

-> Central problems of economics

A) What to produce : The first central problem encountered by the economy is to decide which goods and services are to be produced and in what quantity . A country has to decide whether to produce luxury goods or necessary goods , capital goods or consumer goods as all the goods cannot be produced in desired quantities

This problem has two dimensions :

- Kinds of goods to be produced
- Quantity of goods to be produced

B) How to produce : It is the problems that are related to what technique is to be used for producing various goods and services . An economy can choose from among the given two techniques

- Labour : intensive technique
- Capital : intensive technique

C) For whom to produce : It is a problem concerning the distribution of goods and services among factors of production in economy

- This central problem has two dimensions

= Personal distribution of income

(among factors of production)

= Functional distribution of income

(within the factors)

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