

CHAPTER 1

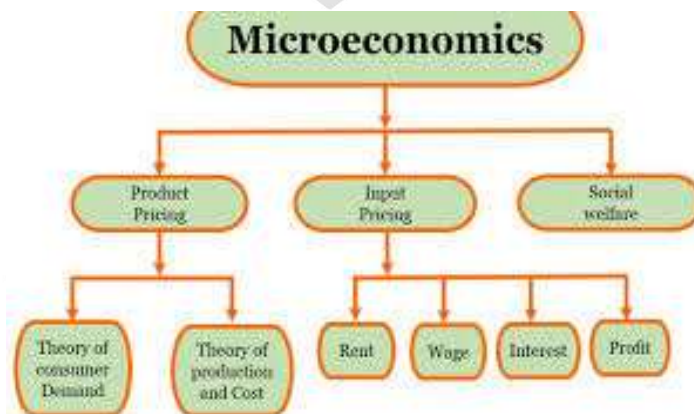
Introduction of Micro Economics

LEARNING Objectives

- What is micro economics?
- Central problems

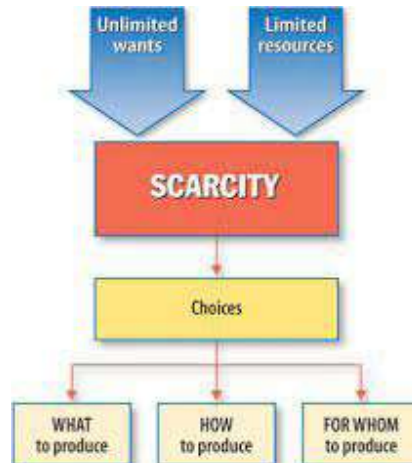
Chapter at a Glance

1. **Economy:** It is system for the whole collection of operating units by which people get their livelihood.
2. **Economics:** it is a study of that area in which people of a country choose to adjust their limited resources with their unlimited wants. Economics has two major branches:
(i) Micro Economics and (ii) Macro Economics
3. **Positive economics** is related to the analysis which is limited to cause-and-effect relationship. On the other hand,
4. **Normative economics** aims at examining real economic events from the moral and ethical point of view. It is used to judge whether the economic events are desirable or not.
5. **Economic Activities:** The activities which are connected with an aim of earning for surviving the livelihood.
6. **Microeconomics:** It is that branch of economics which deals with the behaviour of individual economic units of small group in an economy. It is also known as theory of price determination.

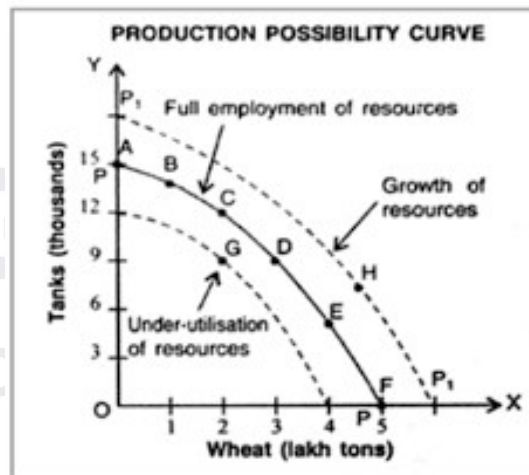


7. **Macroeconomics:** It is that branch of economics which studies with the behaviour of the economy as a whole. It is also known as Income and Employment Theory.
8. **Scarcity:** it is a situation where availability of resources is less than their requirement.
9. **Economic Problems:** it is a problem of choice which involves how to adjust the scarce resources in alternative uses.

10. **Central Problems of an Economy:** What to produce, how to produce and for whom to produce.



- 11. **What to Produce and How much Quantity:** It deal with the decision of which goods and services would be produced and what should be the quantity of goods and services.
- 12. **How to Produce:** It deals with the selection of technique of production. For all goods and services, it has to decide whether to use labour-intensive techniques or capital-intensive techniques.
- 13. **For Whom to produce:** After production of goods and service it has to be decided that by whom will get the distribution of national product (income) and how much will they get.
- 14. **Production Possibility Curve:** It is a curve which depicts the combinations of the two goods that can be produced with the help of available resources and technology.

