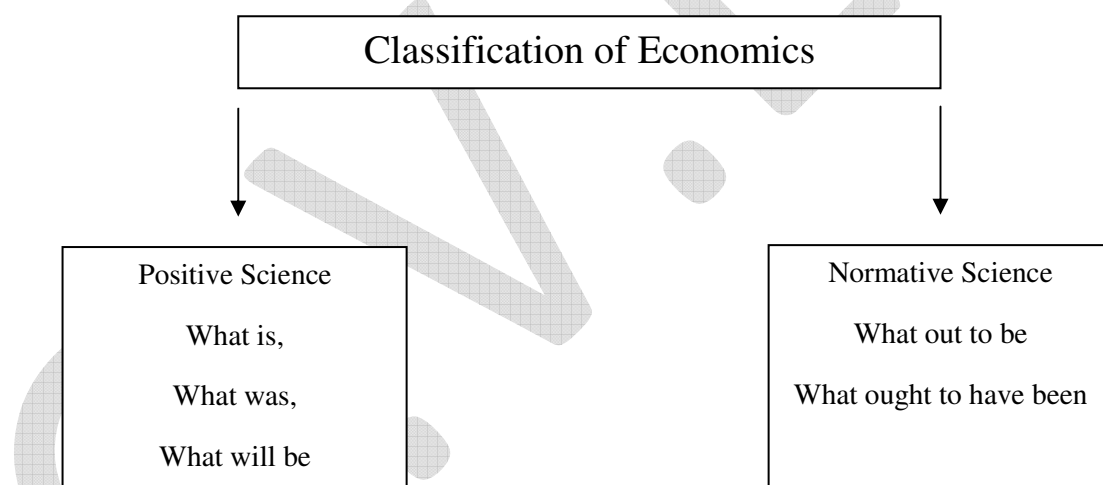


Q.1. Discuss the nature and Scope of Economics?

In economics we study the activities of human beings who are social, real and normal. Those needs which we can fulfill with wealth or by spending money, (e.g.) purchasing a pen, building a house etc, are called **“ECONOMIC NEEDS”** And wants which we cannot satisfy by spending money (e.g.) desire to love, worship of god are called **“Non- Economic Needs”**. Those activities which are performed with a view to earn wealth or money are called Economic activities while non-economic activities are those activities which are performed for the sake of pleasure only & which do not bring wealth or money (e.g.) mother looking after her child similarly all those goods & services for which we have to pay a price are called economic goods such as table, shirt, pen etc. on the other hand Non-Economic goods are those where no price is paid or which we call free goods also (e.g.) sun light, air, River water etc. however with a change in time or place non-economic goods become economic goods (e.g.) price has to be paid in cities for water, sand or mud.



- 1) **Positive science:** - It makes a critical analysis of the existing facts and draws conclusions without bothering as to what should be or what should not be.
- 2) **Normative Science:** - it studies the facts not as they are but as they ought to be. It is not neutral b/w ends. It lays down certain norms or objectives and efforts are made to attain them. It not only explores and explains but also suggests way to improve upon the existing facts or system so that it may work better.

Q.2. Discuss in brief the relation of economics to history?

Economics and history are closely related to each other. For the solution of any kind of economic problems, its historical background is essential. History is a study of past events. Knowledge of economics history is very important for the formulation of general laws of economics. In fact, economics without history has no roots and history without economics has no fruits. History constitutes the basis of economics. Most of the laws of economics are rejected on the ground that they have no historical basis. True history is confined not only to historical events but analyses is confined political and other reasons behind major historical events like wars, revolutions, elections etc. the main reasons why Indian Congress got a set back in the election of 1967. In India and again, why it won by a big majority in the elections of 1971. Were primarily economic like unemployment, inflation etc. historians, while they sit down to record events and write history can not ignore these economics influences. Therefore, there is close relation between history and economics.

Q.3. Explain briefly relationship between economics and Political Science?

