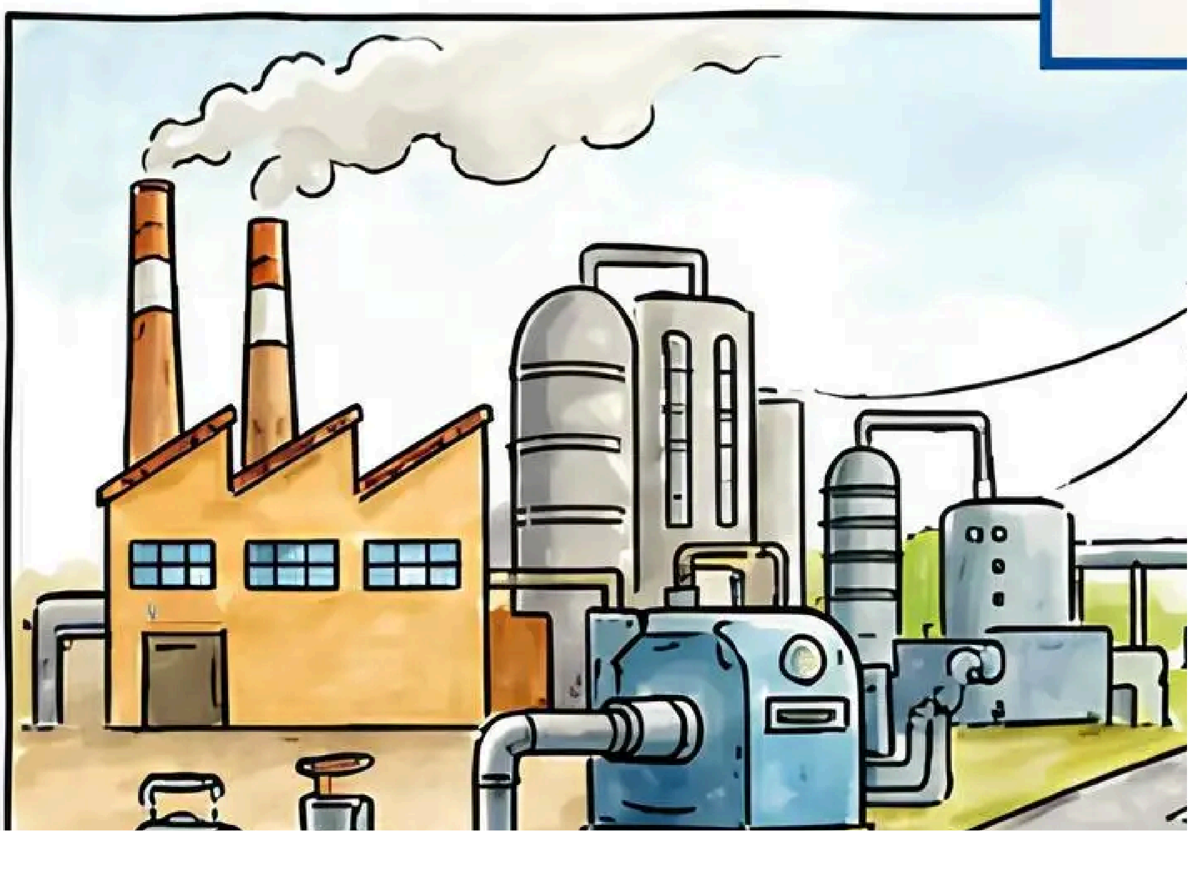
A2. It influences the type and quality of goods produced to match the preferences and purchasing power of different consumer groups.

