Micro-Economics   Chapter-1
Introduction

Micro – (Economics) (P)

Macro – Economics
≠
class-12

Q-> What is Economy?

An Economy is a **System** which provides **people**, the **means to work** and **earn a living**.

Vital/Essential processes in an economy are :-

i). Production

ii) Consumption

iii) Investment-/Capital formation

Q-> why we are studying Economics?

The main reason for study of Economics can be simplified in a single word – SCARCITY.

Scarcity :- It refers to limitation of Supply in relation to demand for a commodity.

. Scarcity is universal i-e every individual, organisation or economy faces the problem of scarcity.

* To solve the problem of Scarcity, economising of resources comes at place.

* Economising of resources refers to making ==optimum use== of the ==available resources==,

Q→ What is Economic Problem?

Economic Problem is a (Problem of choice) involving satisfaction of ==unlimited wants== out of limited resources having ==alternative uses.==

Reasons for Economic Problem :~

1. **Scarcity of Resources** :- Resources are limited in relation to their demand & economy cannot produce all what people want. This is basic reason for economic problem.

2. **Unlimited Human Wants** :- Human wants are never ending. i.e they can never be fully satisfied. As soon as one want is satisfied, another new want emerges. This is also one of the reasons for economic problem.

3. **Alternative uses** :—

Resources are not only scarce , but they can also be put to various uses. It makes choice among resources more important. For ex:- milk can be used by any household either directly for cionsumption or cheese or ghee can be made out of its. Therefore, choice is required to be made among such options.

What is economics?

Ans:- Economics is a [social science] which studies the way a society (chooses) to use its limited resources, which have alternative uses, to produce goods & services and to distribute them among different group of people.

Basis	Positive Economics	Normative Economics
Meaning	It deals with what is or how the economic problem are actually solved.	It deals with what ought to be or how the economic problems should be solved.
Verification	It can be verified with actual data.	It cannot be verified with actual data.
Purpose	Its aim is to make real description of an economic activity.	It aims to deal with ideals.
Suggestive	It is based upon facts and thus, not suggestive	It is based on individual opinion and therefore, it is suggestive in nature.
Example :-	Prices in Indian Economy are constantly rising.	India should take steps to control rising prices.

CENTRAL PROBLEMS OF AN ECONOMY:-

In the course of economic activities, every society has to face scarcity of resources. Because of this, every society has to decide how to allocate these scarce resources. It leads to following Central Problems which are as follows:-

1. **What** to produce?
2. **How** to produce?
3**. For whom** to produce?

1. What to produce:- This problem involves selection of goods and services to be produced and the quantity to be produced of each selected commodity.

What commodities to be produced:- an economy has to decide, which consumer goods(milk, rice, wheat, etc) and which of the capital goods(machinery, equipment,etc) are to be produced.
In the same way economy has to decide between civil goods(bread, rice, butter, etc.) and war goods(weapons, tanks,etc.)

2. How to produce:- This problem refers to selection of technique to be used for production of goods and services. Goods can be produced by labour intensive techniques or by capital intensive techniques.

Labour intensive techniques:- where more labour and less capital is used.

Capital intensive techniques:- where more capital(machine) and less labour is used.

3. For whom to produce:-This problem relates to the distribution of produced goods and services among the individuals within the economy., i.e selection of category of people who will become ultimate consumer of the goods produced like, whether to produce for riches or poors.

Opportunity Cost:- It is the cost of next best alternative forgone. For ex:- suppose you are working in a bank at the salary of Rs. 50000 p.m. now further you received two more job offers:
1. Work as an executive at rs. 30,000 p.m
2. Work as an accountant at rs. 25,0000 p.m

Now, in this case the opportunity cost of working in a bank is the cost of next best alternative foregone i.e rs. 30,000 as an executive.

