28 November 2023 08:04 PM

✓ ① What is the problem of scarcity and choice. ?

demand is unlimited ✓

but resources are limited / scarce

✓ to meet the unlimited demand with limited resources → problem of scarcity and choice.

✓ Ⓧ and Y

Resources → Ⓛ Ⓚ Land etc

3 important question of economy:

① What to produce?
↳ and what is the quantity.

② How to produce?
↳ technique
- Labour intensive technique
- capital intensive technique

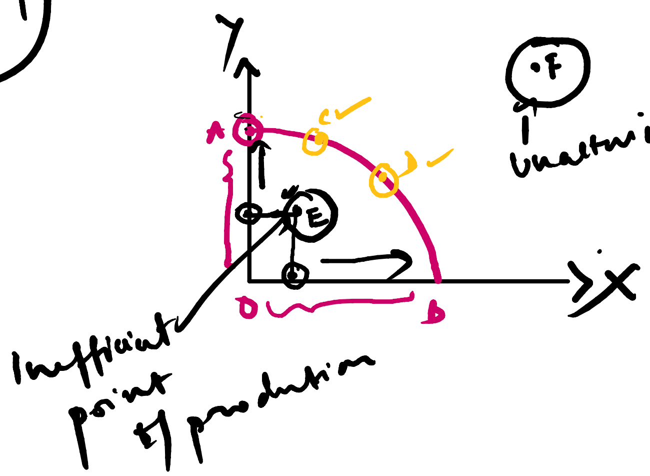
③ For whom to produce?
↳ problem of distribution
↳ distribution of income (income inequality)

Production Possibility Curve (PPC) or (PPF).

Production Possibility curve (PPC) or (PPF).

↳ assumption of constant/given resources.

x and y

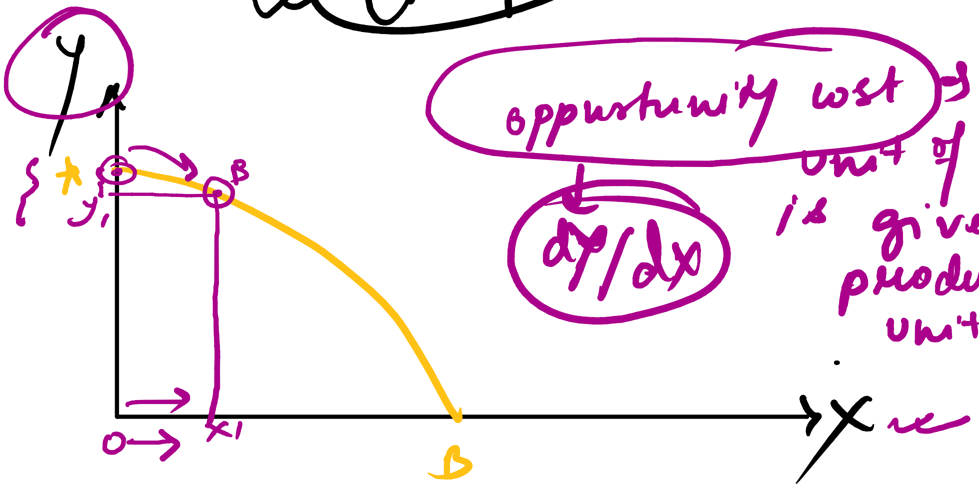


PPC is the locus of different combination of production of x and y with given resources.

Slope of PPC ⇒ $\frac{dy}{dx}$ → trade-off between production x and y

ie the opportunity cost of production

change



opportunity cost → how many unit of y production is given up to produce one additional unit of x commodity.

dy/dx

when opportunity cost is increasing then when opportunity cost is increasing the

(a) ppc is concave to origin.

(b) when opportunity cost is decreasing then ppc is convex to origin.

(c) when opportunity cost is constant, then ppc is a downward sloping straight line.

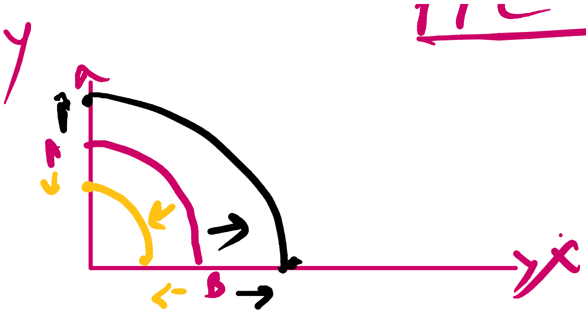
(b) increasing opportunity cost.

(c) constant opportunity cost.

