

Principles of Economics (POE) For JAIBB

First Edition: September 2023

Second Edition: March 2024

Third Edition: June 2024

Do not copy or share this material; the author worked hard on it and holds the copyright.

Edited By:

Mohammad Samir Uddin, CFA

Chief Executive Officer

MBL Asset Management Limited

Former Principal Officer of EXIM Bank Limited

CFA Chartered from CFA Institute, U.S.A.

BBA, MBA (Major in finance) From Dhaka University

Qualified in Banking Diploma and Islami Banking Diploma

Course instructor: 10 Minute School of 96th BPE

Founder: MetaMentor Center, Unlock Your Potential Here.

Price: 250Tk.

For Order:

www.metamentorcenter.com

WhatsApp: 01917298482

MetaMentor Center



Metamentor Center
Unlock Your Potential Here.

Table of Content

SL	Details	Page No.
1	Module-A: <i>Economics: Introduction</i>	4-16
2	Module-B: <i>Basics of Microeconomics</i>	17-41
3	Module-C: <i>Production and Cost</i>	42-52
4	Module-D: <i>Market Structure</i>	53-63
5	Module-E: <i>Market Failure and Market Intervention</i>	64-73
6	Module-F: <i>Macroeconomics</i>	74-99
7	Module-G: <i>Macroeconomic Performance of Bangladesh</i>	104-118
8	<i>Short Notes</i>	99-103 & 118-121
9	<i>Previous year Questions</i>	122-127



MetaMentor Center

◆ ◆ ◆

Syllabus

Module-A: Economics: Introduction

Definition; Micro Vs. Macro; Positive Vs. Normative Economics, Scarcity, Resources, Opportunity Cost, Circular Flow, Production Possibility Curve, Economic Models. Economic Systems — Market Economy and Regulated economy.

Module-B: Basics of Microeconomics

Market forces of Demand and Supply; Market Equilibrium; Shifts and Changes in the Demand and Supply; Consumer's equilibrium — Utility analysis and Indifference Curve Analysis; Consumer Surplus; Price Ceiling and Floor, Elasticity and its application.

Module-C: Production and Cost

Concepts of Production; Production in the Short run; Short-run Costs of Production; Relations between Short-run Cost and Production; Production Isoquants and Isocost Curves, Optimal Combination of Inputs; Optimization and Cost; Expansion Path and Returns to Scale; Long Run Costs, Relationship between SR and LR Cost.

Module-D: Market Structure

Various Forms of Markets; Characteristics of Perfect Competition — Profit Maximization in the Short run (SR) and long run (LR); Nature of Monopoly and Monopolistic Competition- SR and LR Equilibrium under Monopoly and Monopolistic Competition; Strategic Decision Making in Oligopoly Markets.

Module-E: Market Failure and Market Intervention

Concepts of Market Failure and Externalities, Market Failure and Policy Intervention in the financial sector.

Module-F: Macroeconomics

Overview of Macroeconomics; National Income & Accounts; Govt. Income and Expenditure Accounts; Monetary Account; Balance of Payment Account; Interactions among all these macro accounts; Macroeconomic Policies (Monetary and Fiscal Policy) and macro-economic equilibrium.

Module-G: Macroeconomic Performance of Bangladesh

Indicators of macroeconomic performance; National Income, Savings, Investment, Capital formation, Inflation, Unemployment etc.

Module-A: Economics: Introduction

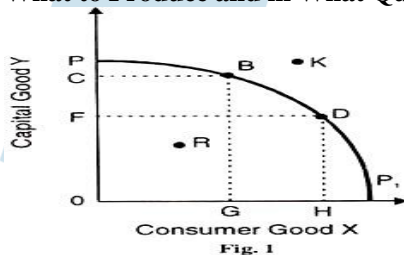
Q-1. Define Economics. How Microeconomics and Macroeconomics are different? (Dec15)

Economics is a social science that examines how individuals, businesses, and societies allocate limited resources to satisfy unlimited wants and needs. It encompasses microeconomics, focusing on individual behavior in markets, and macroeconomics, studying the overall behavior of the economy. Economists analyze concepts such as supply and demand, production, costs, and factors influencing economic growth, unemployment, and inflation. They use theoretical frameworks, mathematical models, and empirical methods to understand economic phenomena and make predictions. Economics informs public policy decisions and explores various subfields like behavioral economics, environmental economics, and international economics. Ultimately, it provides valuable insights into the functioning of economies and guides decision-making at individual and societal levels.