PRODUCTION POSSIBILITY FRONTIER

PPF refers to graphical representation of possible combinations of **two goods** that can be produced with **given resources and technology.**

4.Synonyms of PPF:-

1. Production possibility curve (PPC)
2. Transformation Boundary
3. Transformation curve
4. Transformation frontier
5. Production possibility boundary

Assumptions of PPF:-

1. The amount of resources in an economy is **FIXED**, but these can be **TRANSFERRED** from one use to another.
2. With the help of these resources, only **TWO** goods can be produced.
3. The resources are **fully and efficiently utilised.**
4. The level of technology is assumes to be **constant.**
5. Resources are not equally efficient in production of all products. So, when resources are transferred from production of one good to another, the productivity decreases.

curve - graph

schedule → Tabular presentation

Production Possibility Schedule

Total Resources = **21** units

Ek extra unit of Butter banane ke liye kitna Gun sacrifice karna pada.

Possibility	Gun (unit)	Butter (unit)	MOC (Marginal opportunity cost)	MRT = $\frac{\Delta\text{ unit sacrificed}}{\Delta\text{ unit gained}}$
A	21	0	—	→S →G
B	20	1	1	1 : 1
C	18	2	2	2 : 1
D	15	3	3	3 : 1
E	11	4	4	4 : 1
f	6	5	5	5 : 1
G	0	6	6	6 : 1

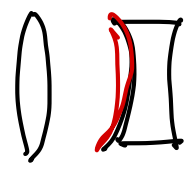(Gun: A→B: -1, B→C: -2; Butter: A→B: +1, B→C: +1)

MOC(MARGINAL OPPORTUNITY COST) :- It refers to number of units of a commodity sacrificed to gain one additional unit of another commodity.
   In case of PPF, **MOC will always be increasing., i.e more and more units of a commodity has to be sacrificed to gain an additional unit of another commodity.**

MRT(MARGINAL RATE OF TRANSFORMATION):- It is the **ratio** of number of units sacrificed to gain an additional unit of another commodity.

Δ→delta
   ↓
change in

$$MRT = \frac{\Delta\text{ unit sacrificed}}{\Delta\text{ unit gained}}$$

concave shaped
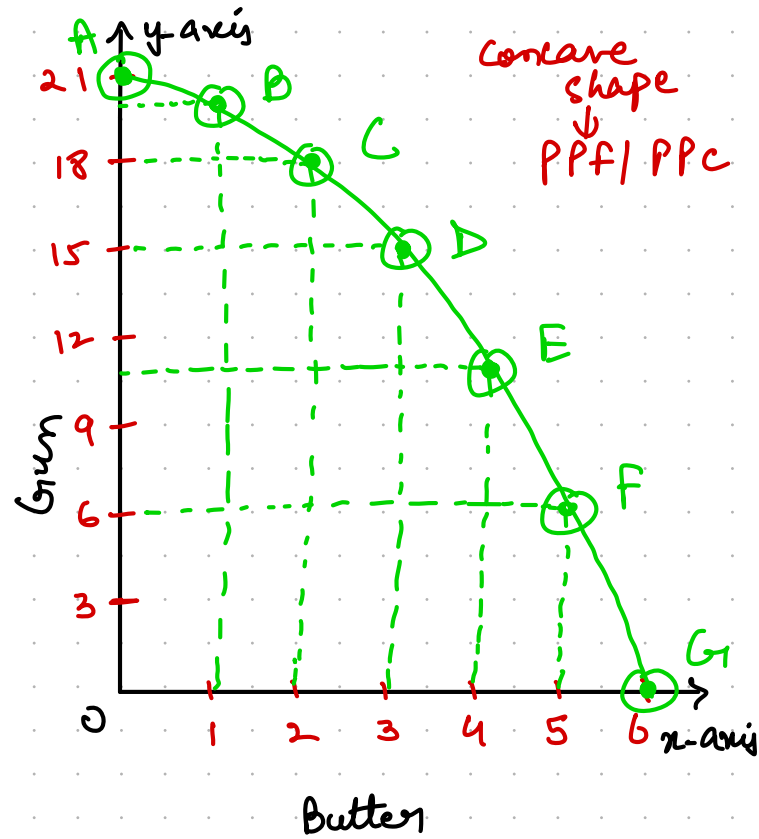
Possibility | **Gun (units)** | **Butter (units)**

Possibility	Gun (units)	Butter (units)
A	21	0
B	20 (−1)	1
C	18 (−2)	2
D	15 (−3)	3
E	11 (−4)	4
f	6 (−5)	5
G	0 (−6)	6

Concave shape → PPF / PPC

CHARACTERISTICS OR PROPERTIES OF PPF:-

1. PPF SLOPE DOWNWARDS:- (PPF shows all the maximum possible combination of two goods, which can be produced with the available resources and technology.) In such a case, *more of one goods can be produced only by taking away from the production of another good.* As there exits an **inverse relationship** between change in quantity of one commodity and change in quantity of another commodity, PPF slope downwards from left to right.

