

FOR COMPETITIVE
EXAMS

UPSC | PCS | SSC
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— INTRODUCTION TO — ECONOMICS — BASIC CONCEPTS, PRINCIPLES, AND SCOPE

— Understanding the Foundations
of Economic Thinking —



BASIC CONCEPTS

Key economic terms and ideas that form the base of all economic study.



PRINCIPLES

Fundamental principles that guide economic decision-making and behaviour.



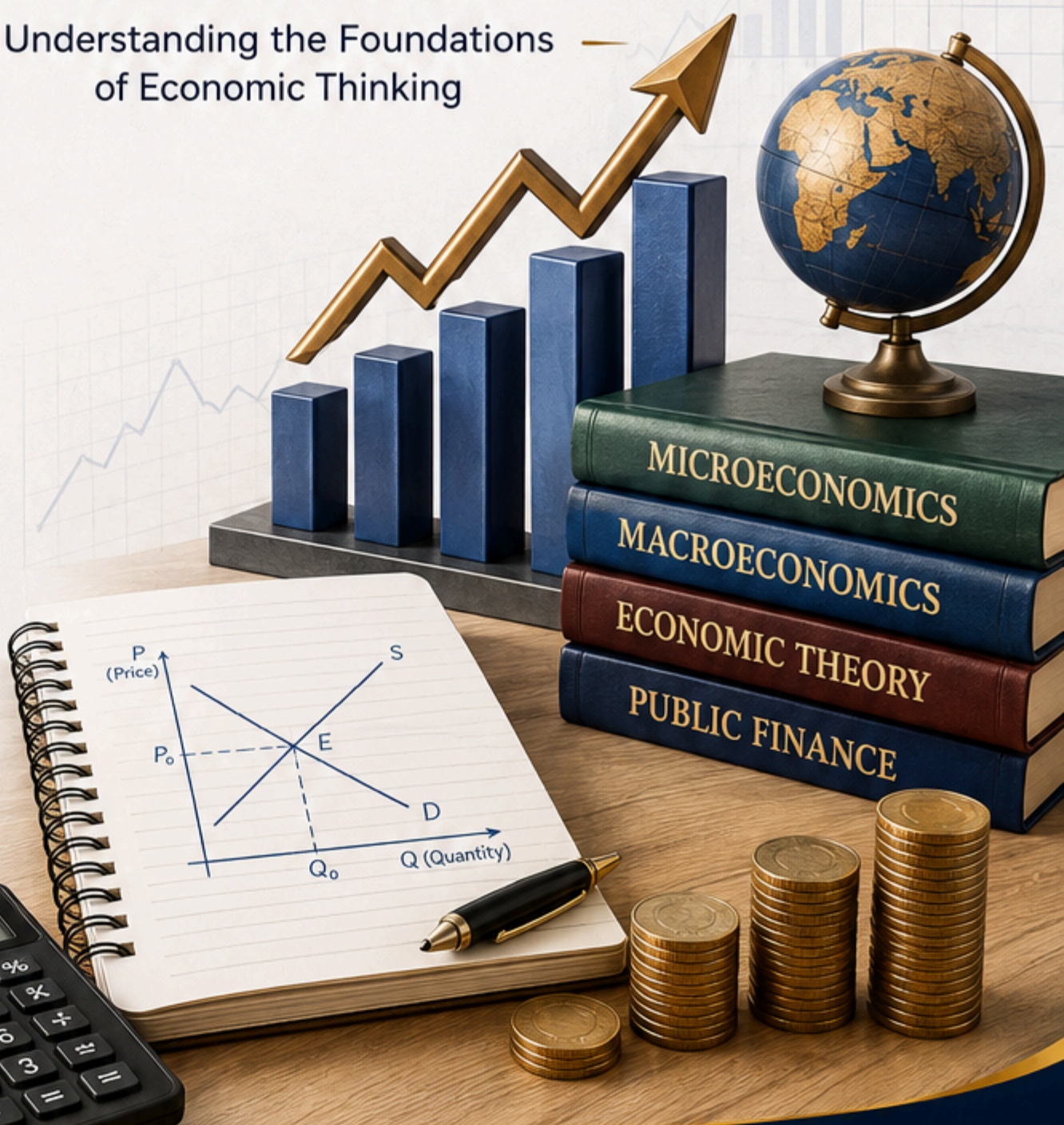
SCOPE

The wide application of economics in real life and different fields.



