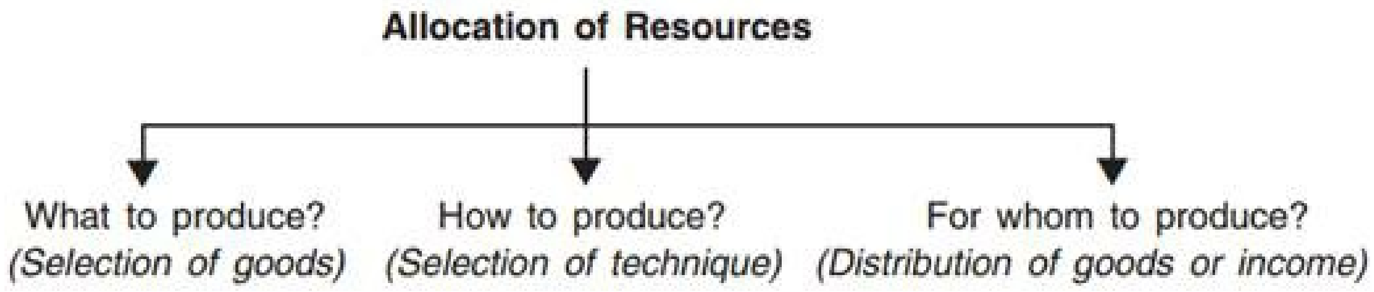
CBSE Class–11 economics

Revision Notes

Ecomomics 01

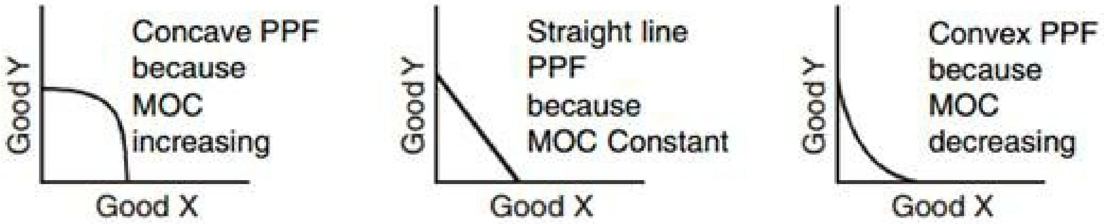
Introduction to Micro Economics

1. Study of Economics is divided into two branches:
   (a) Micro economics
   (b) Macro economics
2. **Micro economics** studies the behaviour of individual economic units.Ex-Consumer equilibrium, producers equilibrium, product pricing, factor pricing etc.
3. Micro economics is also called price theory.
4. **Macro economics** studies the behavior of the economy as a whole.Ex- National income, aggregate demand, aggregate supply, general price level, Inflation etc.
5. Macro economics is also called theory of income and employment.
6. **Economy** is a system in which people earn a living to sastisfy their wants through process of production, consumption, investment and exchange.
7. **Economic problem** is the problem of choice arising from use of limited means which have the alternative use for the satisfaction of various wants.
8. Cause of economic problems are :
   (a) Unlimited Human Wants
   (b) Limited Economic Resources
   (c) Alternative uses of Resources.
9. **Central Problems of an Economy**