Aspect	Microeconomics	Macroeconomics
1.Scope	Focuses on individual economic agents and markets	Focuses on the economy as a whole
2.Level of Analysis	Examines specific economic units, such as households	Analyzes aggregate variables, such as GDP and inflation
3.Concern	Studies individual consumer behavior and firm decisions	Studies overall economic growth and stability
4.Key Topics	Supply and demand, market equilibrium	Economic growth, unemployment, inflation
5.Policy Implications	Influences microeconomic decisions and market regulations	Influences fiscal and monetary policies

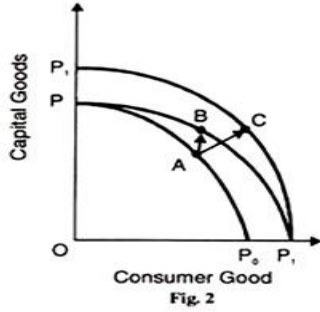
**Q-02. What are the fundamental problems of Economics? Explain with diagram. BPE-96th.
Or, What are the three (03) basic questions an economy confronts? Briefly explain. BPE-98th.
Or, Discuss the basic questions of “what”, “how” and “for whom” as used in economics. Give specific examples of these questions with respect to the use of a country’s limited resources. Dec-19, July-17.
Or,**

1. What to Produce and in What Quantities?



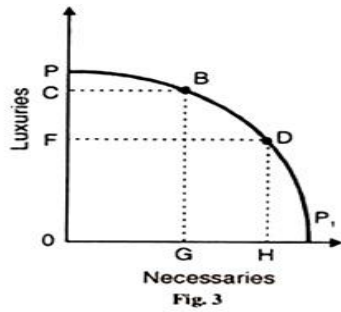
- The diagram for this problem, typically a production possibility frontier (PPF), shows the trade-off between two goods (like X and Y).
- Points on the PPF curve (B or D) represent efficient production levels, where increasing the production of one good results in the decrease of the other due to limited resources.
- Points inside the curve (R) indicate inefficient use of resources, while points outside are unattainable with current resources.
- For instance, a country may decide to allocate resources to produce necessities like food, healthcare, and education, as well as luxury goods like electronics or vehicles

2. How to Produce these Goods?



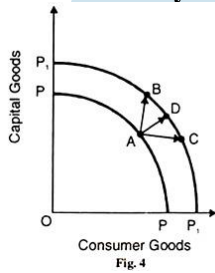
- The graph depicts a Production Possibility Frontier (PPF), illustrating trade-offs in producing capital and consumer goods. Point A shows current production, while points B and C represent potential increases in capital or consumer goods, respectively, given resource reallocation.
- For example, a country may choose between labor-intensive or capital-intensive techniques based on the availability and cost of resources.

3. For Whom is the Goods Produced?



- This can be represented by income distribution charts showing how the produced goods are distributed among different segments of society (Luxuries good for rich and Necessaries good for poor).
- It involves considerations of equity and fairness in resource allocation, ensuring basic needs are met for all individuals.

4. How Efficiently are the Resources being Utilized?



- Efficiency is often illustrated by whether the economy is operating on its PPF curve. Inside the curve means resources aren't fully utilized (point A) while on the curve (B, D, C) indicates maximum efficiency.

5. Is the Economy Growing?



- Economic growth can be depicted by an outward shift in the PPF curve over time (From PP to P1P1), showing that more of both goods can be produced due to increased resources or technological advancements.

Q-03. Write down the features of Micro Economic and Macro Economics. BPE-96th.

Or, "Microeconomics and Macroeconomics are interdependent and complement each other"- Explain the notion by describing the features of both Micro and Macroeconomics. BPE-98th.

Microeconomics:

1. **Individual Focus:** Studies individual units like consumers and businesses.
2. **Price Determination:** Looks at how prices of specific goods and services are set.
3. **Resource Allocation:** Examines how resources are distributed for various uses.
4. **Decision Making:** Analyzes how individuals and firms make economic decisions.
5. **Supply and Demand:** Focuses on the behavior of supply and demand in markets.
6. **Small Scale:** Deals with small segments of the economy.

Macroeconomics:

1. **Economy-Wide View:** Studies the entire economy or large sectors of it.
2. **National Income:** Concerned with total income, output, and expenditure.
3. **Inflation and Unemployment:** Examines broader issues like inflation, unemployment, and economic growth.
4. **Government Policy:** Looks at the impact of fiscal and monetary policies.
5. **Economic Fluctuations:** Studies economic cycles and how economies expand or contract.
6. **Large Scale:** Deals with aggregates and averages of the entire economy.

Microeconomics and macroeconomics, though different in scope, are interrelated and together provide a comprehensive picture of economic activity.

Q-04. 'Scarcity brings in the problem of choice'- Explain. BPE-98th.

Scarcity refers to the limited availability of resources in comparison to the unlimited wants and needs of individuals and society. It creates a situation where choices have to be made due to the inability to fulfill all desires. Since resources are scarce, individuals and society must make decisions about how to allocate these limited resources among various competing needs and wants. This necessitates making choices, prioritizing certain options over others, and sacrificing alternative uses of resources. Thus, scarcity brings forth the problem of choice, forcing individuals and society to decide on the most desirable uses of scarce resources to maximize satisfaction and well-being.

Q-05. What is the relevance of Opportunity Cost in economics? BPE-98th.

Opportunity cost is a fundamental concept in economics that represents the value of the best alternative forgone when making a choice or decision. It highlights the notion that when resources are allocated to one particular use, there is an inherent cost of not being able to allocate those resources to an alternative use. Understanding opportunity cost is crucial because it helps individuals, businesses, and policymakers make rational decisions by evaluating the trade-offs involved. It allows for the comparison of benefits and costs across different options, aiding in efficient resource allocation and maximizing overall economic efficiency. By considering opportunity cost, decision-makers can make more informed choices and assess the true cost of their decisions.

