PART-C

TEN MARK QUESTIONS:

1. Discuss the nature and scope of economics?

Economics is a social science which deals with human wants and their satisfaction. It is mainly concerned with the way in which a society chooses to employ its scarce resources which have alternatitive uses, fo the production of goods for present and furture consumption.

Political economy is another name or economics. “Polis” in Greek means a State. The early writers used ta term “Political Economy” for the management of the State.

The existence of human wants is the startiong point of all economic activity in the world. Unless we make effforts, we cannot satisfy wants. But soon, new wants appear. But all our wants cannot be satisfied because means are limited.

We study economics because there is scarcity of many goods we want. This problem is common to the individual as well as the State.

Our wants are unlimited but means are limited. This leads to choice making. If there is unlimited supply of goods which satisfy our wants, the problem of choice will not arise.

Modern economy is a monetary economy. Prices are paid in money. So money plays an important role in the economic life of a society. We shall now sum up discussion about the nature of. Economics is a social science which studies human wants and their satisfaction. Human wants are unlimited.

2. Examine Marshall’s definition of economics?

- Alfred Marshall’s Definition(welfare Definition)

  Alfred Marshall (1842-1924) wrote a book Principles of Economics in 1890. In it, he defined economics as “a study of mankind in the ordinary business of life”. An altered form of this definition is: “Economics is a study of man’s actions in the ordinary business of life”.

  Marshall agrees that economics studies about wealth. But he does not accept the view that economics studies about wealth alone. In the words of

PART-C

TEN MARK QUESTIONS:

Marshall, "Economics is on the one side a study of wealth, and on the other and more important side, a part of the study of man.

In economics, we do not study about all aspects of humankind. As cairn cross puts it, economics studies about man as "buyer and seller, producer and consumer, saver and investor, employer and worker".

Marshall's definition is known as material welfare definition of economics because of its emphasis on welfare.

- Criticism

There is no doubt that Marshall's definition is a greimprovement over the definition of Adam Smith. For its emphasis is on social problems. And economics is a social science. Moreover, it tells us about the link between wealth and welfare.

First, if we go by the definition of Marshall, in economics we should consider only those activities which promote material welfare. But many activities do not promote welfare but are rightly considered as economic activity.

Second, some activities promote welfare but not material welfare. For example, the activities' of doctors, lawyers, actors, musicians promote our welfare. But their lab our does not result in the production of material goods. If we follow the material welfare definition of economics, we cannot consider the activities of the above categories of labor as economic activity as they do not promote material welfare.

Third, Marshall's definition is classificatory. It is not analytical. It considers the production of material goods (e.g. charis, tanles, cycles and cars, bread) alone as economic activity.

Lastly, by introducing ethical concepts like welfare, economics will become an inexact science. For it is rather difficult to measure welfare.

In spite of the aboe criticism against Marshall's definition, we should not forget Marshall has widened the scope of economics by establishing a link between wealth amd man and his welfare.

Modern definitions of economics are based on a theory of scarcity and choice.

PART-C

TEN MARK QUESTIONS:

3. Discuss the nature and importment of economics laws?

Economics Laws:

Like other social sciences, economis has its own laws. A law a statement of what must happen given certain conditios. Every cause has a tedndency to produce some result. For example, in physics, we study that things fall to the ground because of gravitation. The law of gravitation is a statement of tendency. Similarly, the laws of economics are statements of tendencies. Similarly, the laws of economics are statement of tendency. For example, according to the law of demand, when there is a tendency among people tobuy more expand. It means that there is a tendency buy more then mong people to then there is fall in the people to buy more when there is fall in the price of a good. Similarly, if price rises, they will buy less. Laws operate under certain conditions. If these conditions change, they will not operate. This is applicable to all science.

We may broadly classify sciences into physical science and social sciences. Physics and chemistry are example of hysical siences. Economics, politics are example of social sciences. The laws of physical scinces are exact.

As economies deals with man and his behavior, its laws are complex and inexact. That is why marshanll has said that"the laws of economics are to be compared with the laws of tides rather han who the simple and exact law of gravitation." The science of tides explain the simple the rise and fall under the influence of the sun and the Moon probably there will be high ide on a full moon night.

Similarly, econoic

PART-C

TEN MARK QUESTIONS:

4. What is capitalism? Explain its advantages and disadvantages?

- Capitalist economy:

A capitalist economy is an economic system in which the production and distribution take place through the mechanism of free markets. Hence it is also called as market economy or frees the economy.