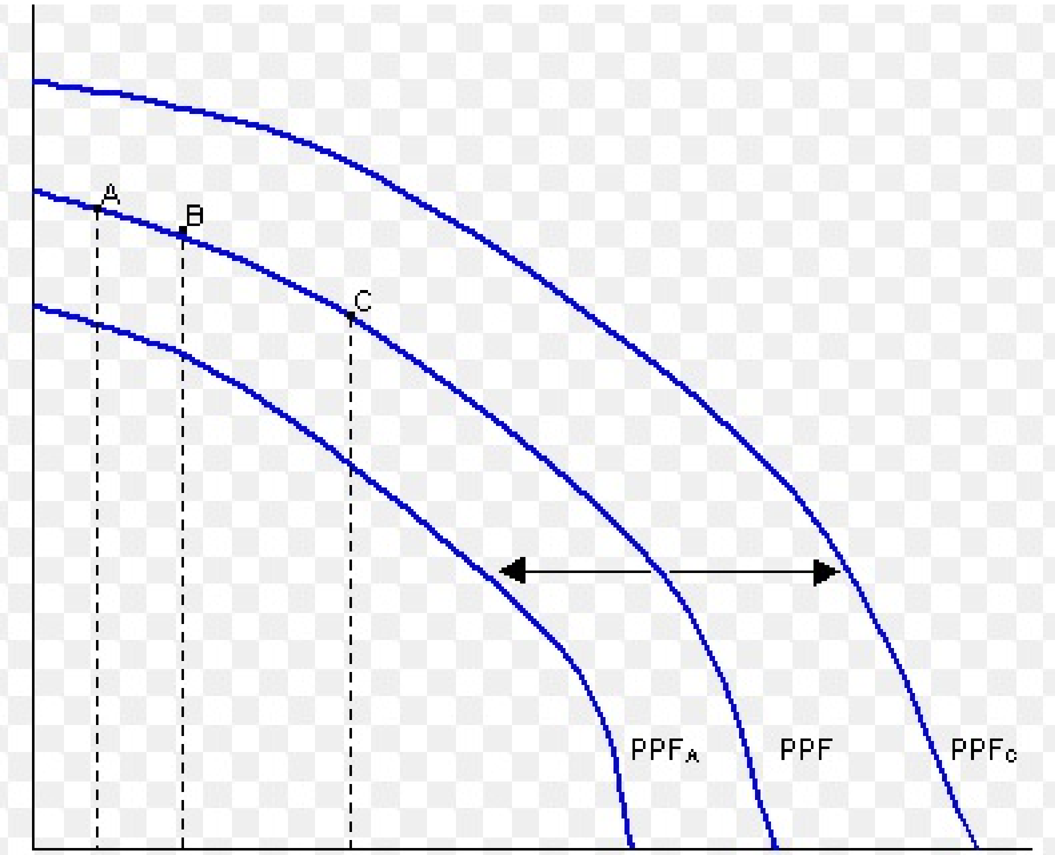


10. The central problem of "what to produce" refers to which goods and services will be produced in an economy and in what quantities. An economy has to produce those goods and services where there will be maximum social utility. This problem is studies under price theory.

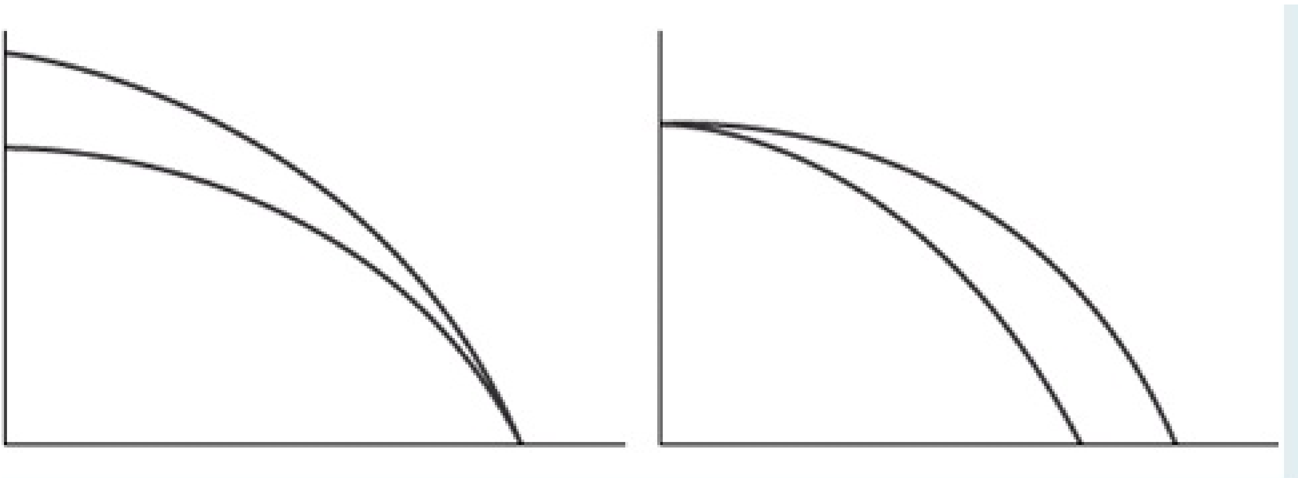
11. The central problem of "how to produce" refers to what technique of production (i.e.., labour intensive or capital intensive) should be used to produce goods. An economy has to select that technique which maximizes the output at minimum cost. This problem is studies under theory of production.
    The central problem "for whom to produce" is related to distribution of produced goods and services(i.e.., income and wealth) among factors of production in the form of rent, wages, interest and profit.This is explained under the theory of distribution.
    For the selection of an opportunity, the sacrifice of next best alternative use is called **opportunity cost**.In other words, it is the amount of one commodity that is to be sacrificed to increase the production of other commodity.
12. **Production possibility frontier or production possibility curve** shows all possible combinations of two set of goods that an economy can produce with available resources and given technology, assuming that all resources are fully and efficiently utilized.
    Economizing of resources means utilisation of resources in best possible manner to maximize output.
13. **Production Possibility Frontier or Curve**
    Features
    a. Slopes downward from left to right because if production of one commodity is to be increased then production of other commodity has to be sacrificed as there is scarcity of resources.
    b. Concave to the origin because of increasing marginal opportunity cost or (MRT)



