CLASS XI | CBSE | 2025-26

INTRODUCTORY

MICROECONOMICS

CHAPTER 1

Economics and Economy

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Chapter Overview

What You Will Learn in This Chapter:

1. What is Economics? Meaning and definitions
2. Branches of Economics — Microeconomics and Macroeconomics
3. Difference between Micro and Macro Economics
4. What is an Economy? Types of economies
5. Positive and Normative Economics — meaning and difference
6. Central economic problem — scarcity and choice

Why This Chapter Matters:

This is the FOUNDATION chapter. Every concept in Microeconomics connects back to what you learn here. If you understand this chapter well, the rest of the book will make complete sense. It is also important for 1-mark MCQs and 3-mark definition questions in the board exam.

Real-Life Connection:

You face economic choices every day. Should you spend your pocket money on food or a movie? Should the government build hospitals or roads? These are economic decisions! Economics helps us understand and solve these choices.

1. MEANING OF ECONOMICS

What is Economics?

Economics is the study of how people, businesses, and governments make **choices** about using **limited resources** to satisfy their **unlimited wants**. The word "Economics" comes from the Greek word **"Oikonomia"** which means "household management."

> **DEFINITION: Economics — Alfred Marshall (1890)**
>
> ***"Economics is a study of mankind in the ordinary business of life. It examines that part of individual and social action which is most closely connected with the attainment and use of the material requisites of wellbeing."***

> **DEFINITION: Economics — Lionel Robbins (1932)**
>
> ***"Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses."***

Understanding Robbins' Definition — Key Words:

Key Word	Meaning	Example
Ends	Unlimited human wants and needs	Food, phone, education, travel
Scarce Means	Limited resources to satisfy wants	Money, time, land, labour
Alternative Uses	Resources can be used in many ways	Money can buy food OR clothes
Human Behaviour	How people make choices	Choosing between options

> **EXAMPLE: Daily Life Example**
>
> *You have Rs. 100 (scarce means). You want food, stationery AND a movie ticket (ends). But you cannot buy all three. So you CHOOSE what to buy. This act of choosing is what Economics studies!*

> **MEMORY TRICK**
>
> TRICK to remember Robbins' definition: "ESHA" — Ends (wants), Scarce (limited), Human behaviour, Alternative uses. One line: "Robbins says Economics = Ends + Scarce means + Alternative uses."

Comparison: Marshall vs Robbins Definition

Basis	Marshall	Robbins

Focus	Material welfare of mankind	Scarcity and choice
Scope	Narrow (only material things)	Wide (all scarce resources)
Nature	Normative (welfare)	Positive (scientific)
Social aspect	Considers social welfare	Does not consider welfare
Exam importance	Often asked for definition	Very frequently tested

2. SCARCITY AND CHOICE — THE ECONOMIC PROBLEM

Why Does the Economic Problem Arise?

The root cause of all economic problems is **SCARCITY**. Human wants are unlimited, but the resources to satisfy them are limited (scarce). This forces us to make choices — what to produce, how to produce, and for whom to produce.

The Economic Problem arises from TWO facts:

1. **Human wants are unlimited** — they never end. Once one want is satisfied, another appears.
2. **Resources are scarce (limited)** — land, labour, capital, and time are all limited.

This mismatch between unlimited wants and scarce resources creates the NEED TO CHOOSE — and that is the fundamental economic problem.

EXAMPLE: Classroom Example

Your school has only 2 computers (scarce resource). 50 students want to use them (unlimited wants). The school must CHOOSE who uses them and when. This is an economic problem!

EXAM TIP

Board exam often asks: "What is the economic problem?" Answer: The economic problem arises because of unlimited human wants and scarce resources, which forces us to make choices about their best possible use.

3. MICROECONOMICS AND MACROECONOMICS

What is Microeconomics?

DEFINITION: Microeconomics

"Microeconomics is the study of economic behaviour of individual economic units such as individual consumers, individual producers, and individual markets." The word "Micro" comes from the Greek word "Mikros" meaning SMALL.

Microeconomics studies small parts of the economy. It focuses on individual decision-making — how a single consumer chooses goods, how a single firm decides how much to produce, and how price is determined in a single market.

EXAMPLE: Examples of Microeconomics

1. Why does the price of onions rise in winter? (single market) 2. How many units should Tata Motors produce to maximise profit? (individual firm) 3. How does a student decide how to spend pocket money? (individual consumer) 4. Why do doctors earn more than labourers? (wage determination)

What is Macroeconomics?