Q-07. Give examples of positive and normative statements.

Positive statements:

1. "The unemployment rate in the country is 5%."
2. "Increasing the minimum wage will lead to higher labor costs for businesses."
3. "The demand for smartphones has increased by 10% in the past year."
4. "Government spending on education has a positive correlation with literacy rates."

Normative statements:

1. "The government should increase taxes on high-income earners to reduce income inequality."
2. "Smoking should be banned in all public places."
3. "The minimum wage should be raised to ensure a living wage for all workers."
4. "The government should provide free healthcare for all citizens."

Positive statements describe facts, observations, or statements that can be empirically tested and proven. Normative statements, on the other hand, express opinions, values, or subjective judgments about what should or ought to be done. They involve subjective interpretations and preferences, and cannot be proven or disproven purely based on evidence.

Q-08. Briefly discuss about the Economic Models.

Economic models are simplified representations of the real world used to understand, explain, and predict economic phenomena. They are like maps that highlight key features of an economy, leaving out less important details. Here's a brief overview:

1. **Simplification:** Economic models simplify complex economic activities to make them easier to understand. They use assumptions to focus on specific elements.
2. **Representation:** Models can be represented in various forms, like graphs, equations, or diagrams. For example, a supply and demand graph in microeconomics.
3. **Predictions:** They help economists predict how changes in one area (like interest rates) can affect the whole economy.
4. **Analysis:** Models allow for analysis of economic policies and theories. They show potential outcomes of different economic decisions.
5. **Limitations:** They are based on assumptions, so they may not perfectly depict real-life scenarios.

Overall, economic models are crucial tools for economists to analyze and interpret the complex dynamics of the economy.

Q-09. Briefly discuss about the Economic Systems.

Economic systems are the ways countries organize and manage their economic activities, like producing, distributing, and consuming goods and services. There are three main types:

1. **Capitalist System (Market Economy):** Here, individuals or private companies own and operate businesses. Prices and production are determined by supply and demand in the market. Example: The United States.
2. **Socialist System (Planned Economy):** The government controls major industries and resources. It decides what to produce, how much, and sets prices. Example: Cuba.
3. **Mixed Economy:** This is a blend of capitalist and socialist systems. Both the government and private sector play significant roles in the economy. The government regulates certain sectors while others are left to the market. Example: India.

Each system has its own way of addressing economic challenges and achieving goals like growth, efficiency, and equity

Q-10. "Economic models are used to test economic theories"-Explain the notion with example. BPE-97th.

"Economic models are used to test economic theories" means that models provide a structured way to analyze and validate the concepts proposed in economic theories.

For example, consider the theory of supply and demand, which suggests that the price of a good rises as demand exceeds supply and falls when supply exceeds demand. An economic model for this theory might use graphs to represent the relationship between supply, demand, and price. Economists can then use real-world data to test this model, like observing how the price of a product changes in response to changes in demand or supply.

If the model's predictions match real-world observations, it supports the theory. If not, it might indicate the theory needs adjustment or that the model's assumptions are too simplistic. This process of testing with models helps refine economic theories, making them more accurate representations of the real world.

Q-11. Interpret 'Capital' as a factor of production.

Capital, as a factor of production, encompasses man-made resources such as machinery, equipment, buildings, infrastructure, and technology. It plays a vital role in the production process by transforming raw materials into finished goods and services. Capital is distinct from land and labor and is essential for enhancing productivity and efficiency. Accumulated through savings and investments, capital enables businesses to expand, innovate, and improve their production capabilities. It is a key driver of economic growth, as it facilitates the creation of wealth, generates income, and contributes to the overall prosperity of an economy.

Q-12. Explain 'Human Resources' and 'Entrepreneurship' as factors of production.

Human resources, as a factor of production, encompass the skills, knowledge, labor, and capabilities of individuals who contribute to the production process. They are the workforce that brings their physical and mental efforts to various occupations and roles. The quantity and quality of human resources significantly impact productivity and economic growth. Investments in education, training, and healthcare are essential for developing human resources and enhancing their productivity.

Entrepreneurship, on the other hand, refers to the ability to identify market opportunities, mobilize resources, and take risks to create new ventures. Entrepreneurs play a vital role in driving innovation, initiating business ventures, and creating employment opportunities. They bring together various factors of production and coordinate their efficient utilization to maximize productivity and achieve business success. Entrepreneurship is a key driver of economic development and progress.

Q-13. What are the economic resources that we use to produce goods and services? Explain. BPE-97th.