Change in Production Possibility Curve (PPC)

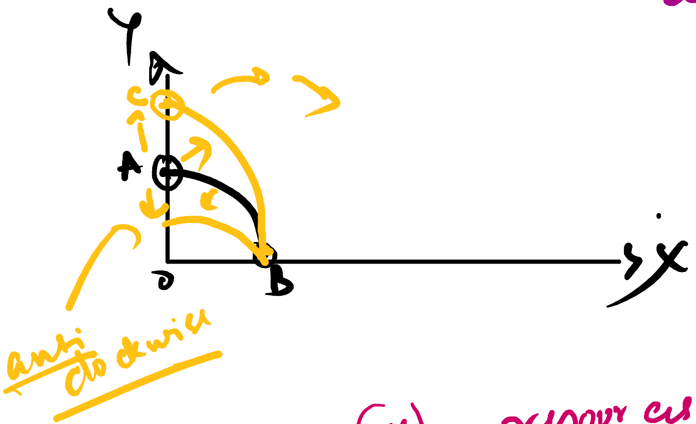
(i) if (resources increases) (for example improvement in technology or increase in population).

that will increase both production of X and Y commodity, then PPC will shift outwards.



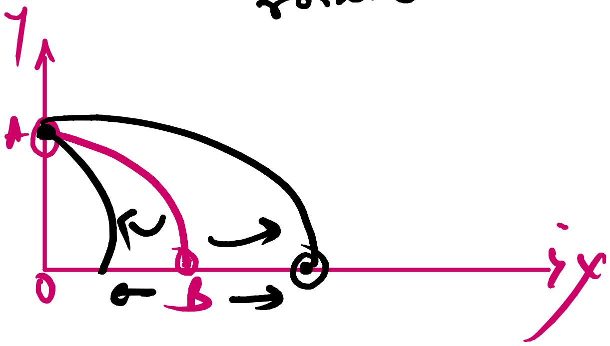
(ii) suppose → X is Labour intensive
→ Y is capital intensive

→ & remaining const, if technology improves then production Y will increase and X remain same



swing clockwise
↓
rotate

(iii) resources increases production of X then, while Y remain constant
↓
rotate anticlockwise



* * *

Concept of Demand

→ 1. Demand
2. Law of demand
demand

Concept of

2. Law of demand
3. Facts affecting demand
4. Shifts and No shift in demand
5. Exception to law of demand
6. Derive law of demand or explain why demand curve is downward sloping

[Theory of cardinal utility approach]

1. What is demand ⇒ in economics, any desire or wish fulfilled by purchasing power

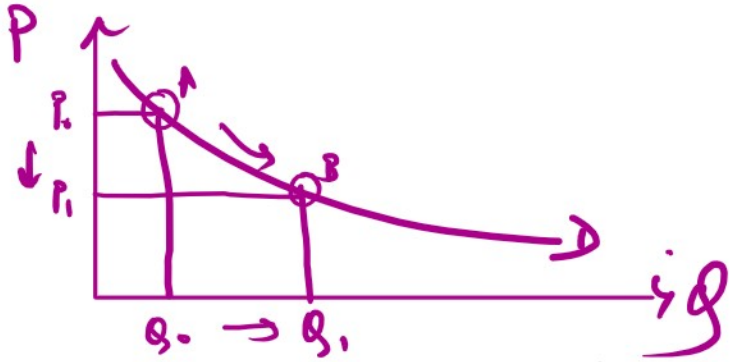
↓

1. Ability to pay (income)
2. Willingness to pay.

2: Law of Demand :

All factors remaining constant (ceteris paribus), when price of a commodity increases, the quantity demand for that commodity will decrease and vice-versa. This inverse relation between price and quantity demanded is the Law of Demand. That is Demand curve is downward sloping.

That is Demand curve is downward sloping.



What is a linear demand curve?

↓

Demand curve is a downward sloping straight line.

