



NCERT Solutions for 12th Class Economics (Microeconomics): Chapter 1-Introduction



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Exercises (NCERT 12th Economics Chapter 1)

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1. Discuss the central problems of an economy.

Answer

The allocation of scarce resources and the distribution of the final goods and services are the central problems of an economy. These are:

→ What to produce and in what quantities: An economy has to decide what goods and services are to be produced and in what quantity as resource is available in limited quantity and also it has alternative uses. Whether to produce more of food, clothing, housing or to have more of luxury goods. Whether to use more resources in education and health or to use more resources in building military services.

→ How to Produce: It is very important for an economy how to produce. Which of the resources to use in the production of each of the different goods and services. Whether to use more labour or more machines.

→ For whom to produce: It generally means the distribution of the final goods. Who gets what and how much. Whether or not elementary education and basic health services should be available freely for everyone in the economy.

2. What do you mean by the production possibilities of an economy?

Answer

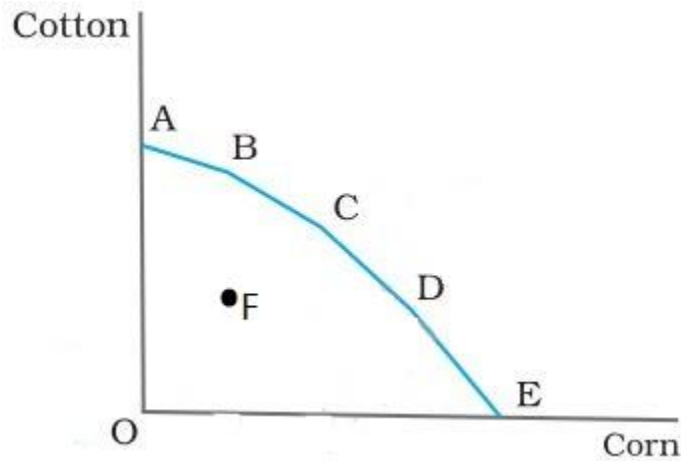
The collection of all possible combinations of the goods and services that can be produced from a given amount of resources and a given stock of technological knowledge is called the production possibilities of the economy.

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3. What is a production possibility frontier?

Answer

A curve showing different possibilities of two goods that can be produced with efficient utilisation of the given resources and technology is called production possibility frontier.



In the above representation, a production possibility frontier between cotton and corn has been drawn. The points A, B, C, D and E which lie on PPC represent the situation when the resources of the economy are fully utilised. While any point lie under the curve, say F, shows inefficiency or underutilisation of available resources.

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4. Discuss the subject matter of economics.

Answer

The subject matter of economics has been studied under two broad branches: Microeconomics and Macroeconomics.

In microeconomics, we study the behaviour of individual economic agents in the markets for different goods and services and try to figure out how

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prices and quantities of goods and services are determined through the interaction of individuals in these markets.

In macroeconomics, we try to get an understanding of the economy as a whole by focusing our attention on aggregate measures such as total output, employment and aggregate price level. We are interested in finding how the levels of these aggregate measures are determined and how the levels of these aggregate measures change over time.

5. Distinguish between a centrally planned economy and a market economy.

Answer

Centrally Planned Economy	Market Economy
Means of production are owned by government.	Means of production are owned by private individuals.
The main motive of production is social welfare.	The main motive of production is profit making.
Prices of goods and services are generally high	Prices of goods and services are generally high
The production is governed by planning mechanism i.e., according to government plans.	The production is governed by price mechanism i.e., by demand and supply.
The inequality of income is low.	The inequality of income is high.

6. What do you understand by positive economic analysis?

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Answer

Positive economics deals with what is, what was or how an economic problem facing the society is actually solved by analysing various positive statements and mechanisms. These statements can be tested, proven or disproven and do not involve personal value judgments. For example: India is an overpopulated country. India have adopted mixed economy.

7. What do you understand by normative economic analysis?

Answer

Normative economic analysis deals with what ought to be or how an economic problem should be solved. The normative statements that cannot be tested as they involve personal value judgments. For example: Government should encourage private companies to accelerate the pace of industrialisation.

NCERT 12th Economics Chapter 1

8. Distinguish between microeconomics and macroeconomics.

Microeconomics	Macroeconomics
It studies individual economic unit.	It studies entire economic unit
It deals with how prices and quantities of goods and services are determined in individual markets.	It deals with how general price level and quantities of goods and services are determined in entire economy.
It uses the method of partial equilibrium, i.e. equilibrium	It uses the method of general equilibrium, i.e. equilibrium in

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in one market.

The major microeconomic variables are price, individual consumer's demand, wages, rent, profit, revenues, etc.

Its central problems are price determination and allocation of resources.

all markets of an economy.

The major macroeconomic variables are aggregate price, aggregate demand, aggregate supply, inflation, unemployment, etc.

Its central problem is determination of level of Income and employment in the economy.



Chapterwise NCERT Solutions for Class 12 Economics (Microeconomics):

- [Chapter 1 - Introduction to Microeconomics](#)
- [Chapter 2 - Theory of Consumer Behaviour](#)
- [Chapter 3 - Production and Costs](#)
- [Chapter 4 - The Theory of the Firm under Perfect Competition](#)
- [Chapter 5 - Market Equilibrium](#)
- [Chapter 6 - Non-competitive Markets](#)

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Organise pre-service and in-service training of teachers; develop and disseminate innovative educational techniques and practices; collaborate and network with state educational departments, universities, NGOs and other educational institutions; act as a clearing house for ideas and information in matters related to school education; and act as a nodal agency for achieving the goals of Universalisation of Elementary Education.

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