

# 1. Basic Concept of Economics

---

**Q. 1 Choose the correct option: (Answer)**

**(1) Statement related to economics :**

- (a) Economics is a social Science.
- (b) Concept of economics is derived from Greek word 'oikonomla'.
- (c) Economics is related to the study of human economic behaviour.
- (d) Economics is related to management of the household.

Options : (1) a, b and c (2) a and b (3) b and c **(4) a, b, c and d**

**(2) Statement incorrect with reference to Adam Smith's definition :**

- (a) Adam Smith is a classical economist.
- (b) Wealth of Nations is authored by Adam Smith.
- (c) Economics is the science of wealth.
- (d) Economics studies common man.

Options : **(1) d** (2) a, b and c (3) a and d (4) c and d

**(3) Key Points in Lionel Robbins' definition :**

- (a) Wants are unlimited.
- (b) Means are limited.
- (c) Wants are not gradable.
- (d) Means have alternative uses.

Options : (1) a and b (2) b and c **(3) a, b and d** (4) a, b, c and d

**(4) Statements related to wealth :**

- (a) Wealth means anything which has Market value and can be exchanged for Money.

(b) It is external to human being.

(c) Wealth has no utility.

(d) Wealth is scarce and exchangeable.

Options : **(1) a, b and d** (2) a, c and d (3) b, c, and d (4) None of the above.

**(5) Aspects considered in national income :**

(a) Final goods and services are included in national income.

(b) Produced goods and services in a financial year are included in national income.

(c) Double counting is avoided.

(d) Value is considered as per market price.

Options : (1) a and c (2) b and c (3) a, b, and d **(4) a, b, c and d**

**Q.2 Complete the correction:**

(1) Natural sciences : Exact sciences : : Social sciences : Abstract sciences '

(2) Physics: Natural science : Psychology : Social science

(3) Arthashastra : Kautilya : : Wealth of Nations : Adam Smith

(4) Necessity : Food : : Comforts : Washing machine

(5) Free goods : Value-in-use : : Economic goods : Value-in-exchange

**3 Identify and explain the concept from the given illustration :**

**(1) My father purchased a two wheeler vehicle. This helps to fulfil my travel needs.**

**Ans. (A) Identified concept : Individual want**

**(B) Explanation of concept :** Individual want is that want which is satisfied at individual level.

**(2) A study of the annual income of the family of Ramesh.**

**Ans. (A) Identified concept :** Microeconomic variable

**(B) Explanation of concept :** Microeconomic variable is that element that can be used to describe the behavior of an individual economic unit like particular individual, particular family, particular industry, etc.

**(3) As per the data for financial year 2018-19 the country's production of goods and services increased by 20%.**

**Ans. (A) Identified concept :** Economic growth

**(B) Explanation of concept :** Economic growth refers to quantitative increase in real national Income (production of final goods and services).

**(4) Karuna's Mother saves ? 1000/every month out of her given salary.**

**Ans. (A) Identified concept :** Savings

**(B) Explanation of concept :** Savings can be defined as that portion of disposable income/ salary which is not spent currently on consuming goods or services.

**(5) Ram's Father utilized his provident fund amount to set up grocery store.**

**Ans. (A) Identified concept :** Investment

**(B) Explanation of concept :** Investment refers to creation of capital assets through mobilization of savings.

**Q.4 Explain the following :**

**(1) Explain the features of wealth.**

**Ans.** The features of wealth are as follows:

**(1) utility:** The commodities that have the capacity to satisfy human wants are included in wealth. For example, furniture, refrigerator, etc.

**(2) Scarcity:** The commodities Which are limited (scarce) in supply in relation to their demand are included in wealth. For example, all economic goods for Which prices are paid are wealth.

**(3) Transferable :** The commodities which are transferable are included in

wealth. It should be possible to transfer commodities from one person to another person and from one place to another place. For example, vehicle, jewellery, etc.

**(4) Externality :** The commodities that are external to human body are included in wealth, for example, bag, chair, a goodwill of a company. etc. are external to human body and therefore are wealth.