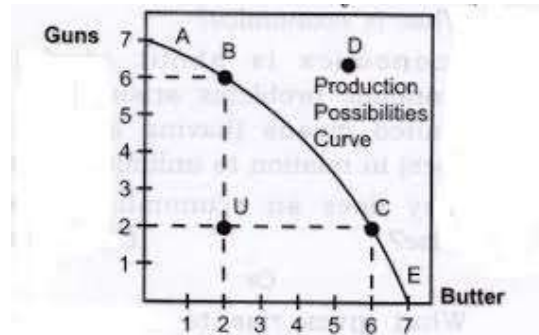


15. **Assumptions of PPC:**

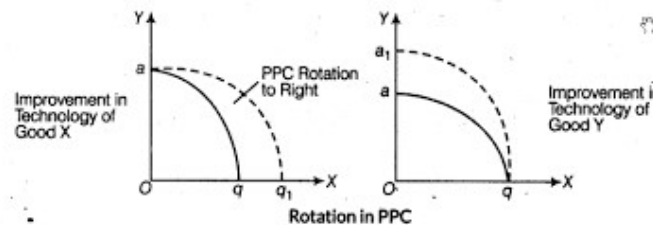
- (1) The economy is producing only two goods.
- (2) The Resources are given and fixed.
- (3) Resources are being optimally and fully utilised and there is no wastage also.
- (4) The resources which are to be used to produce goods and services are not equally suitable but can be shifted from production of one good to the other.
- (5) Technology available is also remain constant.

16. Properties of PPC:

- (1) PPC is always downward sloping from left to right.
- (2) PPC is concave to the origin which show that for getting one more unit of a product we have to sacrifice another commodity with increasing rate.



17. Any point on the boundary of PPC shows fuller utilisation or full employment of resources.
18. Any point within the PPC boundry, it shows unemployment of inefficient utilisation of resources.
19. Any point lies outside (beyond)the PPC shows unattainableas there is limited resources and it can be achieved only when there is a growth in resources.
20. Shift in PPC can take place due to:
 - (1) Change in resources.
 - (2) Change in technology



21. **Opportunity Cost:** It is define as the value of next best activity.
22. **Marginal Opportunity Cost (MOC):** It is the amount of a particular good which is sacrificed to increase the production of the other goods by 1 unit. It is also called Marginal Rate of Transformation.

MULTIPLE CHOICE QUESTIONS

1. The Central Problem of 'How to produce' is basically the problem of deciding to undertake production with the help of:
 - a) Capital only
 - b) Labour only
 - c) Both Capital and Labour
 - d) How much of capital and labour each
2. The Central problem of 'for whom' refers to the distribution of goods between:
 - a) Rich and the poor
 - b) Users
 - c) Different sections of society
 - d) Between the public sector and private sectors
3. Which of these economic problem deals with technique of production?
 - a) What to produce
 - b) How to produce
 - c) For whom to Produce
 - d) None of these
4. Activities which are performed with the motive of earning money or livelihood are called ---
 - (a) Non- economic activities
 - (b) Social activities
 - (c) Welfare activities
 - (d) Economic activities
5. The Central Problems are called central because these are faced by:
 - a) All the consumers
 - b) All the producers
 - c) All the investors
 - d) All the countries
6. The economic problem is basically the problem of choice making:
 - a) Between inputs
 - b) Between outputs
 - c) About distribution of output
 - d) All the above
7. The problem of 'What to produce' covers the issue relating to:
 - a) What goods are to be produced
 - b) What quantities of goods to be produced
 - c) Both a) and b)
 - d) Neither a) nor b)
8. Which of the following is not a prime assumption of the production possibility frontier?
 - (a) Only two goods can be produced by the economy at a time.
 - (b) State of technology would remain fixed.
 - (c) Resources are gives and constant.
 - (d) All the resources are equally efficient in the production of all the commodities.
9. In deciding "How to produce", the economy should consider:
 - a) Labour Intensive Techniques
 - b) Capital Intensive Techniques
 - c) Both a) and b)
 - d) Neither a) not b)
10. Which of the following central problem of an economy deals with the distribution of National Income?
 - a) How to produce
 - b) What to produce
 - c) For whom to produce
 - d) None of these
11. Which of the following is/are features of resources in an economy?
 - a) Limited supply
 - b) Alternative uses
 - c) Both a) and b)
 - d) None of these

