

FINITE RESOURCES -UNLIMITED WANTS

KEYPOINTS:

- **The economic problem:** The economic problem of not being able to satisfy everyone's wants is due to scarcity.
- **The economic problem can never be solved because** the economic problem is scarcity. Also wants are infinite but resources are limited. The wants exceed resources as wants grow faster than resources (or to put it the other way: the growth of resources will never exceed the growth of wants)
- **Nature of the basic economic problem:**

At any given point of time in an economy, output is limited by the resources and the technology available. There is therefore a basic condition of scarcity. On the other hand, the wants of the consumers are infinite or unlimited and the ability of the resources to satisfy those wants however are limited. There is therefore a need to make a choice as a result of this scarcity. This choice will be in terms of what to produce, how to produce and for whom to produce.
- **Economic good:** An economic good is a consumable good that is useful to people but scarce in relation to its demand. Also economic goods have a price. Human effort is required to obtain economic goods.
- **Free good:** It is a product that does not require any resources to make it and so does not have an opportunity cost
- **Difference between economic goods and free goods:**

	Economic good	Free good
1	Produced using the scarce resources	Produced without using any scarce resources
2	More of it is preferred	More of it is not preferred
3	They have utility and exchange value.	They have utility but no exchange value.
4	They are created by man	They are created by nature

A PEEK INTO THE APPLICATION BASED QUESTIONS FOR PAPER 2

Here's a quick look into the some of the application-based questions asked in the previous years. The idea is to help you answer the questions in the correct way

1. What is meant by the term : "The basic economic problem?[2]

Ans: Basic economic problem refers to the basic situation of scarcity which arises due to the finite resources and the unlimited wants. Hence there is a necessity for a choice to be made.

2. Why do all countries face the basic economic problem? [4]

Ans: Countries face the basic economic problem because there are finite resources and unlimited wants , so there is a basic situation of scarcity and hence there is a need to exercise choice.

For example: It is not possible for any country to produce all the goods because of the limited resources available to them. For instance, the resources such as the labour, land, and capital are limited as compared to the demand. Therefore, the economy cannot provide everything that people want. Hence, a country then makes a choice between the types of goods that it can produce with its limited available resources.

A second example could be of that of a farmer who wants to grow both soyabean and groundnut. But with his limited piece of land, which is a scarce resource for him, he needs to decide, whether to grow soyabean or groundnut during the rainy season. If he then makes a choice to grow just soyabean, then he cannot grow groundnut and vice-versa. Or if he decides to grow both, then he needs to decide the proportion of land that goes for each kind of crop.

Note:

1. In Q1, you were supposed to just state the meaning, so you only need to express the meaning in clear terms.
2. In Q2, you were asked to explain. Whenever you will be asked to explain something, you need to have a clear picture in your mind about the terms/points you will need to include in your answer and at the same time show how there exists a clear relation between these terms/points. Provide reasons as to why/how things are related and do not forget to support your answer with relevant evidence. For answers that ask you to explain, it helps to first quickly jot down the key points and then build your answer around them.