**(2) Explain the characteristics of human wants.**

**Ans.** The characteristics of human wants are as follows :

**(1) Wants are unlimited :** Human wants are unlimited and never ending. When one want is satisfied another arises. The endless circle of wants continues throughout human life.

**(2) Wants differ with gender :** The wants of men and women differ according to their needs.

**(3) Wants differ due to preferences :** The taste, habit, preference, etc. of a person differ from other. So wants too differs with the preference.

**(4) Wants differ with seasons :** Human wants also keep changing with seasons. For example. cotton clothes are needed in summer and woollen clothes are needed in winter.

**(5) Wants are recurring :** Several human wants arises again and again. For example, want of food, clothing, etc. Whereas, some wants may occur occasionally.

**(6) Wants differ with age :** Human wants and their satisfaction differ with age. For example, A toy may satisfy the want of a child but it will not satisfy the want of a college student.

**Q. 5 State with reason whether you are agree or Disagree with the following statement :**

**(1) All wants can be satisfied at a time.**

**Ans.** No, I do not agree with this statement. **Reasons :** (1) Human wants are unlimited and the means to satisfy human wants are comparatively limited. (2) Unlimited wants compete among themselves to be satisfied first. (3) For example, a person may want a fridge and a TV. or anything else at the same time but he/she can not buy all because of limited resources (income). Thus, all wants cannot be satisfied at a time.

**(2) Human wants change as per the seasons and preferences.**

**Ans.** Yes, I agree with this statement. **Reasons :** (1) Human wants change according to change in the seasons, taste and preferences, etc. (2) Human wants change as per the change in season. For example, A person may want an umbrella during rainy season but will want woolen clothes during winter. (3) Individual tastes, habits, preferences also determine his/her wants, an office going person will want formal clothes more whereas, the college students will want more of casual clothes. Thus, wants change as per the change in seasons and preferences.

**(3) Value-in-use and value-in-exchange are the same.**

**Ans.** No, I do not agree with this statement.

**Reasons :**

(1) Value-in-use refers to the utility of the commodity in day to day life. Whereas value-in-exchange refers to the worth of commodity expressed in terms of price.

(2) Commodities like water, air are highly essential for human life. Thus, these commodities have high value-in-use. But as these commodities are available on a large scale. So they have low value -in exchange.

(3) Commodities like gold, diamonds are not very essential for human life. Thus, these commodities have less value-in-use. But as these commodities are available on a small scale or scarce they have high value-in-exchange. Therefore, Value-in-use and value-in-exchange are two different concepts.

**Q.6 Answer in Detail :**

**(1) Explain the basic concept of macro economics.**

**Ans.** According to Kenneth Bounding, "Macro economics deals not with individual quantities as such, but with the aggregate of these quantities, not with the individual income but with the national income not with individual prices but with the price level, not with individual output but with the national output".

**The basic concepts of macroeconomics are as follows :**

**(1) National Income :** National Income is the aggregate monetary value of all final goods & services produced in the economy in a year.

**(2) Aggregate Saving :** Saving is a part of income which is kept aside to satisfy future needs. Aggregate saving is the aggregate monetary value of total savings in an economy.

**(3) Aggregate Investment :** Investment refers to mobilization of savings and creation of capital assets such as furniture, machinery, building, etc. Aggregate investment is the aggregate monetary value of total investments in an economy.

**(4) Trade cycle :** Trade cycles are the fluctuations in business. They are ups and downs in the overall economic activity. This fluctuations are caused by (a) inflation

(b) deflation/depression.

**(a) Inflation :** Inflation refers to a general rise in price of overall goods and services.

**(b) Deflation :** Deflation refers to a fall in price of overall goods and services.

**(5) Economic growth :** Economic growth implies an increase in the real national income, over a long period of time. It is a quantitative concept.

**(6) Economic development :** Economic development indicates economic growth plus progressive changes. It has a qualitative dimension as it is related to overall well-being of people.