12. The Central problems of "What, how, and for whom" are:
- a) Interdependent
 - b) Independent
 - c) All problems may not be present at one time
 - d) May vary from country to country
13. Identify the central problem which deals with deciding the quantity of goods to be produced:
- a) What to produce
 - b) How to Produce
 - c) For whom to Produce
 - d) None of these
14. The Fundamental economic problem being faced is:
- a) Unlimited human wants
 - b) Limited wants and unlimited resources
 - c) Unlimited wants and scarcity of resources
 - d) Limited wants and limited resources
15. Labour-intensive technique are chosen in a:
- a) Labour surplus economy
 - b) Capital surplus economy
 - c) Developed economy
 - d) Developing economy
16. Which of the following is a cause of economic problem?
- a) Scarcity of Resources
 - b) Unlimited Wants
 - c) Alternative uses
 - d) All of these
17. Identify which of the following is not a concept of microeconomic theory:
- (a) Theory of Production
 - (b) Consumer Theory
 - (c) Theory of income and employment
 - (d) Theory of factor pricing
18. Which of the following is a central problem of economy?
- a) How to Produce
 - b) For whom to Produce
 - c) What to produce
 - d) All of above
19. Scarcity requires that people must do which of the following things?
- a) Trade
 - b) Cooperate
 - c) Make choices
 - d) Competition
20. Opportunity cost is:
- a) The additional benefit of buying an additional unit of a product.
 - b) The cost incurred in the past before we make a decision about what to do in future
 - c) A cost that is borne in terms of discomfort and pain while supplying factors of production
 - d) That which we forgo, or give up while making a choice or a decision
21. The opportunity cost of watching a movie will be equal to:
- a) The time lost while watching the show
 - b) The pleasure that could have been enjoyed watching TV instead
 - c) The pleasure enjoyed by watching the show
 - d) The amount paid to buy the tickets
22. Which of the following is/are true about an economy?
- a) It is the system of arrangement of all economic activities
 - b) It is comprised of all the regions of a country
 - c) Both a) and b)
 - d) Neither a) nor b)

23. Economics is:
- a) The study of stocks and bond market
 - b) Mainly the study of business firms
 - c) The problem of choice under scarcity
 - d) The study of management decisions
24. Which of the following is/are not the feature of human wants
- a) Limited
 - b) Recurring
 - c) Both a) and b)
 - d) Neither a) nor b)
25. The most fundamental economic problem is related to
- a) Scarcity of resources
 - b) Unlimited human wants
 - c) Both a) and b)
 - d) Neither a) nor b)
26. An economy in which all economic activities are organised through the market is called:
- a) Mixed economy
 - b) Market economy
 - c) Centrally planned economy
 - d) None of these
27. Microeconomics deals with which of the following?
- a) Total output of an economy
 - b) Measurement of a nation's inflation rate
 - c) How producers and consumers interact in individual market
 - d) How tax policies influence economic growth
28. Guiding principle to solve the problem of what to produce and in what quantity is to-
- (a) Allocate resources in such a manner that they provide maximum satisfaction to the they concerned people.
 - (b) Choose such an available technique of production which provides maximum output to the producer with minimum possible cost-incurring combination of resources.
 - (c) Achieve equal distribution of income.
 - (d) Produce maximum goods at high cost of production.
29. Total output of an economy is the sum of total output of individual producers. This statement proves that:
- a) Macroeconomics depends on microeconomics
 - b) There is no correlation between micro and macroeconomics
 - c) Study of micro and macro economics is independent of each other
 - d) Microeconomics is dependent on macroeconomics
30. Which of the following are types of economic systems?
- a) Market Economy
 - b) Planned Economy
 - c) Mixed Economy
 - d) All of these
31. As an economic concept, scarcity applies to --
- a) Money but not time
 - b) Time but not money
 - c) Both money and time
 - d) Neither time nor money
32. According to Prof. Lionel Robbins means are
- a) Scarce
 - b) Unlimited
 - c) Undefined
 - d) All of these