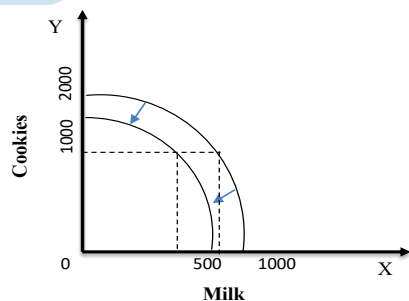
Economic resources, also known as factors of production, are the inputs we use to produce goods and services. They are generally categorized into four main types:

1. **Land:** This includes all natural resources like water, minerals, forests, and land itself. These resources are used to produce food, build homes, and in manufacturing.
2. **Labor:** This is the human effort used in production. It includes the work done by people in various jobs, from manual labor to professional services.
3. **Capital:** This refers to the tools, machinery, buildings, and technology used in the production process. It's not just money, but all kinds of physical assets used to create goods and services.
4. **Entrepreneurship:** This is the skill and risk-taking ability of individuals who bring together the other three resources to produce goods and services. Entrepreneurs organize the business, make decisions, and bear the risks.

These resources are essential in the production process and their availability and quality can greatly impact an economy's output and efficiency.

Q-08. Draw and explain a production possibilities curve for an economy that produces milk and cookies. What happens to this frontier if disease kills half of the economy's cows?

Or, What is the Production Possibilities Curve (PPC)? BPE-98th.



The Production Possibilities Curve (PPC) showcases the maximum output combinations of two goods or services an economy can achieve when all resources are fully and efficiently utilized. In this graph, we're considering milk and cookies.

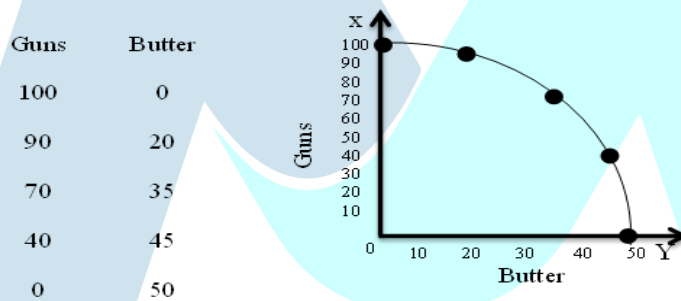
Your graph represents a PPC where:

- On the X-axis, we have the quantity of milk.
 - On the Y-axis, we have the number of cookies.
1. **Efficiency and Trade-offs:** Any point on the curve (like where the dashed lines intersect the curve) indicates efficient production. Producing more of one good requires producing less of the other. For instance, producing 500 units of milk leads to producing 1000 cookies.
 2. **Unattainable Production:** Points outside the curve are unattainable with current resources.
 3. **Underutilization:** Points inside the curve indicate inefficiency.

Effect of Disease: If disease kills half of the economy's cows, milk production would drastically reduce. The PPC would shift inwards, particularly along the X-axis (milk). This means that to maintain the same cookie production, milk production would have to decrease even more than before. Alternatively, to keep producing the same amount of milk, cookie production would have to decrease. The new curve would be closer to the origin, illustrating the reduced production capacity due to the loss of cows.

Q-14. Use a production possibilities frontier to describe the idea of “efficiency.”

The production possibilities Curve (PPC) assumes that the economy resources are fully utilized and efficiently allocated to the production of the two goods. It also assumes a fixed level of the technology during the period being analyzed. The curve drawn concave to the origin, indicating that resources are not perfectly adaptable to the production of both goods.



Graph 1: PPC schedule and PPC curve

In a typical PPC graph, have two axes representing the production of two different goods or services. Let's use a classic example of a PPC that depicts the production of guns and butter in an economy:

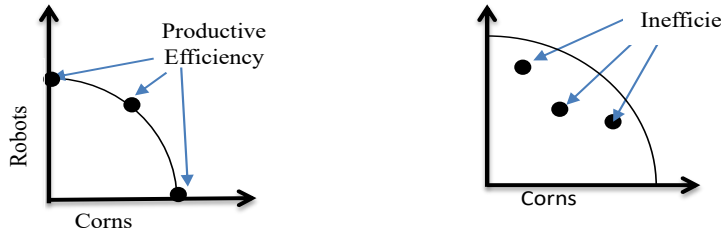
- Guns are often associated with military production, while butter represents civilian goods or services.
- The x-axis represents the quantity of guns produced.
- The y-axis represents the quantity of butter produced.

The PPC curve itself represents the combination of guns and butter that an economy can produce when it allocates its resources most efficiently. Points on the curve indicate that resources are fully utilized, and there is no wasted potential. In other words, the economy is operating at maximum efficiency.

Efficiency on the PPC can be described in two main ways:

1. **Allocative Efficiency:** This occurs when an economy produces the mix of goods and services that best satisfies the preferences and needs of its population. On the PPF, allocative efficiency occurs when the economy is operating on the curve, meaning it is producing the right combination of guns and butter based on society's preferences.

2. Technical Efficiency: This refers to the economy's ability to produce the maximum quantity of goods possible, given its current level of technology and resource allocation. Technical efficiency is represented by the PPF itself; points on the curve reflect the most efficient use of available resources and technology.



