Chapter 8: Building Blocks in Economics — The Problem of Choice

SECTION A — Multiple Choice Questions.

1. The word 'Economics' is derived from the Greek word:
   a) Oikonomia b) Ekonomos c) Econos d) Economia

2. Which of the following is an example of a 'want' and not a 'need'?
   a) Food b) Shelter c) A smartphone d) Drinking water

3. The value of the next best alternative given up while making a choice is called:
   a) Market value b) Opportunity cost c) Production cost d) Scarcity value

4. In which economic system does the central planning authority of the government make all major economic decisions?
   a) Market economy b) Planned economy c) Mixed economy d) Barter economy

5. Which of these is NOT a factor of production mentioned in the chapter?
   a) Land b) Labour c) Capital d) Population

6. A student has ₹100 and must choose between buying a notebook or saving for a tennis racket later. This situation best illustrates:
   a) Demand b) Opportunity cost c) Production d) Inflation

7. Which document is prepared by the Ministry of Finance and presented in Parliament before the Union Budget?
   a) Annual Report b) Economic Survey of India c) Census Report d) Company Balance Sheet

8. The Economic Survey of India is prepared every year by the:
   a) Reserve Bank of India b) Ministry of Finance c) NITI Aayog d) Ministry of Commerce

9. Where is the Economic Survey presented?
   a) Supreme Court b) State Assembly c) Parliament d) RBI

10. Since 1991, India's economic system is best described as a:
    a) Purely planned economy b) Purely market economy
    c) Mixed economy d) Traditional economy

SECTION B — Fill in the Blanks by using the correct words from the Help Box.

[Data, mixed, Permits, technology, policy, downward, Capital, Resources, unlimited, Union Budget]

1. The government controlled production through a system of Licenses and _____________.
2. Human wants are _____________ and keep changing.
3. _____________ are required to satisfy human needs and wants; they can be natural or human-made.
4. Resources can be natural, like water and coal, or human-made, like capital and _____________.
5. The Production Possibility Curve is generally _____________ sloping.
6. A _____________ is a course or principle of action adopted or proposed by organisations or individuals.
7. The Economic Survey is presented before the _____________.
8. A _____________ economy combines features of both market and planned economies.

9. Production can be labour-intensive or ____________-intensive.
10. Good decisions rely on ____________ and analysis, not guesswork.

SECTION C — Write True or False.

1. Having too many wants can create pressure on limited resources. __________
2. Both natural and human-made resources are unlimited in quantity. __________
3. Resources can be put to only one use and have no alternative uses. __________
4. All points on the PPC show the maximum output that can be produced through efficient use of resources. __________
5. The scope of work of economists includes only research and education, and no other area. __________
6. Economics is concerned only with the income of individuals. __________
7. Resources can have alternative uses. __________
8. The farmer in the chapter can produce unlimited quantities of both barley and wheat. __________
9. The Economic Survey of India is an annual document. __________
10. Advanced technology may encourage greater use of machines. __________

SECTION D — Match the terms in Column A with their correct descriptions in Column B.

Column A	Column B
1. Planned Economy	a) Combines features of market and planned economies
2. Market Economy	b) Government makes all major economic decisions
3. Mixed Economy	c) Value of the next best alternative given up
4. Opportunity Cost	d) Forces of demand and supply mainly decide production
5. Production Possibility Curve	e) Shows maximum combinations of two goods that can be produced

SECTION E — Short Answer Questions.

1. What are resources? Give examples of natural and human-made resources.
Ans. ____
____

2. How does the Production Possibility Curve help enterprises and governments?
Ans. ____
____

3. What do you understand by 'economic entities'? Give examples.
Ans. ____
____

4. What is the Economic Survey of India? Why is it important?
Ans. ____
____

5. Name the four factors of production.
Ans. ____
____

6. Why do human wants keep changing?
Ans. ____
____

7. What factors influence the choice of production technique?
Ans. ____
____

8. Give examples of planned economies mentioned in the chapter.
Ans. ____
____

9. How does competition benefit a market economy?
Ans. ____
____

10. Why is time considered a scarce resource?
Ans. ____
____

SECTION F —Answer the following in detail.