33. Microeconomics is not concerned with the behaviour of:
- a) National income
 - b) A consumer
 - c) A firm
 - d) A producer
34. Macroeconomics deals with:
- a) The behaviour of firms
 - b) The behaviour of electronics industry
 - c) The activities of individual units
 - d) Economic aggregates
35. Which of the following is/are the reasons for Economic problems?
- a) Scarcity of resources
 - b) Alternative uses of resources
 - c) Unlimited human wants
 - d) All of the above
36. There are many economies in the world which are technologically advanced, these economies further focus upon development of latest technologies. In this way, these economies will be able to solve the economic problems once for all.
- a) True
 - b) False
 - c) Partially True
 - d) Incomplete statement
37. The government of India decided to produce 1,000 million quintals of wheat this year. The decision regarding quantity of production is a part of which central problem of the economy?
- a) What to produce
 - b) How to produce
 - c) For whom to produce
 - d) None of these
38. The central problem of how to produce is a problem of choice regarding:
- a) Distribution
 - b) Technique of production
 - c) Quantity to be produced
 - d) Commodities to be produced
39. Economics is the study of
- a) The choices we make because of scarcity of resources.
 - b) The allocation of resources only
 - c) The distribution of surplus goods to those in need
 - d) Ways to reduce wants to eliminate the problem of scarcity
40. There are central problems in an economy.
- a) Two
 - b) Three
 - c) Four
 - d) None of these
41. Which of the following is an example of microeconomics?
- a) Production by an industry
 - b) Income of an individual
 - c) Total saving in a bank
 - d) All of these
42. Which of the following is not a central problem?
- a) What to produce
 - b) When to produce
 - c) How to produce
 - d) For whom to produce
43. Which of the central problems is related to selection of techniques of production?
- a) What to produce
 - b) How to produce
 - c) For whom to produce
 - d) None of these

Introduction of Micro Economics

44. Which of the central problem is related to distribution of income?
- a) What to produce
b) How to produce
c) For whom to produce
d) None of these
45. Opportunity cost can be defined as –
- (a) Additional cost of producing a commodity
(b) Cost of next best alternative foregone
(c) Total cost of producing a commodity
(d) Cost per unit of output
46. Which of the following central problems of an economy deals with deciding the quantity of goods to be produced?
- a) What to produce
b) How to produce
c) For whom to produce
d) When to produce
47. Central problems of economy and the problem of choice are one and the same thing.
- a) True
b) False
c) Partially true
d) Incomplete statement
48. The central problem of 'what to produce'? Relates to –
- (a) Distribution of national income among different factor inputs
(b) Choice between labour-intensive and capital-intensive techniques of production
(c) Choice between land and technology to add to the production capacity in the economy
(d) Problem of resource allocation between different alternative uses
49. Which of the following is the root cause of all economic problems?
- a) Misallocation of resources
b) Scarcity
c) Under-consumption
d) Over-population
50. Which of the following is a characteristic of normative economics?
- a) There are individual opinions
b) These are not based upon facts and figures
c) These deal with 'What ought to be'
d) All of these
51. Which of the following is not an example of macroeconomics?
- a) National income
b) Unemployment
c) Population growth
d) None of the above
52. The fact that people with higher incomes get to consume more goods and services addresses the question.
- a) When
b) Where
c) For whom
d) How
53. _____ can be defined as the ratio of number of units of a good sacrificed (say Good-Y) to produce an additional unit of another good (say Good-X).
- (a) Marginal rate of substitution
(b) Marginal rate of cost
(c) Marginal rate of transformation
(d) Marginal rate of consumption
54. Which of the following is a microeconomics concept?
- a) The reason for the rise in general prices in an economy
b) Reducing inequality of income and wealth
c) Maintaining the foreign exchange reserves
d) None of the above

