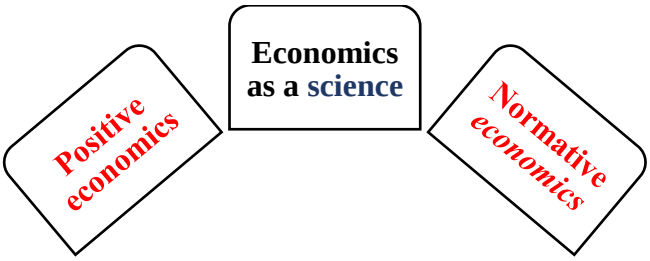
Bridge Course For Economics

Grade XI

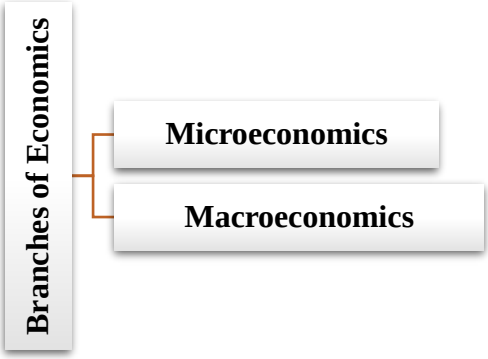
INTRODUCTION

Economics is a social science which studies the way a society chooses to use its limited resources, which have alternate uses, to produce goods and services and to distribute them among different groups of people.



Positive Economics *deals with what are the economic problems and how are they actually solved.*

Normative Economics *deal with what ought to be or how the economic problems should be solved.*



Microeconomics *is that part of economic theory, which studies the behaviour of individual units of an economy. For example, Individual income, individual output, price of a commodity, etc. Its main tools are Demand and Supply.*

Macroeconomics *is that part of economic theory which studies the behaviour of aggregates of the economy as a whole. For example, National income, aggregate output, aggregate consumption, etc. Its main tools are Aggregate Demand and Aggregate Supply.*

Central problems of an economy		
What to Produce	How to Produce	For Whom to Produce

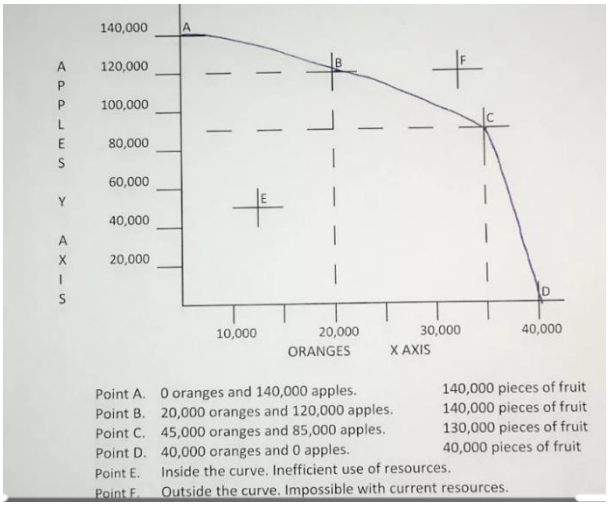
Opportunity Cost: It is the cost of next best alternative foregone.

Production Possibility Frontier: refers to the graphical representation of possible combinations of two goods that can be produced with given resources and technology.

- What does the PPF tell us?
- If you have already used up your finite resources, you need to give up 'other stuff' in order to produce more food
- So if producing one more unit of food requires you to give up two units of 'other stuff', the opportunity cost is going to be 2
- All points below the PPF are feasible
- All points over the PPF are unattainable with the current level of resources

A production possibility curve measures the amount maximum output of two goods using a fixed of input. The input is any combination of the four factors of production: natural resources (including land), labour, capital goods, and entrepreneurship. The manufacture of most goods requires a mix of all four. Each point on the curve shows how much of each good will be produced when resources shift from making one good and less of the other.

The curve measures the trade-off between producing one good versus another.



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Test Yourself

Ramesh is working at a salary of Rs.35,000 per month. He receives two jobs offers (i)To work as an accountant at a salary of Rs.30,000 per month: (ii)To work as a sales manager at a salary of Rs.25,000 per month. In the given case, his opportunity cost will be :

(a)Rs.25,000 (b)Rs.30,000 (c)Rs.35,000 (d)Rs.65,000