ECONOMIC THINKING

Developing a logical and analytical approach to understand economic phenomena.



SCARCITY



CHOICE



DECISION MAKING



ALLOCATION



GROWTH

— KNOWLEDGE TODAY, SUCCESS TOMORROW —



WHAT IS ECONOMICS?



1

MEANING



Economics is a way of thinking about how society chooses to use its scarce resources to produce valuable goods and services and distribute them among different people.



2

DEFINITION

According to Lionel Robbins:



"Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses."

According to Paul Samuelson:



"Economics is the study of how men and society choose, with or without the use of money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time and distribute them for consumption, now and in the future, among various people and groups in society."

3

FATHER OF ECONOMICS



Adam Smith is regarded as the '**Father of Economics**'.

- He wrote the book "The Wealth of Nations" in 1776.
- He introduced the idea of division of labour and the concept of the 'invisible hand' in a free market.

4

NATURE OF ECONOMICS



Social Science: It studies human behaviour in relation to economic activities.



Behavioural Science: It explains how people make choices to maximize satisfaction.



Science of Scarcity: Resources are limited, but human wants are unlimited.



Dynamic in Nature: Economic laws, policies and conditions change with time.



Positive and Normative: It describes what is (positive) and suggests what ought to be (normative).

5

KEY ECONOMIC CONCEPTS



Scarcity: Resources are limited in relation to unlimited wants.



Choice: Because of scarcity, we must choose the best alternative.



Opportunity Cost: Value of the next best alternative forgone when a choice is made.



Rational Behaviour: Individuals choose the option that gives maximum satisfaction.



Resources: Land, Labour, Capital, Entrepreneurship and Organisation are used to produce goods and services.

6

EXAMPLES IN DAILY LIFE



Budgeting: When you plan how to spend your money, you are making an economic decision.



Choosing a Career: You compare different options and choose the one with the highest expected benefit.



Buying a Product: You compare price, quality and usefulness before buying.



Saving Money: You give up spending today for better future benefits.



Time Management: You choose how to use your time between study, play and other activities.



NOTE:

- Economics helps us understand how limited resources are used to satisfy unlimited wants.
- It guides individuals, businesses and governments in making better decisions.
- The ultimate goal of economics is to improve human welfare and living standards.





HISTORICAL EVOLUTION OF ECONOMIC DEFINITIONS



The definition of Economics has evolved over time as the focus of economic thought expanded from wealth and material prosperity to human welfare and choice under scarcity.

1	Adam Smith (1776)	“Economics is an inquiry into the nature and causes of the wealth of nations.” Focus: Wealth and material prosperity of nations.	
2	Alfred Marshall (1890)	“Economics is a study of mankind in the ordinary business of life.” Focus: Human welfare in the normal course of life.	
3	Lionel Robbins (1932)	“Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.” Focus: Scarcity, choice and alternative uses.	
4	Paul Samuelson (1948)	“Economics is the study of how men and society choose, with or without the use of money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time and distribute them for consumption, now and in the future, among various people and groups in society.” Focus: Allocation, production, distribution and time dimension.	
5	Lionel Robbins (Revised View)	“Economics is the science of choice.” Focus: Choice as the central theme of economics.	
6	Modern View (Contemporary Economists)	“Economics is the study of how society manages its scarce resources to produce goods and services and distribute them to satisfy unlimited wants and promote human welfare.” Focus: Scarcity, efficiency, equity and human welfare.	



KEY INSIGHT

From ‘Wealth of Nations’ to ‘Human Welfare’, the definition of Economics has shifted from material prosperity to the study of choice, scarcity and efficient use of resources for the welfare of society.

EXAMPLES IN DAILY LIFE



Choosing between branded or generic products



Deciding how much to save and how much to spend



Allocating time between study, work and leisure



Government decisions on health, education and infrastructure

NOTE: Economic definitions have evolved as our understanding of human needs, scarcity, choice and welfare has deepened over time.



CORE ECONOMIC PRINCIPLES



Core economic principles are the fundamental truths that guide how individuals, businesses, and governments make decisions in a world of limited resources.