55. There is no degree of aggregation in microeconomics.
- a) True
c) Partially true
- b) False
d) Incomplete statement
56. Resources of every economy are
- a) Sufficient
c) Unlimited
- b) Limited
d) Unutilised
57. The activities which are linked with use of goods and services for the satisfaction of wants directly are known as:
- a) production
c) distribution
- b) Consumption
d) Exchange
58. The problem that deals with the choice of the technique of production is referred to as -----
- (a) What to produce and in what quantity
(c) For whom to produce
- (b) How to produce
(d) Problem of choice
59. Increasing marginal opportunity cost results in a _____ sloping curve.
- (a) Concave downward
(c) Convex downward
- (b) Concave upward
(d) Straight line downward
60. Which of these is normative economics?
- a) 25 percent population of India is below the poverty line.
b) Increase in FDI has increased the GDP of India
c) Equal distribution of income will make India poverty free
d) Higher welfare spending by the government increases the Aggregate Demand
61. Suppose that you have to decide between seeing a movie and going to see a cricket match on a particular Saturday evening. You are willing to pay ₹500 to see the movie. You are willing to pay ₹1,500 for the cricket match. The opportunity cost of going to the movie is
- a) ₹1,000
c) ₹1,500
- b) ₹500
d) None of these
62. _____ is a curve that shows various combinations of two goods that can be produced in an economy such that all the given resources are utilised fully and efficiently.
- (a) Indifference curve
(c) Demand curve
- (b) Production Possibility Frontier
(d) Supply curve
63. In the production process, if goods worth ₹2,000 are produced by four factors of production, then labour will get ₹500.
- a) True
c) Partially true
- b) False
d) Incomplete statement
64. Positive statement does not deal with:
- a) What is
c) What ought to be
- b) What will be
d) Both b) and c)

65. ___ of resources is necessary for the development of the economy.
- a) Utilisation
c) Wastage
- b) Growth
d) Non-utilisation
66. Which of the following is not a combination of microeconomic variables?
- (a) Individuals demand and market supply
(c) Price of a commodity and its demand
- (b) Price of a commodity and its supply
(d) Wholesale price index and national income
67. Positive economic analysis is concerned with:
- a) Opinions
c) Facts and Figures
- b) Value judgements
d) Ideals
68. Out of the following, which one is macro-variable?
- a) Production of food grains in India
c) Measurement of general price level
- b) Pricing decision by Tata Motors
d) Fall in petrol prices
69. Which of the following is the salient feature of resources?
- a) These are limited as compared to wants
c) Both a) and b)
- b) They have alternative uses
d) They are unlimited
70. The problem of 'for whom to produce' is also known as-
- (a) Problem of allocation of resources
(c) Problem of distribution of income
- (b) Problem of choice of technique
(d) Problem of choice
71. Which of the following is true for microeconomics paradox?
- a) Something which is true in microeconomics does not hold true in macroeconomics
b) Something which does not holds true in either microeconomics or macroeconomics
c) Something which holds true both in microeconomics or macroeconomics
d) None of the above
72. Which of these is a central problem of an economy?
- a) Deficit demand
c) For whom to produce
- b) Equilibrium of an economy
d) Decreasing return to a factor
73. Which of the following is/are not a feature of a mixed economy?
- a) Modern and traditional industries working together
b) Public takes the leading role in the economic activity
c) Foreign and domestic industries working together
d) All of the above
74. The problem of unemployment can be identified as a –
- (a) Micro level problem as it is about study of an individual
(b) Macro level problem as it is about study of an individual
(c) Micro level problem as it studies economy as a whole
(d) Macro level problem as it studies economy as a whole
75. Which of the following is a macroeconomics concept?
- a) The reasons why a consumer buys less orange juice
b) The reasons why employment decreased at a factory
c) The reasons for a decline in price of a good
d) None of the above

76. There is _ degree of aggregation in macroeconomics.
- a) Constant
b) Lower
c) Higher
d) No
77. Economic problems arise due to:
- a) Unlimited human wants
b) Alternative uses of Resources
c) Scarce resources
d) All of these
78. Labour- intensive techniques of production are opted in a-
- (a) Labour displacing economy
(b) Labour surplus economy
(c) Capital surplus economy
(d) Developed economy
79. Which of the following subject matter study in microeconomics?
- a) Money supply
b) Aggregate demand
c) Market demand of a good
d) National income
80. Macroeconomics focuses on all of the following except the
- a) Buying and selling decisions by an individual consumer and seller respectively.
b) Affect of increasing the money supply in inflation.
c) Effect on tobacco sales of an increase in the tax on cigarettes.
d) Hiring decisions made by a business.
81. All newspaper headlines are positive statements.
- a) True
b) False
c) Partially true
d) Incomplete statement
82. Which of the following subject matter does not study in macroeconomics?
- a) Employment level
b) Aggregate supply
c) National income
d) Determination of market price
83. Positive economic analysis deals with things ____ .
- a) 'As they ought to be'
b) 'As they are'
c) Both a) and b)
d) None of these
84. The following headline appeared in 'Hindustan Times' dated 25th July 2018, 'Getting insurance for rain damage cars an uphill task' This statement is
- a) Positive economics
b) Normative economics
c) General economics
d) None of the above
85. Which of the following is not concerned with the problem of choice?
- (a) Alternative uses of resources
(b) Excessive income
(c) Unlimited human wants
(d) Limited (scarce) resources
86. In which of the following situations does scarcity arise?
- (a) Supply of resources is more than demand
(b) Supply of resources is less than demand
(c) Supply of resources equals to demand
(d) Supply of resources is unrelated to demand
87. Opportunity cost refers to which of the following?
- a) Accounting cost minus the marginal benefit
b) Monetary costs of an activity
c) Highest valued alternative forgone
d) Accounting cost minus the marginal cost

88. The statements like 'Economy should control pollution' or 'Unemployment in the economy ought to be reduced' fall within the scope of:
- a) Normative Statements
 - b) Positive Statements
 - c) Both a) and b)
 - d) None of these
89. The concept of scarcity of resources-
- (a) Implies that consumer's wants will be satisfied
 - (b) Does not apply to less developed countries
 - (c) Does not apply to developed countries
 - (d) Implies that consumer's wants will never be completely satisfied
90. Viaan decided to join a NCC camp this year which required an entry fee of ₹ 1,500 during the summer vacation by not opting for usual part time job which he used to do in other years and earn ₹5,000. What will be the opportunity cost in this case?
- a) ₹1500
 - b) ₹5,000
 - c) ₹6,500
 - d) Can't be determined
91. An entrance examination has 200 questions in total. Each correct answer gives 1 Mark with a negative mark of 1/4 for each incorrect answer. What is the opportunity cost of 30 incorrect questions
- a) 7.5
 - b) 30
 - c) 37.5
 - d) Can't be determined
92. If marginal opportunity cost is constant and equal to one, the production possibility frontier will be-
- (a) A straight line sloping downward, cutting both X-axis and Y-axis at equal distance from point of origin.
 - (b) A convex curve sloping downward
 - (c) A horizontal straight line
 - (d) A concave curve sloping downward
93. _____ leads to a rightward shift in the production possibility curve.
- (a) Upgradation of technology
 - (b) Degradation of technology
 - (c) Destruction of resources
 - (d) Reduction in efficiency
94. Nimisha is working as a professor on a salary of ₹ 2,00,000 per month. She had two job offers also:
- (i) To work as a financial analyst on a salary of ₹ 3,00,000 per month, and
 - (ii) To work as an investment banker on a salary of ₹ 1,50,000 per month.
- In the given case, her opportunity cost is
- (a) ₹1,50,000
 - (b) ₹ 2,00,000
 - (c) ₹ 3,00,000
 - (d) ₹ 1,00,000
95. Central government of India announced relief packages for migrant labourer during the pandemic of 2020. This statement is _____.
- a) Normative Statement
 - b) Positive Statement
 - c) General Statement
 - d) None of the above