1. Describe any three areas that form the scope of work of economists.
Ans. ____
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2. Explain why the problem of choice arises in economics.
Ans. ____
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3. What is an economic system? Explain its different types.
Ans. ____
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4. Explain the main features of a planned economy.
Ans. ____
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5. Why must individuals, enterprises, and governments make choices?
Ans. ____
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SECTION G — Give one word answer.

1. The study of choices involving limited resources and unlimited wants. ______________
2. A place where goods and services are bought and sold. ______________
3. A system of production, distribution, trade, and consumption. ______________
4. Facts and statistics collected for analysis. ______________
5. A systematic method of collecting and analysing data. ______________

SECTION H — Case-Based Question - Read the case given below and answer the questions that follow:

A garment manufacturer has to decide whether to produce mass-market ready-made clothes using automated machines, or customised, designer garments using skilled tailors. Machines are currently expensive, but labour is easily available and cheap in the region. The government offers some incentives for adopting modern machinery, while existing labour laws also protect workers' jobs.

Questions:
1. Which key question of economics is the manufacturer trying to answer in this case?
2. State any two factors, based on the case, that would influence the manufacturer's choice between labour-intensive and capital-intensive production.
3. Explain how the 'nature of the product' (mass-produced vs customised) affects this production decision.
4. In your opinion, should government policy in a country like India favour labour-intensive or capital-intensive production? Give reasons for your answer.

SECTION I — Assertion-Reason Questions.
Instructions: For each question, choose the correct option from the choices below:
A. Both Assertion (A) and Reason (R) are true, and R is the correct explanation of A.
B. Both Assertion (A) and Reason (R) are true, but R is not the correct explanation of A.
C. Assertion (A) is true, but Reason (R) is false.
D. Assertion (A) is false, but Reason (R) is true.
1. Assertion (A) Economists help individuals, businesses, and governments make better decisions.
   Reason (R) They analyse available alternatives, opportunity costs and possible outcomes using data.
2. Assertion (A) Producers make different types of shoes for different groups of consumers.
   Reason (R) Consumers differ in their needs, income levels, tastes and purchasing power.
3. Assertion (A) The method of production remains the same for every industry.
   Reason (R) The choice of production method depends on factors such as technology, cost of capital, and the nature of the product.
4. Assertion (A): In a Planned Economy, prices are mainly determined by demand and supply.
   Reason (R): The government controls production and allocation of resources.
5. Assertion (A): Competition encourages producers to improve quality and innovate.
   Reason (R): Competition is an important feature of a Market Economy.

SECTION J — Differentiate between the following pairs. Write at least two points of difference for each.
1. Differentiate between needs and wants by giving one example of each.
2. Differentiate between labour-intensive and capital-intensive methods of production.
3. Differentiate between Planned Economy and Market Economy.

ANSWER KEY

SECTION A – MCQs

1. a) Oikonomia	2. c) A smartphone	3. b) Opportunity cost	4. b) Planned economy
5. d) Population	6. b) Opportunity cost	7. b) Economic Survey of India	
8. b) Ministry of Finance	9. c) Parliament	10. c) Mixed economy	

SECTION B – Fill in the Blanks

1. Permits	2. unlimited	3. Resources	4. technology	5. downward
6. policy	7. Union Budget	8. mixed	9. Capital	10. data

SECTION C – True or False

1. True	2. False	3. False	4. True	5. False
6. False	7. True	8. False	9. True	10. True

SECTION D – Match the Following

1. - b	2. - d	3. - a	4. - c	5. - e

SECTION E – Short Answers

1. Resources are factors used to satisfy human needs and wants and to produce goods and services. Natural resources include water and coal, while human-made resources include capital and technology.
2. The PPC shows the maximum possible combinations of two goods that can be produced with available resources. It helps in planning, decision-making and understanding opportunity cost.
3. Economic entities are participants in economic activities who make decisions about the use of resources. Examples include consumers, producers, governments and financial institutions.
4. The Economic Survey of India is an annual document prepared by the Ministry of Finance and presented in Parliament before the Union Budget. It reviews the country's economic performance and provides important insights for policymakers and citizens.
5. The four factors of production are land, labour, capital and technology.
6. Human wants keep changing because people's preferences, lifestyles, incomes, technology and needs change over time.
7. The choice depends on the cost of capital, technology, availability and cost of labour, nature of the product, and government laws and regulations.
8. The examples are the former Soviet Union, North Korea and Cuba.
9. Competition encourages producers to offer better quality, lower prices and innovative products and services.
10. Time is scarce because everyone has a limited amount of time and must choose how to use it among different activities.