Productive Efficiency and Inefficiency

Efficiency in this context implies that resources are not wasted, and the economy is making the most of its limited resources. If the economy operates inside the PPF curve-second graph (points below the curve), it indicates that resources are underutilized, and the economy is not reaching its full production potential. Conversely, if the economy tries to operate beyond the PPF curve, it is unsustainable and implies that resources exceed their capacity, resulting in inefficiency or even a breakdown in production.

In summary, a production possibilities frontier illustrates the concept of efficiency by showing the maximum potential production an economy can achieve when it allocates its resources optimally and operates both technically and allocative efficiently. Points on the PPF curve-first graph represent efficient production, while points inside-second graph or beyond the curve indicate inefficiency in resource allocation or overutilization, respectively.

Q-15. What are the two subfields into which economics is divided? Explain what each subfield studies.

Economics is generally divided into two subfields: microeconomics and macroeconomics.

1. **Microeconomics:** Microeconomics focuses on the behavior and decision-making of individual economic agents such as consumers, firms, and households. It examines how these agents allocate their scarce resources to fulfill their needs and wants. Microeconomics analyzes various economic concepts like supply and demand, market structures, consumer behavior, production decisions, and pricing strategies.
2. **Macroeconomics:** Macroeconomics studies the overall behavior of an economy as a whole. It looks at aggregate variables such as national income, employment, inflation, and economic growth. Macroeconomics examines the relationships and interactions between different sectors of the economy, such as government policies, monetary and fiscal policies, international trade, and financial markets. It focuses on understanding the factors that influence the overall performance of an economy, addressing issues like economic fluctuations, unemployment, inflation, and long-term economic development.

Q-16. What is the difference between a positive and a normative statement. Give an example of each.

	Positive Statements	Normative Statements
1. Definition	Positive statements are based on objective analysis and facts.	Normative statements express opinions, judgments, or subjective values about what should or ought to be.
2. Nature	Objective, based on facts and evidence	Subjective, based on opinions and values
3. Testability	Can be tested and proven true or false	Cannot be tested or proven true or false
4. Description	Describe "what is" or "what has happened"	Express "what ought to be" or personal preferences

5.Examples	The unemployment rate is 5%	"The government should increase funding for public schools."
------------	-----------------------------	--

Q-17. Why do economists sometimes offer conflicting advice to policymakers?

- 1. Diverse Perspectives:** Different theoretical frameworks and approaches lead to varying interpretations.
- 2. Data Limitations:** Incomplete and interpretive nature of economic data contributes to differing conclusions.
- 3. Value Judgments:** Varied normative views shape economists' policy recommendations.
- 4. Uncertainty and Complexity:** Complexity of economic systems and uncertainties result in different assessments.
- 5. Policy Objectives:** Differing prioritization of policy objectives influences economists' advice.

Q-18. ‘The circular-flow diagram illustrates that, in markets for the factors of production, where households are sellers, and firms are buyers.’- Do you agree? Explain.

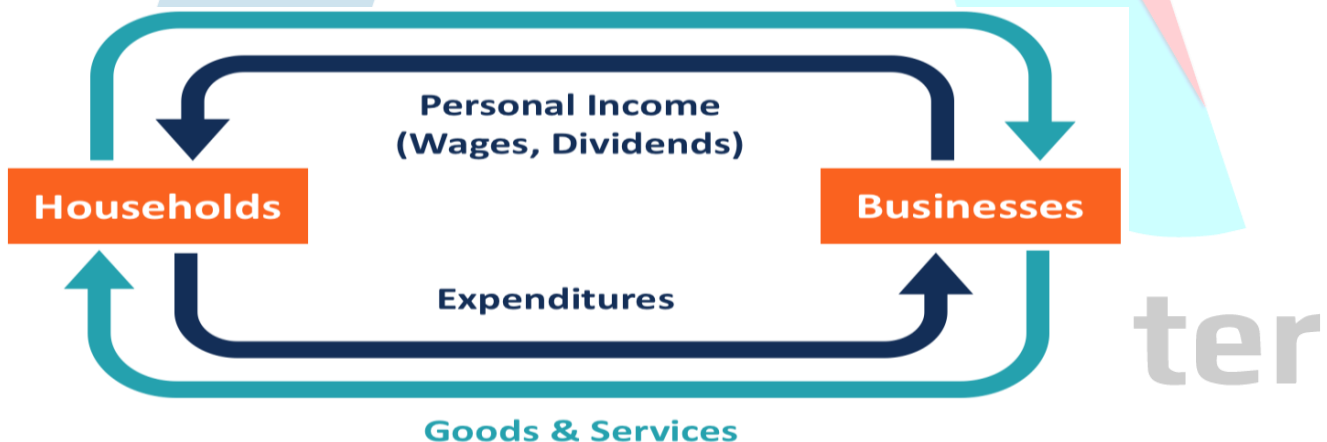
Or, What is the circular flow model in economics? What are the elements on sectors that make up a circular flow? Explain. BPE-98th.

