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NCERT Class 12 Economics Part 1 Chapter 1: Microeconomics – Introduction YouTube Lecture Handouts

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- Goods – physical, tangible objects used to satisfy people’s wants and needs
- Individual – individual decision making unit
- Resources - goods and services which are used to produce other goods and services
- People require goods, services, food, clothing etc.
- Individuals has some amount of few goods they would like to use
- Family farm – small land, grains, farming implements or bullocks
- Each decision making units can produce goods and services which it needs
- Weaver can get the goods and services that she wants in exchange for the cloth she produces in her yarn
- Each individual can use their resources to fulfill the needs

No Individual Has Unlimited Resources Compared to the Needs

- Amount of corn that a family farm can produce is limited by amount of resources and amount it can procure in exchange of corn is limited
- Family is forced to make choice between different goods and services (to get better education, family make give up other luxuries)
- Idea is to use the limited resources in the best possible way to fulfill her needs
- There has to be compatibility b/w what people in society collectively want to have and what they produce (match consumption with production)
- If people want more corn, resources used in production of goods and services must be reallocated to production of corn

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- Scarce resources have to be allocated properly in production of goods and services, keeping with likes and dislikes of people

2 Economic Problems Faced by Society

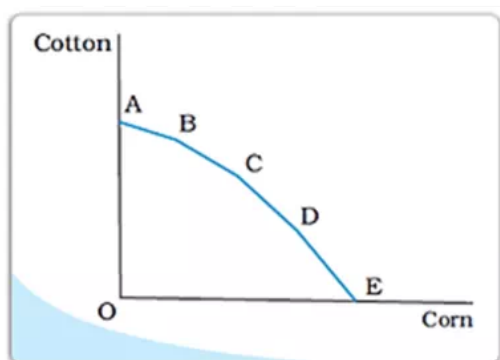
- Allocation of the limited/scarce resources
- Distribution of the final mix of goods and services

Central Problems of an Economy

- Production, exchange and consumption of goods and services
- Every society faces scarcity of resources
- Scarcity of resources leads to choice
- Scarce resources have competing usages
- Decide how to use scarce resources
- What is to be produced and in what quantities? – whether food, clothing or housing, basic education
- How are these goods produced? Use more labor or machines
- For whom are these goods produced? Who gets how much? How should produce be distributed? Who gets more or less?

Production Possibility Frontier

- Every society has to determine how to allocate scarce resources to different goods and services
- Economy gives rise to combination of goods and services
- Production Possibility Set - collection of all possible combinations of the goods and services that can be produced from a given amount of resources and a given stock of technological knowledge when the resources of the economy are fully utilized



Production Possibilities		
Possibilities	Corn	Cotton
A	0	10
B	1	9
C	2	7
D	3	4
E	4	0

Image of Production Possibilities

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- If we want to have more of one of the goods, we will have less of the other good. Thus, there is always a cost of having a little more of one good in terms of the amount of the other good that has to be forgone. This is known as the opportunity cost of an additional unit of the goods.
- Central problem of economy – choose from one of the many production possibilities

Organization of Economic Activities

Centrally Planned Economy

- Government plans all important activities
- All decision of production, exchange and consumption are taken by government
- Achieve particular allocation of resources and distribution
- If individual get less than the survival stake, central authority may intervene

Market Economy

- All economic activities are organized by market
- Market is organization that organizes free interaction of individuals pursuing respective economic activities
- Arrangement which allows people to buy and sell commodities freely
- Coordination of different activities is a must
- This is different from marketplace (interaction of buyers and sellers – no physical location is required)
- If buyer demands more, price would rise

USA – role of government is minimal

China – example of centrally planned economy

India – govt. has major role but it has been reduced over last few years

Positive & Normative Economics

- Positive Economics – How different mechanisms function (fact based, can be tested, based on cause and effect)
- Normative economics – Whether these mechanisms are desirable or not (moral & ethical, value and opinion based)

Microeconomics and Macroeconomics

- Microeconomics - behavior of individual economic agents in the markets for different goods and services and try to figure out how prices and quantities of goods and services are

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determined through the interaction of individuals in these markets

- Macroeconomics – focus attention on aggregate measures like total output, employment and aggregate price level – what are levels of output? How are they determined? How they grow over time? Why price rises? What are reasons for unemployment?

-Manishika