# 8 Building Blocks in Economics: The Problem of Choice

## The Big Questions (Page - 161)

**1. What does economics deal with?**

**Ans.** Economics deals with how individuals, enterprises, and governments make choices to use limited resources efficiently to satisfy unlimited needs and wants. It also studies the production, distribution, consumption of goods and services, and the interaction of different economic entities.

**2. What are the key questions in economics?**

**Ans.** Economics addresses three key questions:

- **What to produce?** — Which goods and services should be produced and in what quantities?
- **How to produce?** — Which methods, resources, and technologies should be used?
- **For whom to produce?** — Who will receive and benefit from the goods and services produced?

**3. How do different economic systems address these questions?**

**Ans.** Different economic systems answer these questions in different ways:

- **Planned Economy:** The government makes major decisions about what, how, and for whom to produce.
- **Market Economy:** Private producers and market forces of demand and supply make most economic decisions.
- **Mixed Economy:** Both the government and private sector make economic decisions. It combines features of planned and market economies.

**In short:** Different economic systems differ mainly in who makes economic decisions and how resources are allocated.



**LET'S EXPLORE (Page - 184)**

- **List three things your parents bought this month. Can you classify them into needs or wants?**



**Ans.**

| Things Bought | Classification |
|---|---|
| • Groceries and food items | Need |
| • School books and stationery | Need |
| • A new smartphone or luxury item | Want |

- **Do you think having too many wants may create problems? Why or why not?**

**Ans.** Yes, having too many wants may create problems because resources and money are limited. Trying to satisfy every want can lead to overspending, debt, waste of resources, and pressure on the environment. Therefore, people should distinguish between needs and wants and make careful choices.

**LET'S EXPLORE (Page - 186)**

- **Ask your parents about how they make choices for everyday purchase. What is the opportunity cost of making a particular decision?**

**Ans.** My parents make everyday purchasing decisions by considering their needs, budget, price, quality, and usefulness of the product. They give priority to essential items before spending money on wants.

- For example, if they choose to buy groceries instead of new clothes, the opportunity cost is the new clothes they give up.

Thus, opportunity cost is the value of the next best alternative that is sacrificed when a choice is made.

- **How do you decide to spend your time? Is time a scarce resource?**

**Ans.** I decide how to spend my time by giving priority to important activities such as studying, completing homework, helping at home, and relaxing.
Yes, time is a scarce resource because we have only a limited number of hours each day. If we spend time on one activity, we must give up the opportunity to do something else. Therefore, time should be used wisely and planned carefully.

**THINK ABOUT IT (Page - 189)**

- **Should the government allocate more funds to healthcare and education or to defence and space exploration? Why or why not?**

**Ans.** This question does not have one fixed answer, as the allocation of funds depends on a country's needs and priorities. In my opinion, the government should give greater priority to healthcare and education because they improve people's quality of life and contribute to the country's long-term development. However, sufficient funds should also be allocated to defence and space exploration, as they are important for national security and technological progress. Since government resources are limited, spending more on one sector means less can be spent on another. Therefore, the government should maintain a proper balance among these sectors.

**LET'S EXPLORE (Page - 191)**

- **In your opinion, should the government completely stay out of enterprise decisions?**

**Ans.** No, the government should not completely stay out of enterprise decisions. Businesses should have the freedom to make their own decisions, but the government should regulate them to ensure fair competition, consumer protection, worker safety, and environmental protection. It should also prevent unfair practices and monopolies.
Therefore, a balanced approach is best, where private enterprises have freedom to operate while the government protects public interest.

- **Can you think of an example where government action helped or harmed an industry or sector?**

**Ans.** Government action can both help and harm an industry or sector.
  - **Helping an industry:** Government support through subsidies, improved infrastructure, and favourable policies can help the agriculture sector by reducing farmers' costs and improving production.
  - **Harming an industry:** Excessive licences, permits, and regulations can increase costs and make it difficult for businesses to operate and compete.

**Conclusion:** Government intervention is useful when it protects the public interest and supports economic growth. However, excessive control may reduce competition, efficiency, and innovation.

## Questions and activities (Page - 193-194)

1. **Why do you think people's wants keep changing over time? How does this affect production in an economy? Why cannot all our wants be satisfied?**

**Ans**. People's wants keep changing over time because of changes in income, technology, lifestyle, fashion, advertising, and personal preferences. These changing wants affect production because producers have to change the type and quantity of goods and services according to consumer demand.
All our wants cannot be satisfied because human wants are unlimited, whereas resources are limited and have alternative uses. Therefore, individuals and societies must make choices and use scarce resources efficiently.

2. **'Human wants are unlimited and keep changing'. How do you think this constant desire for more creates pressure on the environment? Can the fulfilment of wants and the extraction of resources be balanced?**

**Ans.** The constant desire for more can increase the use and extraction of natural resources such as water, forests, minerals, and fossil fuels. This can lead to pollution, deforestation, loss of biodiversity, and climate change.
Yes, fulfilment of wants and resource extraction can be balanced by adopting sustainable practices, such as:

- Using renewable resources
- Reducing waste
- Reusing and recycling materials
- Conserving water and energy
- Promoting sustainable production and consumption

Thus, economic development should meet present needs without harming the ability of future generations to meet their needs.