Economics and Political Science are also closely related intact, economics was known as political economy in earlier years and no distinction was made b/w the two subjects. In political science we learn about the Govt. State and constitutional matters (e.g.) how are govt. formed and run? If the govt. is stable and there is peace, it is possible to carry on economic activities efficiently “and the production will increase, people would be prosperous and would support the govt”. The stability and the power of a govt depends upon its economic organizations and different types of economics systems. If people are poor, economically backward, they are bound to result sooner or later to improve their lot. The reasons of French and Russian revolutions were

Essentially economic-the exploitation of the people. A good deal of dissatisfaction practically amongst all sections of society in 1972-73 was due to bad economic conditions like inflation, unemployment etc. for political

stability, economic prosperity is must. Here it clearly shows that economics and political science are closely related.

Q.4. Explain briefly relation between economics to Geography?

In Geography we study the natural factors and resources, climate, rainfall, structure of land etc. these natural factors affect the economic development of a country to a considerable

extant. Geography and economics are so closely related that a part of economics is called “Economic Geography”. Country’s agriculture and industry depend upon geographical factors. Trade and commerce depend up on wide Sea-Coast and rivers. Rainfall, climate, rivers, canals affect agriculture production. Thus, the economic development depends upon geographically conditions and geographically conditions and geography itself is shaped by economic effects.

Q.5. Explain briefly relation between economics and Mathematics?

Mathematics is an exact science. Most of the laws of economics are expressed through mathematical formulae. So close is the relationship between economics and mathematics that a branch of economics has come to be called” Mathematical economics” or “Econometrics”. It is being realized that the laws of economics cannot be properly expressed or understand without the knowledge of Mathematics. For a proper use of figures, tables and diagrams. Mathematics stands in good stead. However too much depends on Mathematics for expressing simple ideas will not be proper. If Mathematics is used in a selective and careful way to state economics laws, it will be of great use to the subject.

Q.6. Explain briefly relation between Economics and Statistics?

Economics is closely related to statistics. For a Scientific study of any economics problem, it is always useful to collect figures, analyse and classify then and then to formulate certain laws. In this way the knowledge of statistics proves to be of great help. Some of the laws of economics are derived from statistics like Quantity theory of money etc. that is why increasing use is being made of statistics in Economics. A good part of statistics is called economic statistics. Both are closely related and infact are indispensable for each other.

Q.7. In what sense is the term “Goods” used in economics? What are their various kinds? Give examples?

All that things that satisfy human wants are called “Goods is Economics” e.g. Tables, Chairs, Milk, Wheat etc. goods are classification as follows:-

(1) Material and Non-Material Goods:-

Materials goods are basic goods which can be touched, seen and which have a definite shape or form like water, book ,paper, etc. on the other hand, immaterial or Non-material goods

cannot be seen or touched. They don't have definite shape or form like the goodwill of business, ability of a teacher. These direct services are included in non-material goods.

(2) Free and Economics Goods:-

Free goods are those which are available with out any cost or price like sunlight, air, water in river. But goods which are scare and for which we have to pay a price are called economic-Goods, like shirt, Pen, house etc. However, certain free goods become economic goods with a change in place and time- like the jungle wood, river water, sea sand are free goods but start carrying a price when these are brought in cities.

(3) Transferable and Non-Transferable Goods:-

Goods which can be transported from one place to another or where ownership can be changed are called transferrable like car, radio etc. Similarly, house and land are also transferable goods because their ownership can be changed. Good whose 'ownership' or 'place' cannot be changed. Are called Non- Transferable goods like ability, beauty, health, efficiency cannot be transferred.

(4) Consumption and Production Goods:-

Goods which are used for the direct satisfaction of human wants are called 'Consumption Goods' like butter, bread etc. But goods and Services which are not used directly but indirectly for the satisfaction of human wants are called production Goods. These are goods which are used for the production of further goods like machines, Seeds etc.

(5) Private and Public goods:-

Goods which are in the ownership for a particular Individual are called private goods like, Car, Cycle, and T.V Sets Etc. But goods on which there is 'Collective ownership' are called public goods like schools, Hospital, Parks Etc.

(6) Durable and Perishable Goods:-

Goods which are consumed but once only and satisfy human wants at one time are called perishable good, like bread, butter, fruits Etc. But goods which can be used for a long period of time are called durable goods like Pen, Pencil, Etc.

