

Chapter 1 – Introduction

Question 1

What is Economy?

Ans: Economy is a system which provides people with the means to work and earn a living.

Question 2

Define scarcity.

Ans: Scarcity refers to a situation in which resources are insufficient to meet all the human wants.

Question 3

What are the major central problems of the economy?

Answer: Major central problems are:

- What to produce?
- How to produce?
- For whom to produce?

Question 4

What are the reasons for the Economic Problem?

Ans: The 3 main reasons for the existence of economic problems are:

- Scarcity resources
- Unlimited human wants
- Alternate Uses

Question 5

What are the 2 branches of economics?

Ans: Economics is classified into 2 parts. Namely,

- **Microeconomics:** It is that part of economic theory which studies the behaviour of individual units of an economy.
- **Macroeconomics:** It is that part of economic theory which studies the behaviour of aggregates of the economy as a whole.

Question 6

Expand PPF.

Ans: Production Possibility Frontier

Are the following statements True or False?

Question 7

The problem of 'how to produce' involves a choice between consumer goods and capital goods.

Ans: False

Question 8

The economy always operates on production possibility frontier.

Ans: False

Question 9

Growth of resources shifts the production possibility frontier towards the right.

Ans: True

Question 10

The opportunity cost of a machine which can produce only one product is high.

Ans: False