DEFINITION: Macroeconomics

"Macroeconomics is the study of the economy as a whole, dealing with aggregate economic variables such as national income, total employment, general price level, and overall economic growth." The word "Macro" comes from the Greek word "Makros" meaning LARGE.

EXAMPLE: Examples of Macroeconomics

1. Why is India's GDP Rs. 200 lakh crore? (national income) 2. Why is inflation 6% in India? (general price level) 3. Why is the unemployment rate high? (total employment) 4. How does RBI control money supply? (monetary policy)

MICROECONOMICS vs MACROECONOMICS — Complete Comparison

Basis of Difference	Microeconomics	Macroeconomics
Meaning	Study of individual economic units	Study of economy as a whole
Origin of word	Mikros = Small	Makros = Large
Focus	Individual consumer, firm, market	National income, employment, prices

Subject matter	Price theory, consumer behaviour	Income theory, employment theory
Main tool	Demand and Supply analysis	National Income accounting
Price	Studies price of a single good	Studies general price level
Examples	Price of tea, wage of a worker	GDP, inflation, unemployment
Assumption	Full employment (often assumed)	Does not assume full employment
Propounded by	Alfred Marshall (mainly)	J.M. Keynes (mainly)

MEMORY TRICK

TRICK: Micro = SMALL = individual. Macro = BIG = whole economy. Micro uses MAGNIFYING GLASS to look at one part. Macro uses TELESCOPE to see the full picture. Micro is like studying one tree. Macro is like studying the whole forest.

4. POSITIVE AND NORMATIVE ECONOMICS

Positive Economics

DEFINITION: Positive Economics

Positive economics deals with facts — it describes what IS, what WAS, or what WILL BE. It is based on facts that can be tested and verified. Positive statements are objective and do not involve value judgments.

EXAMPLE: Examples of Positive Statements

1. "The price of petrol in India is Rs. 100 per litre." (fact — can be verified) 2. "When price of onions rises, quantity demanded falls." (can be tested) 3. "India's unemployment rate is 7%." (measurable fact) 4. "GST rate on gold is 3%." (verifiable)

Normative Economics

DEFINITION: Normative Economics

Normative economics deals with opinions and value judgments — it describes what OUGHT TO BE or what SHOULD BE. Normative statements cannot be tested or verified because they reflect personal opinions and values.

EXAMPLE: Examples of Normative Statements

1. "The price of petrol SHOULD be reduced." (opinion — who decides?) 2. "The government OUGHT TO provide free education to all." (value judgment) 3. "GST on medicines SHOULD be zero." (normative opinion) 4. "Income inequality SHOULD be reduced." (what "should" happen)

Basis	Positive Economics	Normative Economics
Meaning	What IS or WAS or WILL BE	What OUGHT TO BE or SHOULD BE
Nature	Objective (fact-based)	Subjective (opinion-based)
Verification	Can be tested and verified	Cannot be tested or verified
Value judgment	No value judgment	Involves value judgment
Example	"Price of rice is Rs. 40/kg"	"Price of rice should be Rs. 30/kg"
Keywords	Is, was, will be, are	Should, ought to, must, better

MEMORY TRICK

TRICK: Positive = "P" for PROVABLE (can be tested). Normative = "N" for NORMS (values and opinions). Quick test: If a statement has "should", "ought to", "must" — it is NORMATIVE. If it states a fact that can be measured — it is POSITIVE.

5. WHAT IS AN ECONOMY?

DEFINITION: Economy

An economy is a system by which people in a country/region earn their living. It is the entire set of activities related to production, distribution, and consumption of goods and services in a region or country.

Every country has its own economy. India has the Indian economy, the USA has the American economy, and so on. An economy solves three basic questions: WHAT to produce, HOW to produce, and FOR WHOM to produce.