SECTION F — Answers in detail.

1. Economists work in many areas.
   Three important areas are:
- Policy-making: Economists advise governments on taxation, public spending, welfare schemes and other economic policies.
- Business consulting: They help businesses understand markets, plan growth and improve efficiency.
- Research and education: They study economic trends, collect and analyse data, conduct research and teach economic concepts.

Thus, economists help individuals, businesses and governments make better economic decisions.

2. The problem of choice arises because human wants are unlimited, while resources are limited. Resources such as land, labour, capital and technology cannot satisfy all wants at the same time. Moreover, resources have alternative uses. Therefore, individuals, enterprises and governments have to decide how to use scarce resources in the best possible way. When one alternative is chosen, another alternative has to be given up. The value of the next best alternative given up is called opportunity cost.
3. An economic system is a system that determines how the production, consumption, distribution and allocation of goods, services and resources are organised in a country.

There are three main types:

- Planned Economy: Major economic decisions are made by the government or central planning authority.
- Market Economy: Demand and supply mainly determine production and prices.
- Mixed Economy: Both market forces and government play important roles in the economy.

Thus, economic systems differ mainly in how economic decisions and resources are organised.

4. A planned economy is one in which a central planning authority makes major economic decisions. Its main features are:
   The government decides what and how much to produce.

- It decides how goods and services should be produced.
- The government controls the allocation of resources.
- Prices may be controlled or regulated by the government.
- Major resources and sectors may be owned or controlled by the government, while private enterprises have limited freedom.
  Examples mentioned in the chapter include the former Soviet Union, North Korea and Cuba.

5. Individuals, enterprises and governments must make choices because resources are limited and have alternative uses.

- Individuals choose how to spend or save their limited money and time.
- Enterprises decide what and how much to produce and which production method to use.
- Governments decide how to allocate limited public funds among healthcare, education, defence and infrastructure.
- Since all wants cannot be satisfied at the same time, priorities have to be set.
- Choosing one alternative means giving up another, which creates an opportunity cost.

SECTION G – One-Word Answers

1. Economics 2. Market 3. Economy 4. Data 5. Survey

SECTION H — Case-Based Answers

1. The manufacturer is trying to answer the question of "How to produce?"—whether to use a labour-intensive method with skilled tailors or a capital-intensive method using automated machines.
2. Two important factors are:
   - Cost of machines/capital: Machines are currently expensive.
   - Availability and cost of labour: Labour is easily available and cheap in the region.
3. Mass-produced ready-made clothes can be produced efficiently using automated machines, while customised designer garments require skilled tailors because they need individual attention, skill and flexibility.
4. Government policy should favour a balanced approach. Labour-intensive production can create more employment opportunities, especially where labour is easily available. Capital-intensive production can increase productivity, efficiency and the use of modern technology. Therefore, both methods should be encouraged according to the needs of different industries.

SECTION I – Assertion & Reason

1. - A 2. - A 3. - D 4. - D 5. - B

SECTION J — Differentiate Between

1. Needs and Wants

Needs	Wants
• Needs are things essential for survival and basic well-being.	• Wants are things people desire for comfort, enjoyment or convenience.
• They are necessary for a healthy life.	• They are not essential for survival.
• **Example:** Food	• **Example:** Smartphone

2. Labour-Intensive and Capital-Intensive Methods of Production

Labour-Intensive	Capital-Intensive
• Uses more labour and less machinery.	• Uses more machines, technology and capital.
• Human workers play a major role in production.	• Machines and technology play a major role in production.
• **Example:** Handicraft production	• **Example:** Automated manufacturing

3. Planned Economy and Market Economy

Planned Economy	Market Economy
• Major economic decisions are made by the government.	• Economic decisions are mainly influenced by demand and supply.
• The government controls or directs the allocation of resources.	• Producers and consumers make decisions through market forces.
• Prices may be controlled or regulated by the government.	• Prices are mainly determined by demand and supply.
• Private enterprises have limited freedom.	• Private enterprises generally have greater freedom.