

Q. 2. What is economic problem? What are different factors responsible for economic problem? Explain.

Or

Define economic problem. Why does economic problem arise? Discuss.

Answer :

Economic problem is considered as one of the major problem in over all economic activity. Generally, economic problem is defined as such problem which is faced by economic agents. Practically, economic problem is the problem of making choices in the use of scarce resources for satisfaction of human wants.

Economic Problem arises mainly because of some important causes. These are explained as follows

(i) Limited Resources

One of the important cause of economic problem is identified as limited resources in the economy. Generally production of various goods and services require sufficient amount of resources. But unfortunately, the availability of resources are restricted. It implies that even if all available resources are fully employed there will not increase in sufficient production of goods and services. Therefore, scarcity of resources is considered as one of the basic cause of economic problem.

(ii) Unlimited Human Wants

Another important economic problem is identified as unlimited human wants. Everyone requires varieties of goods and services for maintaining living standard. Generally, when one want is satisfied then the demand for another increases. In a modern society, the requirement of goods and services increases day to day. But the means to satisfy them are limited because of which economic problem arises.

(iii) Alternative Use of Resources

In a modern welfare society, economic problem arises

because of the fact that resources have alternative uses. Generally, resources are not only limited but also they have alternative uses. Therefore, choices have arisen among the alternative uses. Every economy has to choose better alternative uses of resources to which they can be put. If the limited resources had only been specific in use, there would have been no problem of choice. It should be noted that with the help of limited resources, it wants to solve the problem of scarcity.

These are the major economic problems which have arisen in a modern welfare state.

Q. 3. How does economic problem minimise in a centrally sponsored economy? Explain.

Answer :

In real time, human wants are unlimited and the means to satisfy these wants are limited. Consequently the problems which have arisen are called economic problems. On the other hand, those problems which are faced by the central economy are called central economic problems. The central economic problems are common to all economic societies and therefore sometimes are called economic problems.

Generally, in a centrally sponsored economy, there are three important decisions that have to be taken. These economic problems relating to centrally sponsored economy can be explained as follows

(i) Amount of Goods

Centrally sponsored economy has to take one of the important decisions regarding the production of goods and services. Since economic resources are scarce in nature, therefore every economy has to decide the amount of production of commodities. It should be noted that when one commodity is produced then the production of another commodity reduces. Therefore, it becomes necessary for the central economy to guide the producer to produce commodities on the basis of requirements for the society.

(ii) Process of Production

Another decision that have to be taken by the central authority is that the process of production of goods and services. In any economy, there are two important processes of production which are the labour intensive technique and capital intensive technique. In between these two techniques of production, that technique is suggested which is appropriate for the economy. Generally, in a developing economy like India, the combination of both these two techniques should be adopted.

(iii) Distribution of Resources

A centrally sponsored economy should have to take another decision regarding the distribution of produced goods and services. These goods and services are produced with the help of available limited resources. The economy should have to decide the process of distribution of these produced resources effectively and efficiently. In this context, the authority should conscious in the matter that distribution of resources bring economic equality. It implies that resource distribution should be such that it always reduce the existing gap between rich and poor section of people in the society.

In this way, a centrally sponsored economy decides to handle the problems of any economic activity.

Q. 4. Explain the relationship between scarcity and choice under centrally sponsored economy.

Or

How does scarcity and choice problem relate? Discuss.

Answer :

Scarcity implies a major economic problem which arises mainly because of unlimited human wants. Generally, scarcity is defined as that problem where everyone requires varieties of goods and services for improving standard of living but due to limited resources all the requirements can not be fulfilled. In other words, human wants are unlimited but the means to satisfy them are limited because of which the problems which have arised are called scarcity problem.

with the use of available resources in an economy, if the producer produces two goods then production of different units of the goods is called PPC. Thus, the maximum unit of production of two goods with the help of given resources is represented by PPC.

The concept of PPC can only be derived when the following assumptions (pre-conditions) are taken into consider

- (i) It is assumed that available resources in the economy are used for the production of two goods like X only.
- (ii) In production possibility frontier, it assumes that increase in production of one good results decrease in production of another good.
- (iii) It is assumed that the available resources are always fixed.
- (iv) It is also assumed that the level of technology remains constant.
- (v) It is assumed that the resources are fully and efficiently employed.
- (vi) In PPC, it assumes that the resources are not equally efficient in the production of all the goods.

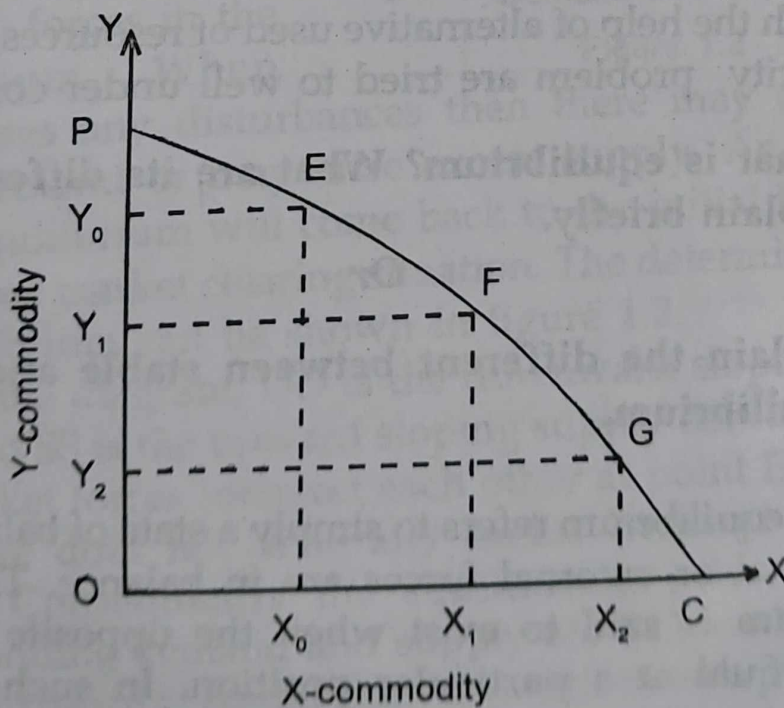


Figure 1.1

On the basis of the above assumptions, the concept of PPC can be explained diagrammatically as follows in figure 1.1.

In the diagram PC is the production possibility curve which consists of five different combinations like P, E, F, G and C. When all resources are used in the production of Y-commodity then production takes place at point 'P'. At 'P', no one unit of 'X' commodity is produced whereas 'OP' units of Y-commodity is produced. When some resources are diverted to 'X' commodity, then production takes place at 'E'. At 'E', it is observed that 'OX₀' units of 'X' and 'OY₀' units of 'Y' commodities are produced. Again resource diversion to X from helps to produce at point 'F' where 'OX₁' of 'X' and 'OY₁' of 'Y' commodities are produced. Further, diversion of resources from Y to 'X' commodity results to posses production at point 'G'. But if all resources are used only in production of X-commodity then maximum 'OC' units of the commodity are produced as against no one unit of Y commodity.

In this way, it is observed that when the production of X-commodity increases correspondingly the production of Y-commodity reduced if all given resources are employed. Thus, with the help of alternative used of resources, the choice and scarcity problem are tried to well under control.