

CUET · ECONOMICS · CLASS XII · CODE 309

Introduction

CUET unit: Introduction to Microeconomics

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Snapshot

- The basic economic problem: human wants are unlimited but resources are scarce, forcing every individual and every society to make choices.
- An economy faces three central problems — **what to produce, how to produce, for whom to produce** — and each answer requires an allocation of scarce resources.
- The **production possibility set** and the **production possibility frontier (PPF)** are the formal tools for visualising scarcity, choice and **opportunity cost**.
- The two polar mechanisms for solving central problems are the **centrally planned economy** and the **market economy**; real-world economies are **mixed economies**.
- **Positive** analysis describes what is, **normative** analysis prescribes what ought to be; **microeconomics** studies a single commodity while **macroeconomics** studies aggregates.

Detailed Notes

2.1 Core concepts

- **Goods vs services:** Goods are physical, tangible objects that satisfy wants and needs (food, clothes); **services** are intangible (the tasks doctors and teachers perform). (NCERT §1.1, footnote 1, p. 1)
- **Individual and resource:** An **individual** is any decision-making unit — a person, household, firm or organisation. A **resource** is any good or service used to produce other goods and services, e.g. land, labour, tools, machinery. (NCERT §1.1, footnotes 2 and 3, p. 1)
- **A simple economy:** No individual has all the things she needs; each owns only some resources (a family farm has land, grains, implements, bullocks, labour; a weaver has yarn and instruments; a teacher has skills; a labourer has only labour services). Each uses her resources to produce something and exchanges part of the produce for other goods and services. (NCERT §1.1, p. 1)
- **Scarcity at the individual level:** No individual has unlimited resources compared to her needs — wanting a bigger house may mean giving up arable land; wanting better education may mean giving up luxuries. (NCERT §1.1, p. 2)

- **Scarcity at the society level:** Just as an individual's resources are scarce, the resources of society as a whole are also scarce in comparison to what people collectively want; production must be compatible with what people collectively want to consume. (NCERT §1.1, p. 2)
- **Two basic economic problems of society:** (i) the **allocation** of the limited resources, and (ii) the **distribution** of the final mix of goods and services among the individuals of the society. (NCERT §1.1, p. 2)
- **Definition of allocation:** "By an allocation of the resources, we mean how much of which resource is devoted to the production of each of the goods and services." (NCERT §1.1, footnote 5, p. 2)
- **Central problems of an economy (§ 1.2):** Production, exchange and consumption are the basic economic activities; scarcity gives rise to the problem of choice. Every economy must answer three questions:
 - **What is produced and in what quantities?** — food vs luxury, agriculture vs industry, education/health vs military, basic vs higher education, consumption vs investment goods. (NCERT §1.2, p. 3)
 - **How are these goods produced?** — how much of which resource (more labour or more machines) and which technology to use for each good. (NCERT §1.2, p. 3)
 - **For whom are these goods produced?** — distribution of the produce; who gets more and who gets less; whether to ensure a minimum consumption for all and free elementary education and basic health. (NCERT §1.2, p. 3)
- **Production possibility set:** "The 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." (NCERT §1.2, p. 3)
- **Example 1 (corn and cotton):** With full utilisation of resources, possibilities A–E are (0,10), (1,9), (2,7), (3,4), (4,0); maximum corn alone is 4 units, maximum cotton alone is 10 units. (NCERT §1.2, Table 1.1, pp. 3–4)
- **Production possibility frontier (PPF):** The curve giving the maximum amount of corn for any given amount of cotton (and vice-versa); shows combinations producible when resources are **fully utilised**. (NCERT §1.2, p. 4)
- **Points on, below, and the curve itself:** Any point **on or below** the curve is a combination that can be produced; a point **strictly below** the PPF represents a combination produced when resources are **underemployed or used in a wasteful fashion**. (NCERT §1.2, p. 4)
- **Opportunity cost:** Because more corn means fewer resources for cotton (and vice versa), "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 the **opportunity cost** of an additional unit. It applies to individuals and society, and is sometimes called the **economic cost**. (NCERT §1.2, p. 4 + footnote a)

- **Choice as a central problem:** One of the central problems of the economy is to choose one of the many production possibilities. (NCERT §1.2, p. 4)
- **Organisation of activities (§ 1.3):** Central problems can be solved either by free interaction of individuals in the **market** or in a planned manner by a **central authority** like the government. (NCERT §1.3, p. 4)
- **Centrally planned economy (§ 1.3.1):** The government/central authority plans all important activities and takes all important decisions about production, exchange and consumption. It may try to ensure adequate production of essential goods (e.g. education, health) and may intervene for equitable distribution when some people's survival is at stake. (NCERT §1.3.1, pp. 4–5)
- **Market economy (§ 1.3.2):** All economic activities are organised through the **market** — a set of arrangements that allow people to buy and sell commodities freely (need not be a physical marketplace; can be a village chowk, super bazaar, telephone or internet). An **institution** is an organisation with some purpose. (NCERT §1.3.2, p. 5 + footnote 6)
- **Price signals as the coordinating force:** In a market, every good has a mutually-agreed price that reflects, on average, society's valuation; if buyers demand more, price rises, signalling producers to produce more. Prices coordinate the activities of millions of isolated individuals. (NCERT §1.3.2, p. 5)
- **Mixed economy — the real world:** "In reality, all economies are mixed economies where some important decisions are taken by the government and the economic activities are by and large conducted through the market." Examples cited: USA (minimal government role), China for most of the twentieth century (closest to centrally planned), India (major government role since Independence, considerably reduced in the last couple of decades). (NCERT §1.3.2, pp. 5–6)
- **Positive vs normative economics (§ 1.4):** Positive economic analysis studies how the different mechanisms function; normative economic analysis studies whether these mechanisms are desirable. The distinction is not very sharp — the two are closely related. (NCERT §1.4, p. 6)
- **Microeconomics vs macroeconomics (§ 1.5):** Microeconomics studies the behaviour of individual economic agents in the markets for different goods and services and how prices and quantities of goods and services are determined. **Macroeconomics** studies the economy as a whole using aggregate measures such as total output, employment and aggregate price level — how these are determined and how they change over time; it asks questions like the level and growth of total output, whether resources (e.g. labour) are fully employed, reasons behind unemployment, and why prices rise. (NCERT §1.5, p. 6)
- **Plan of the book (§ 1.6):** This book is on microeconomics — Chapter 2 consumer's behaviour, Chapter 3 production and cost, Chapter 4 producer's behaviour, Chapter 5 perfectly competitive market, Chapter 6 other forms of market. (NCERT §1.6, pp. 6–7)