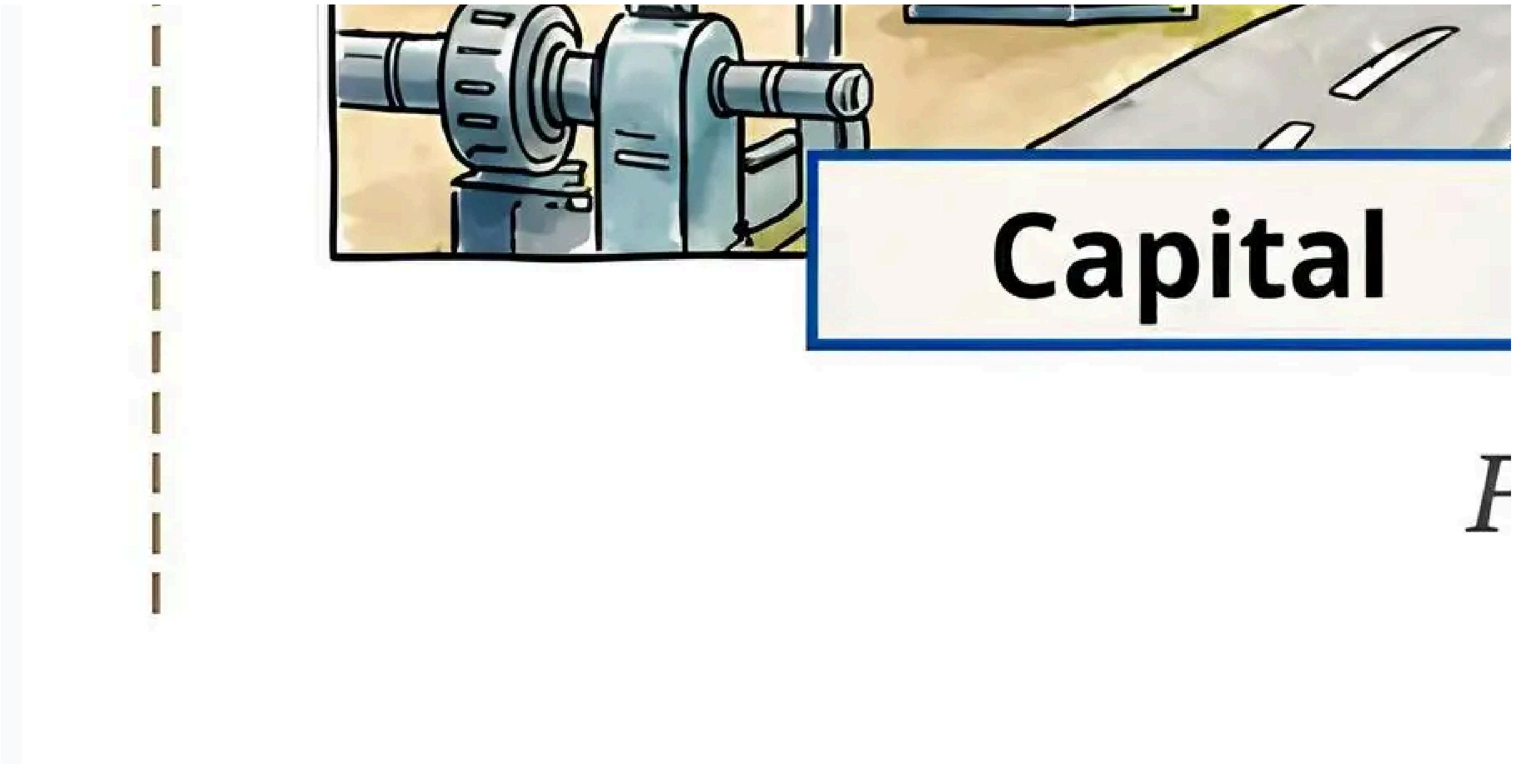
How to Produce?

This question concerns the methods and resources used in production, including the choice between labour-intensive and capital-intensive

Land







Factors of production include land, labour, capital, and technology. The choice depends on costs, technology availability, product nature, ar

Exam Questions

Q1. What are the factors of production?

A1. Land, labour, capital, and technology used to produce goods and services.

Q2. What influences the choice of production technique?

