

# Gujarat Board Textbook Solutions Class 11 Economics

## Chapter 2 Fundamental Concepts and Terminologies

**1. Choose correct option for the following from the options provided :**

**Question 1. Which value expresses the importance of a good in human life?**

- (A) Exchange-value
- (B) Use-value
- (C) Consumption-value
- (D) Internal-value

Answer:

- (A) Exchange-value

**Question 2. What is the monetary payment in exchange of a good called?**

- (A) Value
- (B) Exchange
- (C) Price
- (D) Wealth

Answer:

- (C) Price

**Question 3. Which of the following is a physical good?**

- (A) Music
- (B) Education
- (C) Doctor's advice
- (D) Refrigerator

Answer:

- (D) Refrigerator

**Question 4. Which of the following is not a characteristic of wealth?**

- (A) Possesses usefulness
- (B) Should be available in abundance
- (C) Has an explicit existence
- (D) Is capable of being exchanged

Answer:

- (B) Should be available in abundance

**Question 5. Which of the following signifies all forms of natural wealth?**

- (A) Capital
- (B) Labour
- (C) Land
- (D) Money

Answer:

- (C) Land

**Question 6. Which is not a type of trade cycle?**

- (A) Irregular changes
- (B) Seasonal changes
- (C) Short run regular changes
- (D) Long run regular changes

Answer:

(C) Short run regular changes

**2. Answer the following questions in one sentence :**

**Question 1. State the meaning of value.**

Answer:

The worth of a commodity in terms of other commodities, or in terms of money i.e. price is called value of that commodity.

**Question 2. Give meaning and example of commodities which are universally and abundantly available.**

Answer:

Goods which do not have exchange value are called non-economic goods. Such goods are abundant in supply. Example: Sunlight and air.

**Question 3. What is meant by perishable goods in economics?**

Answer:

Goods that do not last long and can be consumed only once are known as perishable goods. Example: Milk, fruits, meat, etc.

**Question 4. Give the meaning and example of consumer goods.**

Answer:

When a consumer consumes a good and the good is capable of directly satisfying a particular want then it is called a consumer good. These goods have passed the final stage of production. Example: Cooked food.

**Question 5. What is meant by individual wealth?**

Answer:

Wealth owned by an individual and meant for private consumption is called individual wealth. For example, a house.

**Question 6. Give the meaning of factors of production.**

Answer:

The agents that help in a process of conversion or production are called 'Factors of Production'. There are four factors of production. They are:

1. Land
2. Labour



3. Capital and
4. Entrepreneur.

**Question 7. Give the meaning of wealth.**

Answer:

Wealth is something which is useful, scarce, capable of getting exchanged, and can only be owned by somebody.

**Question 8. Give the definition of trade cycle given by Heberler.**

Answer:

According to Haberler, Trade Cycle is an interval that embraces alternating periods of prosperity (good time) and depression (bad time).'

**Question 9. How many phases are there in a trade cycle? Which are those?**

Answer:

1. Boom
2. Recession
3. Depression and
4. Recovery.

**3. Answer the following questions in short :**

**Question 1. Give two points of difference between private goods and public goods.**

Answer:

| Private goods  | Public goods  |
|--|---|
| 1. Goods that can be possessed and owned by a private individual are called Private goods. | 1. Goods that can be used by many individuals at the same time are called Public goods.   |
| 2. These goods possess the characteristics of excludability and competitiveness.           | 2. These goods possess the characteristics of joint demand and collective consumption.  |
| 3. In order to obtain ownership of such excludable goods, individuals need to compete.     | 3. These goods are either provided by the government for all or some people pay for it together. Hence, all have equal ownership and so individuals do not need to compete to own them. |

4. Example: A motorcycle, mobile phone, house owned by an individual.

4. Example: Public garden, village well, street lights, etc.

**Question 2. Explain the meaning of commodities and services with examples.**

Answer:

**Goods:**

- Commodities that have physical existence i.e. are tangible are called goods.
- In economics, goods satisfy the needs of consumption i.e. the needs of consumers.

**Example:**

Food items, metal, fuel, furniture, vehicles, etc. are goods.

**Services:**

- Commodities which are intangible or do not have a physical existence are called services.
- In economics, services are meant to satisfy the needs of human life.

**Example:**

Cooking, transportation, telecom, courier, etc. are services.

- Economics studies activities related to production, consumption and distribution of goods or services.
- Although the nature of goods and services is different both are important in economics.
- Units of goods or stock of goods can be measured but, services generally cannot be measured in cardinal (i.e. quantitative/numerical) terms.
- Time spent to provide a service can be measured to make service quantifiable.