Yes, I agree with the statement that the circular-flow diagram illustrates that, in markets for the factors of production, households are sellers, and firms are buyers. Let me explain this concept in more detail:

The circular-flow diagram is a simplified representation of an economy that helps us understand the flow of goods, services, and payments between different economic agents, primarily households and firms. It consists of two main sectors:

Household Sector: Households represent individual consumers and families within the economy. They are the primary owners of the factors of production, which include labor, land, capital, and entrepreneurship. In other words, households supply the factors of production to the economy.

Business (Firm) Sector: Firms, on the other hand, represent businesses or producers within the economy. They use the factors of production supplied by households to produce goods and services. Firms purchase these factors to engage in their production



Now, let's break down the flow of economic activity in the circular-flow diagram:

- Households supply factors of production to firms. This includes the sale of labor (in the form of wages and salaries), land (rent), capital (interest and returns on investments), and entrepreneurship (profit).
- Firms, in turn, use these factors of production to produce goods and services. For instance, they hire labor to produce goods, rent land for production sites, and invest in capital goods to enhance production efficiency.
- Firms sell the goods and services they produce to households and other entities, generating revenue.

- Households purchase these goods and services, and in doing so, they become consumers in the product markets.
- Households receive payments (income) from firms in the form of wages, rents, interest, and profits. This income is a result of their ownership of the factors of production.
- This income, earned by households, is used to consume goods and services produced by firms, creating a continuous flow of income and spending in the economy.

Q-19. ‘A point inside the production possibilities frontier is efficient, but not feasible’ Do you agree? Explain.

I agree with the statement that "a point inside the production possibilities frontier is efficient, but not feasible." Efficiency refers to maximizing output given available resources, and a point inside the frontier represents an underutilization of resources, indicating inefficiency. However, feasibility refers to the attainability of a particular point given the available resources and technology. If a point is inside the frontier, it suggests that resources are not fully utilized, and reaching that point would require an increase in resources or technological advancements. Therefore, while it may be efficient, it is not currently feasible without changes in resources or technology.

Q-20. ‘A point on the production possibilities curve is feasible and efficient.’- Explain.

I agree with the statement that "a point on the production possibilities curve is feasible and efficient." Feasibility refers to the ability to achieve a particular combination of goods and services using available resources and technology. A point on the production possibilities curve indicates that resources are fully employed and allocated efficiently, maximizing output given the existing constraints. It represents the optimal use of resources to produce a combination of goods and services. Therefore, a point on the production possibilities curve is both feasible, as it can be achieved with existing resources, and efficient, as it represents the maximum output attainable.

Q-21. Explain major economic systems following a historical perspective.

- **Feudalism:** Lords controlled land, while peasants worked for them in exchange for protection and a share of the harvest.
- **Capitalism:** Private ownership, free markets, and profit-driven production characterize this system.
- **Socialism:** It advocates for collective ownership and wealth redistribution for a more egalitarian society.
- **Communism:** The goal is a classless society with common ownership and distribution based on needs.
- **Mixed Economy:** It combines elements of capitalism and socialism, with both private enterprise and government intervention.

Q-22. Explain the difference between Market and Command Economy based on their characteristics.

Characteristic	Market Economy	Command Economy
1.Definition	An economic system where supply and demand determine resource allocation with limited government intervention.	An economic system where the government centrally plans and controls production and resource allocation.
2.Ownership	Private individuals and businesses own most resources.	The state or government owns and controls most resources.
3.Resource Allocation	Resources are allocated based on consumer preferences and business decisions.	The government makes all decisions regarding resource allocation.
4.Pricing Mechanism	Prices are determined by market forces and competition.	Prices are set and controlled by the government.
5.Consumer Choice	Consumers have a wide variety of choices in goods and services.	Consumer choices are limited, and the government often decides what is available.
6.Example	United States, Germany	North Korea, Cuba

Q-23. What is Market Economy and Regulated Economy? Between them which one is better for economic development? BPE-96th.

A **Market Economy** is a system where supply and demand determine prices and production. Businesses and consumers make most of the decisions, and the government plays a limited role. It's like a big open market where everyone can buy and sell freely.

A **Regulated Economy**, on the other hand, has significant government control. The government makes decisions about what to produce, how much to produce, and sets prices. It's like having rules and limits on what can be sold and bought.

Q-24. You win BDT100 in a basketball pool. You have a choice between spending the money now and putting it away for a year in a bank account that pays 5 percent interest. What is the opportunity cost of spending the BDT100 now?

The opportunity cost of spending the BDT100 now instead of putting it away in a bank account that pays 5 percent interest for a year is the potential interest earnings that could have been gained if the money was saved.

To calculate the opportunity cost, we need to determine the amount of interest that would be earned on the BDT100 over one year at a 5 percent interest rate.

Using the formula for calculating simple interest: Interest = Principal (BDT100) x Interest Rate (5%) x Time (1 year)

$$\text{Interest} = 100 \times 0.05 \times 1 = \text{BDT}5$$

Therefore, the opportunity cost of spending the BDT100 now is BDT5, which represents the potential interest earnings that could have been gained if the money was saved for a year in the bank account.

Q-25. What are positive and normative economics? BPE-97th.

