

CHAPTER – 3

BASIC PROBLEMS OF AN ECONOMY

Every economic system faces basic economic problems relating to production, distribution and consumption in the society. The problem of 'what to produce', is more important in less developed economy, as they do not have skilled man power. 'How to produce' is another problem, as availability of resources are different in each economy. Hence it is important to adopt technology in production.

The problems depend on the economic status of the country. Another problem is 'for whom to produce', it depends on the socio-economic ideology. 'How much to produce' is another problem which depends on the Production, Potential and Size of the market. The problem of 'by whom to produce' is also very big . A Socialist Economy aims at social control over productive activities; a Capitalist Economy gives occupational freedom, the Mixed Economy is the combination of both Capitalist and Socialist economy. The last problem is that 'how best the resources are being used'. The available resources should be allocated, to get maximum total output.

QUESTIONS

I.A. Fill in the blanks :

- 1) The problem of what to produce arises because of _____
resources in relation to demand.
- a) abundance, b) scarce, c) adequate, d) ample.

II. State whether True or False:

- 1) The economy can achieve larger total output through efficient reallocation of resources.

III. Answer the following in one sentence:

- 1) Name any one of the economic problems.

IV. Answer the following in five to six sentences:

- 1) Explain the basic economic problem.

ANSWERS

I. Fill in the blanks :

1) The problem of what to produce arises because of **scarce** resources in relation to demand.

b) abundance, b) scarce, c) adequate, d) ample.

II. State whether True or False:

1) The economy can achieve larger total output through efficient reallocation of resources.

Ans.)

True

III. Answer the following in one sentence:

1) Name any one of the economic problems.

Ans.)

'For whom to produce' is an important economic problem.

IV. Answer the following in five to six sentences:

1) Explain the basic economic problem.

Ans.)

Every economic system faces basic economic problems relating to production, distribution and consumption, in the society.

- a) The problem of 'what to produce' is more important in less developed economy, as they do not have skilled man power and it becomes very difficult to solve.
- b) 'How to produce' is another problem as availability of resources are different in each economy. Hence technology in production has to be adopted. This problem depends on the economic status of the country.
- c) Another problem is 'for whom to produce'. It depends on the socio-economic ideology.
- d) 'How much to produce' is another problem. It depends on the production, potential and size of the market.
- e) The problem of 'by whom to produce' is very big. A socialist economy aims at social control over productive activities. A capitalist economy gives occupational freedom.
- f) The Mixed Economy is the combination of both capitalist and socialist economy.

- g) The last problem is that 'how best the resources are being used'. The available resources should be allocated to get maximum total output.

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