14. **The Production possibility curve will shift under following two condition**:(a) change in resources, (b) Change in technology of production for both the goods.



15. **Rightward shift of PPF** shows increase in resources or improvement in technology.Ex- Labour becoming more skilled, improvement in technology, increase in productivity of land.
16. **Leftward shift of PPF** shows the decrease in resources or degradation of technology in the economy.
17. **The Production possibility curve will rotate outward under following two condition:** (a) Improvement in technology in favour of one commodity (b) Growth of resources for the production of one commodity



18. **Marginal Rate of Transformation (MRT)**- It is the amount of one commodity that is to

be sacrificed to increase the production of other commodity by one unit.

19. **MRT can also called Marginal Opportunity Cost**. It is defined as the additional cost in terms of number of units of a good sacrificed to produce an additional unit of the other good.
20. **MARGINAL RATE OF TRANSFORMATION:** MRT is the ratio of units of one good sacrificed to produce one more unit of other good.

$$MRT=\frac{\text{Unit of good Y sacrificed}}{\text{Unit of good X produced}}=\frac{\Delta y}{\Delta x}$$

(Marginal= at the border or adjacent/next to/adjoining)

(Transformation= a change in form, shape appearance or size)

21. **ECONOMY:** It is a system spread over a particular area that reveals the nature and level of economic activities in that area. It shows how people of a particular area earn their living.
22. **SERVICES:** A type of economic activity that is intangible, is not stored and does not result in ownership. A service is consumed at the point of sale. Services are one of the two key components of economics, the other being goods.e.g; services of a doctor.
23. **WANTS:** Wants are mere desires to buy the object irrespective of price and capacity.
24. **RESOURCES:** service or asset which is used to produce goods and services that meet human needs and wants are called resources.
25. **GOODS:** All physical and tangible things which are used to satisfy people's want, provide utility and have an economic value. e.g. books
26. **HOUSEHOLD:** All persons living under one roof having either direct access to the outside or a separate cooking facility. Where member of a household is related by blood or law, they constitute a family.
27. **FIRMS:** Firm is an organisation that employ productive resources to obtain products and/or services which are offered in the market with the aim of making a profit.
28. **PRODUCTION:** Production is a process through which inputs are transformed into output(i.e. in order to make something for consumption).
29. **CONSUMPTION:** The process of using up of goods and services for direct satisfaction of individual or collective human wants are called consumption.
30. **MICROECONOMICS:** It is that branch of economics which deals with the behavior of individual economic units of the economy such as individuals or households.
31. **MACROECONOMICS:** Macroeconomic is that branch of economics which deals with the

behaviour of the economy or as a whole. It is the study of aggregates such as national income, full employment, aggregate consumption etc.