Q.8. What do you mean by 'utility in Economics'? What are the various kinds of utility?

In economics the term utility is used to denote that quality of a commodity or service by virtue of which are wants are satisfied. In other words wants satisfying power of good is called utility. This is assumed to be measured in terms of cardinal numbers such as 1, 2, 3, 4,

etc. These numbers are called 'Utils' or units of utility. Thus 4 Utils of utility are greater than 3 Utils of utility, 3 Utils are greater than 2 and so on.

Kinds of Utility:-

- (1) **Elementary Utility:-** Some commodities in their natural form possess utility as they satisfy human wants in the 'elements' or the 'form' in which they have been given by nature, for examples, coal in mines, wood in forests, flowing water in rivers – these have been given by nature and satisfy human wants in the same form. Therefore, the utility possesses by these natural goods is called 'Natural or Elemental utility'.
- (2) **Form Utility:** - when we change the shape or the form of goods, its utility increases, it is called 'form utility' like tailor preparing a shirt from the wood, He changes the form and adds form utility.
- (3) **Place Utility:** - with a change in place, utility is added in certain commodities, it is called a 'place utility' e.g. bringing the forest wood or sand produce to cities. Utility is added to these commodities with a change in their place.
- (4) **Time Utility:** - Some commodities come to possess utility or have more utility with a change in time like ice: it has no utility in winter but great utility in summer. Similarly, old wine or rice have more utility.

Q.9. What do you mean by value in economics? What are its main characteristics?

Values in economics mean "Value in exchange". The capacity or the power of a thing to command other goods and services in exchange for it is called value in economics. According to Dr. Marshall. 'The value that is the exchange value' is the amount of the second thing which can be got there and then in exchange for the first. Thus the term value is relative and expresses the relation between two things at a particular time and place. Suppose we get one T.V in exchange for a cycle, then the value of cycle is one T.V.

Following are the main characteristics of Value.

- (1) **Utility:-** No goods or services will have value unless it possess utility . In other words, it must have some use for the consumer only then he will demand it i.e. a commodity must have value in use before it can have value in exchange.

(2) **Scarcity** :- Scarcity is an essential feature for a commodity before it can have value.

In other words, its supply should not exceed its demand. Air, river water, have no or little value because their supply is in excess of their demand. They have great utility but are not scarce in relation to demand. Infact these are free goods. Although these goods have great utility or value in use, yet they have no value in exchange. Before a thing can have value in economics it must be scarce, thus the value of a thing is determined more by its scarcity than by its usefulness alone.

(3) **Transferability**:- for a commodity to have value , it must possess the quality of transferability or marketability. In other words, it should be possible to exchange the commodity of its ownership I.e. it should be possible to carry it from place to place or to buy and to sell. Goods which cannot be transferred cannot have any value.

Q.10. Define wealth and mention the various kinds of wealth?

All goods which have value are called wealth in economics, wealth means economic goods. According to Lord Keynes. All those goods which have value and the capacity to satisfy human wants are called wealth in economics. In other words goods having value are called wealth.

Wealth is the stock of valuable goods possessed by Man, whereas income is a flow which arises when wealth is invested in the form of capital. In other words, wealth is a fund, whereas income is flow.

Types of wealth:-

- (1) **Individual Goods**: - valuable goods in the position of an individual are called individual or private wealth like table, chair, radio etc.
- (2) **Social wealth**: - wealth which does not belong to an individual but to society and people in general is called collective or social wealth like hospitals, schools, parks, roads etc.
- (3) **National wealth**: - wealth which belongs to all entire nations is called national wealth like rivers, forests etc.
- (4) **International wealth**: - wealth which belongs to all nations is called international wealth. All the nations have the collective right on such wealth like IMF, IBRD etc. it may also be called cosmopolitan wealth.

- (5) Potential wealth; - potential wealth is that which is lying hidden in the earth like coal, iron, gold etc.
- (6) Representative wealth :- it is that wealth which represented another type of wealth like share certificates hundi, bills of exchange etc. these are money claims and are called titles to wealth.

