

CBSE Test Paper-02

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

General Instruction:

- All questions are compulsory.
- Marks are given alongwith their questions.

1. Which of the following is a reason for the curvature or bowed-out shape of the PPC? (1)
 - a. Falling unemployment as we move along the curve
 - b. The economy having to produce less of one good in order to produce more of another good.
 - c. Opportunity cost increases as more of goods are produced.
 - d. None of the above.
2. Which of the following is likely to cause an inward shift in a country's PPC? (1)
 - a. The country finds a new reserve of crude oil.
 - b. Earthquake destroying resources of the country.
 - c. Workers getting jobs in the new metro project.
 - d. Scientist discovering new machines.
3. What is the opportunity cost of opting higher studies rather than a job? (2)
4. In case, an entrepreneur's capital shrink overtime, what will be its impact on PPC? (2)
5. What is the slope of PPC? What does it show? (3)
6. What do you mean by the production possibility of an economy? (3)
7. Differentiate between a planned economy and market economy. (4)
8. Do you think, if India imports advanced technology from china, a developed country, it will solve the central problem of 'how to produce'? (4)
9. "Economics is about making choices in the presence of scarcity." Discuss. (6)
10. Which of the following statements are true or false? Give reasons.
 - a. An economy always produces on but not inside the PP curve.
 - b. Massive unemployment shifts the PP curve to the left.
 - c. An economy cannot operate on any point outside the PP curve. (2×3)

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Answers

1. c) Opportunity cost increases as more of a good is produced.
2. b) Earthquake destroying resources of the country.
3. It is the amount of salary the person would have earned in a job.
4. If the capital of the entrepreneur shrinks, then it will reduce the production capacity. There will be underutilization of the resources and production possibility curve will shift to the left.
5. Production Possibility Curve is concave to the origin. Its slope is known as Marginal rate of transformation. It shows an increasing slope, i.e. more and more of the commodity Y is to be sacrificed for every additional unit of commodity X. In other words, the cost of producing additional X tends to increase in terms of the loss of Y.
6. Every economy has scarce resources and resources have different uses. There exists a problem of what to produce and in what quantity. Thus, with the help of the production possibility curve, we can find, how can we combine two goods and what quantities of goods can be produced with the given resources. For this we can take following assumption: In other words, we can say that production possibility implies the possible situation to produce two goods with given resources and technology.
 - a. Resources are fully and efficiently utilized
 - b. Techniques of production remain constant.
- 7.

Basis	Planned Economy	Market Economy
Meaning	It is that economy in which course of economic activities is decided by some central authority or govt.	It is that economy in which economic activities are fully dependent on the role of market forces.
Right to produce	Producers are not free to produce. Only a central authority decides the full variety of goods and services that people can consume.	In order to maximize profit, the producer can produce highly demanded goods.

Aim	Social welfare	Self-interest
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8. India being a developing country usually imports new and advanced technology from developed country like china, USA, Russia, France, etc. which would definitely expand India's production capacity. However, it cannot solve the central problem of the economy (how to produce) to full extent, due to unlimited and recurring nature of wants. And technology too can be imported in limited quantities only.

9. Lionel Robbins has given scarcity definition in his book – 'An Essay on the Nature and significance of Economic Science'. He wrote, "Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses."

Scarcity is a situation where demand for a good exceeds its supply. The choice between alternatives is the basic principle underlying all economic activity.

Basically, Economics is concerned with the study of economic issues or problems that arise because of the fact that resources are scarce in relation to our needs and the scarce resources have alternative uses. Economics focuses on the rational management of scarce resources in such a manner that our economic welfare is maximized.

Thus, economics is about making choices in the backdrop of scarcity.

10. a. False. When there is underutilization or inefficient utilization of resources, the economy will produce at a point inside the production possibility curve.
- b. False. Massive unemployment does not cause a shift in the production possibility curve but cause the economy to operate at a point inside the production possibility curve.
- c. True. A production possibility curve is drawn assuming given resources and constant technology. With these assumptions, the economy can operate at a point on production possibility curve but not beyond it.