**Example:**

- When you recharge your mobile phone by paying money you are buying a service. You get a fixed quantity of minutes/hours i.e. time in exchange of price.
- The impact of a service in satisfying human wants varies and hence is abstract.

**Example:**

- The need for knowledge of a student is satisfied by the service of education.
- However, it is quite difficult or say abstract to identify the exact contribution of the service of education in creating knowledge in student.
- On the other hand, a book is a good and one may be able to tell the amount of information obtained from the book.



**Question 3. Give the meaning of durable goods with examples.**

Answer:

**Durable goods and Perishable goods:**

**(a) Durable goods:**

Goods that can be stored and used repeatedly for a long period of time are called durable goods.

**Example:** Shoes, clothes, television, refrigerator, etc.

**(b) Perishable goods:**

Goods that do not last long and can be consumed only once are known as perishable goods.

Example: Milk, fruits, meat, etc.

**Question 4. Which goods are called consumer goods in economics?**

Answer:

**Question 5. Give the meaning of individual wealth and social wealth.**

Answer:

**Wealth can be classified into two types. They are:**

**1. Individual wealth and Social wealth:**

- Wealth owned by an individual and meant for private consumption is called individual wealth. For example, a house.
- Wealth owned by society and meant for collective consumption is called societal (or social) wealth. For example, a check-dam.

**2. National wealth and international wealth:**

- Wealth belonging to a nation and possessed and treasured by a nation is called national wealth.
- It directly or indirectly helps to generate exchange value for the nation.
- For example, rivers, mountains, literature and scriptures, etc. are national wealth.
- Wealth belonging to the earth that can be treasured by all nations and which can be developed for benefit of all is called international wealth.
- For example, oceans are such a common wealth which are used as international waterway and benefit all the nations.

**Question 6. Give the meaning of wealth given by Prof. Marshall.**

Answer:

**Question 7. Explain the meaning of production.**

Answer:

**Production:**



- The activity of converting raw materials and resources into final goods which satisfy human wants is called production.
- By converting the nature of resources, their utility increases. In this sense, production can also be defined as a process which increases utility of resources.

### **Example:**

When wood (a resource) is converted into chairs its utility increases. The process of converting wood into chair is called production.

### **Factors of production:**

- The agents that help in a process of conversion or production are called 'Factors of Production'. There are four factors of production. They are:
  1. Land
  2. Labour
  3. Capital and
  4. Entrepreneur.
- All these factors are equally important in the process of production.
- In a system of just (fair) distribution of income, the total income generated from various activities is distributed among each factor of production as per the productivity of each factor or its contribution in generating that income.
- As per Alfred Marshall, there are two basic categories of factors of production
  1. Nature and
  2. Human beings.

### **Question 8. State the meaning of labour as a factor of production.**

Answer:

#### **Labour:**

The physical or intellectual work done by humans under supervision by some authority in order to earn returns is called labour.

### **Characteristics of labour:**

- Labour and labourer cannot be separated from each other.
- Labour cannot be stored. So, we can say that labour i.e. effort done by a labourer is perishable.
- The mobility of labour is influenced by social and economic reasons.
- The efficiency of every labourer is different. This means that the capacity of every labourer to perform labour is different.
- The supply of labour depends upon population.
- The remuneration for labour is called 'wages'.



#### 4. Answer the following questions in brief points :

##### Question 1. Give the meaning of price and value.

Answer:

- We often use the words 'price' and 'value' in our daily life. Most of the times we use both these words alternatively but to represent the same meaning.
- For example, we make statements like, 'this jeans is expensive', 'this watch is valuable', 'this shoe has a high price'. When these statements are made they are made without differentiating between price and value. This is so because generally, a person believes price and value to be the same.
- In economics, the concept of price and value are different and so it is necessary to understand the concept of value.

##### Value:

The worth of a commodity in terms of other commodities, or in terms of money i.e. price is called value of that commodity.

##### Value can be explained from two viewpoints. They are:

1. From viewpoint of use i.e. 'use-value'
2. From viewpoint of exchange i. e. 'exchange-value'.

##### Price:

- If a commodity is exchanged for money then such monetary exchange-value is termed as 'price'.
- Price means the exchange-value (or worth) of a commodity measured in terms of units of currency.

##### Question 2. Give the types of goods and explain the difference between consumer goods and producers' goods with examples.