Q.11. Define Wants? What are the chief characteristics of human wants?

All those desires for the satisfaction of which a man has the means and the willingness to use those means for satisfaction are called wants. It would be proper to distinguish between a 'desire' and want. Desire arises first, it is a kind of mental and psychological state of mind, under which a person desires to consume a thing for his satisfaction. He then procures the means to satisfy the desires, when it become a want. In fact, wants imply three things, the desire to possess a thing, the means of purchasing it, and the willingness to use the means for with those means gives rise to want.

Characteristics of Human Wants.

- 1) **Wants are Unlimited:** - Human wants are unlimited. When one want is satisfied, another arises and so on. A person who has never travelled by rail would wish to travel first of all by the third class, then by the second class, and then by the air conditioned luxury coach. After that he would like to fly by air, and given the opportunity, perhaps, he would like to go to the moon. It is clear that there is no end to human wants.
- 2) **Every particular want is limited:** - Each want taken separately can be satisfied. If a man is thirsty, he may take one, two, three or more glasses of water, ultimately he will say, no, more, my thirst is over, I do not want any more water. But all wants together cannot be satisfied simultaneously, though each want can be satisfied one by one.
- 3) **Wants are Competitive:** - Wants compete amongst themselves because they differ in intensity. More urgent want take preference over less urgent wants. A man will satisfy more urgent wants and intense wants first and others afterwards, e.g. the wants of removing hunger being more intense in nature will be satisfied first as compared to the want of 'recreation' which being less urgent will be satisfied later on.
- 4) **Wants are Complementary:** - At times we want things in groups because one thing may practically be of no use without the other. These are called complimentary wants like pen and ink, car and petrol etc.

- 5) **Wants recur again:** - Some wants recur again and again. It means that even when wants are satisfied they tend to rise again. E.g. we eat bread in the morning we feel hungry. In the evening we will have to eat bread again on feeling hungry.
- 6) **Wants become habits:** - Some want have the characteristics of becoming habits. Suppose a man takes wines in a party only to please his host, but if he develops a taste for it, he takes it again and again. Till he finds that the daily use of wine has become a habit with him.
- 7) **Wants are Alternatives:-** Some wants are alternative because they can be satisfied by the use of alternative things. E.g. our want to thirsty can be satisfied either by taking simple water or by taking soda, cold drink etc.
- 8) **Wants vary in Intensity:-** Wants differ in Intensity. Some wants are more intense and urgent in nature than others. Our want for necessities of life like food and shelter is more Important and urgent than our want for luxuries such as scooters, radio, pictures etc.
- 9) **Presents Versus future wants:-** present wants are more important than future wants. A person uses his limited resources for the satisfaction of current needs. He does not worry much about future needs because their nature is uncertain. E.g. providing for the education of children in present is more important than providing for old age security in future.
- 10) **Complementary and competitive wants:-** Some wants are complimentary as well as competitive like machine and labour. It is complementary because machines is useless without a labourer in the beginning, but later on these two factors start competing with each other and machines would like to replace labour.

CONSUMPTION

Q.1. what is meant by consumption in economics? Give its kinds and importance?

Consumption means satisfying human wants. It implies destruction of utilities with a view to satisfy human wants. Mere destruction of utility will not mean consumption unless human wants are also satisfied simultaneously. (e.g.) when a house catches fire, no doubt its utility has been destroyed but no wants has been fulfilled, therefore it is not consumption in the true economic sense. On the other hand, eating bread. Wearing clothing's is consumption because not only utility is being destroyed but want is also being fulfilled this is consumption. According to Ely, "consumption in its broadest sense means the use of economic goods and personal services in the satisfaction of human wants.

Kinds of Consumption:-

- (1) Slow and Quick Consumption:-** The act of consumption which ends slowly is called "Slow Consumption " and the act of consumption which ends quickly is called 'quick consumption'. Consumption in case of perishable commodities like fruits, vegetables etc. is quick while in case of durable goods like ink, pen, and shirt is slow.
- (2) Direct and Indirect Consumption:-** when goods are consumed directly for the satisfaction of human wants its is called direct consumption like car, watch, Scooter

etc. But when goods are consumed for the production of other good, it is called indirect consumption like seeds, manure, raw materials etc.