**3. Can you think of a resource in your region that is scarce but used wastefully? How could it be managed better?**

**Ans.** Water is a scarce resource in my region but is sometimes used wastefully. It can be managed better through rainwater harvesting, repairing leaking taps and pipelines, reusing water, using drip irrigation, and spreading awareness about water conservation. This will help conserve water for present and future generations.

**4. Which economic system—market, planned, or mixed—do you think gives people the most freedom? Which economic system is best suited for promoting innovation? Why?**

**Ans.** A market economy generally gives people the most economic freedom because individuals and private enterprises can make decisions about production, investment, and consumption with less government control.
A market economy is also generally best suited for promoting innovation because competition encourages businesses to improve quality, develop new products, use new technology, and reduce costs.
However, some government regulation is necessary to protect consumers, workers, and the environment.

**5. Critically examine why pure economic systems rarely exist in reality. Assess the limitations of such systems and justify why a mixed economy is often considered a more practical and effective approach in real-world contexts.**



**Ans.** Pure planned and pure market economies rarely exist because both systems have limitations.

- A planned economy provides greater government control and can focus resources on public needs, but excessive control may reduce competition, innovation, and private initiative.
- A market economy encourages freedom, competition, efficiency, and innovation, but it may not adequately provide public goods or protect weaker sections of society.

A mixed economy combines the strengths of both systems. It allows private enterprises and competition while the government provides public goods, welfare programmes, consumer protection, and necessary regulation.
Therefore, a mixed economy is often more practical because it balances economic freedom, efficiency, innovation, and social welfare.

**6. A student has ₹100 and must choose between buying a notebook or saving the money for buying a tennis racket later. Which economic concept best explains this situation?**

| | |
|---|---|
| **a. Demand** | **b. Opportunity cost** |
| **c. Production** | **d. Inflation** |

**Ans.** Correct Answer: b. Opportunity Cost

- **Explanation**: The student has limited money and must choose between buying a notebook now and saving for a tennis racket later. Choosing one option means giving up the other, which illustrates opportunity cost.

**7. How does understanding opportunity cost improve the quality of economic decision-making?**

**Ans.** Understanding opportunity cost helps people compare different alternatives and understand what they give up by choosing one option. It helps individuals, businesses, and governments use limited resources more efficiently and make better decisions.

**8. Can effective economic decisions be made without reliable data? Support your answer with an example.**

**Ans.** No, effective economic decisions cannot usually be made without reliable data because data helps in understanding demand, costs, risks, and available resources.

- **Example**: A farmer uses information about rainfall, soil conditions, crop prices, and water availability to decide which crop to grow. Without reliable data, the farmer may choose an unsuitable crop and suffer a loss.

**9. Analyse how a country's present economic choices can shape its long-term future. Why is it important to consider future consequences while making economic decisions today?**

**Ans.** A country's present economic choices can strongly affect its future growth and development. Spending on education, healthcare, infrastructure, and technology can improve productivity and create better opportunities in the future. Similarly, overusing natural resources or ignoring environmental protection can create long-term problems.

Therefore, governments should consider the future consequences and opportunity costs of present decisions while using limited resources.

**10. Identify a news article from any newspaper of your choice about a product or commodity (such as vegetables, fruits, fuel, or electronics) where producers or companies are deciding how much to produce or supply. Write 2–3 sentences explaining the example you found and why the production decision was made.**

**Ans.**

**Example: Fuel**

A rise or fall in fuel prices can influence how much fuel companies decide to supply in the market. If demand is high and prices are favourable, producers and suppliers may increase supply, while lower demand or higher costs may encourage them to reduce supply. The decision depends on market demand, prices, costs, and expected future conditions.

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**Global oil supply jitters push fuel prices higher in India**

Rise In Crude Prices, Refining Margins Behind Costlier Petrol, Diesel

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**Mumbai:** Global oil supply jitters and firm refining margins have pushed automotive fuel prices higher in the country, with petrol prices rising by ₹4.28 per litre and diesel by ₹2.42 per litre in the national capital since the start of August.

Data from the Indian Oil Corporation (IOC) website showed that petrol prices in Delhi on Wednesday were ₹94.72 per litre, compared to ₹90.44 on August 1. Diesel prices increased to ₹87.62 per litre from ₹85.20 over the same period.

The hike reflects a combination of rising international crude oil prices and strong refining margins, according to industry experts.

**WHAT'S DRIVING PRICES**

- Crude oil prices up about 8% in August amid **geopolitical** tensions
- **Strong refining margins** boosting retail fuel rates
- OMCs adjusted prices after absorbing part of the increase earlier



Experts say sustained geopolitical tensions in key oil-producing regions, particularly the Middle East, have added a risk premium to crude prices. Brent crude — the global benchmark — has climbed from around \$73 per barrel in early August to nearly \$79 per barrel now.

Refining margins, the gap between crude costs and the price of refined products, have also been firm in recent weeks.

This has given oil marketing companies (OMCs) less room to absorb costs, making price hikes at the pump inevitable, analysts said.

Petrol and diesel prices vary across states depending on local taxes such as VAT. States including Maharashtra, Rajasthan and Madhya Pradesh have also revised VAT rates in recent months, adding to the burden on consumers.

**IMPACT ON CONSUMERS:** Higher fuel prices add to transport and logistics costs, feeding into inflation and affecting household budgets. ▶ FULL REPORT, P 9