Chapter- 8 Building Blocks in Economics: The Problem of Choice

Exercise Question and Answers

Q1: Why do you think people's wants keep changing over time? How does this affect production in an economy? Why cannot all our wants be satisfied?

Ans: People's wants keep changing because of changes in income, technology, fashion, lifestyle, age, education, advertising, and social influences. For example, a person may first want a bicycle, later a motorbike, and then a car.

Changing wants affect production because producers study consumer preferences and adjust what and how much they produce. New products may be introduced, old products may be improved, and resources may be shifted towards goods and services that are in greater demand.

All our wants cannot be satisfied because wants are unlimited, while resources such as land, labour, capital, technology, time, and natural resources are limited. Therefore, individuals and economies must make choices.

Q2: 'Human wants are unlimited and keep changing'. How do you think this constant desire for more creates pressure on the environment? Can the fulfilment of wants and the extraction of resources be balanced?

Ans: The constant desire for more goods and services increases the extraction of natural resources such as water, minerals, forests, and fossil fuels. It can lead to deforestation, pollution, depletion of resources, loss of biodiversity, and increased waste.

Yes, the fulfilment of wants and extraction of resources can be balanced through sustainable use of resources. This can be done by reducing waste, reusing and recycling materials, using renewable energy, conserving water and forests, adopting cleaner technologies, and encouraging responsible consumption. Economic choices should consider both present benefits and long-term environmental costs.

Q3: Can you think of a resource in your region that is scarce but used wastefully? How could it be managed better?

Answer: Water is a suitable example of a scarce resource in many regions of India. It is often wasted through leaking taps and pipelines, excessive use for washing, inefficient irrigation, and unnecessary use of groundwater.

It can be managed better by repairing leaks, using rainwater harvesting, adopting drip irrigation, reusing treated wastewater, preventing unnecessary wastage, and spreading awareness about water conservation. Such measures can help ensure efficient and sustainable use of water.

Q4: Which economic system-market, planned, or mixed-do you think gives people the most freedom? Which economic system is best suited for promoting innovation? Why?

Ans: A market economy generally gives people the most economic freedom because individuals and private enterprises can own resources and make decisions about production, consumption, and investment with relatively little government intervention.

A market economy is also well suited for promoting innovation because competition encourages enterprises to improve quality, lower costs, develop new technologies, and create new products to attract consumers.

However, a mixed economy can combine this freedom and innovation with government regulation, consumer protection, public goods, and welfare programmes. Therefore, in practice, a mixed economy may provide a more balanced approach.

Q5: Critically examine why pure economic systems rarely exist in reality. Assess the limitations of such systems and justify why a mixed economy is often considered a more practical and effective approach in real-world contexts.

Ans: Pure economic systems rarely exist because both completely planned and completely market-based

systems have limitations.

In a pure planned economy, excessive government control may restrict private enterprise and competition. Enterprises may have little motivation to improve quality or innovate. Central authorities may also find it difficult to respond quickly to changing consumer needs.

In a pure market economy, excessive dependence on market forces may lead to inequality, inadequate provision of public goods, consumer exploitation, environmental damage, and neglect of weaker sections of society.

A mixed economy is considered more practical because it combines features of both systems. Private enterprises promote competition, innovation, and profitmaking, while the government regulates markets, protects consumers, ensures fair competition, provides public goods, and runs welfare programmes. Thus, a mixed economy attempts to balance economic freedom with social welfare and public interest.

Q6: A student has ₹100 and must choose between buying a notebook or saving the money for buying a tennis racket later. Which economic concept best explains this situation?

(a) Demand

(b) Opportunity cost

(c) Production

(d) Inflation

Ans: (b) Opportunity cost

Explanation:

The student has limited money and must choose between two alternatives. If the student buys the notebook, the opportunity to save that ₹100 towards the tennis racket is given up. If the student saves the money, the notebook is forgone. Therefore, the situation illustrates opportunity cost.

Q 7: How does understanding opportunity cost improve the quality of economic decision-making?

Ans: Understanding opportunity cost improves economic decision-making because it makes people consider not only the benefit of the chosen option but also the value of the next best alternative that is given up.

For example, if a government spends more money on highways, it should also consider what benefits might be forgone if the same money is not spent on hospitals or education. By comparing alternatives and

their opportunity costs, individuals, enterprises, and governments can use scarce resources more efficiently.

Q8: Can effective economic decisions be made without reliable data? Support your answer with an example.

Ans: No, effective economic decisions generally cannot be made without reliable data because good decisions should be based on evidence and analysis rather than guesswork.

For example, before deciding how much wheat to produce, farmers and policymakers need reliable information about rainfall, soil conditions, market demand, prices, and previous production levels. Without such data, too much or too little wheat may be produced, leading to waste or shortages.

Therefore, reliable data helps decision-makers understand alternatives, risks, opportunities, and possible outcomes.

Q9: Analyse how a country's present economic choices can shape its long-term future. Why is it important to consider future consequences while making economic decisions today?

Ans: A country's present economic choices can strongly influence its long-term development. Decisions about education, healthcare, infrastructure, technology, natural resources, and the environment affect future productivity and quality of life.

For example, investing in education today can create a more skilled workforce in the future. Similarly, excessive extraction of groundwater may increase production in the short term but create severe water shortages later. Investment in clean energy can reduce pollution and dependence on limited fossil fuels over time.

Therefore, it is important to consider future consequences because decisions made today may create long-term benefits or long-term costs. Good economic decisions should balance immediate needs with sustainability and the welfare of future generations.

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Q1. What does economics deal with?

Ans. Economics is the study of how people, businesses, and governments make choices to use limited resources to satisfy unlimited wants. It explains how goods and services are produced, distributed, and consumed to meet human needs.

Q2. What are the key questions in economics?

Ans. The three key questions in economics are:

- **What to produce?** – Which goods and services should be produced and in what quantities?
- **How to produce?** – What methods and resources should be used to produce them?
- **For whom to produce?** – How should the goods and services be distributed among people?

Q3. How do different economic systems address these questions?

Ans. Different economic systems answer these questions in different ways:

- **Market Economy:** Decisions are made by consumers and producers through demand and supply.
- **Planned Economy:** The government decides what, how, and for whom to produce.
- **Mixed Economy:** Both the government and private sector share the responsibility of making economic decisions.