STUDY MATERIAL 2 Module -I ECONOMICS HONOURS SEMESTER –I CC 1-1 2019-20

BASIC ECONOMIC QUESTIONS:

The fundamental economic problem is one of scarcity. The basic questions of economics become:

1. What to produce?
2. How to produce?
3. For whom to produce?

You could also add

* When to produce?

**What to produce?**

Given limited resources of labour, raw materials and time, economic agents have to decide what to produce. Most primitive economies concentrate on producing food and shelter – the basic necessities of life. However, with increased productivity, the economy has more available resources which can be used for non-necessary goods, such as leisure and education.

In a free market, production is determined by market forces. Firms and entrepreneurs will produce goods in demand by consumers. In a mixed economy, with government intervention, the government may decide to produce more public goods – which are not profitable but do improve economic welfare.

**How to produce?**

The entrepreneur will try and produce goods for the most profitable and cost-effective method. This motivation is behind the growth of technology and more efficient production methods, such as the assembly line. A government may regulate production methods to limit damage to the environment.

**For whom to produce?**

In a free market, goods are provided for those with the ability to pay. This may be through a simple barter exchange or in more advanced economies through cash payments. In more altruistic societies, we may seek to produce goods and services for those, who may not be able to afford them. For example, many western economies provide health care free at the point of use.