PRINCIPLE		MEANING	EXAMPLE IN DAILY LIFE	
1	SCARCITY Resources are limited while wants are unlimited.	Society has limited resources to satisfy unlimited wants.		You have limited pocket money but unlimited things to buy. 
2	CHOICE Every choice involves choosing one option and giving up others.	Resources can be used in alternative ways; we must choose the best alternative.		You choose to go to a movie instead of buying a new game with the same money. 
3	OPPORTUNITY COST The next best alternative forgone when a choice is made.	Every decision has a cost in terms of the next best alternative given up.		If you study for 2 hours, the opportunity cost is the time you could have spent playing. 
4	RATIONAL BEHAVIOR People make decisions that give them the maximum satisfaction.	Individuals act in their own best interest and seek to maximize satisfaction.		You compare prices before buying a product to get the best value for money. 
5	MARGINAL THINKING Decisions are made by comparing additional (costs and benefits).	Choices are made at the margin by comparing marginal costs and marginal benefits.		You decide to take an extra class only if the benefit is greater than the cost. 
6	EQUILIBRIUM A situation where forces of demand and supply are balanced.	When supply and demand are equal, there is no tendency for change.		Market price of a product stabilizes when quantity demanded equals quantity supplied. 
7	INTERDEPENDENCE Economic agents depend on each other for goods, services and resources.	No one is self-sufficient; everyone relies on others in the economy.		Farmers depend on traders to sell crops; traders depend on transporters. 

EXAMPLES IN DAILY LIFE

 Planning a monthly budget involves scarcity and choice.	 Buying fuel for your car involves opportunity cost.	 Choosing between two smartphones involves rational behavior.	 Spending more time studying for exams involves marginal thinking.	 Market price of vegetables changes based on equilibrium.	 We depend on teachers, doctors, shopkeepers every day.
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NOTE: These principles help us understand how economic decisions are made and how resources are used efficiently to improve our well-being.





MICROECONOMICS

VS.

MACROECONOMICS



Both microeconomics and macroeconomics are branches of economics. They differ in their scope, focus and the level of economic analysis.

BASIS	MICROECONOMICS	MACROECONOMICS
1. FOCUS	Focuses on individual economic units like consumers, firms, industries and markets.	Focuses on the economy as a whole including aggregates like national income, employment, inflation, etc.
2. LEVEL OF ANALYSIS	Deals with small units or parts of the economy.	Deals with the economy as a whole or large aggregates.
3. PRIMARY CONCERNS	Determination of prices of goods, output of firms, consumer choice, costs, profits, supply and demand in a market.	Determination of national income, overall price level, unemployment, economic growth, balance of payments, etc.
4. DECISION MAKERS	Individuals, households, firms and industries.	Government, policy makers, central bank, economy as a whole.
5. EXAMPLES	Price of a mobile phone, wages of a worker in a factory, profit of a firm, demand for a product.	GDP, inflation rate, unemployment rate, fiscal deficit, monetary policy, economic growth rate.
6. TOOLS USED	Demand and Supply Analysis, Utility Analysis, Cost Analysis, Market Equilibrium, etc.	National Income Accounting, Aggregate Demand and Supply, IS-LM Model, Phillips Curve, etc.
7. TIME HORIZON	Generally short run.	Generally long run.
8. NATURE OF DATA	More detailed and specific data.	More general and aggregate data.

EXAMPLES IN DAILY LIFE

MICROECONOMICS				MACROECONOMICS			
A consumer decides how much of a good to buy.	A firm decides how much to produce and at what price to sell.	A shopkeeper decides the price of his products.	A worker decides how many hours to work.	Government aims to increase the overall income of the country.	Controlling inflation to maintain price stability.	Reducing unemployment in the economy.	Promoting economic growth and development of the nation.

★ **NOTE:** Microeconomics looks at the parts, while Macroeconomics looks at the whole. Both are important and interdependent for a well-functioning economy.



FACTORS OF PRODUCTION



Factors of production are the resources used by businesses and individuals to produce goods and services.