32. **ECONOMIC PROBLEM:** Economic problem is the problem of choice arising out of fact that, resources are scarce and it has the alternative uses.It is mainly the problem of choice.
33. **MARGINAL OPPORTUNITY COST:** It is the rate at which the quantity of output of one commodity is sacrificed to produce one more unit of other commodity.
34. **Example of Opportunity Cost: (i)** Mohan decides to use the train to get to work rather than driving each day. The train fare each month will be Rs.350. After one month, he calculates that he is spending Rs.250 less on petrol and about Rs.25 less on maintaining her car. What is the opportunity cost of using the train?

    Cost of using train pm= Rs.350. Cost of using the car pm = Rs.250 + Rs.25 = Rs. Opportunity cost of using the train = Rs.350 - Rs.275 = Rs.75 per month

    (ii) Ruth has a mobile shop. She wants to employ 2 students to work for her between June and August. She expects each employee to generate Rs.250 a day each of the 78 working days of this period. However, if she lost 2 days at the start of the period and fully trained her employees they could generate Rs.260 a day. What is the opportunity cost of not training her employees?

    Earnings from her 2 employees without training = (Rs.250 x 78) x 2 = Rs.39000 If she trained the employees she would lose 2 working days worth of revenue. The revenue would be = (260 x 76) x 2 = Rs.39520 The opportunity cost of not training her employees = Rs.39520 - Rs.39000 = Rs.520

    (iii) Jim, a consultant, earns Rs.85 an hour. Instead of working one night, he goes to a Premier League cricket match in Delhi which costs him Rs.55 and lasts two hours. What is the opportunity cost of watching the football instead of working?

    Jim earns Rs.85 per hour. In 2 hours he earns 2 x 85 = Rs.170

    Opportunity of attending match = Rs.170 + 55 = Rs.225
35. **PRODUCTION POSSIBILITIES:** Different combination of goods and services which an economy can produce with its available resources and given technology.
36. **A PRODUCTION POSSIBILITY CUVRE:** It is a curve which depicts all possible combination of two goods that an economy can produce with the utilization of available resources and technique of production. It is an important tool to solve central economic problem. It is also known as transformation curve or production possibility frontier.

37. **LABOUR-INTENSIVE TECHNOLOGY:** When goods are produced using large quantity of labor and only a very few simple machines it is L I technology.
    The degree of labor intensity is typically measured in proportion to the amount of capital required to produce the goods or services; the higher the proportion of labor costs required, the more labor intensive the business.
38. **CAPITAL-INTENSIVE TECHNOLOGY:** Under this technique, capital is used more than labour. That is investment in purchase, maintenance, and amortization of capital equipment is more than labour.It is C I technology.
    CAUSES OF ECONOMIC PROBLEM:
    i) Scarcity of resources
    ii) Unlimited wants
    iii) Limited resources having alternate uses (Scarcity= a state of being in short supply)
    (Alternate = happen/do by turns /; alternate uses = other uses)
39. **Features of resources** -1) limited 2) alternate uses
40. **Features of wants** - 1) unlimited 2) recurring 3) can be satisfied by using goods and services.
41. **CENTRAL ECONOMIC PROBLEMS**
    i) Allocation of resources
    a) What to produce and of what quality :-consumer goods or capital goods, war time goods or peace time goods
    b) How to produce:- technology –capital intensive or labour intensive
    c) For whom to produce:- functional distribution or personal distribution
    ii). Efficient Utilization of resources-no wastage- no over utilization nor underutilization. Economic efficiency refers to efficiency in production and efficiency in distribution.
    iii.) Growth of resources:-It refers to increase in productivity of resources through improvement in technology.
    (Allocation = the act of sharing something/ an amount of resources allowed or assigned for something)
42. **SCARCITY OF RESOURCES:** Scarcity of resources means shortage of resources in relation to their demand.
43. **OPPORTUNITY COST**: It is the cost of next best alternative foregone.