2.2 Definitions to memorise

Term	Definition	Page
Goods	Physical, tangible objects used to satisfy people's wants and needs (e.g. food, clothes).	1
Services	The intangible satisfaction of wants and needs (e.g. tasks performed by doctors, teachers).	1
Individual	An individual decision-making unit — a single person or a group like a household, a firm or any other organisation.	1
Resource	Goods and services used to produce other goods and services, e.g. land, labour, tools and machinery.	1
Scarcity	The condition that resources are limited in comparison to needs/wants, giving rise to the problem of choice.	2-3
Allocation (of resources)	How much of which resource is devoted to the production of each of the goods and services.	2
Central problems of an economy	What to produce and in what quantities, how to produce, and for whom to produce.	3
Production possibility set	The collection of all possible combinations of goods and services producible from a given amount of resources and a given stock of technological knowledge.	3
Production possibility frontier (PPF)	The curve giving the maximum amount of one good producible for any given amount of the other when resources are fully utilised.	4
Opportunity cost	The amount of the other good that has to be forgone to have a little more of one good; sometimes called the economic cost.	4
Centrally planned economy	An economy in which the government/central authority plans all important activities and takes all important decisions about production, exchange and consumption.	4
Market	A set of arrangements (an institution) where economic agents can freely exchange their endowments or products with each other.	5
Market economy	An economy in which all economic activities are organised through the market.	5
Institution	An organisation with some purpose.	5
Mixed economy	An economy where some important decisions are taken by the government and economic activities are by and large conducted through the market.	5
Positive economic analysis	The study of how the different mechanisms of the economy function.	6

Term	Definition	Page
Normative economic analysis	The study of whether the mechanisms of the economy are desirable or not.	6
Microeconomics	The branch of economics that studies the behaviour of individual economic agents and the determination of prices and quantities of individual goods and services.	6
Macroeconomics	The branch of economics that studies the economy as a whole using aggregate measures such as total output, employment and aggregate price level.	6

2.3 Diagrams / processes to remember

- **Table 1.1 — Production Possibilities for corn and cotton:** Possibility A (0, 10), B (1, 9), C (2, 7), D (3, 4), E (4, 0). Maximum corn = 4 (when cotton = 0); maximum cotton = 10 (when corn = 0). (NCERT §1.2, p. 3)
- **Production Possibility Frontier diagram:** A downward-sloping curve in cotton–corn space with points A–E labelled from the cotton-axis to the corn-axis. Points on the curve = full and efficient utilisation; points strictly below = under-employed or wasteful use of resources. (NCERT §1.2, p. 4)
- **Three central questions flow:** What → How → For whom — every economy must answer all three because resources are scarce and have competing uses. (NCERT §1.2, p. 3)
- **Two mechanisms for the central problems:** Centrally planned (decisions by government) vs Market (decisions coordinated by prices); reality = mixed economy. (NCERT §1.3, pp. 4–6)

2.4 Common confusions / NTA trap points

- **PPF — "on or below" vs "on or outside":** NCERT clearly says any point on or below the PPF is producible; points strictly below mean resources are underemployed or wasted. NTA often distracts with "on or outside" — outside the PPF is NOT producible with the given resources.
- **Production possibility set vs production possibility frontier:** The set is the collection of all producible combinations; the frontier is only the boundary giving the maximum producible. Don't treat them as identical.
- **Market ≠ marketplace:** In economics, "market" is the set of arrangements for free exchange — telephone, internet or a village chowk all qualify. A physical location is not required.
- **Positive vs normative:** Positive = how a mechanism functions (factual/analytical); Normative = whether it is desirable (evaluative). NCERT also stresses the distinction is "not very sharp" — be careful with assertion-type questions that overstate the separation.

- **Country examples in § 1.3.2:** NCERT cites USA (minimal government), China for most of the twentieth century (closest to centrally planned) and India (major government role since Independence, reduced in last couple of decades). Match these exactly — NTA loves swapping them.
- **Opportunity cost is also called economic cost** (footnote a, p. 4) — easy to miss, often tested.

Practice MCQs

PYQ Alignment

This chapter is high-frequency in CUET past papers: NTA typically draws ~10–12 MCQs per year from definitional items (goods/services, scarcity, opportunity cost, market, institution), the three central problems, PPF interpretation (points on/below the curve, maximum-output values from a Table-1.1-style scenario), and short distinctions (positive vs normative, micro vs macro, centrally planned vs market vs mixed). Statement-based and match-the-following formats around the country examples (USA/China/India) and the macroeconomics question list in §1.5 are especially common.

CUET 2024 — Actual PYQs from this chapter

Q.1 (CUET 2024) ____ is a market where economic agents can freely exchange their endowments with each other.

- A) Market economy B) Centrally planned economy C) Aggregate demand based economy D) Aggregate supply based economy

Tests: Market economy concept
Answer: Not in extracted key