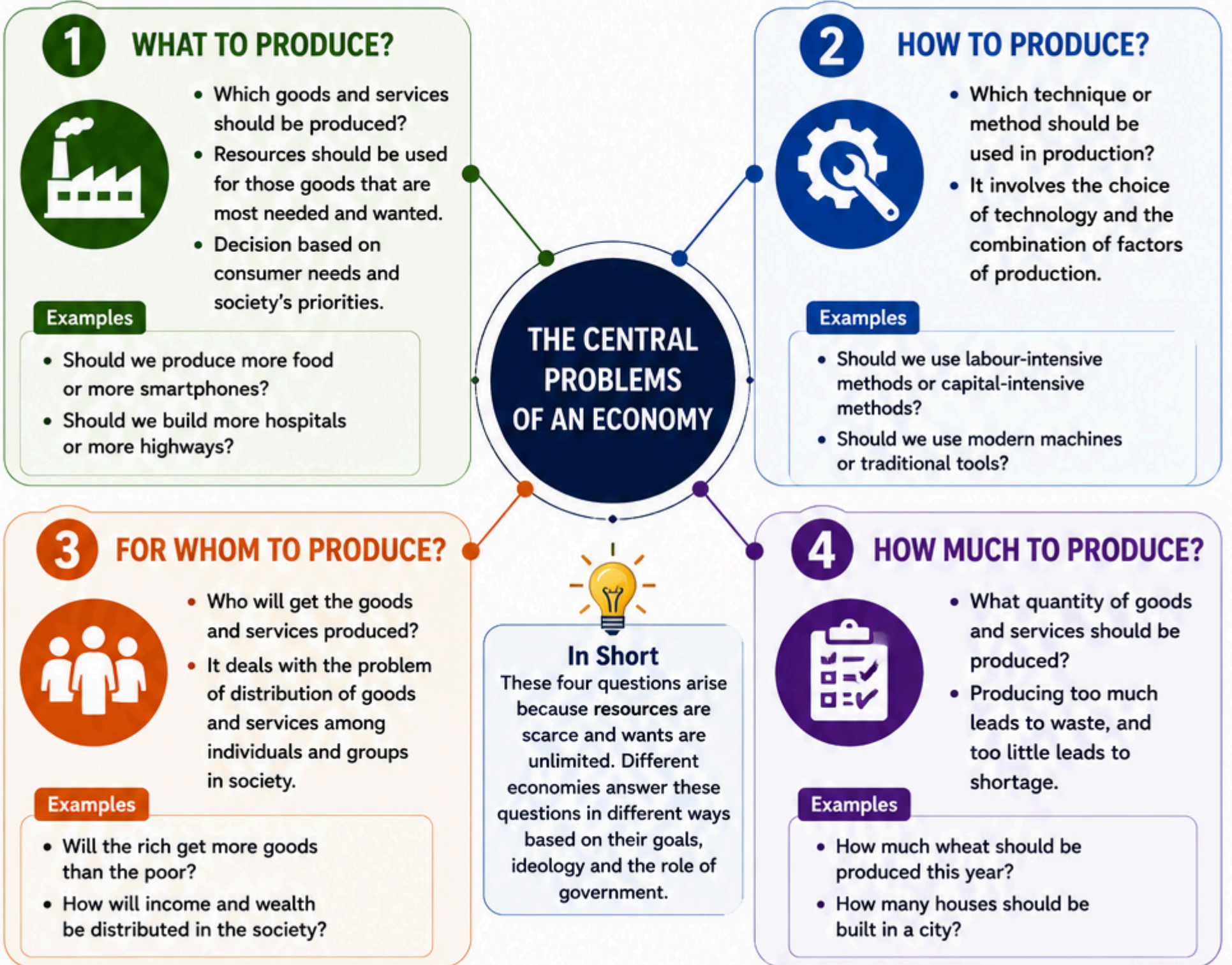
NOTE: These five factors work together to produce goods and services. Without any one of them, production cannot take place.



THE CENTRAL PROBLEMS OF AN ECONOMY



Every economy faces the problem of scarcity. **Human wants** are unlimited, but resources are limited. Therefore, an economy must decide:



APPROACHES TO SOLVING THESE PROBLEMS

TRADITIONAL ECONOMY



- Based on customs and traditions.
- Answers are decided by elders.
- Example: Tribal societies.

