

16. Economics and Economy

Multiple Choice Questions

1. Question

Which of the following is economic activity?

- A. A match played between two teams.
- B. Care of children by parents.
- C. Teacher teaching in class.
- D. Morning prayer in school.

Answer

Economic activities are those which generate money and fulfil the purpose, for example teachers are getting paid for teaching in school, that is main function of school to teach children's, whereas morning prayers are secondary activities.

2. Question

Which is the type of Indian economy?

- A. Capitalist economy
- B. Socialist economy
- C. Mixed economy
- D. None of these

Answer

Mixed economy is the combination of both capitalist economy and socialist economy, in which private players have freedom, meanwhile government also control some products and prices of some of the goods which are essential for social welfare, goods like electricity gas etc.

3. Question

Which economy gives the right to personal property?

- A. Capitalist economy
- B. Socialist economy

C. Both (a) and (b)

D. None of these

Answer

In capitalist economy resources are owned by private people and they have the freedom to decide what to produce and the government does not interfere in it. As the resources are private property, people use them for maximisation of their benefit.

4. Question

Which of the following is not the merit of the mixed economy?

A. Protection of personal freedom

B. Reduction in class struggle

C. More satisfaction to consumer

D. Control on economic fluctuations

Answer

In a mixed economy, government control the production and prices of some of the goods and services, like electricity, or railway in India, which makes fewer choices available to the consumers and consumer have less satisfaction.

5. Question

How is man presented in ancient Indian economic thought?

A. Economic man

B. Factor of production

C. Integral human

D. All of these

Answer

Ancient economics present man as an integral human which does not consider man only as a source of physical or mental labour, but it considers human as an integrated form of human body, mind, intelligence and soul.

Very Short Answer

1. Question

What is the economy?

Answer

Economy is a state by which people earn money, by process of production, consumption, distribution and exchange of resources people generates money and system which facilitate this is called an economy.

Economy is the process of production, consumption, distribution and exchange of resources within a community or system on which people earn money and buy other goods and services for consumption.

2. Question

What is the meaning of economics?

Answer

Then study of allocation, distribution of resources, capital and management of the factors of production is called economics.

In economics goods and services are exchanged among producer and consumers in market, customer's pays money for purchasing goods and services to the producer, which is distributed among different factor of production. Study of these allocation of resources and management of factors of production is economics.

3. Question

Name the types of economics system.

Answer

There are three types of economic system 1) Capitalist 2) Socialist and 3) Mixed economy

In the Capitalist economy everything is owned by private, people own the resources and use them to maximise their benefit, the government have no restriction on them. In a Socialist economy society, called as a government have control over resources and used them to increase the welfare of the whole society. India is a mixed economy and it has features of both capitalist economy like privatisation of some resources, like consumer goods and control over some necessary goods like petrol, drinking water etc.

4. Question

Mention the name of factors of production.

Answer

There are four means of production: Land, labour, capital and Entrepreneur.

Production factors are the essential components to be required for production. The land is required to carry out production, it can be agricultural land in farming, office space, or factory. Labour is the skilled or unskilled people carry out the production, capital is the money or knowledge expertise required for production and entrepreneur is the person who takes the risk to start production.

5. Question

What is the production?

Answer

Production is the process of conversion of raw material into final finished goods which can be consumed. It involves factors of production, I.e. land, labour, capital and entrepreneur.

Production is the process by which any raw material like sugarcane is converted to final product like sugar which we use at home. It involves factors of production, like factory as land, labour as people working in a factory, capital as all machinery and infrastructure and entrepreneur as someone who took the risk and started this factory for sugar production.

6. Question

Define consumption with example.

Answer

Consumption is the process by which consumer utilize the goods and services to satisfy their needs. It is by purchasing the goods produced by producers or like buying TV and taking services like air travel.

every day we consume many goods and services. When you wake up in the morning and have tea or milk, it is consumption of dairy products, you go school in the bus is consumption of transport, learning in school is consumption of services provided by the school.

7. Question

Mention an example of producer and product.

Answer

farmers are the producer and rice, wheat, fruits are the product. Similarly, carpenter is a producer and wooden material is produced.

A producer is a person or organisation who utilises factors of production for the conversion of raw material into a final product which is consumed by the consumer. Product is the final product as a result of the production process. The food we consume, electronic devices we use, are a result of the production process.

8. Question

Explain the meaning of distribution.