Types of Economies

Type of Economy	Meaning	Decision Maker	Example
Capitalist / Market Economy	Decisions made by market forces (demand and supply)	Private individuals and firms	USA, UK
Socialist / Centrally Planned Economy	Government makes all economic decisions	Government (Central Authority)	Former USSR, Cuba
Mixed Economy	Both government and private sector make decisions	Both public and private sector	India, France

EXAMPLE: India as a Mixed Economy

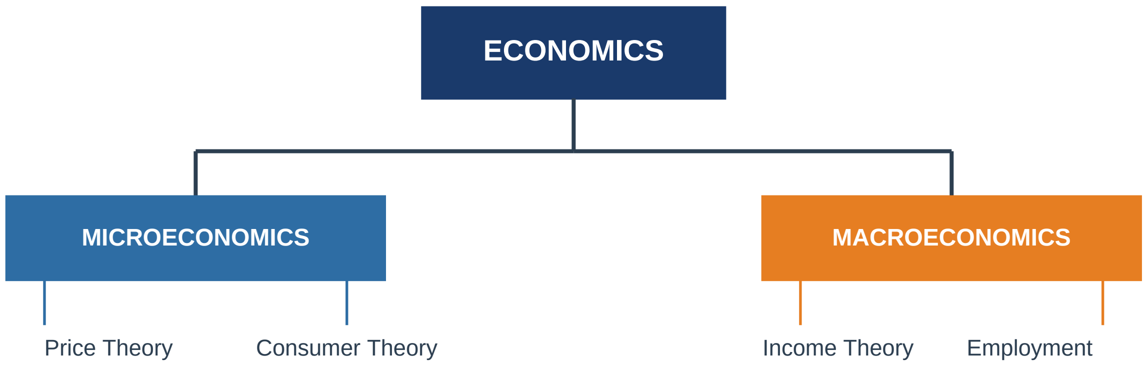
In India, the private sector (like Reliance, Tata) produces goods like phones and cars (market decisions). The government controls sectors like defence, railways, and provides subsidies. This combination of private and public ownership makes India a Mixed Economy.

MEMORY TRICK

TRICK to remember types of economies: "C-S-M" = Capitalist (market), Socialist (planned), Mixed (both) Capitalist = COMPETITION rules. Socialist = GOVERNMENT rules. Mixed = BOTH rule.

6. BRANCHES AND SCOPE OF ECONOMICS

Structure of Economics — A Visual Map



Scope of Microeconomics:

Microeconomics covers the following topics (which you will study this year):

Topic	What It Covers
Theory of Consumer Behaviour	How consumers decide what to buy (Chapters 3 & 4)
Theory of Demand	Why demand for goods changes (Chapter 5)
Theory of Production	How firms produce goods (Chapter 7)
Theory of Cost	What costs firms face (Chapter 8)
Theory of Revenue	How firms earn revenue (Chapter 9)
Producer Equilibrium	How firms decide output and price (Chapter 10)
Theory of Supply	Why supply of goods changes (Chapter 11)
Market and Pricing	How prices are determined (Chapters 12 & 13)

EXAM-ORIENTED QUESTIONS

1-Mark Questions (MCQ / Very Short Answer)

Q1. Which Greek word does "Economics" come from?

Ans. "Oikonomia" meaning household management.

Q2. Who defined Economics as "study of mankind in the ordinary business of life"?

Ans. Alfred Marshall.

Q3. Who gave the scarcity definition of Economics?

Ans. Lionel Robbins (1932), in his book "An Essay on the Nature and Significance of Economic Science."

Q4. What does "Micro" mean?

Ans. Micro comes from Greek "Mikros" meaning SMALL.

Q5. Give one example of a positive economic statement.

Ans. "The price of rice is Rs. 40 per kg" — it is a fact that can be verified.

Q6. Give one example of a normative economic statement.

Ans. "The price of rice should be Rs. 30 per kg" — it is a value judgment.

Q7. India is an example of which type of economy?

Ans. Mixed Economy — both government and private sector make economic decisions.

Q8. Who is mainly associated with Macroeconomics?

Ans. J.M. Keynes — he developed macroeconomic theory in 1936.

3-Mark Questions

Q1. Distinguish between Microeconomics and Macroeconomics. (3 marks)

Answer Writing Format:

Introduction: Microeconomics and Macroeconomics are the two main branches of Economics.

Difference 1: Microeconomics studies individual economic units (single consumer, firm, market), while Macroeconomics studies the economy as a whole (GDP, inflation).

Difference 2: Microeconomics deals with price of a single good; Macroeconomics deals with general price level.

Difference 3: Microeconomics uses demand-supply analysis; Macroeconomics uses national income analysis.

Conclusion: Both are complementary branches — Micro explains parts, Macro explains the whole.

Q2. Distinguish between Positive and Normative Economics with examples. (3 marks)

Positive Economics: Deals with facts. Statements that describe "what is" and can be verified. Example: "Inflation in India is 5%."

Normative Economics: Deals with opinions. Statements that express "what should be." Cannot be verified. Example: "The government should reduce taxes."

