

Q-1. What are the basic problems of an economy?

Basic problems of an economy :-

Engineering economics deals with 4 basic problems

- 1) What to produce (Allocation problem)
- 2) How to produce (Production or utilization)
- 3) For whom to produce (Distribution problem)
- 4) Problem of economic growth

1) What to produce

What to produce means engineering economics is related to the problem of allocation of limited resources among unlimited ends. It involves the utilization of limited resources to different sectors

2) How to produce

The second problem is how goods will be produced on the basis of domestic demand. Goods can be produced either by using labour intensive technology or capital intensive technology. The choice of technology for production is the second problem.

3. For whom to produce

After goods are produced it should be distributed efficiently among all the sectors.

4. Problem of economic growth

Unequal distribution of goods encourage the least problem i.e the problem of economic growth. If goods are not distributed properly and some sectors are developed and some are not developed then growth cannot be achieved.

Micro & Macro economics:-

The word micro is derived from a greek word 'mikros' which means small and the word macro is derived from the word makros which means large.

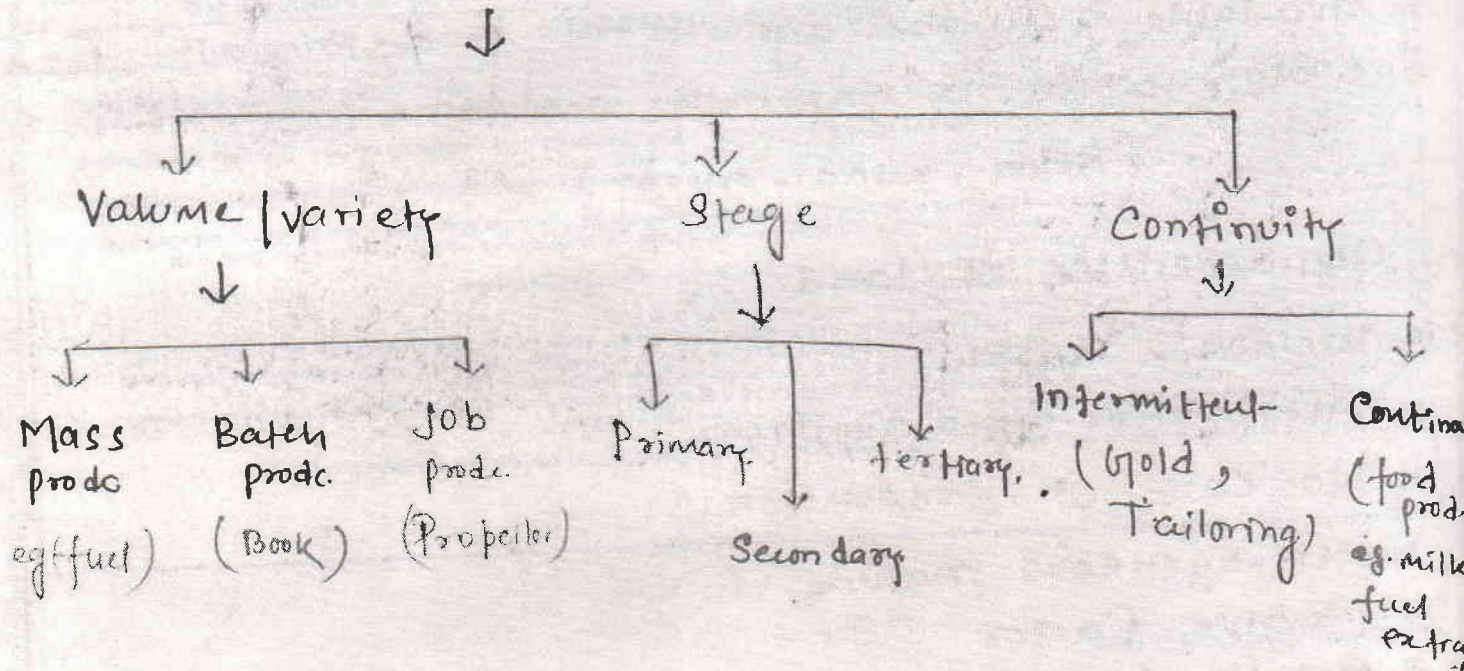
In other words micro economics is individualistic in nature whereas macro is aggregating in nature.

Micro economics studies the behaviour of individual consumer, individual firm and small groups of individual units, whereas macro economics studies the problem of the economy as a whole. It deals with aggregate concepts like national income, national output, total employment, general price level, saving & investment etc. It also studies the reason for economic fluctuations and their impact on employment, income, general price level etc.

Q → 2. What are the different factors of production? Explain any one in detail.

- \* Land.
- \* Labour / Human Resource.
- \* Capital.
- \* Organisation.

Classification of Production :-



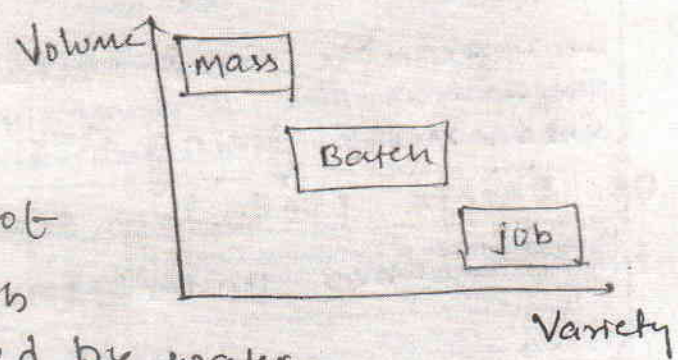
Primary - Coal extraction, petrol extraction, Deforestation etc

Secondary - Bread, Refined vegetable oil, etc

Tertiary - Finish product, electricity, medical services etc

\* Land :-

Land in economics does not mean only the part of earth surface which is not covered by water.



In economics everything which is naturally available on the surface of earth below the surface, above the surface of earth.

Sometimes, water and the water products also comes under the category of land.

example - Land also include all the mineral available. All the agricultural products, all form of energy which is naturally available (Solar, wind, energy)

Characteristic of land:

- \* Inelastic supply.
- \* Alternative uses available.
- \* No cost of production.
- \* Heterogeneous nature.
- \* Passive factor
- \* Mobility / Immobility (form geographical point of view)

7 Feb 2018

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## Demand

Def<sup>n</sup> :- The demand is may be define as the desire requirement individual, society provide as one has to ability to purches it.

Q.3- What are the factors which effect the demand?

• factor affecting Demand :-

- Price
- Income
- Substitute / Complimentary item.
- advertisement
- taste & habit
- custom traditional in a religion etc.

• Low of Demand :-

Define law of supply and write its assumptions.  
Law of Supply :-

Law of supply states that "other things remaining constant there is a direct relationship between price and quantity supplied." Keeping the other factors like competition, technology, government, tax etc which affect the supply as constant when price increases, quantity supplied increases and when price falls, quantity supplied also falls in other words quantity supplied is directly proportional to price.

Assumptions of the law :-

1) Competition :-

- i) There should not be any competition among the sellers in the market.
- ii) There should not be any improvement in production technology.
- iii) There should be any change in government policies.
- iv) Government should not impose any tax.

## Few Exception / Limitation to law of Demand :-

- Giffy goods or inferior goods:—  
There are few products which show the reverse nature as the law of demand states, with the drop in the price then demand also decrease.

example →

## • SNOB appeal:—

People at the high end, society uses several products which is merely a medium a show case their social status or show-off, those who can afford. Such product are an affect by rise and fall by their price.

for example: A wrist watch of few lakh rupees.

• **Speculation**:- sometimes due to some rumour or speculation regarding any product spread like wild fire, neither the price decrease nor the demand increase but people rushes to buy that particular product.

In this case also law of demand fails.

• **War / emergency / curfew**:-

In situation like war, emergency & curfew combat and unforeseen situation, people tends to store their daily product more than what