Answer

Distribution of income earned by the exchange of goods and service among different factor of production is called distribution. Goods are produced by the combined effort of all the factor of production

to make final product out of raw material requires land, labour, capital, entrepreneur and management, when the final product is consumed, it generate the profit and this profit needs to distributed among these factor of production, like rent is given out of profit, salaries are paid to labour, entrepreneur withdraw his salary or profit, some amount is invested in machine and salaries of management staff.

9. Question

What is labour?

Answer

physical and mental efforts made by humans in the production process with the purpose of monetary gain is called labour. For example, farmer doing farming for the purpose of selling the crop, carpenter making wooden goods for selling, teacher teaching in school to get salary is called labour

To convert raw material to final product humans play a major role, they put their physical and mental labour, their skills to convert raw material to a final product. Like a tailor uses his skill and physical labour to make a wearable dress out of cloth, he is doing this activity with a purpose to make money. Labour is people's effort in a production process to make money.

10. Question

What is socialist economy?

Answer

Socialist economy is the economy in which production and distribution of services are shared by a group of people, called society which is represented by the government. Here an individual does not have freedom over what to produce and what to consume, the government decides what needs to be produced, how much needs to be produced, to maximise the benefit of society as a whole.

Socialist economy is an economic system in which all means of production are owned by the whole society for social use and all the resources like land, forest, mines etc. As what goods need to be produced is the governed by government, a consumer has limited options available.

11. Question

Write the name of any three sources of ancient Indian economics thoughts.

Answer

1) Vedas 2) Upanishad 3) Smiriti

The number of sources of ancient Indian contemplation is very high and the area of thought given in is also very high. Like we have 4 Veda, around 108 to 220 Upanishad more than 100 Smiriti etc.

12. Write the names of four Vedas.

- 1) Rigveda
- 2) Yajurveda
- 3) Samed
- 4) Atharvaveda

We have four Vedas Rig Veda contains hymns about their mythology, the Sama Veda consists mainly of hymns about religious rituals, the Yajur Veda contains instructions for religious rituals, and the Atharva Veda consists of spells against enemies, sorcerers, and diseases.

12. Question

What is 'Chaturvidh Sukh'?

Answer

Four Chaturvidh Sukh are four aims, which are Dharma, Artha, Kama and Moksha. These are compared to the river, where Artha and Kama are the flow of the river and Dharma and Moksha are its banks.

Dharma, Artha, Kama and Moksha are the basic duties to achieve Chaturvidh Sukh. Dharma means purity of livelihood, Artha is basic of dharma and Knowledge, land gold silver is considered Artha, the Kama is the work person do and Moksha is liberation from bondage.

13. Question

Mention the names of four basic aims?

Answer

Dharma, Artha, Kama and Moksha are the basic aims, these are the duties to achieve Chaturvidh Sukh

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Short Answer

1. Question

What is economy activities? Explain with example.

Answer

Economic activities are the activities done by people to earn their livelihood, there are the activities which can be measured in money and done with the

intention to earn money out of these. There are four main economic activities, i.e. production, consumption, Exchange and distribution.

Production is the process of conversion of raw material to the final product, the person who is doing this is called the producer and it is done with the intention of earning money. Consumption is the use of these good and services for satisfaction and we pay for consumption, Exchange is the exchange of goods and services produced by us to goods and services produced by others, for example, a teacher teaches in a school and get salary and use these salary to buy fruits for consumption. Last economic activity is distribution, for producing any good, different resources are required, these are land, labour capital, enterprise and management and profit generated by producing goods is shared by them.

2. Question

Explain the difference between wealth and capital.

Answer

Wealth refers to the value of assets you own, these are the assets which have monetary value, like land, house, vehicle, cash etc. in sense of factor of production capital is a bigger term and it includes all the goods, abilities, qualification, experience and knowledge which is used in factor of production. It is a produced component of production which is earned by humans by using natural resources, it is also called the human ingredient of production. Abilities, the qualification which is used in production have an impact on production as they improve the efficiency and have long term effect on the production process and helps in increasing profit. An employee in the organisation, who are groomed and trained by the organisation, is an asset for the organisation to increase the profit of the organisation, he is part of the capital.

3. Question

Explain the concept of economy with example.

Answer

Economy is a structure in which the interaction and mutual cooperation between the producers of different commodities is generated. Economy is a system in which the economic activities of production, consumption and distribution take place regularly.

E.g Farming is the main economic activity of a village.

4. Question

What is the difference between capitalist and socialist economy.

Answer

Capitalist economy: It involves private ownership of economic activities, private interest and the profit motive, in this all the factor of productions are

owned by the private persons and they utilise them to maximise their benefit, the government have minimum control over these. It increases competition among people to maximise their benefit, which provides freedom of choice to choose profession work and provide more options to consumers. Every individual work in the self-interest of profit making. It divides the society in 2 classes, rich and poor people and over the year class difference increases, U.S.A, England, France, etc. have a Capitalist Economy.