Key difference: Positive = objective and factual. Normative = subjective and based on value judgments.

4-Mark Questions

Q1. What is the economic problem? Why does it arise? (4 marks)

Definition: The economic problem refers to the problem of allocation of scarce resources among unlimited and competing wants.

Why it arises: It arises because of two reasons:

(a) **Unlimited Human Wants:** Human wants are never-ending. As one want is satisfied, new wants emerge. Example: After buying a phone, you want a better phone.

(b) **Scarce Resources:** Resources like land, labour, capital, and time are limited. They cannot satisfy all wants.

Result: This gap between unlimited wants and scarce resources forces us to make choices — what to buy, what to produce, how to use limited resources. This choice-making is the economic problem.

Example: A family with Rs. 5,000 monthly budget has to choose between education fees, grocery, rent, and entertainment.

6-Mark Questions

Q1. Explain the subject matter of Microeconomics. OR What topics does Microeconomics study? (6 marks)

Introduction: Microeconomics studies the economic behaviour of individual units. Its subject matter covers the following areas:

1. Theory of Product Pricing: How prices of goods and services are determined through demand and supply in different markets.

2. Theory of Consumer Behaviour: How a consumer maximises satisfaction with limited income. (Utility analysis and IC analysis)

3. Theory of Production: How a firm combines factors of production to produce output. Includes law of variable proportions and returns to scale.

4. Theory of Cost: What costs (fixed, variable, average, marginal) a firm incurs during production.

5. Theory of Revenue: How total, average, and marginal revenue are calculated for a firm.

6. Theory of Factor Pricing: How wages, rent, interest, and profit are determined.

7. Theory of Economic Welfare: How efficient allocation of resources maximises social welfare.

Conclusion: Microeconomics is also called Price Theory because its central focus is on price determination in individual markets.

HOTS (Higher Order Thinking Skills)

Q1. "All economic problems arise because of scarcity." Do you agree? Give reasons. (4 marks)

Ans. **Yes, I agree.** Scarcity means that resources are limited relative to wants. If resources were unlimited, we could satisfy all wants and no choice would need to be made. But because resources ARE limited, every society faces the three central problems: what to produce, how to produce, and for whom to produce. Even wealthy nations face scarcity — a rich country cannot produce unlimited defence weapons AND hospitals AND roads simultaneously. Scarcity forces trade-offs and choices. Therefore, scarcity is the root cause of all economic problems.

Q2. Is Economics a science or an art? Give your view. (3 marks)

Ans. Economics is **BOTH a science and an art.** It is a Science because it has systematic principles and laws (like the law of demand) that can be tested and verified. It is both Positive Science (describing facts) and Normative Science (prescribing policies). It is also an Art because it applies scientific knowledge to solve real-world problems — for example, policymakers use economic theory to design budgets, control inflation, and reduce unemployment.

CHAPTER SUMMARY

KEY DEFINITIONS TO REMEMBER:

1. **Economics (Marshall):** Study of mankind in the ordinary business of life.
2. **Economics (Robbins):** Science studying human behaviour as a relationship between ends and scarce means with alternative uses.
3. **Microeconomics:** Study of individual economic units (single consumers, firms, markets).
4. **Macroeconomics:** Study of economy as a whole (national income, employment, general prices).
5. **Positive Economics:** Deals with facts — what IS. Can be tested.
6. **Normative Economics:** Deals with opinions — what SHOULD BE. Based on value judgments.
7. **Economy:** A system by which people in a country earn their living through production, distribution, and consumption.
8. **Scarcity:** Resources are limited relative to unlimited human wants.

LAST-MINUTE QUICK REVISION BOX:

Micro = Small = Individual. Macro = Big = Whole Economy.

Marshall = Welfare. Robbins = Scarcity + Choice.

Positive = Facts (Is/Was). Normative = Opinions (Should/Ought).

Types of Economy: Capitalist / Socialist / Mixed. India = Mixed Economy.

Economic Problem = Unlimited wants + Scarce resources = Need to Choose.

Micro also called: Price Theory. Macro also called: Income Theory.

KEY TERMS GLOSSARY:

Economics: Study of choices under scarcity | **Scarcity:** Limited resources | **Choice:** Deciding between alternatives | **Opportunity Cost:** Value of next best alternative given up | **Microeconomics:** Individual unit study | **Macroeconomics:** Whole economy study | **Positive:** Factual | **Normative:** Value-based | **Economy:** System of production and distribution | **Mixed Economy:** Government + Private sector both operate