

Written as per the revised syllabus prescribed by the Maharashtra State Board  
of Secondary and Higher Secondary Education, Pune.

# STD. XII

## Economics

### Salient Features:

- Exhaustive coverage of syllabus in Question Answer Format.
- Covers answers to all Textual Questions, Board Questions (Mar 08 – July 17).
- Relevant Marking Scheme for Each Question.
- Includes Additional Important Questions for better preparation.
- Mnemonics to facilitate easy answer recall.
- Quick Recap at the end of each chapter to facilitate quick revision.
- Two Model Question Papers as per the latest paper pattern.
- Includes Board Question Papers of 2016 and 2017.
- Simple and Lucid language.
- Includes GG - our very own mascot.

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10.	Money	4	07
11.	Commercial Banking	6	10
12.	Central Banking	6	10
13.	Public Economics	4	07
<b>Total:</b>		<b>80</b>	<b>144</b>

**(B) Weightage to Objectives**

Sr. No.	Objectives	Marks	Percentage	Marks with Option
1.	Knowledge	17	21	30
2.	Understanding	20	25	36
3.	Application	28	35	50
4.	Skill	15	19	28
<b>Total:</b>		<b>80</b>	<b>100</b>	<b>144</b>

**(C) Weightage to Type of Questions**

Sr. No.	Objectives	Marks	Percentage	Marks with Option
1.	Objective	16	20	16
2.	Short Answer	48	60	96
3.	Long Answer	16	20	32
<b>Total:</b>		<b>80</b>	<b>100</b>	<b>144</b>

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**Note: All Textual questions are represented by \* mark.**

# 01. Introduction to Micro Economics

## Introduction

Economics is a social science which studies the production & consumption of goods and the transfer of wealth to produce & obtain those goods.

The term 'economics' comes from the Ancient Greek 'oikos' which means 'house' and 'nomos' which means 'custom' or 'law'.

The subject was earlier known as 'Political Economy'. However, in the late 19<sup>th</sup> century, the economists suggested 'economics' as a shorter term.

Economics explains how people interact within markets to fulfill their desires/wants/goals.

Also, if one properly studies economics, he/she can comprehend why certain people and/or government/s behave in particular ways.

### Definition of Economics:

According to **Dr. Alfred Marshall**, "Economics is the study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected and social action which is most closely connected with the attainment and use of the material requests of wellbeing."

There are two main types of economics viz. Macro Economics and Micro Economics.

Micro Economics: Study of economic behaviour of an individual unit.

Macro Economics: Study of economic behaviour of the economy, as a whole.

The terms 'Micro Economics' and 'Macro Economics' were coined and eventually used by **Ragnar Frisch** of Oslo University in 1933.

### Meaning of Micro Economics:

- The term 'Micro' has been derived from the Greek word 'mikros' which means 'small'.
- Micro economics deals with the study of economic behaviour of small individual economic units such as individual consumer, firm, producer etc. In other words, its approach is individualistic in nature.
- It splits / divides the whole economy into small individual units and then studies each unit separately in detail. Micro economics is, thus, a microscopic study of the economy.
- It is also known as price theory.

### Definitions of Micro Economics:

- According to **Kenneth Boulding**, "Micro economics is the study of particular firms, particular households, individual prices, wages, incomes, individual industries and particular commodities."

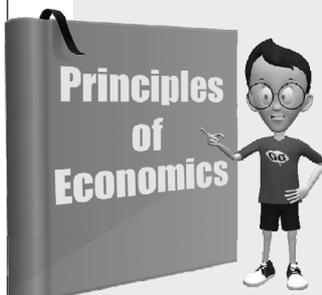
*The above definition intends to explain that micro economics is a study of economic activity of households as a consumption unit, individual firms and industries as a production unit and individual prices, wages, incomes and their determination.*

- According to **Maurice Dobb**, "Micro economics is in fact a microscopic study of the economy."

*The above definition intends to explain that in micro economics, each individual unit is separately examined and analyzed in detail.*

### Good to Know:

- Dr. Alfred Marshall is considered as the real architect of Economics.
- He developed and popularized the concept of Micro Economics.
- Marshall's book '**Principles of Economics**' (1890) was his most important contribution to economic literature.
- In this work Marshall emphasized that the price and output of a good are determined by supply and demand, which act like "blades of the scissors" in determining price.