1. Right top Private Property: Individual have buy own property. There is no limit and they can own any among property.
2. Profit-Motive: Profit is the only motive for the functions capitalism. Production decisions involving high risks are taken individual only to earn large profits.
3. Freedom of Choice: The questions 'What to produce? Will be determined by the system. Most of the economic activities the signals to direct the mechanism.
4. Minimal role of Government: As most of the basic economic problems are expected to be solved by market forces, the government has minimal role in the economy.

- Merits of Capitalist Economy:
    1. Increase in productivity economy every farmer, trader or industrialist can hold property and use it in any way he likes.
    2. Maximizes the Welfare: It is claimed that there is efficiency in production and resource use without any plan.

    3. Non-interference of the State: The government society. There is no conflict between the individual interest and the society. The economic institutions function automatically preventing the interference of the State has a minimum role to play.

PART-C

TEN MARK QUESTIONS:

4. Low cost and qualitative products: The consumers and producers have full freedom and therefore it leads to production of quality products at low costs and prices.

5. Technological improvement: the element of competition under capitalism drives the producers to innovate something new to boost the progream.

5.Explain Features Merits and demerits of socialism?

In a socialist economy, the means of production are owned and operated by the State. All decisions regarding producing and distribution are taken by the central planning authority.

1. Social welfare Motive: In socialist economies, social or collective welfare will be the prime motive.
2. Limited Right to Private Property: The right to private property is limited. All proprieties of the country will be owned by the State.
3. Entrap Planning: Most of the economics policy decisions will be taken by a centralized planning authority. Each and every sector of the economy will be directed by well designed planning.
4. No Market Forces: In a centralized planned system of development, market forces have only a limited role to play.

- Merits of Socialist Economy:

Efficient use of resources: The resources are utilized efficiently to produce socially useful goods without taking the profit margin into account.

Economic Stability: Economy is free from business fluctuations. Government plans well everything is well coordinated to avoid over-production or unemployment.

PART-C

TEN MARK QUESTIONS:

Maximization of Social Welfare: All citizens work for the welfare of the State.

Absence of Monopoly: The elements of corporation and monopoly are eliminated since there I absence of private ownership.

Basic needs are met: In socialist economics, basic human needs like water, education, and health, social security, etc, are provided. Human development is more in socialist countries.

No extreme inequality: as social welfare is the ultimate goal, there is any concentration of wealth.

- **Merits of Socialism:**

Bureaucratic Expansion: A socialist economy is operated under a centralized command and control system.

No Freedom: there is any freedom occupation. Allocation of factors of productions is not done rationally. Jobs are provided by the State.

Absence of Technology: Work is monotones and no freedom is given. Any change in the production process will alter the entire plan.

Hence any innovation cannot be easily enforced. Everything is rigid and technological changes limited.

6.**Explain 'Mixed economy' in detail?**

In a mied economy, both public and private instirutions exercise economic control. The public sector as a free enterprise economy. Alll decisions regarding what, how and for whom to produce are taken by the State. But if these freedons affect public welfare adversely, they are regulated and controlled by the State.

1. Co-exitence if public and private sectors: In a mixed economy, both the public and the private sectors initiatives will be there the most strategically

PART-C

TEN MARK QUESTIONS:

and nationally important sector of the economy will be reserved for the public sctor.

2. Consolidation of merits of Capitalism and Socialism: As seen above, both capitalism and socialism have merits and demerits. Mixed economy is expected to retain only the merits of the systems.
3. Planning: Economic planning is another important fetures mixed eonomy. Plannning will direct the relative roles of public and private sectors and their respective jurisdictions.

- Merits of Mixed Economy:

Efficient resource utilization: The resources are utilized efficiently as good features of both capitalism ad socialism coexie. If there is misallocation of resources, the State controls and regulates it. This ensures the efficient utilization o resources.

Prices are administered: The prices are not fixed always by form of demandand supply. In th case of goods which are scarce,the pricess are administered by the government and such goods also rationed.

Social welfare: In a mixed economy, planning is centralized there is overall welfare. Workers are given incentives and the for any innovations .

- Demerits of Mixed Economy:

Lack of Co-ordination: The coordination between the public private sectors is poor in a mixed economy. Public sector spends huge public resources for infrastructure. The private sector aims it profit maximization by using the infrastructure created by the public sector.

Red-tapism and delay by public sector. There is every change that public sector works inefficienly. There is too much of red-tapism and corruption leading to delays in decision to delays production.

Economic Fluctuations: The mixed economis experience economics fluctuations. On the one hand, the private sector does not operator under

very rigid conditions prescribed by the government. On the one hand, the private sector does operate under very rigid conditions enforced by the planned economy. The lack of policy coordination between private and public sector results in economics fluctuations.