(3) Present and postponed consumption:- when we use the wealth for the satisfaction of current needs, it is called present consumption, but when the wealth is use for the satisfaction of wants which are likely to arise in future called 'future wants'. It is described as postponed consumption.

(4) Waste full Consumption:- some economists would like even the wasteful consumption to be treated as a kind of consumption, but from a scientific view point this is not correct (e.g.) when a new house catches fire. It cannot be treated as consumption because no want has been fulfilled. It is simply wasteful consumption.

Importance of consumption:- consumption is that branch of economics which deals with human wants and their satisfaction by the use of goods and services. This branch of economics has great importance. Under it we study human wants, their nature and characteristics and the laws so framed. Consumption is the beginning and the end of all economics activities. According to 'Adam Smith' "Consumption is the sole end and purpose of all production". Or any other branch of economics. The quantity, the quantity and the type of a particular good to be produced are determined by the consumer. It is no doubt true that under the present complex set up and round-about methods of production; goods are sometimes being produced in advance and in anticipation of the demand. But this has made no difference to the basic fact that consumption is the beginning of all economic activities and guides production in all respects.

Q.2. State and explain the law of Equi-Marginal utility? Discuss its importance?

The law tells us how one should spend his limited income so that he is able to get maximum satisfaction. A consumer will get maximum satisfaction only when he obtains "equal Marginal utility" at the margin of different purchases. On other words, a consumer may consume different quantities of the commodity but the marginal utility obtained must be equal in all cases. It is to be noted that for getting equal marginal utilities, it is not necessary that he must use equal amounts or quantities of various commodities. He can use different amounts or quantities of various commodities. What is necessary is that he should obtain equal marginal utilities from the consumption of different articles. The law of Equi- Marginal utility is also known as the law of indifference because after a consumer has distributed his

expenditure in such a way that he gets maximum satisfaction, he becomes indifferent to any further change in the expenditure. (e.g.) a person gets Rs.500 per month has arranged his expenditure in such a way that he gets a maximum satisfaction. If he is given an increment of Rs 10. He is not going to adjust his expenditure again, because Rs 10 only will not affect him or his consumption in any way, so he is indifferent whether he arranges his expenditure again or not because his utility will remain more or less the same. But if he gets an increment of Rs 150 he will have to readjust his expenditure so that he continues to get the maximum satisfaction because a change of Rs 150 is a big change necessitating a readjustment of expenditure. As long as changes in incomes are small, he will remain indifferent. It is on account of this is called the law of indifference.

Limitation (Equi-Marginal utility):-

- (1) **Consumer's ignorance:** - some times the consumers are ignorant as to how to get maximum satisfaction from their money. They fail to get maximum satisfaction from their expenditure because that they do not bother to weigh carefully the marginal utilities of all things they buy. At times, they purchase cheap things on the spur of the moment, which on a more rational thinking they would have refused to buy. Thus, ignorance of prices and markets on the part of consumers does not enable them to get the maximum satisfaction.
- (2) **Producer's Ignorance:-** Some times a producer is ignorant as to how to get maximum production at minimum cost. The producer should organize the factors of production at his disposal in such a manner that he gets maximum production at the minimum costs. But sometimes he is unable to organize the factors and combine the factors of production in the best possible way, as he is ignorant about the combinations of the factors of production. He does not even understand what factors is to be substituted for another factor and to what extent. Hence he is unable to make use of this law.
- (3) **Slave of Fashion and Habits:** - when a consumer is a slave of habits and fashion, he cannot get maximum satisfaction. There are some people who get addicted to alcoholic drinks and smoking as a result of this habit they spend a lot of money on drinking and cigarettes. Owing to this, they are forced to spend less on good food, clothes etc. thus they fail to get maximum satisfaction.