## **Historical Review of Micro Economics**

**\*Q.1.**  
**Ans:**

**Write a short note on: Historical review of Micro Economics.**

**[Oct 14] [3]**

- Micro economics is a traditional approach and its origin can be traced back to the era of classical economist.
- It was founded by Adam Smith, also known as “The father of Economics”. In his book “Wealth of Nations” published in 1776, he discussed how prices of individual commodities and the factors of production are determined. He said that if the government doesn’t tamper with the economy, a nation’s resources can be used efficiently.
- Micro economic analysis was developed and popularized by the neo classical economist Dr. Alfred Marshall.
- He is regarded as the real architect of Micro economics. His book “Principles of Economics”, published in 1890 is based on Micro economic approach.
- Marshall proposed an idea of study of specific, individual markets and firms, as a means of understanding the dynamics of economics.
- The marginalism principle used by him became an important and indispensable tool of micro analysis.
- Micro economics approach can also be found in the writings of David Ricardo and J.S. Mill.
- Some other economists who participated in the development of Micro Economics are J. R. Hicks, Prof. Samuelson, Prof. Pigou, Chamberlin, Mrs. Joan Robinson etc.

## **Basic Economic Questions Dealt with by Micro Economics**

**Micro Economics deals with basic questions related to:**

**i. Production:**

- It focuses on how efficiently resources are allocated to the production of goods and services in the economy.
- It considers the questions such as ‘what and how much to produce?’, ‘how to produce?’ and ‘who has to produce?’.

**ii. Distribution:**

- It aims at efficient distribution of produced goods and services in the economy.
- It considers the questions of ‘how to distribute the produced goods?’, ‘to whom the goods should be distributed?’ etc.

**iii. Efficient Allocation of Resources and Welfare:**

- It takes into account the measures of efficient allocation of resources so as to maximize the satisfaction and welfare of people.

## **Scope and Subject Matter of Micro Economics**

**\*Q.2.**  
**Ans:**

**Explain the scope and subject matter of Micro Economics.**

**[8]**

According to **Kenneth Boulding**, “Micro economics is the study of particular firms, particular households, individual prices, wages, incomes, individual industries and particular commodities.”

**Scope of Micro economics:**

- Micro Economic analysis is individualistic in nature.
- It considers individual constituents such as consumer, firm, producer, individual income, price etc.
- Its study is mainly confined to price theory and resource allocation.
- It does not take into account aggregates of economy or national problems such as poverty, unemployment, inequalities of income etc.
- Some theories such as fiscal and monetary policies are also beyond the limit of micro economics.

We can thus conclude that, the scope of Micro economics is limited.

**Subject Matter of Micro Economics:**

The subject matter of Micro economics basically deals with the following theories:

[Mnemonic: PM-WELFARE]

**i. Theory of Product Pricing:**

- This theory explains how the relative prices of cotton, cloth, rice, car and thousands of other commodities are determined.
- Price of a commodity depends upon the forces of demand and supply.
- Therefore, in order to explain the process of determination of price, analysis of demand and supply is necessary.
- Study of Demand side covers the analysis of consumer's behaviour whereas its supply side covers the analysis of conditions of production, cost and behavior of firm and industry.

Thus, the theory of product pricing is divided into two parts viz. 'Theory of Demand' and 'Theory of Production and Cost'.

**ii. Theory of Factor Pricing or Micro Theory of Distribution:**

- The theory of the price determination of various factors of production, such as rent for land, wages for labour, interest for capital and profits for entrepreneur is called theory of factor pricing or micro theory of distribution.
- Accordingly, the theory of factor pricing discusses how the reward or return for the various factors of production (land, labour, capital and entrepreneur) should be repaid, when they are contributing to the production activities.

**iii. Theory of Economic WELFARE:**

- This theory deals with the efficiency in the allocation of resources.
- Efficiency in the allocation of resources is attained when it results in maximization of satisfaction of people.