Socialist Economy: A system of the economy where all means of production are owned by the whole society, decisions are taken by the central authority and the collective interest is desired, it is also called centrally planned economy or even economy. The purpose of this economy is collective benefit and welfare of society, in this economy, all the factors of production are owned by a central authority, called the government, which decides what to produce and how much to produce, all the resource are owned by the government. As the government produces only those goods which are for collective benefits, the consumer has fewer options available. It works on the principle of equal pay, equal wages which reduces the class gap, but people have less motivation in this economy. China had adopted this model of the economy earlier.

5. Question

Explain the concept of Integral human.

Answer

Ancient economics does not consider human labour and skills as a factor of production, according to it, human body, mind, intelligence and soul are integrated form and balanced development of these four elements is required. It presents religion, meaning, work and salvation in front of a human being in the form of duty. It emphasizes on the physical, moral and spiritual development of human, whereas Capitalist economy presents man as an economic man who is a machine of earning more and more money while socialist economy considers him as means of earning money, which utilises human skills for the maximum benefit of society. Ancient economics focus on the overall development of human and not solely focus on his labour and skills for monetary benefits.

6. Question

Explain the ancient Indian approach in terms of requirements.

Answer

Ancient economy says that humans have unlimited needs and all the needs cannot be filled as means to fulfil human needs are limited when one need is fulfilled, other needs arise and when humans are unable to fulfil them, they become unhappy. It says that how much money a person can get, he can never be satisfied with that money as needs keep on arising, it is like stomach is filled after taking food, but desire to eat continuously, A person should create his livelihood through knowledge and hard work so that poverty and scarcity does not exist in society as needs cannot be fulfilled by poverty.

7. Question

Explain the relation between production and consumption.

Answer

Production is the process of conversion of raw material to final product using different factors of production, i.e. Land, Labour, capital, entrepreneur and management. Once the final product is made, consumer consume these products by exchanging these goods with money for the satisfaction of his needs. A producer makes money by selling a product to a consumer and the profit is shared among different factor of production. A producer is also the consumer, he uses the money earned to buy goods and services made by other producers to satisfy his needs. Labour used in the production of goods receives his part of the profit which he uses for the consumption of other goods and services. In an economy, everyone is a producer and consumer are some of the other ways. This chain of producer and consumer maintain money flow in the economy.

8. Question

Write the merits of mixed economy.

Answer

Mixed economy utilises the pros of both capitalist and socialist. In this type of economy government control over the production of some goods essential for society as a whole, like electricity, gas etc. and private players have control over other goods and services. In this type of economy, private players have right to decide product prices, but sometimes government control to regulate the market. This type of economy provides personal freedom to people to decide what to produce and more option for consumption and market competition, meanwhile it also reduces class divide some extent. It is for balance development of undeveloped countries.

9. Question

Mention any three sources of ancient Indian economics thoughts.

Answer

The main source of ancient economics are Veda, Upanishad, Smiriti, Purna, Mahakavya, Niti Sahitya and khand kavya and Sanskrit sahitya. There are four Vedas which are Rigveda, Yajurveda, Samveda and Atharvaveda. Upanishad are between 108 to 220 including Isavasya, Taittiriya etc. and more than 100 Smiriti like Manuscript and 18 Puranas like Bhagwat purana, Agni purana, 2 Mahakavya which are Ramayana and Mahabharat. Rig Veda contains hymns about their mythology, the Sama Veda consists mainly of hymns about religious rituals, the Yajur Veda contains instructions for religious rituals, and the Atharva Veda consists of spells against enemies, sorcerers, and diseases

10. Question

“The study of ancient Indian economics thought is a new alternate of economics system.” Justify.

Answer

Modern economics has caused the rapid exploitation of natural resources, unlimited and excessive consumption of goods and services by certain class people, environment pollution and decline in human values, in the name of economic development and these issues have forced the capitalist and socialists to look for an alternative path. In this situation study of ancient economics paved the way for the solution of current economic problems, like exploitation of labour, as ancient economic does not consider human as a source of only physical and mental labour, but it takes an integrated approach of human body, mind, intelligence and soul. The current economic system also causes excessive consumption, whereas ancient economic system gives consideration to co-consumption and limited consumption. At present when a gap between rich and poor is increasing, Ancient India's economic thought of balanced and co-consumption, as well as justified distribution can be helpful to establish equality in society and social welfare. On behalf of the above discussion is proof that Ancient economic thought of India is a new alternative of the economic system.