MARKET ECONOMY



- Decisions are made by individuals and firms through price mechanism.
- Profit motive is the main guiding force.
- Example: USA, India (private sector).

COMMAND ECONOMY



- Decisions are made by the central authority or government.
- Aim is social welfare and equality.
- Example: North Korea (earlier USSR).

MIXED ECONOMY



- Both government and private sector take decisions.
- A balance of profit and social welfare.
- Example: India, UK, France.



NOTE: All economies, whether big or small, developed or developing, must solve these four problems to satisfy human wants in the best possible way.





TYPES OF ECONOMIC SYSTEMS



An economic system is the way in which a society answers the basic economic questions:
What to produce? How to produce? For whom to produce? How much to produce?
Different societies have developed different economic systems based on their values, resources, goals and the role of government.

1

TRADITIONAL ECONOMY

- Based on customs, traditions and beliefs.
- Decisions are made by elders or community leaders.
- People follow age-old practices.
- Limited use of technology.

Examples

- Tribal societies
- Rural communities
- Ancient civilizations

2

COMMAND ECONOMY

- All major economic decisions are taken by the government.
- The government owns and controls the means of production.
- Production is for social welfare and equality.
- Little or no role of private sector.

Examples

- Former Soviet Union (Earlier USSR)
- North Korea
- Cuba

3

MARKET ECONOMY

- Decisions are made by individuals and businesses.
- Prices are determined by demand and supply.
- Private ownership of property and freedom of choice.
- Profit motive is the main driving force.

Examples

- USA
- UK
- Canada
- Australia

4

MIXED ECONOMY

- Combination of both public and private sectors.
- Government and individuals both take economic decisions.
- Aims at economic growth along with social welfare.

Examples

- India
- Germany
- France
- Japan

5

PLANNED ECONOMY

- Similar to command economy but with detailed planning.
- Government makes long-term plans for economic development.
- Resources are allocated according to planned goals.

Examples

- China
- Five Year Plans (India – historical context)

COMPARISON AT A GLANCE

Economic System	Who Takes Decisions?	Ownership of Resources	Role of Government	Main Objective
Traditional Economy	Community/Elders	Communal	Minimal	Survival & Tradition
Command Economy	Central Government	State Ownership	Very High	Equality & Social Welfare
Market Economy	Individuals & Firms	Private Ownership	Minimal	Profit & Efficiency
Mixed Economy	Both Government & Individuals	Mixed Ownership	Moderate	Growth with Equity
Planned Economy	Central Planning Authority	State Ownership	High (Planned)	Planned Development

NOTE: No system is completely pure in the real world. Most countries follow a mixed or modified form of these systems.





INTRODUCTION TO ECONOMICS

QUICK EXAMINATION

FACTS



REMEMBER

- Small facts
- Build strong memory
- High scores!

ECONOMICS – The study of how society uses scarce resources to satisfy unlimited wants.
SCARCITY – Limited resources vs unlimited wants is the core problem of every economy.
CHOICE – Every decision involves a choice and an opportunity cost.

QUICK EXAMINATION FACTS

● Economics is the study of wealth.		● Microeconomics studies individual units like consumers, firms, industries.	
● Human wants are unlimited but resources are limited.		● Macroeconomics studies the economy as a whole.	
● Scarcity is the fundamental problem of economics.		● The central problems of an economy: What, How, For whom, How much to produce.	
● Choice is the essence of economics.		● The basic economic problem arises due to scarcity.	
● Opportunity Cost is the value of the next best alternative forgone.		● Economic systems answer the central problems in different ways.	
● Goods are tangible objects that satisfy wants.		● Market economy is based on freedom of choice and price mechanism.	
● Services are intangible activities that satisfy wants.		● Command economy is based on central planning and government control.	
● Utility is the satisfaction derived from consumption.		● Mixed economy combines market forces and government intervention.	
● Production is the creation of goods and services.		● Price is the value of a good or service in terms of money.	
● Consumption is the use of goods and services.		● Demand is the desire to purchase backed by ability to pay.	
● Wealth refers to the stock of useful resources.		● Supply is the quantity of goods offered for sale.	
● Income is the earning of an individual or a country.		● Equilibrium is the point where demand equals supply.	
● Capital is man-made resources used in production.		● National Income measures the total income earned in an economy.	
● Factors of Production: Land, Labour, Capital, Entrepreneurship, Organisation.		● Economic growth means increase in real output over time.	
● Economic activities are: Production, Distribution, Exchange, Consumption.		● Development includes growth with social progress and better living.	