Positive economics and normative economics are two different approaches to studying economics:

1. **Positive Economics:** This deals with facts and cause-and-effect relationships. It tries to understand and explain how the economy actually works. For example, a positive economic statement might be, "If government taxes increase, consumer spending decreases." It's like being a scientist who observes and reports what happens, without giving opinions.
2. **Normative Economics:** This is about what should be or what ought to happen. It involves value judgments and opinions on economic policies. For instance, a normative economic statement could be, "The government should lower taxes to increase consumer spending." It's more like being a policymaker who recommends actions based on personal beliefs about what's good or bad.

In short, positive economics describes economic behavior as it is, while normative economics focuses on economic policy and what the goals of the economy should be.

Q-26. Identify positive and normative statements from the following: a. the new law will reduce national income; b. New Bank Companies Act is a good piece of legislation; c. Parliament ought to pass law X; d. President should veto the new law.

Positive statement: a. The new law will reduce national income.

Normative statements: b. New Bank Companies Act is a good piece of legislation. c. Parliament ought to pass law X. d. President should veto the new law.

Q-27. Classify the following topics as relating to microeconomics or macroeconomics: a. a family's decision about how much income to save; b. the effect of government regulations on auto emissions; c. the impact of higher national saving on economic growth; d. a firm's decision about how many workers to hire; e. the relationship between the inflation rate and changes in the quantity of money

- a) **Microeconomics:** A family's decision about how much income to save is a microeconomic topic as it focuses on individual or household-level economic decisions.

- b) **Microeconomics:** The effect of government regulations on auto emissions can be considered a microeconomic topic as it involves specific regulations and their impact on individual firms or the automobile industry.
- c) **Macroeconomics:** The impact of higher national saving on economic growth is a macroeconomic topic as it pertains to the overall economy and the relationship between saving and economic performance at a national level.
- d) **Microeconomics:** A firm's decision about how many workers to hire is a microeconomic topic as it deals with the internal decision-making of a specific firm and its labor choices.
- e) **Macroeconomics:** The relationship between the inflation rate and changes in the quantity of money is a macroeconomic topic as it examines the broader relationship between the overall price level (inflation) and the money supply in the economy.

Q-28. Discuss the relationship between economics and i) accounting ii) finance and iii) marketing (Dec-15)

- I. **Economics and accounting:** Economics provides the theoretical foundation for accounting practices, guiding the interpretation of financial data and understanding the economic factors that impact financial transactions.
- II. **Economics and finance:** Economics underpins the study of finance, providing the theoretical framework to analyze financial markets, investment decisions, and risk management strategies.
- III. **Economics and marketing:** Economics informs marketing strategies by analyzing market forces, consumer behavior, and supply-demand dynamics, ensuring businesses understand the economic factors driving customer preferences and market competition. Marketing, in turn, applies economic principles to develop effective strategies and optimize pricing, product development, and market share.

Q-29. Discuss the importance of study statistics in the study of Economics. June 17.

Or, explain why the knowledge of statistics is indispensable for modern economic analysis. Dec 17

Statistics plays a crucial role in the study of economics. It allows economists to collect, analyze, and interpret data to understand economic phenomena. Statistical methods help economists test hypotheses, identify trends, estimate parameters, and make informed predictions. By using statistical techniques, economists can quantify relationships between variables, measure economic indicators, and assess the impact of policies.

The study of statistics equips economists with the tools necessary to make evidence-based decisions and provide empirical support for economic theories. It provides a solid foundation for rigorous analysis and enhances the accuracy and reliability of economic research.

Q-30. Discuss the importance of multiplicity of wants and scarcity of resources in the study of economics. Nov-11

1. **Resource allocation:** Scarcity necessitates making choices about how limited resources are allocated among unlimited wants.
2. **Price determination:** Multiplicity of wants and scarcity drive the forces of supply and demand, which determine prices in the market.
3. **Economic efficiency:** Understanding the trade-offs between wants and resources allows economists to study how to allocate resources efficiently to maximize societal welfare.
4. **Opportunity cost:** Scarcity highlights the concept of opportunity cost, where choosing one want over another incurs the cost of forgoing alternative uses of the limited resources.
5. **Market dynamics:** Multiplicity of wants and scarcity drive market dynamics, such as competition, innovation, and the quest for efficient resource utilization.

Q-31. Explain the terms “Want” and “Scarcity” as understanding in economics. Nov-11

In economics, a "want" means something we desire or wish to have. It could be anything from basic needs like food and clothing to things like toys or vacations.

"**Scarcity**" means there is a limited supply of resources, like money or goods, compared to the unlimited wants of people. Since we can't have everything, we want due to scarcity, we must make choices about how to use our resources wisely.

Understanding wants and scarcity helps us understand how people make decisions and how businesses decide what to produce and how much to charge.

Q-32. Discuss the subject matter and scope of economics. Dec-11

Economics is the study of how societies allocate scarce resources to satisfy unlimited wants and needs. Its subject matter encompasses the analysis of production, distribution, and consumption of goods and services. Economics examines individual and collective decision-making, market behavior, government policies, and the interplay of factors such as supply, demand, prices, inflation, employment, and economic growth. It also explores various economic systems, market structures, international trade, income distribution, and the impact of economic factors on social welfare and well-being. Economics provides insights into the functioning and challenges of both micro and macroeconomic phenomena.