**Economic Efficiency** implies maximum satisfaction with the help of minimum use of resources. It involves three efficiencies:

- **Efficiency in production:** It means producing maximum possible amount of goods from the given resources.
- **Efficiency in consumption:** It means distribution of goods and services among the people for consumption, in such a way that it gives maximum satisfaction to consumers.
- **Efficiency in the direction of production:** It means production of those goods which are most desired by the people.

Thus, the subject matter of micro economics is mainly concerned with the price theory and allocation of resources. It seeks to examine the basic economic questions regarding production, distribution and consumption of goods and services.

### Features of Micro Economics

\*Q.3.

**Explain the features of Micro Economics.**

[8]

Ans:

Micro economics deals with the study of economic behaviour of small individual economic units such as individual consumer, firm, producer etc.

The various features of Micro economics are as follows:

[Mnemonic: The Poor MAMMALS<sup>2</sup>]

**i. Price Theory:**

- All the factors of production (such as land, labour, capital and entrepreneur) contribute towards the production process.
- As a consideration, they receive rewards in the form of rent, wages, interest and profits respectively.
- Micro economics deals with the determination of such rewards i.e. factor prices.



- Also, it deals with the determination of prices of goods and services.
  - Hence, it is correctly known as “price theory”.
  - Price theory benefits both, the consumers (*by rendering guidance as to how to make optimum use of money to attain maximum satisfaction*) as well as the producer (*by rendering guidance as to how to fix the price of a product / service, which would fetch maximum profit*).
- ii. Partial equilibrium:**
- Micro economic analysis is a partial equilibrium analysis.
  - Partial equilibrium analyses equilibrium position of an individual economic unit i.e. individual consumer, individual firm, individual industry etc.
  - It isolates an individual unit from other forces and proceeds with the assumption “Other things remaining the same” (Ceteris Paribus). Many theories of micro-economics are based on such assumptions.
  - Partial equilibrium also neglects the interdependence between economic variables.
- iii. Microscopic approach:**
- Micro economics analyzes and examines each individual unit separately in detail.
  - In the words of **Prof. A.P. Lerner**, “It is looking at the economy through microscope, as it were to see how the millions of cells in the body of economy - the individuals or households as consumers, and individuals or firms as producers, play their part in the working of whole economic organism.”
  - Thus, micro economics is said to conduct the microscopic study of the economy.
  - Micro economics gives us a ‘worms’ eye view of the economy. In simple words, it studies the tree and not the entire forest as a whole.
- iv. Analysis of Resource Allocation and Economic Efficiency:**
- Micro economics deals with the resource allocation among the competing groups.
  - It further explains how the relative prices of both, goods as well as factors of production would determine the allocation of resources.
  - This in turn, can help to answer the following questions:
    - Who will produce the goods?*
    - What goods will be produced?*
    - In what quantities the goods will be produced?*
    - How to price the produced goods?*
    - How will they be distributed? etc.*
  - Moreover, it examines whether the given allocation of resources is efficient or not i.e. whether it results in the economic welfare of society.
- v. Use of Marginalism Principle:**
- Marginal refers to the change brought about in total by an additional unit (marginal unit).
  - Micro economics makes use of marginalism principle as its tool of analysis as all important micro economic decisions are taken at the margin.
  - The concept of marginalism is important in all the areas of micro economics.
  - Producers and consumers also take economic decisions using this principle.
- vi. Analysis of Market Structure:**
- Micro economics analyses different market structures such as perfect competition, monopoly, monopolistic competition, oligopoly etc. and explains how prices and quantities are determined in these markets.

**vii. Based on Certain Assumptions:**

- Many economists have used micro economic analysis to develop different theories which are based on the assumption of Ceteris Paribus which means "Other things remaining the same".
- The theories follow the partial equilibrium analysis in order to study a particular individual unit of an economy.

**Good to Know:**

- 'Ceteris Paribus' the Latin phrase which is translated as 'other things remaining the same' was used in english for the first time in 1601 by the famous writer Thomas Wright.



- They are based on certain assumptions such as perfect competition, laissez fair policy, pure capitalism, full employment, ceteris paribus etc, which do not exist in reality.
- These assumptions make the analysis simple and the theories static, but at the same time neglect the interdependence between economic variables and the changing economic world.