Answer:

##### The various types of goods are:

- Physical (Tangible) goods and Intangible goods
- Economic goods and non-economic goods
- Durable goods and Perishable goods
- Private goods and Public goods
- Consumers' goods and Producers' goods

| Consumers' goods   | Producers' goods   |
|--|--|
| 1. When a consumer consumes a good and the good is capable of directly satisfying a particular want then it is called a consumer good. | 1. When a good is used at the intermediate stage of production of a final good or when it is purchased by a producer to produce a final good and it is not directly consumed by the consumers but the good helps in the production of a final good then such a good is called a producer's good. |
| 2. Cooked food which is ready for consumption is an example of consumers' goods.   | 2. Cotton used to make cloth, machines used in factories to produce garments, etc. are used further for producing goods and hence are producers' goods.  |

**Question 3. Give the types of wealth and explain the difference between national wealth and international wealth with examples.**

Answer:

**Wealth can be classified into two types. They are:**

**1. Individual wealth and Social wealth:**

- Wealth owned by an individual and meant for private consumption is called individual wealth. For example, a house.
- Wealth owned by society and meant for collective consumption is called societal (or social) wealth. For example, a check-dam.

**2. National wealth and international wealth:**

- Wealth belonging to a nation and possessed and treasured by a nation is called national wealth.
- It directly or indirectly helps to generate exchange value for the nation.
- For example, rivers, mountains, literature and scriptures, etc. are national wealth.
- Wealth belonging to the earth that can be treasured by all nations and which can be developed for benefit of all is called international wealth.
- For example, oceans are such a common wealth which are used as international waterway and benefit all the nations.

**Question 4. Give the meaning of factors of production with examples.**

Answer:

**Land:**

According to Marshall, all natural assets which help in production or in economic activities



constitute land. As per this definition, climate, water resources, fertility, mineral resources, etc. all these natural assets help in production and hence constitute land.

### **Characteristics of land:**

- Land is not manmade. It is a gift of nature.
- The total supply of land is fixed.
- Land is immobile.
- Each type of land has different fertility, experiences different climatic conditions, etc.
- The remuneration of land as a factor of production is called 'rent'.

### **Question 5. Give the meaning of trade cycle and explain the various phases of a trade cycle.**

Answer:

#### **Trade cycle:**

- According to Heberler, Trade Cycle is an interval that embraces alternating periods of prosperity (good time) and depression (bad time).'
- According to Hawtrey, Trade cycles are continuous phases of good and bad changes occurring in the economy.'

#### **Phases of a trade cycle:**

- Boom, Recession, Depression and Recovery are the four phases of trade cycle.
- Trade cycles take place in all economies and all economic activities in the long run. However, in market oriented economies, these occur more openly while in state controlled economies the state suppress these cycles.

#### **Characteristics of a trade cycle:**

- They show dynamic changes in the economy.
- They show positive and negative changes taking place in the economy.
- These arise because of several factors.
- Trade cycles have various phases and they do not last for a uniform period.

### **5. Answer the following questions in detail :**

#### **Question 1. Give the meaning and explain the characteristics of wealth in detail.**

Answer:

#### **Wealth:**

As per Alfred Marshall, wealth is something which is useful, scarce, capable of getting exchanged, and can be owned by somebody.



## **Characteristics of wealth:**

### **1. It should possess the characteristic of usefulness:**

- Wealth must be useful in satisfying human wants or needs. Hence, goods which are useful in satisfying needs of human beings can be considered as wealth.
- Example: House, vehicle, precious jewelry, etc. are all wealth.

### **2. It should be scarce:**

- Those commodities which are scarce in supply in relation to their demand and possess exchange-value over and above being useful are called wealth.
- In economics, goods which are useful but not scarce and do not have exchange-value like sunlight and air are not considered wealth.

### **3. It should have physical or intellectual existence:**

- Wealth should have an existence which can be exchanged.
- A person's mental or physical ability and aptitude are qualities that become his asset, but cannot be exchanged.
- The ability of a scientist to think is his quality and not wealth but the novel idea created and sold by the scientist can become his wealth.
- In modern world the intellectual abilities of human beings like the ability to create new ideas are exchanged for money in the market. Hence intellectual ability to create novel ideas and goods is called wealth.

### **4. Wealth constitutes goods which are capable of exchange:**

- Wealth is an economic concept and so it must be exchangeable.
- The objective of wealth is to satisfy present as well as future consumption and other needs. So, it must be capable of exchange.

### **Example:**

- If we purchase a house today then it will satisfy the current need of living in a house as well as it can be sold in the future to obtain money and buy some other goods. Hence, house is a wealth.
- Precious metals, land, etc. also possess similar characteristic and so are considered wealth.