7. Describe the kinds of economics of scale?

Large Scle Production-Kinds of Economies
Economies of Scal will reduce:

'Economies" mean advantages. Scale refers to the ize of unit. 'Economics of Scale' refers to the cost advantages due to the larger size of production. As the volume of roduction increases, the overhead cost will come will come down. The bulk purchase of inputs will give a better bargaining power to the producer which will reduce tha average variable cost too.

There are two typed of economics of scale:

a) Internal economie of scale; b) External economies of scale

A) Internal Economies of Scale:

'Internal economies of scale' are the advantages enjoyed with the production unit. These economies are enjoyed by asingle firm independently of the action of the other firms.

PART-C

TEN MARK QUESTIONS:

1. **Technical Economies:** As tge size if the firm is large, the introduce up-to-date technologies.
2. **Financial Economics:** It is possible for big firms to float shares in the market of capital formation. Small firms have to borrow capital whereas
   large firms can buy capital.
3. **Managerial Economies:** Division of labour is the result of large scale produce person can be employed in the right department is division of labour.
4. **Labour Economics:** Large Scale production paves the wayform division of labour.
5. **Marketing Economies:** In, production the first buyer is the producer who buys the raw materials.

B)External economies of scale:

When many firms expandin a particular area-i.e., when the industry gows-they enjoy numer of advantages which are known as external economies of scale.

a) Increased transport facilities.

b) Banking facilities.

c) Development of townships.

d) Information and communication development.

All these facilities are available to all firms in an industrial region.

PART-C

TEN MARK QUESTIONS:

Diseconomies of Scale:

The diseconomies are the disadvantages arising to a firm or a grown of firms due to large scale production.

Internal Diseconomes of scale:If a firm continues to grown and expand beyond the optimum capacity, the economies of scale disappear and diseconomies will start operating.

External Diseconomies of Scale: Beyond a certain stage, too much concertration and localization of industrieswill create diseconomies in production which will be common fo all firms in a locality.

8.What are the characteristics of labour?

Characteristics or Peculiarties of Land:

i. Land is a free gift of nature.
ii. Land is fLandixed (inelastic) in supply.
iii. Land is imperishable.
iv. Land is immobile.
v. Land differs in fertilityand situation
vi. Land is a passive factor of production.

As a gift of nature, the initial supply price of land is zero. However, when used in production, in becomes scarce. Therefore, it fetches a price,accordingly.

Labour:

Labour is the human input into the production process. Alfred Marshall defines labour as 'the use or exertion of body or mind, partly or wholly, with a view to secure an income apart from the pleasure derived from the work'.

PART-C

TEN MARK QUESTIONS:

Characteristics or Peculiarities of Labour:

i. Labour is perishable.
ii. Labour is an active of production. Neither land nor capital can yield much without labour.
iii. Labour I not homogeneous. Skill and dexterity vary from person to person.
iv. Labour cannot be separlated from the labourer.
v. Lobur is mobile. Man moves from one place to another low paid occupation to a high paid ocuupation.
vi. Individual labour has only high limited brgaining power. He cannot fight with his employer for a rise in wages or improvement in work.
Lavour can assume several forms. Digging earth, brealog stoes, carrying loads comprise simple labour operations but labour also convers managers technicians.

9.Define monompoly? What are the characteristics and causes of monopoly?

Monopoly:

Monopoly is a market structure in which there is a single seller, there are no close substites for the commoditu it produces there are barriers to entry.

Characteristics of Monopoly:

- **Single Seller:**
  There is only one seller, he can control either price or supply of his product. But he cannot control demand for the product, as there are many buyers.
- **No ClossSubstitutes:**

PART-C

TEN MARK QUESTIONS:

There are no close substitutes for the product. The buyers have no alternatives or choice. Either they have to buy the product or go without it.

- **Price:**

The monopolist has control over the supply so as to increase the price. Sometimes he may adopt price discriminations. He may fix different prices for different sets of consumers. A monopolist can either fix the price or quantity of output.

- **No Entry:**

There is no freedom to other producers to enter the market as the monopolist is enjoying monopoly power. There are strong varrierrs for new firms to enter.

- **Firm and Industry:**

Under monopoly there is no difference between a firm and an industry. As there is only one firm, that single firm constitutes the whole industry.

Causes for Monopoly:

1. Natural: A monopolu may arise on account of some natural causes. Some minerals are available only in certain regions. For example, south Africa has the monopoly of diamonds, nickel in the world's mostly available in Canada and oil in Middle East.

2. Technical: Monopoly power may be enjoyed due to technical reason. The control over raw materials, tenchinical knowledgs, specil know-to-days.