ONE LINE MEMORY TRICKS

+ + + + + + =

ScarcityChoiceOpportunity CostGoods & ServicesProductionDistributionConsumptionEconomics

★ **NOTE:** Focus on concepts, definitions, examples, and diagrams.
Practice previous year questions for better understanding and scoring.



MCQs

MULTIPLE CHOICE QUESTIONS

Page 1



1 Economics is best defined as:

- A. The study of money and banking
- B. The study of how society uses scarce resources to satisfy unlimited wants
- C. The study of trade and commerce
- D. The study of production in factories

Correct Answer: B

Explanation:

- Economics is the social science that studies how society allocates scarce resources among competing uses to satisfy unlimited wants.
- Money, trade and production are parts of economics but not its complete definition.



2 Which of the following represents the fundamental problem of an economy?

- A. Inflation
- B. Scarcity
- C. Poverty
- D. Unemployment

Correct Answer: B

Explanation:

- Scarcity means limited resources in relation to unlimited wants.
- This scarcity is the root cause of all other economic problems.



3 Opportunity cost refers to:

- A. Actual cost of a decision
- B. Cost of the next best alternative forgone
- C. Cost of production
- D. Cost of raw materials used

Correct Answer: B

Explanation:

- Opportunity cost is the value of the best alternative that is given up when a choice is made.
- It reflects the real cost of any decision.



4 Which of the following is NOT a factor of production?

- A. Land
- B. Labour
- C. Entrepreneurship
- D. Profit

Correct Answer: D

Explanation:

- The main factors of production are Land, Labour, Capital, Entrepreneurship and Organisation.
- Profit is a reward for entrepreneurship, not a factor of production.



5 Microeconomics is concerned with:

- A. The behaviour of individual economic units
- B. The economy as a whole
- C. National income and employment
- D. General price level and inflation

Correct Answer: A

Explanation:

- Microeconomics studies individual units like consumers, firms, industries and markets.
- Macroeconomics studies the economy as a whole.



Exam Tip: Read the question carefully, eliminate wrong options and choose the best answer. Practice regularly to improve speed and accuracy.





MCQs

MULTIPLE CHOICE QUESTIONS

Page 2



6 Which of the following is NOT a core economic principle?

- A. Scarcity
- B. Choice
- C. Equilibrium
- D. Monopoly

Correct Answer: D

Explanation:

- Scarcity, Choice and Equilibrium are core economic principles.
- Monopoly is a market structure, not a core principle.



7 The central problems of an economy are:

- A. Inflation, Deflation and Recession
- B. What to produce, How to produce, For whom to produce
- C. Growth, Development and Employment
- D. Savings, Investment and Consumption

Correct Answer: B

Explanation:

- Every economy must answer three basic questions: What to produce, How to produce and For whom to produce.
- These are known as the central problems of an economy.



8 Which of the following is an example of capital?

- A. Land
- B. Labour
- C. Machines
- D. Entrepreneur

Correct Answer: C

Explanation:

- Capital refers to man-made resources used in the production process.
- Machines, tools, buildings, equipment are examples of capital.



9 Which economic system is based on central planning?

- A. Market Economy
- B. Mixed Economy
- C. Command Economy
- D. Traditional Economy

Correct Answer: C

Explanation:

- In a Command Economy, all major economic decisions are taken by the government.
- Production and distribution are centrally planned and controlled.



10 Utility refers to:

- A. The price of a good
- B. The satisfaction derived from consumption
- C. The cost of production
- D. The exchange of goods

Correct Answer: B

Explanation:

- Utility is the satisfaction or happiness obtained from consuming a good or service.
- It is subjective and varies from person to person.



Exam Tip: Understand concepts clearly, practice previous year questions, and revise regularly to score high in exams.





MCQs

MULTIPLE CHOICE QUESTIONS

Page 3



11 Which of the following is an example of a service?

- A. Wheat
- B. Mobile Banking
- C. Iron Rod
- D. Gold

Correct Answer: B

Explanation:

- Services are intangible activities that satisfy wants.
- Mobile banking is a service, whereas wheat, iron rod and gold are goods.