96. A teacher has an option of working in a government school and earn a salary of * 1,00,000 per month or running a coaching center and earning ₹ 1,20,000 per month. She chooses to work as a government employee. Identify the opportunity cost of her decision.
- (a) ₹ 20,000 (b) ₹ 1,20,000
(c) ₹ 1,00,000 (d) ₹ 1,40,000
97. Which of the following is an example of a positive economy?
- a) Indian is taking steps to control rising prices
b) There are inequalities of income in our economy
c) India should not be an overpopulated country
d) Both a) and b)
98. Theories of microeconomics and macroeconomics are interdependent.
- a) True (b) False
c) Partially True (d) Incomplete Statement
99. Production possibility curve can be a straight line when-
- (a) Marginal opportunity cost is increasing (b) Marginal opportunity cost is diminishing
(c) Marginal opportunity cost is negative (d) Marginal opportunity cost remains constant
100. Macroeconomics deals with:
- a) Theory of distribution (b) Theory of income and employment
c) Theory of economic growth (d) All of these
101. Central problem of an economy is/are
- a) What to produce and in what quantities (b) How to produce
c) For whom to produce (d) All of these
102. Theory of distribution studies the problem of:
- a) What to produce and in what quantities (b) How to produce
c) For whom to produce (d) All of these
103. _____ is the slope of Production Possibility Curve.
- (a) Marginal opportunity cost
(b) Marginal rate of transformation
(c) Opportunity cost
(d) Both marginal opportunity cost and marginal rate of transformation

Chapter End Test-1
INTRODUCTION TO MICRO ECONOMICS

MAX. MARKS: 20

TIME ALLOWED: 40 MNTS

1. Macroeconomics deals with:
 - a) The behaviour of firms
 - b) The behaviour of electronics industry
 - c) The activities of individual units
 - d) Economic aggregates
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 - b) Three
 - c) Four
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 - d) How tax policies influence economic growth

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c) Supply of resources equals to demand
d) Supply of resources is unrelated to demand
14. Sahil decided to join a NCC camp this year which required an entry fee of ₹ 1,500 during the summer vacation by not opting for usual part time job which he used to do in other years and earn ₹5,000. What will be the opportunity cost in this case?
- a) ₹1500
b) ₹5,000
c) ₹6,500
d) Can't be determined
15. There is no degree of aggregation in microeconomics.
- a) True
b) False
c) Partially true
d) Incomplete statement
16. Suppose that you have to decide between seeing a movie and going to see a cricket match on a particular Saturday evening. You are willing to pay ₹500 to see the movie. You are willing to pay ₹1,500 for the cricket match. The opportunity cost of going to the movie is
- a) ₹1,000
b) ₹500
c) ₹1,500
d) None of these
17. _____ of resources is necessary for the development of the economy.
- a) Utilisation
b) Growth
c) Wastage
d) Non-utilisation
18. The problem of 'for whom to produce' is also known as-
- a) Problem of allocation of resources
b) Problem of choice of technique
c) Problem of distribution of income
d) Problem of choice
19. Which of these is a central problem of an economy?
- a) Deficit demand
b) Equilibrium of an economy
c) For whom to produce
d) Decreasing return to a factor
20. There is degree of aggregation in macroeconomics.
- a) Constant
b) Lower
c) Higher
d) No