3. Legal: Monopoly power is achieved through patent rights copyright and trade marks by the producers.

4. Large Amount of Capital: Tha manufacture of soe goods requires a large amount of I capital. All firms cannot enter the field because they cannot affird to invest such a large amount of capital.

PART-C

TEN MARK QUESTIONS:

5. They are Government will have the sole right of producing and selling goods. They are Sate monopolies. For example, we have are undertaken by the State.

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10. Explain the advantages and disadvantage of monopoly?

Advantages:

- Monopoly firms have large-schall production possibilities and also can enjoy bath internal and external economies. This will result in the reduction of costs of production. Output can be sold at low prices. This is beneficial to the consumers.
- Monopoly firms have vast financial resources which could be used for research and development.
- There are a number of weak firms in an industry. These firms can combine together in the form of monopoly to meet competition. In such a case, market can be expanded.
- Although there are some advantages, there is a danger that monopoly power might be misused for exploiting the consumers.

Disadvantages:

- A monopolist always a high price, which is higher than the competitive price. Thus a monopolist exploits the consumers.

PART-C

TEN MARK QUESTIONS:

- A monopolist is interested in getting maximum profit. Hr may restrict the output and raise prices.
- A monopolist often charges different prices for the same product from different consumers. He extracts maximum price according to the ability to pay of different consumers.
- A monopolist uses large-scale production and huge resources to promote his own selfish interest. He may adopt wrong practices to establish his absolute monopoly power.
- In a country dominated by monopolics, wealth is concentrated in the hands of a few. It will lead to inequality of incomes. This is against the principlae of the socialistic pattern of society.

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11. Different the perfect competition from monopoly?

	Perfect competition	Monopoly
1.	Average revenue curve is a horizontal straight line parallel to X axis.	Both average revenue curve and marginal revenue curve are downwared falling curve
2.	At the equilibrium, MC=MR= AR. This is price charged is equal to marginal cost of production.	At the equilibrium MC=MR < AR that is price charged is price charged is above.
3.	The firm in the long run comes to equilibrium at the minimum point or the lowest point of the long run average cost.	Even in the long run equilibrium the firm will be operating at a higher level of average cost.

PART-C

TEN MARK QUESTIONS:

4.	Equilibrium can be conceived only under increasing cost and not under decreasing or constant cost	Equilibrium situation is possible at increasing, or constant cost conditions.
5.	The firm can earn only normal profit in the long run and may earn super the short run.	But monopoly firm earns super normal profit both in Short run and long run.
6.	Price will be lower and the output is larger.	Price is higher and the out put will be smaller.

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12. Describe the functions of moncy?

Functions of Money:

Money has overcome the difficulties of barter. Cowther, has defined money as "anything that is generally acceptable as a means of exchange (i.e,as as means of settling debts) and that at the same time acts.as a s generally measure and as a store of value". An important point about this definition is that it regards anuthing that acceptable as money. Thus money includes coins, currency notes, cheques, bills of exchange,credit cards and so on. That is why prof. Walker has said: "money is that which money does".

"Money is a matter of functions four

A medium, a measure, a standard, a store".

Thus money is a medium of exchange, a measure of value, a sore of value and a standard of deferred payments.

1. **Medium of exchange:** The most important function of money is that is act as medium of exchange. Money is accepted freely in exchange for all other goods. Barter system is very inconvenient. So the introduction of money has got over the difficulty of barter.

PART-C

TEN MARK QUESTIONS:

2. **Measure of Value:** Money acts as a common measure of value. It is a unit of account and a standard of measurement. Whenever we buy a good in the market we pay a price for it in money. And price is nothing of good by the buy value money for measuring the value of goods.

3. **Store of Value**: A man who wants to store his wealth in some convenient form will find money admirably suitable for the purpose. It acts as a store of value. Suppose the wealth of a tie for him to preserve his wealth in the form of cattle. But if there is money, he store can sell his cattle, get money for that and can store his wealth in the form of money.

4. **Stand red of deferred payments:** Money is used as a standard for future (deferred) payments. It forms the basis for credit transactions. Business in modern times is based for credit transactions. Business in modern times is based on credit to a large extent. Business in modern times is based on credit medium which will have as far o a since payment is made at a future date, there must be some medium which will have as far as possible the same exchange power in the future as at present. If credit transactions were to be carried on the basis of commodities, there would be a lot of difficulties and it will affect trade.

Money, to be used as a medium of exchange, must be universally acceptable. All people must accept a thing as money. Or, the Government should give it legal sanction. And for performing the other functions, that is, to be used as a store of value and standard of carried payments, money should have stability of value. In other words, value of money should not change often.

PART-C

TEN MARK QUESTIONS: