Chapter 8: Building Blocks in Economics: The Problem of Choice

Questions — Questions and activities

Q1 Why do you think people's wants keep changing over time? How does this affect production in an economy? Why cannot all our wants be satisfied?

SOLUTION

People's wants change over time because of rising incomes, exposure to new products, changing lifestyles, and technological advancement. For example, people may want to upgrade from a bicycle to a motorbike and then to a car as their income grows.

As wants change, producers must constantly adjust what they make, shifting resources toward new goods and services in demand. This drives economic activity but also creates pressure to reallocate scarce resources.

All wants cannot be satisfied because resources—land, labour, capital, and technology—are limited in quantity. Human wants, on the other hand, are unlimited and keep growing. Since resources have competing uses, satisfying one want often means giving up another (opportunity cost). No economy can ever produce enough to fully satisfy every want of every person.

Answer: Wants change with rising incomes, new technologies, and changing lifestyles. This pushes producers to adjust output, creating constant pressure on limited resources. All wants cannot be satisfied because resources are scarce while human wants are unlimited—every choice to satisfy one want means giving up another.

Q2 'Human wants are unlimited and keep changing'. How do you think this constant desire for more creates pressure on the environment? Can the fulfilment of wants and the extraction of resources be balanced?

SOLUTION

Unlimited and ever-changing human wants drive continuous production of goods and services. This requires the extraction of natural resources—coal, water, minerals, land—which are limited. As production expands to meet rising wants, it leads to deforestation, pollution, water depletion, and greenhouse gas emissions, placing severe pressure on the environment.

Yes, the fulfilment of wants and resource extraction can be balanced, but it requires careful planning. As the chapter notes, economies must 'use their scarce resources in the best possible way to meet unlimited wants and improve people's quality of life.' This means favouring sustainable production methods, using renewable resources, reducing waste, and making conscious choices that account for the long-term opportunity cost—such as choosing drought-resistant crops over water-intensive ones to preserve soil health and water.

Answer: Unlimited wants drive ever-rising production, depleting natural resources and harming the environment. Balance is possible through sustainable methods, renewable energy, and planning that accounts for opportunity costs—choosing production techniques that conserve resources for the long term rather than maximising short-term output.

Q3 Can you think of a resource in your region that is scarce but used wastefully? How could it be managed better?

SOLUTION

Model answer: In many parts of India, groundwater is a scarce but widely wasted resource. Farmers often use flood irrigation, which requires far more water than crops actually need, and leaking pipes in cities lead to significant losses.

Better management could involve: (a) promoting drip and sprinkler irrigation that use water efficiently; (b) harvesting rainwater through rooftop systems and check dams; (c) fixing pipeline leaks in urban supply networks; and (d) pricing water realistically so people have an incentive to use it carefully. As the chapter explains, understanding opportunity cost helps in decision-making—the water 'wasted' today has the opportunity cost of future agricultural and drinking-water security.

Answer: Model answer — Groundwater is scarce but often wasted through flood irrigation and leaking pipes. It could be managed better through drip irrigation, rainwater harvesting, fixing leaks, and realistic pricing that discourages waste. Any locally relevant scarce resource (electricity, forest cover, etc.) with a similar analysis is acceptable.

Q4 Which economic system—market, planned, or mixed—do you think gives people the most freedom? Which economic system is best suited for promoting innovation? Why?

SOLUTION

A market economy gives people the most freedom. In this system, ownership of factories, shops, land, and other resources rests with individuals and private companies, and economic choices on what to buy, produce, or invest in are driven by demand and supply with little government intervention. Individuals can freely start businesses, choose occupations, and decide how to spend their income.

A market economy is also best suited for promoting innovation. When many producers offer similar products, competition pushes them to improve quality, reduce prices, and introduce new ideas to attract customers. In a planned economy, enterprises follow central authority targets rather than market demand, leaving little motivation to innovate. The mixed economy also supports innovation, but the degree depends on how much freedom private enterprise is given.

Therefore, among the three systems, a market economy offers the most freedom and the strongest incentive to innovate, because profit and competition reward new ideas and efficiency.

Answer: A market economy gives people the most freedom, as individuals and private enterprises own resources and make their own production and consumption decisions. It is also best suited for innovation—competition among producers encourages better quality, lower prices, and new ideas. Planned economies restrict this by directing production centrally, reducing the incentive to innovate.

Q5 Critically examine why pure economic systems rarely exist in reality. Assess the limitations of such systems and justify why a mixed economy is often considered a more practical and effective approach in real-world contexts.

SOLUTION

A pure planned economy concentrates all decision-making in the government, which owns most resources. Its limitations include restricted competition, little motivation to improve quality or innovate, and the risk of inefficient allocation because central planners cannot respond quickly to the diverse and changing wants of millions of people. Examples like the former Soviet Union and North Korea show how planned economies can stagnate.

A pure market economy leaves all decisions to demand and supply with minimal government involvement. Its limitations include the under-provision of public goods (roads, parks, street lights) that private firms have no incentive to supply, the risk of monopolies, growing inequality, and vulnerability to economic crises when markets fail.

Because each pure system has serious flaws, most real-world economies combine both. A mixed economy allows private enterprise, competition, and innovation while the government provides public goods, enforces fair competition rules, protects consumers, and runs welfare programmes. As the chapter notes, even market economies like the USA and Singapore have significant government involvement. India's shift after 1991—reducing excessive regulation while retaining a public sector—is a practical example of how a mixed approach balances efficiency with equity and stability.

Answer: Pure planned economies suffer from lack of competition, poor innovation, and inefficient resource allocation. Pure market economies under-provide public goods and can create inequality and instability. A mixed economy combines private enterprise and competition with government regulation and welfare, making it more practical—as India's post-1991 reforms demonstrate—because it addresses the weaknesses of both pure systems while retaining their strengths.