A2. Cost of capital, technology, product nature, availability of labour, and government laws.

Economic Systems

The economic system of a country defines how resources are organized and who controls production, consumption, and distribution.

Planned Economy

In a planned economy, the government centrally controls economic decisions, owns most resources, and regulates production. This limits c

Market Economy

In a market economy, decisions are made by market forces of demand and supply with minimal government intervention. Private ownershi

Fig. 8.7. Role of goverr

Mixed Economy

A mixed economy combines features of planned and market economies, with both government and private sector playing roles. Examples


Government
Fair Competition Rules
Consumer Protection
Transparency
Public Goods
Welfare Programmes

Exam Questions

Fig. 8.8. The role of g

Q1. What is a planned economy?

A1. An economic system where the government controls resource allocation and production decisions.

Q2. How does a market economy function?

A2. It relies on demand and supply forces with private ownership and minimal government control.

Q3. What characterizes a mixed economy?

A3. It combines government regulation and private enterprise to balance economic growth and public welfare.

Solved Examples

1. **Example:** A farmer has 100 kg of land and can grow either barley or wheat. If growing 60 kg of barley means producing 40 kg of whe
   Solution: The opportunity cost of 1 kg of barley is the amount of wheat given up. Here, 60 kg barley replaces 60 kg wheat (from 100
2. **Example:** A family has a budget of ₹1000. They must decide between buying food (needs) and a new video game (want). How shoulc
   Solution: They should prioritize needs like food first, then allocate remaining money to wants if possible, considering opportunity cos

Practice Set

Easy

- Define needs and wants with examples.
- What is opportunity cost?
- List the factors of production.

Moderate

- Explain the three key questions of economics.
- Describe the differences between planned and market economies.
- How does the Production Possibility Curve illustrate opportunity cost?

Challenging

- Analyze how a mixed economy balances government and private sector roles.
- Discuss the trade-offs involved in choosing production techniques.
- Explain the significance of the Economic Survey in policy-making.

Answer Key

1. Needs are essentials for survival; wants are desires that improve comfort.
2. Opportunity cost is the value of the next best alternative given up.
3. Factors of production are land, labour, capital, and technology.
4. The three key questions are what to produce, how to produce, and for whom to produce.
5. Planned economies have government control; market economies rely on demand and supply.
6. The PPC shows trade-offs and opportunity costs between two goods.
7. A mixed economy combines government regulation and private enterprise.
8. Trade-offs in production techniques depend on costs, technology, and product nature.
9. The Economic Survey provides data and analysis to guide government policy.

Quick Reference

- **Needs:** Essential goods and services required for survival.
- **Wants:** Non-essential goods and services that improve quality of life.
- **Opportunity Cost:** The value of the next best alternative forgone.
- **Production Possibility Curve:** A graph showing trade-offs between two goods.
- **Factors of Production:** Land, labour, capital, and technology.
- **Planned Economy:** Government-controlled economic system.
- **Market Economy:** Economy driven by demand and supply with private ownership.
- **Mixed Economy:** Combination of planned and market economies.
- **Economic Survey:** Annual report on the Indian economy guiding policy decisions.

Glossary

Economics
: The study of how individuals and societies allocate limited resources to satisfy unlimited wants.

Opportunity Cost
: The value of the next best alternative given up when making a choice.

Production Possibility Curve (PPC)
: A curve showing the maximum possible output combinations of two goods with available resources.

Factors of Production
: Resources used to produce goods and services: land, labour, capital, and technology.

Planned Economy
: An economic system where the government controls production and resource allocation.

Market Economy
: An economic system where market forces determine production and prices with minimal government intervention.

Mixed Economy
: An economic system combining features of planned and market economies.

Economic Survey
: An annual report by the government reviewing economic performance and guiding policy.

Time Period / Year	Event / Chan
Pre-1991	India follows a planned economy model
1991	Economic reforms introduced in India
Post-1991	Mixed economy model in India