2. PPF IS CONCAVE SHAPED:- PPF is concave shaped **because of increasing MRT,** i.e more and more units of one commodity are sacrificed to gain an additional unit of another commodity.

Ques. Why MRT increases?

Ans:- It increases because it is assumed that no resources is equally efficient in production of all goods. As resources are transferred from one good to another, less and less efficient resources have to be employed. This raises cost and raises MRT.

Whether Economy will always operate on PPF?

It must be noted that PPF doesn't show the point at which the economy will actually operate. It only shows the maximum available possibilities, which an economy can produce.

The exact point of operation depends on how well the resources are used:-

1. Economy will operate on PPF only when resources are fully and efficiently utilised.

2. Economy will operate at any point inside PPF if resources are not fully and efficiently utilised.

3. Economy cannot operate at any point outside PPF as it is unattainable with the available resources.

ATTAINABLE AND UNATTAINABLE COMBINATION:-

Attainable combination:- It refers to those combinations at which economy can operate. **There are two attainable options:-**

A) Optimum utilisation of resources:- if resources are used in the best possible manner, then economy will operate at any point (LIKE A,B,C,D) on PPF.

B) Inefficient utilisation of resources:- if resources are not utilised in the best possible manner or we can say that if resources are wasted or inefficiently utilised, the economy will operate on any point inside PPF(LIKE, E)
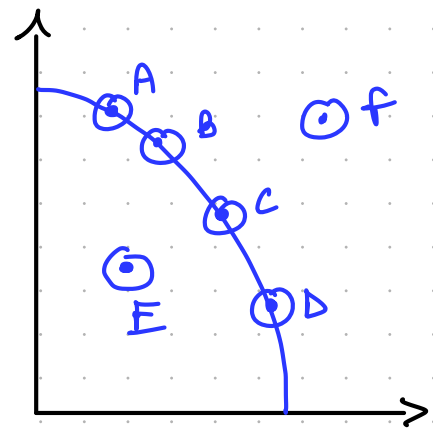
UNATTAINABLE COMBINATIONS:- With the given resources, it is impossible for an economy to produce any combination more than the given possible combinations, i.e an economy can never operate at any point outside PPF. Like point F.

Ques. Can PPF be a straight line?

Ans:- PPF can be a straight line only if we assume that MRT is constant, i.e same amount of a commodity is sacrificed to gain an additional unit of another commodity. This is possible only when we assume that all the resources are equally efficient in production.

Ques. Can PPF be convex to the origin?

Ans:- PPF can be convex to the origin only if we assume that MRT is decreasing, i.e less and less units of a commodity are sacrificed to gain an additional unit of another commodity.

PPf is concave to the origin → if MRT is increasing
↓
i.e more and more units of a commodity is sacrificed to gain addition unit of another commodity.
↓
resources are not equally efficient in production of all commodities.

PPf is straight line → if MRT is constant
↓
i.e unit sacrificed of one commodity (Grun) is equal to unit gained of another commodity (Butter.)

PPf is convex to the origin → if MRT is decreasing
↓
i.e unit sacrificed of one commodity is less than unit gained by another commodity

Change in PPF

PPF is based on the assumption that resources of an economy are FIXED. However, in this changing environment, the productive capacity of an economy, is constantly changing due to increase or decrease in resources. Such changes in resources lead to **Change in PPF.**