Q-33. Economics is the study of arts as well as science. June 16

Economics is the study of both art and science. It encompasses the scientific analysis of economic principles, models, and data to understand how economies function. At the same time, it involves the application of economic theories and concepts to address real-world problems and make informed policy decisions. Economics requires analytical and quantitative skills while also considering subjective factors such as human behavior, social norms, and value judgments. This interdisciplinary nature of economics blends scientific rigor with the nuances of human behavior, making it a study that straddles both art and science.

Q-34. Why economics is science? Dec-16, June-16

Economics is considered a science because it follows the scientific method in its approach. It formulates theories, develops hypotheses, gathers empirical data, tests and analyzes the data, and draws conclusions based on evidence. Economics employs mathematical models, statistical techniques, and rigorous analysis to study economic phenomena, making it a systematic and evidence-based discipline.

Q-35. Why is the study of Economics important to a political leader? July-17

The study of economics is crucial for a political leader as it provides a deep understanding of how policies and decisions impact the economy and the well-being of citizens. Economics equips political leaders with the tools to analyze complex economic issues, make informed policy choices, and assess the potential consequences of their decisions. It helps them understand the interplay between economic factors, social welfare, and sustainable development. A strong grasp of economics enables political leaders to foster economic growth, address inequality, make efficient resource allocations, and create policies that promote overall prosperity and stability.

Q-36. Discuss the importance of the study of economics by bankers. Dec-15. 95th

The study of economics is super important for bankers. It helps them understand how money works and how to make smart decisions. When bankers know about economics, they can understand things like interest rates, investments, and risks. This helps them make good choices about who to give loans to and how to manage money safely. By studying economics, bankers can learn how to help people save, invest, and grow their money. It's like having a special toolkit that helps them be better at their job and keep our money safe.

Q-37. Economics is the Science of wealth. Discus this statement. June-18

Economics can be described as the science of wealth, as it focuses on the production, distribution, and consumption of goods and services. It studies how societies allocate their limited resources to meet unlimited wants and needs. By analyzing factors like supply and demand, prices, and market behavior, economics seeks to understand how wealth is created and distributed within a society. It examines the role of individuals, businesses, and governments in generating income, creating jobs, and fostering economic growth. However, it is important to note that economics is not solely

concerned with monetary wealth, but also encompasses broader aspects of well-being and the efficient use of resources to improve overall living standards.

Q-38. Economics is the study of mankind in the ordinary business of life. Discuss the statement. Dec 12-18. BDE-95th

Or, Define economics after Alfred Marshall. June-16.

Or, State and explain the definition of economics provided by Alfred Marshall (BDE, Nov. 2010)

Alfred Marshall, a prominent economist, defined economics as "a study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well-being." Marshall's definition highlights that economics focuses on understanding and analyzing human behavior and decisions concerning the production, distribution, and utilization of resources to achieve and enhance well-being in society. It recognizes the central role of economic activities in shaping individuals' lives and the broader social and economic outcomes.

Q-39. Opportunity Cost: BPE-98th.

Definition: Opportunity cost is the value of the next best alternative foregone when a decision is made. It highlights the trade-offs involved in choosing one option over another.

Example:

- If a student spends time studying for an exam instead of working a part-time job, the opportunity cost is the wages they would have earned.
- If a company invests in new machinery, the opportunity cost might be the alternative projects or investments it could have undertaken with the same funds.

Key Point: Opportunity cost is a fundamental concept in economics because it underscores the idea that every choice involves a trade-off. Understanding opportunity costs helps individuals and businesses make informed decisions by considering what they must sacrifice to pursue a particular action.

Q-40. Market economy and free market economy:

A market economy is a system where resources and goods are exchanged through voluntary transactions between buyers and sellers. It is based on the principles of supply and demand, where prices are determined by market forces. In a free market economy, there is limited government intervention, allowing individuals and businesses to make their own decisions about what to produce, how to produce, and for whom to produce. This promotes competition, innovation, and efficiency. People have the freedom to choose and pursue their own interests, while the market guides the allocation of resources and the distribution of goods and services.

Q-41. Write short note on: Resources, Regulated Economy?

Resources: Resources in economics refer to the inputs used to produce goods and services. They include land (natural resources), labor (human work and expertise), capital (machinery, factories, equipment), and entrepreneurship (skills and risk-taking in starting and managing businesses). These resources are fundamental to the production process in any economy and are often limited, leading to choices about how to use them most effectively.

Regulated Economy: A regulated economy is one where the government plays a significant role in controlling and managing the economy. In this system, the government sets rules and guidelines for businesses, decides on the prices of goods and services, and may own or control key industries. The aim is to manage the economy in a way that avoids extreme highs and lows and promotes overall welfare, though it may limit market competition and innovation compared to a market economy.

Chapter End

Order from Website: www.metamentorcenter.com or sms whatsapp: 01917298482