**viii. Limited Scope:**

- The scope of micro economics is limited since it doesn't deal with the nationwide economic problems such as inflation, deflation, balance of payment situation, poverty, unemployment, population, economic growth etc.

**ix. Study of individual units:**

- Individual economic unit refers to the smallest part of an economy viz. individual household, individual firm, individual income, etc.
- Micro economics studies the economic behaviour of such individual economic units.
- In other words, micro economics splits the economy into small individual units and further studies each unit separately.

**x. Slicing Method:**

- Micro economics uses slicing method since it splits or divides the whole economy into small individual units and then studies each unit separately in detail.

**Importance of Micro Economics****\*Q.4.****What is the importance of Micro Economics?****[July 16, 17] [4]****Ans:**The importance of Micro Economics is as given below: **[Mnemonic: D-FIRM-TUB]****i. Price Determination:**

- Micro economics helps in explaining how the prices of different commodities are determined.
- It also explains how the prices of various factors of production such as rent for land, wages for labour, interest for capital and profits for entrepreneur are determined in the commodity and factor market.

**ii. Working of a Free Market Economy:**

- Free market economy is that economy where the economic decisions regarding production of goods such as 'What to produce, How much to produce, How to produce etc.' are taken by private individuals.
- These decisions are based on the preference of the consumer or demand for the product.
- Micro economics theory helps in understanding the working of the free market economy.

**iii. International Trade & Public Finance:**

- Micro economics helps to explain many international trade aspects like effects of tariff, determination of exchange rates, gains from international trade etc.
- It is also useful in public finance to analyze both, the incidence as well as effect of a particular tax.

**iv. Utilization of Resources:**

- Micro economics helps in explaining how the scarce resources can be effectively and efficiently utilized by the producers in order to achieve maximum output.

**v. Model Building:**

- Micro economics helps in understanding various complex economic situations with its simple models.
- It has made a valuable contribution to the science of economics by the development of various terms, concepts, terminologies, tools of economic analysis etc.

**vi. Helps in Taking Business Decisions:**

- Micro economic theories are helpful to businessmen for taking crucial business decisions.
- These decisions include the cost of production, prices, maximum output, consumer's preferences, demand and supply of the product etc.

**vii. Useful to Government:**

- Micro economics is that branch of economics which is concerned with the study of economic behaviour of individual economic units.
- It is useful in framing economic policies such as taxation policy, public expenditure policy, price policy etc.
- These policies help the government to attain its goal of efficient allocation of resources and promoting economic welfare of the society.

**viii. Basis of Welfare Economics:**

- Micro economics promotes economic and social welfare by making optimum utilization of the resources, thereby avoiding wastage.

**Multiple Choice Questions**

I.

**Fill in the blanks with appropriate alternative from those given in the brackets:****[1 mark each]**

- \*1. The terms micro and macro economics were first used by \_\_\_\_\_. **[Mar 15, 16]**  
(Adam Smith / Robbins / **Ragnar Frisch** / Marshall)
2. Economics is \_\_\_\_\_ science. **[Oct 10]**  
(a political / a natural / **a social** / an anthropological)
3. The book \_\_\_\_\_ was published by Adam Smith in 1776.  
(Welfare of nations / **Wealth of Nations** / Nations' wealth / Nation's welfare)
- \*4. Micro economics is a study of \_\_\_\_\_. **[July 16, Oct 14, 15]**  
(whole economy / general price level / national output / **individual economic unit**)
5. A study of \_\_\_\_\_ is Micro Economics. **[Mar 09]**  
(**firm** / whole economy / industries / national income)
6. Micro economics studies \_\_\_\_\_. **[Oct 11]**  
(**small factor** / large factor / economy as a whole/ total demand)
- \*7. Micro economics is also called as \_\_\_\_\_.  
(Income theory / **Price theory** / Growth theory / Employment theory)
- \*8. Micro economic analysis adopts \_\_\_\_\_ method.  
(lumping / aggregative / **slicing** / inclusive)
- \*9. Micro economic is a \_\_\_\_\_ equilibrium approach. **[Mar 14]**  
(**partial** / general / total / multi-variable)