

### CBSE Test Paper-03

#### Class – 11 Economics (Economy and central problems of an Economy)

**General Instruction:** All questions are compulsory. Marks are given along with their questions.

1. In a free market economy, the allocation of resources is determined by (1)
  - a. Votes taken by the consumers.
  - b. A central planning authority.
  - c. Consumer preference.
  - d. The level of profits of firms.
2. From the national point of view which of the following indicates micro approach? (1)
  - a. Per capita income of India
  - b. Underemployment in agriculture sector
  - c. Lockout in TELCO
  - d. Total savings in India
3. Can PP curve be a straight line? Why/Why not? (2)
4. Give one reason why macroeconomics and microeconomics are interdependent. (2)
5. What will be the impact of improvement in technology of good X while deterioration of technology of good Y simultaneously, on the PPC of the home country? (3)
6. Discuss the subject matter of economics. (3)
7. Explain the central problem of 'choice of techniques'. (4)
8. Gulf countries have acquired more capital goods by selling oil to various countries. What would be its impact on production possibility curve? (4)
9. A country produces 2 goods: green chili and sugar. Its production possibilities are shown in the following table. Plot the PPC on a graph paper and verify that it is concave to the origin. What is the pattern in the table that gives rise to the concave shape of the PPC? (6)

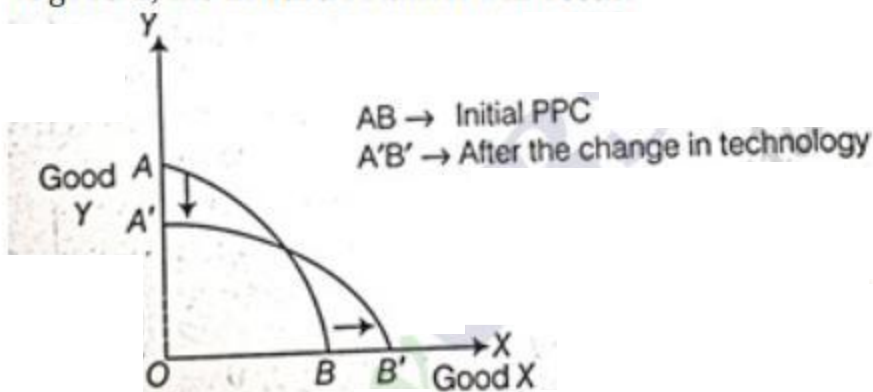
Possibility	A	B	C	D	e	F
Sugar	0	1	2	3	4	5
Green chilli	100	95	85	70	50	25
10. Does production take place only on the PP curve? (6)

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#### Answers

1. c) Consumer preference.
2. c) Lockout in TELCO
3. Yes, if we assume that MRT is constant.
4. Macroeconomics and microeconomics are interdependent because we seek to explain the behaviour of individual units in the context of the behaviour of the economy and vice-versa.
5. Improvement or deterioration of technology would cause a rotation in the PPC, however, in the above case, there is an improvement in technology of good X which will result in outward rotation, on the other hand, due to simultaneous deterioration in the technology of good Y, the inward rotation will occur.



6. Economics is concerned with the study of economic problems at the level of an economy as a whole, on one side and on the other, it is concerned with the study of an individual too.

The subject matter of economics is studied under two broad branches viz microeconomics and macroeconomics.

Vital theories or studies of microeconomics are

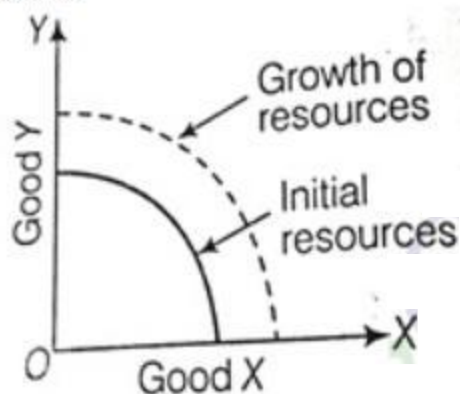
- a. Theory of consumer behaviour,
- b. Theory of price.
- c. Theory of producer behaviour.

Vital theories or studies of macroeconomics are

- a. Theory related to the equilibrium level of output and employment.
- b. Theory related to the inflationary and deflationary gap in the economy.



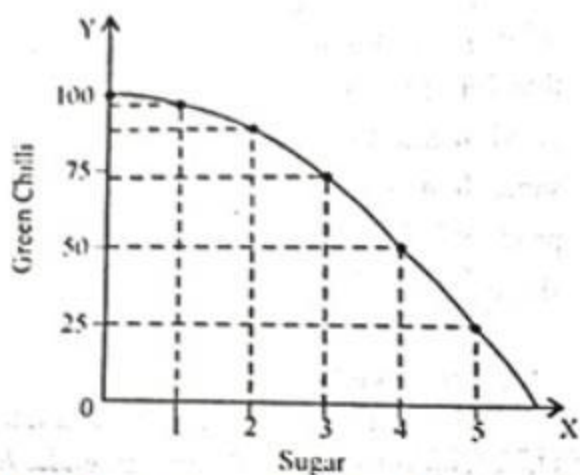
- c. Theory of multiplier.
  - d. Study of the government budget.
  - e. Study of the exchange rate and Balance of Payments (BoP).
7. The second basic problem is which technique should be used for the production of given commodities. This problem arises because there are various techniques available for the production of a commodity such as, for the production of wheat, we may use either more of labour and less of capital or less of labour or more of capital. With the help of both these techniques, we can produce an equal amount of wheat. Such possibilities exist relating to the production of other commodities also. Therefore, every economy faces the problem as to how resources should be combined for the production of a given commodity.
8. It is an example of increase or growth of resources. It results in a rightward shift of production possibility curve as it shows a higher level of the output of both the given goods



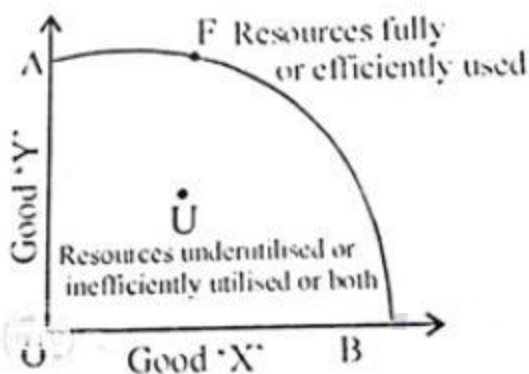
9.

Possibility	Sugar	Green chilli	Ratio
A	0	100	-
B	1	95	5:1
C	2	85	10:1
D	3	70	15:1
E	4	50	20:1
F	5	25	25:1

Increasing sacrifice of green chilli for each unit of sugar produced gives concave shape to the PPC curve as shown with the help of ratios.



10. The given statement may or may not be correct. If the given resources are fully and efficiently used in an economy, the production takes place on the PP curve. But if the resources in the economy are underutilized or inefficiently utilised or both, the production takes place inside the PP curve. The following illustrates the point:



On the point F, and for that matter on any point on the production possibility curve AB, the resources are fully and efficiently employed. On the point U, below the PP curve or any other point but below the PP curve, the resources are either underutilised or inefficiently utilised or both. Any point below the PP curve thus highlights the problem of unemployment and inefficiency in the economy.