Importance of the law:-

1. **In Consumption:-** Every consumer if he is wise, wants to get maximum satisfaction out of his limited resources. In arranging his expenditure he must substitute the things of greater utility for things possessing less utility, till marginal utility are equalized. In this way consumer's satisfaction is maximized.
2. **In Production:-** to the business man and the manufacturer the law is of special importance. He substitutes one factor of production for another. In case finds that marginal productivity of a factor, say labour, is greater than that of capital, it will pay him to substitute one for the other. In this way, he will be able to maximize his profits and produce more at the minimum cost.
3. **In Exchange:-** in the field of exchange also the law operates. Exchange is nothing but good substitution of one thing for another, we substitute good which have greater utility for money and money for goods. They only care to be taken is that utility derived from the last unit of money spent on each item is the same.
4. **In Distribution:-** in the field of distribution this law is known as the law of Equi-Marginal productivity. The awards of the factors of production like rent, wages, interest and profits are determined according to the law of marginal productivity. Factors having more productivity will be employed and will carry higher awards and the factors with less productivity would be discarded. Thus, the productivity of each factor would be equalized and they will produce the maximum at the minimum cost.

Q.3. explain the law of consumer surplus? Give its importance?

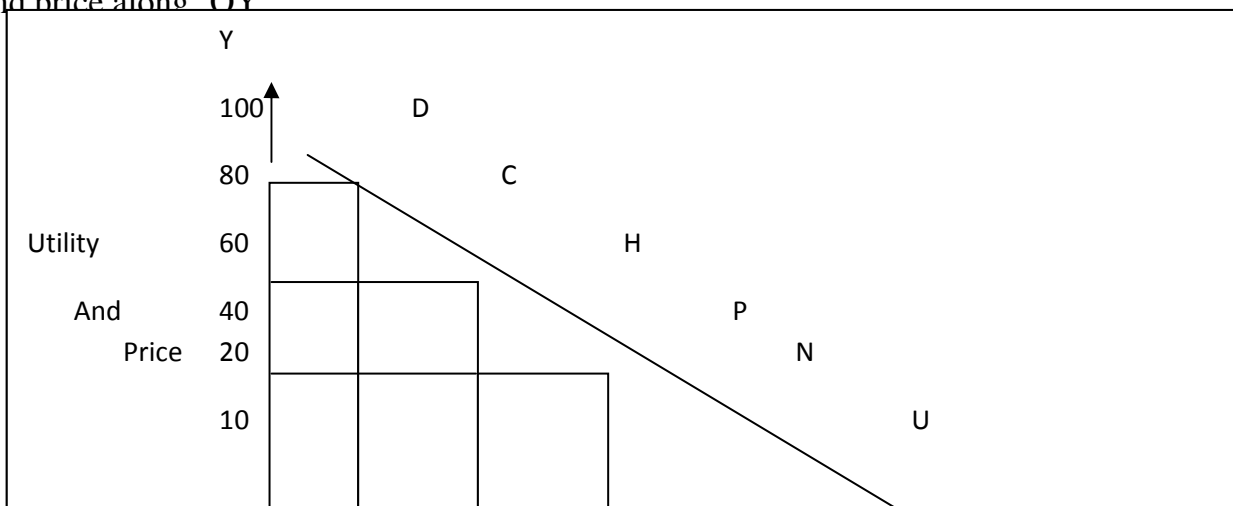
This law states that consumer's in general, obtain surplus satisfaction from the commodities which they consume or purchase. This law is concerned with the consumer's behaviour. We do use things like match-box, newspapers, salt, postcards, etc. For which we pay less than satisfaction obtained. We do get consumer's surplus from their use. It is more in case of necessities of life and less in case of luxuries we should be prepared to pay anything for necessities but we actually pay much less. Thus, we get surplus satisfaction called consumer's surplus. (e.g.) a boy want to go to school through local bus and he have to pay Rs.5. he would be prepared to pay Rs. 5 but he pays only Rs.3, he gets surplus satisfaction worth Rs. 2 called economic measure of consumer's surplus. Consumer's surplus is the