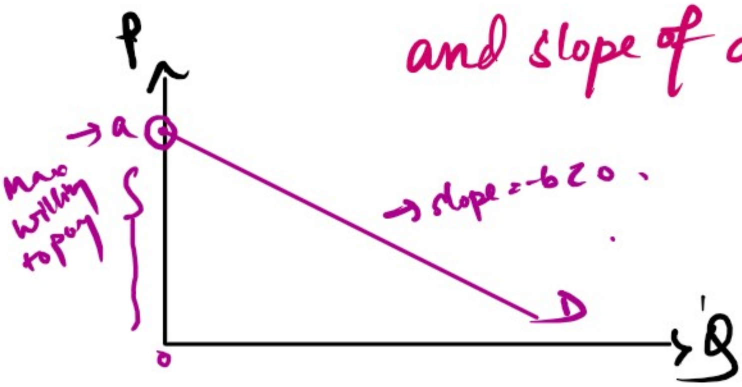
Let us write the inverse linear demand function as

$$\boxed{\underset{y}{P} = \underset{\text{intercept}}{a} - \underset{\text{slope}}{b}\,\underset{x}{Q}} \rightarrow \boxed{y = c + mx}$$

Interpretation:

ie if $Q=0 \Rightarrow P=a$ (max willingness to pay)

and slope of demand, $\frac{dP}{dQ} = -b < 0$ (const)



$$\boxed{Q^x} = f\left(\overset{(-)}{P_x}, \overset{(+)}{M}, \overset{(+)}{P_S}, \overset{(-)}{P_C}, T, N, E\right)$$

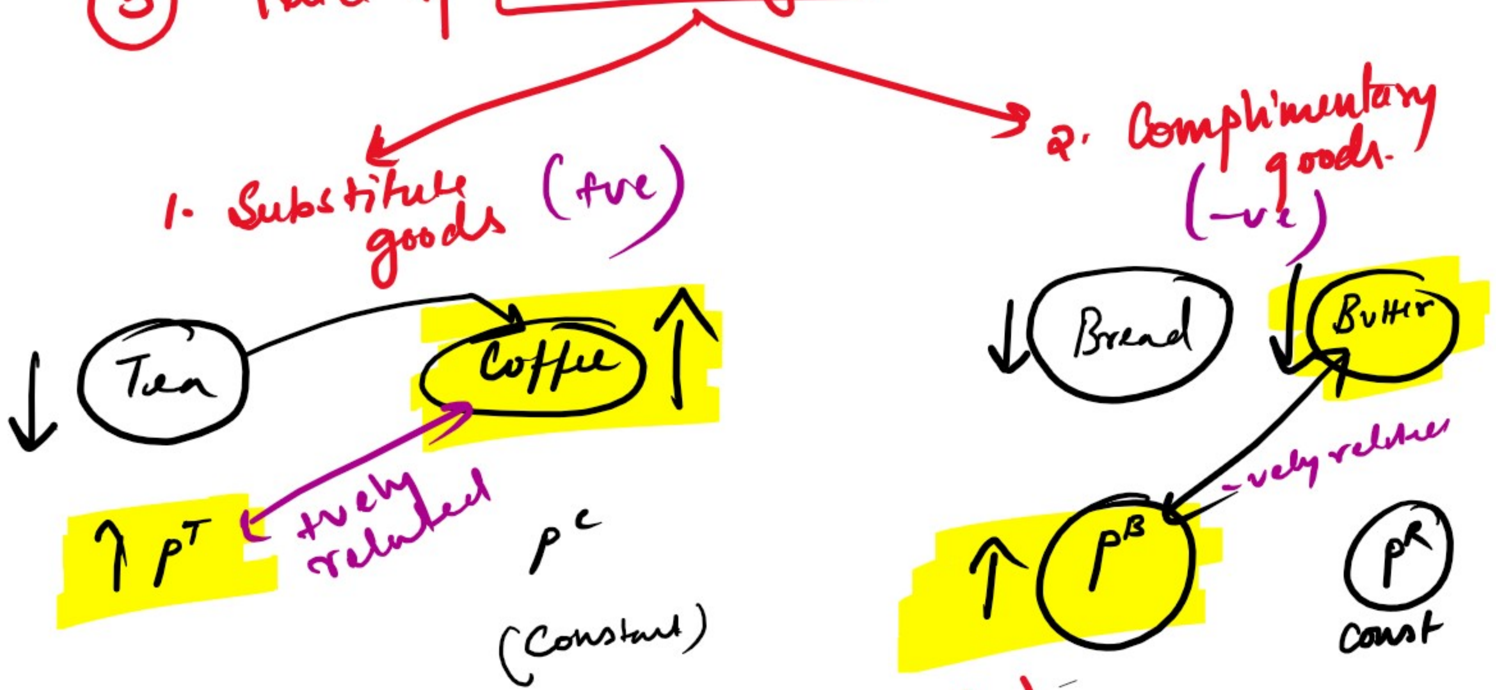
② Factors affecting the demand.

② Factors affecting the demand.

① Price of commodity x

② Income of consumer (M)

③ Price of related goods



④ Taste and Preferences (T)

⑤ Expectations Regarding future price (E).

⑥ Number of buyers.