

**Micro Economics**  
**Unit 1: Introduction**

**Q 1 Define the following concepts:**

- |                                    |                                    |
|------------------------------------|------------------------------------|
| 1. Microeconomics.                 | 2. Economy.                        |
| 3. Scarcity.                       | 4. Central problems of an economy. |
| 5. Market economy.                 | 6. Centrally planned economy       |
| 7. Production possibility curve.   | 8. Opportunity cost.               |
| 9. Marginal opportunity cost.      | 10 Marginal rate of transformation |
| 11 Macroeconomics.                 | 12 Macro variables.                |
| 13 Marginal rate of transformation |                                    |

**Q.2 Defend or refute the following statements. Give reasons also**

- 1) Microeconomics does not deal with aggregates.
- 2) Opportunity cost refers to explicit cost of production
- 3) Production possibility curve may sometimes be convex to the origin.
- 4) Central problems of an economy are found only in those economies which are not governed or regulated by the government.
- 5) Scarcity exists even when certain goods are available at zero price.

**Q.3 Write your comment on each of the following statements in a sentence or two:**

- 1) Choice between consumer goods and capital goods refers to the problem of 'how to produce'.
- 2) Choice between labour intensive technology and capital intensive technology refers to the problem of 'what to produce'
- 3) Choice between 'production for the poor' and 'production for the rich' refers to the problem of what to produce.
- 4) In a market economy, the central problems are solved by the central authority of the government.
5. In a centrally planned economy, the central problems are solved by the forces of supply and demand.

**Q.4 Complete the following sentences:**

1. Mixed economy is the one in which \_\_\_\_\_
2. In a capitalist economy, the problem of resource allocation is solved by \_\_\_\_\_
3. Marginal opportunity cost refers to the loss of output of Good-1 when \_\_\_\_\_
4. Growth of resources causes a shift in PPC to the \_\_\_\_\_
5. When an economy is operating inside the PPC, it is a situation of \_\_\_\_\_.
6. In a state of economic slowdown (or recession) when there is massive unemployment and the economy \_\_\_\_\_

**NUMERICALS**

1. Find opportunity cost, given the following possibilities of employment of Mr. X.

Possibility 1: employment in firm-A at the wage of Rs.2,500 P.M.

Possibility 2: employment in firm-B at the wage of Rs.3,500 P.M.

Possibility 3: employment in firm-C at the wage of Rs.5,000 P.M.

2. Find marginal rate of transformation, given the following information:

Output of Good-Y	Output of Good-X
200	200
160	220

Find marginal opportunity cost, given the following situation when some resources are shifted from Use-2 to Use-1.

Loss of output in Use-2 : 600 units Gain of output in Use-1 : 300 units

3. Find marginal opportunity cost of watches when production of watches increases from 10 units to 15 units while the production of shoes decreases from 500 units to 400 units.

4. The table shows production possibilities of two goods. Find marginal opportunity cost at different levels of the production of Good-1.

Good-1	Good-2
0	100
1	89
2	74
3	54
4	29
5	0

HOTS (Higher Order Thinking Skills)

**Q.1 Write 'true' or 'false' with a reason:**

1. With an efficient utilisation of resources, an economy can shift to point beyond the PPC.

2. When output of Good-1 increases from 100 units to 110 units and output of Good-2

decreases from 400 units to 350 units, marginal opportunity cost = 50 units.

3. When an economy moves from a situation of underemployment to full employment, PPC

curve shifts to the right.

4. Marginal rate of transformation refers to the slope of PPC.

5. Convexity of PPC to the origin points to increasing slope of PPC and increasing marginal opportunity cost.

Q.2. What is the opportunity cost of opting for higher studies rather than a job?

Q.3. China is also an emerging economy like India, however it keeps on investing new and advanced technologies. Do you agree that if they keep on doing so one day will come, when there will be no central problems in china?

Q.4 You are living in a country whose economy is under developed .In this context, why there is a need of efficient utilization of resources?

Q.5 Do you think that ,if India imports new and advanced technology from USA(a developed country),it would solve the central problem of 'how to produce'?

Q.6. The government has started promoting foreign capital.What is its economic value in the context of production possibilities frontier.