### **5. Durability:**

- Wealth must possess durability.
- Goods that are durable goods can be used in future for exchange and for satisfying future needs and hence become wealth.



- Goods which perish after using just once cannot be used for future transactions so cannot be considered wealth.

### Example:

- Land, house, precious jewelry, shares, etc. are durable goods and hence , can be considered wealth.
- Food grains or dairy items produced by a farmer are not wealth if they perish in a very short time. Similarly, labour of a labourer is also not called wealth.
- However, if food grains can be stored in cold storage for a long time and their market value increases in future then those items become wealth. In this sense, we can say that new technology can redefine wealth.

### Question 2. Give a detailed explanation of the phases of a trade cycle.

Answer:

**Phases of a trade cycle:** Trade cycle passes through four phases which are discussed below.

#### 1. Boom:

- The period when economic activity reaches the maximum growth level in a given time period is called the 'Boom period' or simply 'Boom'.
- In the Boom period, the demands of goods/services are at its peak and so do incomes and profits. Thus, this period is also called 'peak'.

#### 2. Recession:

- -> The period that comes after the 'Boom' is called 'recession'.
- -> In a given time period, when economic activity reaches to its peak which in turn takes the investments and employment also to the peak i.e. the highest possible levels, a slowdown occurs. As a result, demand slows down and so do investment and unemployment and recession occur.

#### 3. Depression:

- During the slowdown in the recession phase when all activities reach a ' minimum level, it leads to phase called 'depression'.
- In this phase, the confidence of buyers, producers and investors in the economic activity is at its lowest.

Formation of depression:

- During recession phase, consumers start believing and expecting that since prices are falling they will still fall. This stops them from buying and the demand further decreases. When the demand falls, the production and employment also falls. This leads to more reduction in the demand which then finally causes depression.



#### **4. Recovery:**

When depression lasts for some time, the suppressed demand starts emerging. Government may also try to boost investments and employment through various strategies. Moreover, at times technological changes take place in the long run. All this leads to a recovery of demand, employment and investment and the market starts getting normal.

#### **Question 3. Define production and discuss factors of production.**

Answer:

##### **Production:**

- The activity of converting raw materials and resources into final goods which satisfy human wants is called production.
- By converting the nature of resources, their utility increases. In this sense, production can also be defined as a process which increases utility of resources.

**There are four factors of production. They are:**

1. Land,
2. Labour,
3. Capital and
4. Entrepreneur.

##### **1. Land:**

According to Marshall, all natural assets which help in production or in economic activities constitute land. As per this definition, climate, water resources, fertility, mineral resources, etc. all these natural assets help in production and hence constitute land.

##### **Characteristics of land:**

- Land is not manmade. It is a gift of nature.
- The total supply of land is fixed.
- Land is immobile.
- Each type of land has different fertility, experiences different climatic conditions, etc.
- The remuneration of land as a factor of production is called 'rent'.

##### **2. Labour:**

The physical or intellectual work done by humans under supervision by some authority in order to earn returns is called labour.

##### **Characteristics of labour:**

- Labour and labourer cannot be separated from each other.



- Labour cannot be stored. So, we can say that labour i.e. effort done by a labourer is perishable.
- The mobility of labour is influenced by social and economic reasons.
- The efficiency of every labourer is different. This means that the capacity of every labourer to perform labour is different.
- The supply of labour depends upon population.
- The remuneration for labour is called 'wages'.

### 3. Capital:

- All manmade goods which help in production are called capital. Capital differs from land and labour as it is a 'produced' factor of production. In other words, it is a manmade factor of production.
- For example, a tractor is a 'produced' factor of production which further helps in the production of agricultural goods.

#### Characteristics of capital:

- (1) Capital is a manmade factor of production.
- (2) It is the most mobile of all factors of production.
- (3) The increasing demand for capital in present times owing to increasing capital intensive methods of production has resulted in increasing scarcity of this factor.
- . (4) The remuneration of capital is called 'interest'.

### 4. Entrepreneur:

- Entrepreneur is the factor which brings together or say coordinates all other factors of production for the production process. Without entrepreneur, economic activity is not possible.
- Entrepreneur is the person who establishes the enterprise and takes the risk of coordinating economic activities.
- This factor of production i.e. the entrepreneur does not get fixed return but tries to generate income by running the economic activity successfully. He/ she may even incur a loss if the activity does not function well.

#### Characteristics of entrepreneur:

- This factor decides the activity that will take place.
- This factor is known as the risk taking factor.
- It possesses the quality of co-ordination. In other words, 'entrepreneurship' is a quality.
- The remuneration of this factor is called profit.