Change in PPF

Shift in PPf

PPf will shift when there is change in productive capicity (resources or technology) with respect to both the goods.
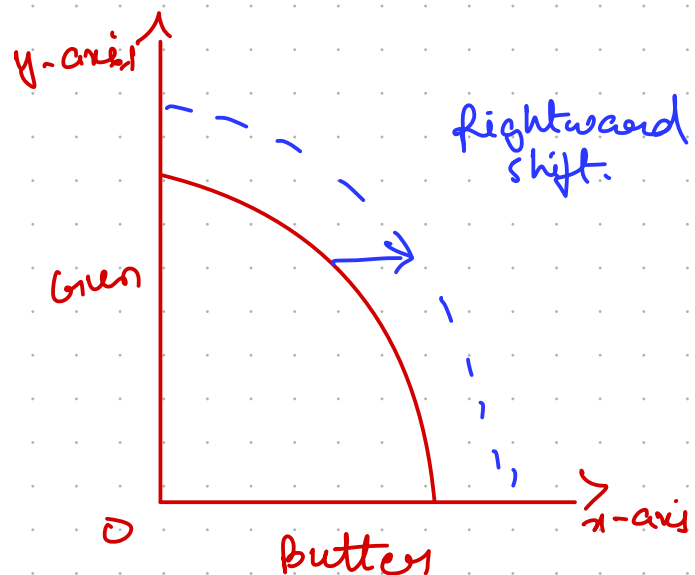
Rotation in PPf

PPf will shift when there is change in productive capicity (resources or technology) with respect to only one good.
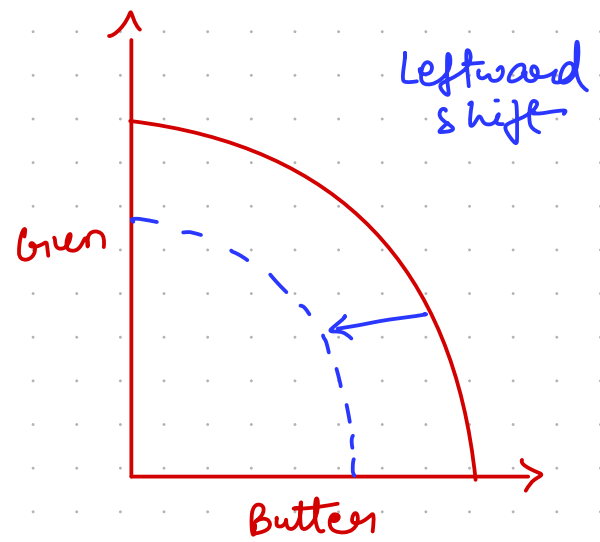
Shift in PPf :—

a) Rightward shift in PPf :—

When there is "Advancement of technology" And/Or Growth of resources, in respect of **BOTH** the goods, then PPF will shift towards Right.

rightward shift.

y-axis

Guns

O   Butter   x-axis

b) Leftward Shift in PPF :-

When there is "Degradation of technology And/Or Decrease in resources in respects of **BOTH** the goods, then PPF will shift towards Left.
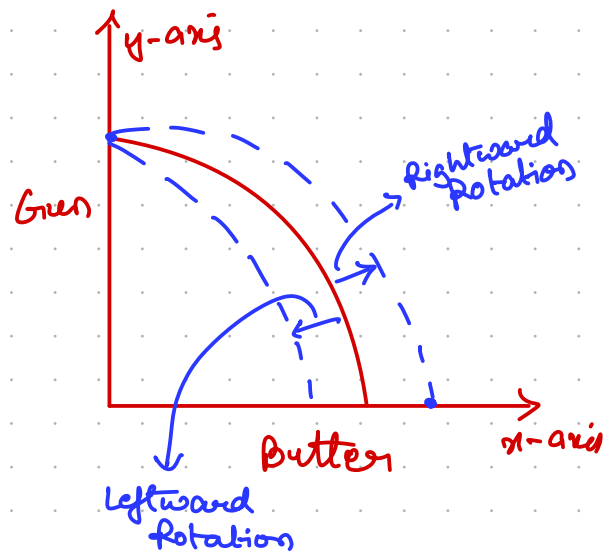

Rotation of PPF :-

a) Rotation for Commodity on x-axis

When there is upgradation in technology or increase in resources for production of commodity on X-axis only then PPF will rotate towards right.

When there is downgrade in technology or Decrease in resources for production of commodity on X-axis only then PPF will rotate towards left.

b) Rotation for commodity on y-axis

When there is upgradation in technology or increase in resources for production of commodity on Y-axis only then PPF will rotate towards right.

When there is downgrade in technology or Decrease in resources for production of commodity on Y-axis only then PPF will rotate towards left.