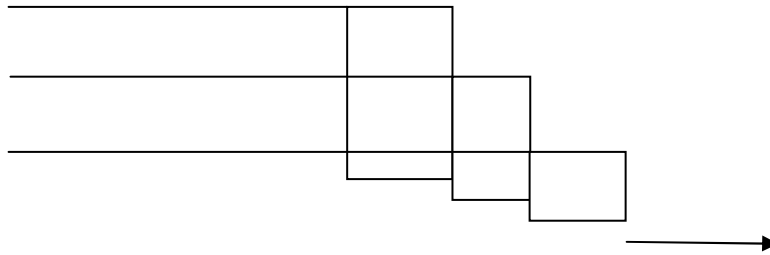
difference between the price that you are prepared to pay rather than to go without the commodity and the price that you actually pay. It can be illustrated with the help of a table

Units Consumed	Marginal Utility	What he is prepared to pay	What he actually pays	Consumer's Surplus
1	100 Units	100 Paise	10 Paise	90 Paise
2	80 Units	80 Paise	10 Paise	70 Paise
3	60 Units	60 Paise	10 Paise	50 Paise
4	40 Units	40 Paise	10 Paise	30 Paise
5	20 Units	20 Paise	10 Paise	10 Paise
6	10 Units	10 Paise	10 Paise	0 Paise

From the table, we see that a consumer gets satisfaction worth 100 units from the first unit of consumption and would be prepared to pay 100 paise but actually pays 10 paise. He thus gets consumer's surplus of 90 paise from the first unit.

In the diagram we measure units consumed of the commodity along 'OX' and utility and price along 'OY'





The formula of Consumer's surplus.

CS = TU - MU X number of units.

(OD + AC + BM + KP + LN + MU)

100 + 80 + 60 + 40 + 20 + 10

CS = 310 - 10 x 6

CS = 310 - 60 = 250 Units.

Importance of the law:-

- 1) The concept of consumer's surplus is of great use in the field of economic theory as it tells us the distinction between 'value in use' 'utility' and value in exchange 'price'. The market value of a commodity is different from its utility. There are commodities like salt, match box etc. which have great value in use 'utility' but a very small value in exchange 'price'. We get large consumer's surplus from there commodities.
- 2) They law of consumer's surplus help us to implement the law of maximum satisfaction as this law will guide the consumer to spend his limited money on those goods which give more consumer's surplus. He thereby maximizes his satisfaction which is the main aim of the consumer.
- 3) It is of great use to the finance Minister of a country. In order to get the more revenue, the finance Minister will tax those commodities for which people are prepared to pay more than they are actually paying and tat the new taxes will not cause any suffering to the people.

Q.4. Explain the law of Diminishing Marginal utility?

To understand law of Diminishing Marginal utility let us first explain total utility and Marginal utility.

1. **Total Utility:-** it is sum total of utility derived from the consumption of all the units of a commodity (e.g.) if 2 units of a commodity are consumed and 1st unit yield satisfaction of 10 utils, while the 2nd unit yield satisfaction 9 utils. Then total utility = 10 utils + 9 utils = 19 utils or 19 units of utility.
2. **Marginal Utility:-** it refers to additional utility on account of the consumption of an additional unit of a commodity. If 10 units of a commodity yield satisfaction of 100 utils and 11 units of a commodity yield satisfaction of 105 utils, then additional utility on account of the consumption of 11th unit of the commodity is $105 - 100 = 5$ utils. This is called Marginal utility. Thus marginal utility is measured as under.

$$Mu = Tu_n - Tu_{n-1}$$

$$Mu = 105 - 100 = 5 \text{ utils}$$

Law of Diminishing Marginal utility?

Psychologically intensity of desire for a commodity tends to decrease as more and more standard units of a commodity like a cup of tea not a spoon after, a glass of milk not a drop of milk, are consumed at a point of time, (implying that the consumption is continuous). This law is called law of Diminishing Marginal utility. It is important to note that when Marginal utility diminishes decreases, total utility tends to increase only at the diminishing rate, because Marginal utility implies addition to total utility, if Marginal utility declines, addition to total utility also declines accordingly diminishing Marginal utility implies that total utility increases only at the diminishing rate.