

20/11/22

## Chapter → 2 Central Problems of an Economy

The problem concerning the allocation of the resources to different uses is called economic problem.

### Causes of Economic Problem

1. Unlimited Wants
2. Limited or Scarce Means
3. Alternative Uses

### Central Problems of an Economy

#### 1. What to Produce?

- i) What to produce?
  - ii) How much to produce?
- The economy has to decide what goods and services are to be produced for maximum satisfaction.
- When an economy has taken a decision as to what goods or services are to be produced, then it has to decide about its quantity.

#### 2. How to Produce

→ The second main problem of an economy is how to produce goods or how to organise production?

Two techniques of production:

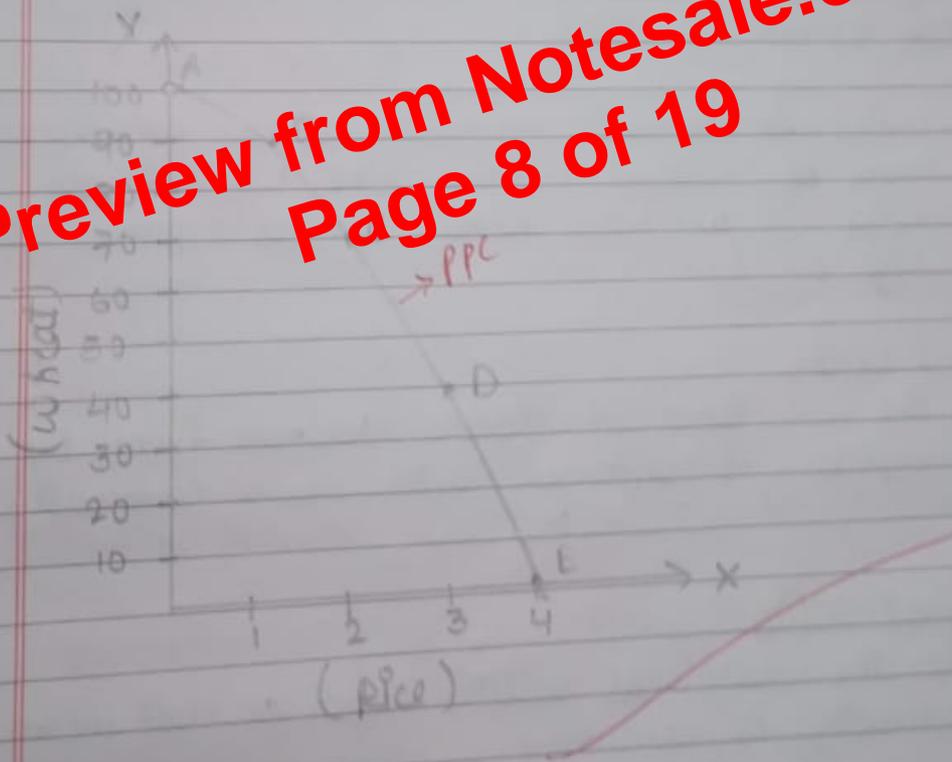
- i) Labour Intensive Technique: under this technique, labour is used more than capital.
- ii) Capital Intensive Technique: under this technique, capital is used more than labour.

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### Example of Production Possibility Curve

Given table shows different possibilities of wheat & rice.

wheat	100	90	70	40	0
Rice	0	1	2	3	4



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Commodity	Mux	Mumy	Muy	Mumy
1	80	0.8	40	4.0
2	72	7.2	32	3.2
3	64	6.4	24	2.4
4	56	5.6	20	2.0
5	48	4.8	16	1.6
6	40	4.0	12	1.2
7	32	3.2	8	0.8
8	24	2.4	4	0.4
9	16	1.6	0	0
10	8	0.8	0	0

→ 7 units of comm. X ; 2 units of commodity - Y.

Ex: Assuming price of X is £1, and price of Y is £1 and money income of consumer is £13. Find optimum combination.

Units	Mux	Muy
1	24	24
2	24	24
3	21	27
4	20	23
5	16	20
6	13	18
7	9	17
8	5	16
9	3	12
10	1	9

$\frac{Mux}{Muy} = 1$  [suitable combination, when to purchase 5 units of X & 8 unit of Y]

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