11. Question

Explain the concept of Holistic Discretion (overall rationality)

Answer

Capitalist economy focus on maximisation of individual benefits by maximum utilisation of natural resources and these resources are owned by private people, it also produces goods which provides maximum satisfaction to the consumers, in socialist economy humans are considered as means to achieve maximum social welfare with least freedom to choose about what to produce and what to consume, whereas ancient economics focus on holistic approach, as per which economic system should be of this type where economic decision of the person is motivated by freedom and self-interest but there should be moral control to prevent exploitation of resources and excessive consumption of goods and services which disturbs economic system. In ancient economics, an individual should be able to divert in the direction of public welfare through moral value and statutory welfare.

Essay Type

1. Question

Differentiate between economics activities and non-economics activities.

Answer

Human performs the different type of activities in their life for the different purpose and these activities can be classified into two categories, Economic or non-economic activities. Economic activities are those which are done with the purpose of earning money and non-economic activities are those

where the purpose is non-economic, like cooking food for the family or taking care of someone for love or religious activities.

Detailed information about these activities is mentioned below

Economic activities: These are the activities where the main purpose is to make money and these activities can be measured in term of money. For example, teacher teaching in class, carpenter making wooden goods, farmer doing farming to sale crop, someone working in factory or bank etc.

Economic activities are divided into four categories, i.e. Production, Consumption, distribution and exchange.

1. **Production:** It is a process of conversion of raw material to the final product, using a different factor of production by producer, the final product is sold to consumer and revenue is generated, which is shared among factor of production, i.e. land, labour, capital, entrepreneur and management. Production activity generates revenue for multiple stakeholders.

2. **Consumption:** consumer purchase goods and services and for own satisfaction is called consumption, it involves monetary transaction to purchase goods and services

3. **Exchange:** Exchange is the process of selling and buying different goods and services in the market, it involves a monetary transaction. People are purchase goods for resale purpose and make a profit by doing an exchange.

2. **Distribution:** goods are produced by different factors of production, i.e. land, labour, capital, entrepreneur and management. Goods are produced by inclusive efforts of all and profit is divided among these factors.

2. Question

Explain the factors of production in detail.

Answer

production activity go through the different steps and different factors of production are needed to complete the production. The factors of production are mentioned below:

a. **Land:** Land is a gift of nature, the land does not merely mean soil, but it also includes water, climate etc. As it is a natural resource, it is a fixed factor of production and it cannot be moved from one place to another. Different type of land have different use and they contribute accordingly like the land is farm is used for cultivation of the crop, whereas in the city it is used a factory premise etc.

b. **Labour:** Physical and mental efforts made by human in the production process is called labour, efforts which are made with the purpose to earn money are considered in labour. Different people contribute in a different capacity in the production process and fetches different wages, all the efforts are not the same and they depend on the skill set of the person. For example, people working as labour fetches low wages then someone working a

supervisor over them, that's why labour is called as a dynamic factor of production, as different efforts have a different value in the production process.

c. Capital: Capital is not only money, but all the goods, abilities, qualification and knowledge used in the production process. Capital has long term benefit in the production process, it is a produces component which is earned by human using natural resources.

d. Entrepreneur: it is also called as venturesome. An entrepreneur is a person who actually starts production process by taking the risk with the aim of making a profit, He operates and manages different factors of production, i.e. land, labour and capital in the production process. He takes all the risk, understands all the rewards and initiates the production and that why he called an entrepreneur. After paying all the factor of production, i.e. Rent, salaries etc. whatever remains is his reward.

3. Question

Mention the characteristics of capitalist economy.

Answer

In a capitalist economy, all the factors of production are owned and controlled by private people and they have complete freedom on what to produce and what to consume and the government does not interfere in it. It is also called as an independent economy, market economy or free economy, as market forces determine and decide the production.

Main features of the capitalist economy are mentioned below

1. Right to private property: in this type of economy factor of production like land, machinery, mines etc are owned by private people and they use them to maximise their benefits,
2. Freedom of choice for consumers: Produces the goods as per consumer needs and it is called consumer sovereignty. In this type of economy, the consumer is free to choose, and he is the king of the market as he has the greatest position.
3. Freedom of enterprise: In capitalist people have complete control over and they can choose any activity or enterprise, industry or technology to produce goods. As there is no intervention of government it is also called an independent economy.
4. Competition: as everyone has the freedom to choose their economic activity and consumer is the king of market, there is competition in the market to meet the needs of consumer and everyone tries to sell their goods and services in the market to get the maximum benefits using different strategies like advertisement etc to get maximum consumer base. These competitions increase the efficiency of the market.
5. The objective of profit or self-interest: As there is complete freedom on the selection of economic activity, this decision is taken mainly on the basis of

profit making, means people select the activity where they can maximise their profit and benefits, the consumer also uses goods and services for the personal benefits.