12 Which of the following is NOT a central problem of an economy?

- A. What to produce?
- B. How to produce?
- C. How much to save?
- D. For whom to produce?

Correct Answer: C

Explanation:

- The three central problems are: What to produce, How to produce and For whom to produce.
- How much to save is a related issue but not a central problem.



13 Opportunity cost is best illustrated when:

- A. A good is produced at low cost
- B. A choice is made between two alternatives
- C. A resource is underutilized
- D. More resources are available

Correct Answer: B

Explanation:

- Opportunity cost arises when we give up the next best alternative.
- It is the value of the best option forgone when a choice is made.



14 Which concept assumes that people act in their own self-interest to maximize satisfaction?

- A. Rational Behaviour
- B. Social Welfare
- C. Government Intervention
- D. Monopoly Power

Correct Answer: A

Explanation:

- Rational behaviour means individuals make choices to maximize their satisfaction or benefit.
- It is a key assumption in economic analysis.



15 Which of the following is a mixed economic system?

- A. USA
- B. North Korea
- C. Cuba
- D. Saudi Arabia

Correct Answer: A

Explanation:

- USA follows a mixed economy where both market forces and government intervention coexist.
- North Korea and Cuba follow command economy; Saudi Arabia follows market oriented economy.



Exam Tip:

Eliminate incorrect options, focus on keywords in the question, and revise concepts regularly for better accuracy.





MCQs

MULTIPLE CHOICE QUESTIONS

Page 4



16 Which of the following is a consumer good?

- A. Machine used in factory
- B. Raw material
- C. Television
- D. Building used for office

Correct Answer: C

Explanation:

- Consumer goods are used directly to satisfy human wants.
- Television is used by consumers for satisfaction, not for further production.



17 Which of the following best defines scarcity?

- A. Excess of resources
- B. Limited resources in relation to unlimited wants
- C. Unlimited resources
- D. Equal resources and wants

Correct Answer: B

Explanation:

- Scarcity exists because resources are limited while human wants are unlimited.
- This is the basic economic problem that every society faces.



18 The term 'land' in economics includes:

- A. Only agricultural land
- B. Land, water, minerals, forests and other natural resources
- C. Only land and buildings
- D. Only water resources

Correct Answer: B

Explanation:

- Land includes all natural resources that are freely available in nature.
- It includes land, water, minerals, forests, air and other gifts of nature.



19 Which of the following is NOT a characteristic of perfect competition?

- A. Large number of buyers and sellers
- B. Product differentiation
- C. Free entry and exit
- D. Perfect knowledge about price

Correct Answer: B

Explanation:

- In perfect competition, the product is homogeneous, meaning there is no product differentiation.
- Product differentiation is a feature of monopolistic competition.



20 National Income refers to:

- A. Income of one person
- B. Total income earned by all people in the economy in a year
- C. Income earned from foreign trade
- D. Government revenue

Correct Answer: B

Explanation:

- National Income is the total money value of all final goods and services produced in an economy in a year.
- It includes wages, rent, interest and profit.



Exam Tip:

Read each question carefully, analyze the options and eliminate the incorrect ones. Practice regularly to improve speed, accuracy and confidence.





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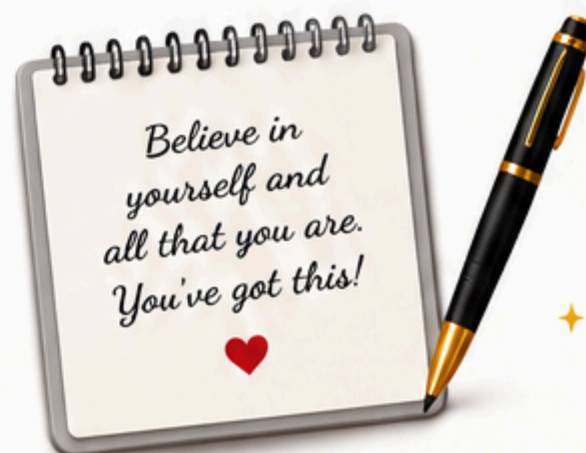
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