Q6 A student has 100 and must choose between buying a notebook or saving the money for buying a tennis racket later. Which economic concept best explains this situation?

a. Demand

b. Opportunity cost

c. Production

d. Inflation

SOLUTION

The student has limited money (100) and must choose between two alternatives: buying a notebook now or saving for a tennis racket. When the student picks one option, they give up the other. The value of the option given up is the opportunity cost.

The chapter defines opportunity cost as 'the value of what is given up' when one alternative is chosen over another. This situation is a direct example of that concept—choosing the notebook means the opportunity cost is the tennis racket (or vice versa).

Answer: b. Opportunity cost. The student must give up one option to choose the other. Whatever is not chosen—the notebook or the tennis racket—is the opportunity cost of the decision made.

Q7 How does understanding opportunity cost improve the quality of economic decision-making?

SOLUTION

Opportunity cost is the value of the best alternative given up when a choice is made. Understanding it helps decision-makers compare all their options carefully before committing to one.

For individuals, knowing the opportunity cost of spending money on entertainment (the savings or books foregone) encourages more thoughtful budgeting. For enterprises, recognising that using steel for one product means less steel for another helps in choosing the most profitable use. For governments, understanding that spending more on highways means spending less on hospitals guides better public policy.

The chapter notes that the Production Possibility Curve shows exactly these trade-offs: moving from one combination to another always involves a cost. Economists study 'available alternatives, associated opportunity costs, and potential outcomes' to help institutions make better decisions. By making the hidden cost of every choice visible, the concept of opportunity cost reduces guesswork and promotes more efficient, well-informed decisions.

Answer: Understanding opportunity cost makes the hidden cost of every choice visible. It encourages individuals, enterprises, and governments to compare alternatives carefully—ensuring resources are directed to their most valuable use. The farmer deciding between barley and wheat, or the government choosing between highways and hospitals, makes a better decision when the trade-off is clearly understood.

Q8 Can effective economic decisions be made without reliable data? Support your answer with an example.

SOLUTION

No, effective economic decisions cannot be made without reliable data. The chapter states that 'good decisions rely on data and analysis, not guesswork.'

For example, a government planning to spend on infrastructure needs accurate data on which roads or bridges are in greatest need, how many people they serve, and what the projected economic benefits are. Without such data, spending could be misdirected to low-priority projects while urgent needs go unmet.

Similarly, the Economic Survey of India—an annual document prepared by the Ministry of Finance—reviews the country's economic performance across agriculture, industry, services, employment, and inflation. This data helps policymakers design the Union Budget, identify risks and opportunities, and guide investment. Enterprises also use market surveys and financial data to plan production and avoid overproduction or shortages. Decisions based on guesswork rather than data lead to waste, missed opportunities, and poor outcomes for individuals and the economy as a whole.

Answer: No. The chapter states that 'good decisions rely on data and analysis, not guesswork.' For example, India's Economic Survey provides data on GDP growth, inflation, and employment that guides the Union Budget. Without such data, governments might tax or spend incorrectly, harming growth. Reliable data helps identify opportunities and risks, making decisions more efficient and effective.

Q9 Analyse how a country's present economic choices can shape its long-term future. Why is it important to consider future consequences while making economic decisions today?

SOLUTION

Every economic choice made today involves an opportunity cost that affects future possibilities. The chapter illustrates this with the choice between growing sugarcane and millets: choosing sugarcane yields short-term profits but depletes water and degrades soil, reducing the land's productivity in the future. Choosing millets saves water and improves soil health, securing long-term agricultural sustainability—but at the cost of lower immediate profits.

Similarly, if a government allocates all its budget to current consumption and ignores investment in education, technology, and infrastructure, the country's future productive capacity will be lower. The Production Possibility Curve shows that inefficient use of today's resources keeps an economy below its potential; wise planning can expand those possibilities over time.

Considering future consequences is important because: (a) resources are finite and cannot be regenerated once destroyed; (b) investment decisions—in human capital, research, and infrastructure—take years to bear results; and (c) poor choices today lock future generations into worse outcomes. As the chapter notes, understanding opportunity costs and 'potential outcomes' is central to the economist's role in guiding good decisions.

Answer: Present choices determine future capacity. Choosing water-intensive sugarcane over millets today risks soil degradation and water scarcity tomorrow. Investing in education and infrastructure today expands future productivity, while neglecting them shrinks it. Because resources are finite and decisions have long-term consequences, ignoring future costs leads to outcomes that limit a country's growth and well-being for generations.

Q10 Identify a news article from any newspaper of your choice about a product or commodity (such as vegetables, fruits, fuel, or electronics) where producers or companies are deciding how much to produce or supply. Write 2–3 sentences explaining the example you found and why the production decision was made.

SOLUTION

Guidance: This is an activity question. Find a recent news article in any newspaper (print or online) about a commodity where a producer or company has announced a change in production or supply—for example, oil companies cutting crude output, farmers deciding to plant less of a crop because prices fell, or a smartphone company ramping up production ahead of the festive season.

Model answer: A news article reported that onion farmers in Maharashtra reduced sowing area in 2024 after onion prices fell sharply the previous season. Farmers chose to grow less onion and shift some land to other vegetables. This decision was made because low market prices made onion farming unprofitable—a direct example of how the 'what to produce' question is answered in response to market signals and opportunity cost (the land could yield better returns with a different crop).

Answer: Activity — find a current news article about a production or supply decision (e.g. a farmer reducing a crop, an oil company adjusting output, or a manufacturer scaling up for demand). Write 2–3 sentences: name the commodity, state what production decision was made, and explain why—linking it to concepts like opportunity cost, market demand, or scarcity from the chapter.