6. Class struggle: in this economy society is divided into rich and poor classes. Rich class is a capitalist class who uses resources to maximise their profit, whereas poor class is labour. To increase profit capitalist class exploits labour and to prevent exploitation class struggle arises, to prevent class struggle labour establishes labour union.

7. Income inequalities: people who have resources use those resources to continue to maximise their profit which increases the class gap, rich keeps on getting richer and poor remains poor.

4. Question

Mention the main features of mixed economy.

Answer

The mixed economy is a combination of both capitalist and social economy and it combines the advantages and disadvantages of both type of economies. In this type of economy private players are allowed to have a level of freedom, but also government interferes to achieve social welfare. In a mixed economy, both public and private sector exist. Private players have freedom of production, but government takes control over some of the production of some of the goods and services which are important for social welfare, like basic needs like water, health, electricity, gas, petroleum etc.

Features of a mixed economy are mentioned below

(I) Co-existence of Private and Public Sector:

Under this system, there is co-existence of public and private sectors. In the public sector, industries like defence, power, energy, basic industries etc., are set up. On the other hand, in the private sector all the consumer goods industries, agriculture, small-scale industries are developed. The government encourages both the sectors to develop simultaneously.

(ii) Administrative prices – in mixed economy system there is a dual system for determination of prices of goods and services, prices are determined by market forces like in capitalist type of economy, but in some cases in order to preserve social welfare, the government can determine the prices of some goods which are for common use by society, like prices of gas or petroleum.

(iii) Economic planning – the mixed economy is planning the economy and here government plans the budget for major projects, infrastructure and other expenditure which are common use by society. Planning is done for infrastructure like road, bridge, water, sanitation etc and for services like health services.

(iv) Regional balance: Government has control over area for social welfare like health, food security etc and planning is done to ensure regional balance.

(v) personal freedom: In a mixed economy, there is full freedom of choice of occupation, also the consumer has a good number of options to choose things for consumption, may not be as much as in capitalist economy, but in essential commodities consumer interest is also protected as government can control the prices for social welfare.

5. Question

Elucidate the relevance of the concept of moderate consumption and co-consumption in context to present time.

Answer

Moderate consumption

1. According to Atharvaveda, a man should own as much as he can to feed himself and his family.
2. According to the Vedic literature, a person should have a minimum and restrained consumption of the money earned by himself to fulfill its needs. If he consumes more than this, he will be punished.
3. According to many ancient Indian thoughts, a person should earn money only by honest means and should not earn more than his needs.
4. It is also mentioned which goods should be consumed and which goods should not be consumed.
5. According to Chanakya moderate consumption is beneficial for health.
6. For the social welfare of the society, one must consume the goods and services as a gift of God and should not regard it as his own right over goods and services.

Co-consumption

1. According to Vedic literature, a person should consume the goods by sharing them among each other in society and not only for himself.
2. The consumption should be based only on equality and welfare.
3. According to Rigveda, a person who feels himself only without feeding the hungry, friends, servants, guests, animals, birds is a sinner.
4. According to the Western economic system, maximum consumption is a symbol of maximum satisfaction.
5. According to the Indian economic thought, the achievement of satisfaction is to be calculated by consuming the acquired money through distributing it generously.
6. The entire world is to be considered as one community with people of high character. The concept of consumption promotes equality and welfare for all.

It reduces the gap between the rich and the poor and reduces the unequal distribution of income.

6. Question

Describe the 'Four Basic Aims' in detail.

Answer

Four basic aims or Chaturved Sukh are mentioned in ancient Indian literature. The four basic aims are:

1. Dharma: Dharma is virtuous. It is related to the purity of livelihood. It is needed and followed to become superior. Ethical rules and good conduct are its basis. It is required to maintain order in a society.
2. Artha: Artha is the basis of Dharma. In the Vedas, splendor, money, knowledge, and property are considered as wealth. Knowledge, land, gold, silver, animal, paddy, grain and metal made equipment are considered as Artha.
3. Kama: The Kama runs the world. The kama does all the work. The person becomes the same as a kind of work he does. It is regarded as the reason and the origin of various activities in the form of various wishes.
4. Moksha: Moksha means liberation from bondage and all the desires.