Introduction Economics /Economics and its Types

1. Economics It is a social science which studies the way a society chooses to use its scarce resources, which have alternate uses, to produce goods and services and to distribute them among different groups of people. It deals with making choices in the backdrop of scarcity.

2. Definition of Economics According to Paul A. Samuelson ‘Economics is the study of how men and society choose, with or without the use of money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time and distribute them for consumption now and in the future amongst various people and groups of society.’

3. Branches of Economics Economics has two branches namely microeconomics and macroeconomics.

   (i) Microeconomics It refers to the branch of economics dealing with the economic problems or economic issues at the level of an individual. Microeconomics focuses on the action of individuals and industries, like the dynamics between buyers and sellers, borrowers and lenders, etc.
   Examples of microeconomic study are:
   (a) Theory of consumer behaviour
   (b) Theory of price, etc.

   (ii) Macroeconomics It refers to the branch of economics dealing with the economic problems or economic issues at the level of an economy as a whole. Macroeconomics takes a broader view by analysing the economic activity of an entire country.
   Examples of macroeconomic study are:
   (a) Theory of equilibrium level of output and employment and
   (b) Theory of investment multiplier, etc.

4. Economy An economy is a system in which and by which people get & living to satisfy their wants through the processes of production, consumption, exchange and investment.

5. Types of Economy

   (i) Market economy In the market economy, economic activities are fully dependent on the role of market forces of demand and supply. Producers are free to produce the highly demanded goods and services in order to maximise their profits.

   (ii) Centrally planned economy It is that economy, in which course of economic activities are decided by some central authority or by the government. Only the central authority decides the full variety of goods and services that people can produce or consume.

   (iii) Mixed economy It is that economy in which the features of both market and centrally planned economy applies. In this, economic activities are generally left to the free play of the market forces, but the government exercises its control to check the excess fluctuations in the market.

1 Mark Questions

1. Define microeconomics.
   OR
   Give the meaning of microeconomics.
Ans. Microeconomics refers to the branch of economics dealing with the economic problems or economic issues of small or individual economic units, e.g. single consumer or producer.

2. Give two examples of microeconomic studies.

Ans. The two examples of microeconomics are demand of a commodity and supply of a commodity.

3. Give the meaning of economy.

OR

Define an economy.

Ans. An economy is a system in which and by which people get a living to satisfy their wants through the processes of production, consumption, exchange and investment.

4. Define macroeconomics.

Ans. Macroeconomics refers to the branch of economics, dealing with the economic problems or economic issues at the level of an economy as a whole, e.g. inflation, employment, etc.

5. What is the planned economy?

Ans. Planned economy is that in which course of economic activities is decided by some central authority or by the government.

6. What is a market economy?

Ans. Market economy is that in which economic activities are fully dependent on the role of market forces.

7. Give one example each of microeconomics and macroeconomics.

Ans. Example of microeconomics: Theory of demand
Example of macroeconomics: Aggregate demand

3 Marks Questions

8. Explain the difference between a planned economy and a market economy?

Ans. Difference between planned economy and market economy

<table>
<thead>
<tr>
<th>Basis</th>
<th>Microeconomics</th>
<th>Macroeconomics</th>
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</thead>
<tbody>
<tr>
<td>Meaning</td>
<td>It studies economic issues and problems at the level of an individual firm, an individual household, etc.</td>
<td>It studies economic issues and problems at the level of the economy as a whole.</td>
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<tr>
<td>Concern</td>
<td>It is basically concerned with determination of output and price for an individual firm or industry.</td>
<td>It is basically concerned with determination of aggregate output and general price level in the economy as a whole.</td>
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<tr>
<td>Focus</td>
<td>Its focus is on maximisation of individual's gain.</td>
<td>Its focus is on maximisation of social welfare.</td>
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<tr>
<td>Scope</td>
<td>It has narrow scope i.e. an individual person, an individual market, etc.</td>
<td>It has a very wide scope i.e. a country.</td>
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4 Marks Questions

9. Distinguish between microeconomics and macroeconomics

Ans. Difference between microeconomics and macroeconomics
10. Giving suitable examples, explain the meaning of microeconomics and macroeconomics?

Ans. Microeconomics refers to the branch of economics dealing with the economic problems or economic issues of small or individual economic units, e.g. single consumer or producer.

11. Explain any two main features of a centrally planned economy.

Ans. Two main features of a centrally planned economy are as follows:

(i) In this economy, decisions relating to economic problems are taken by some central authority appointed by the government of the country.

(ii) Social welfare or collective welfare is the prime consideration behind allocation of resources to the production of different goods and services.