

# A Basic Introduction on Challenges of an Economy

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## **ABSTRACT:**

All economic issues are rooted in a lack of resources. We are aware that resources are finite or in short supply compared to demand, but desires or goals are limitless. As a result, we struggle to decide between all of our desires. This is because limited resources have alternate uses. We must therefore pick between our most pressing needs and less pressing wants. In actuality, the choice dilemma is the fundamental issue with economies. More specifically, the challenge we face is making the best choices for the aims to be achieved and the methods for making use of the limited resources. Every economy deals with a few core issues known as an economy's primary concerns.

## **KEYWORDS:**

Economic Growth, Inequality, Production, Production Possibility Curve, Resources.

## **I. INTRODUCTION**

What types of products and services are to be created? What kinds of commodities and services should be produced is the first significant issue a country's economy faces. We must pick from a variety of alternative collections of products and services that can be produced since resources are limited. It could also mean whether to generate consumer products or capital/producer goods. Additionally, we must choose how many items will be created in the economy. How should these products and services be made? How to generate the sought-after items in the economy is the next issue we must solve. In light of this, the issue of the production's techniques becomes relevant. If we should employ capital-intensive or labor-intensive techniques. A method of production that is labor-intensive implies that more labor is used per unit of capital, whereas a method that is capital-intensive implies that more capital is used per unit of labor. The decision is based on the resources that are available. The labor-intensive technology can be used in an economy with a labor surplus[1], [2].

Who are these products and services intended for? Once we have chosen the items to manufacture and the methods to employ in their creation, we next face the issue of how to distribute those goods across the economy. This is the issue with the distribution of national revenue. Are the resources being used effectively? Additionally, we must ensure that finite resources are used effectively. This is the issue with maximizing welfare or economic efficiency. Are all available resources being used? Additionally, an economy must work to utilize all of its resources fully. How is economic growth achieved? An economy must make sure it is achieving a sufficient growth rate so that it can expand and develop more quickly. It should be able to alter the country's structure from an agrarian to an industrial one while simultaneously raising the per capita and overall national GDP. An economy cannot be stagnant. Its capacity for production must always rise. It is obvious that conserving resources is an economy's main issue. Due to the scarcity of resources in proportion to many demands and purposes, the economizing problem exists in all economic societies[3], [4].

## Curve of Production Possibility

The graph of the production possibility Curve shows the trade-off between any two produced goods. The Production Frontier, also known as the Transformation Curve, depicts the maximum practicable quantities of two or more items that may be produced using the available resources. In other words, it represents the potential cost of producing more of one thing compared to the units of the other that are lost. Professor Samuelson used the production possibility curve to analyse the challenge of economizing. In light of the availability of the various production components as well as the technology and managerial abilities of the society, a PPC illustrates the maximum amount of one commodity that can be obtained for any given amount of another commodity.

The idea is used in both macroeconomics and microeconomics to illustrate the output alternatives open to a country or economy, as well as the choices available to a specific enterprise. All points on a production potential curve are either at their highest or lowest levels of productivity: The distribution of resources makes it hard to enhance the output of one good without decreasing the output of another. To increase the production of any good, a sacrifice or an opportunity cost must be made. The fullest and most effective use of all resources is made, while still maintaining sustainability. The curve for production possibility is not stationary. With the expansion of resources and advancements in technology, it expands with time. This is so that we can produce more using the same amount of resources. The production potentials of a straightforward economy generating cars and computers are shown in the table below. Two production options E and F are displayed. The economy must give up some resources from the production of cars when it decides to devote more resources to the manufacture of computers. Therefore, if it is determined to produce 10,000 computers, 5,000 vehicles cannot be produced since resources are being diverted to the creation of computers[5], [6].

On the other hand, the economy would generate OB units of computers if all resources were directed towards producing computers. We obtain the production possibility curve AB by connecting points A and B. The economy might manufacture several mixes of cars and computers by remaining on the curve AB, such as at E or F, if it chooses to produce both commodities utilizing the available resources. It can produce OT units for computers and OS units for autos at point E. Similar to how OM units of computers and ON units of autos can be made at F. As a result, the maximum practical configurations of automobiles and computers that can be constructed using the resources at hand are shown at points E, F, or any other point on curve AB. The economy cannot reach or sustain Point C in the diagram because it is above the production possibility curve AB, or beyond its capacity. Again, it won't produce at point D, which is technically possible but not ideal, because then the economy's resources won't be utilised to their full potential.

## Production Possibility Curve's Uses

Multiple applications exist for the production possibility curve. It assists in identifying solutions to the fundamental production-related issues of what to produce, how to generate it, and for whom in the economy. In addition, the government may use the concept of a production possibility curve if it decides to shift resources, say, from necessities to pleasures.

As a subset of social systems, economic systems are tasked with addressing and resolving the following three core economic issues: What types and quantities of items, as well as how much and which of alternative goods and services, shall be produced. How should products be made? Who, what resources, and how, utilizing what technology the products or services produced for? How is the total of the national product to be distributed among different individuals and families? is how Samuelson rephrased this question. Economic systems offer numerous solutions to these issues by inclination and habit; by order and centralized management in planned economies and in mixed economies uses both market signals and governmental directives to allocate goods and resources. The latter is variously described as an economic system integrating market and planned economic aspects, free markets and state interventionism, or private and public enterprise[7], [8].

The price mechanism, functioning through supply and demand in competitive markets, acts to simultaneously answer the three fundamental concerns in a mixed private enterprise system, Samuelson said in Economics, a canonical textbook of mainstream economic thought. The value society sets on a good at the point of competitive equilibrium is equal to the value of the resources sacrificed to generate it. Because of the fundamental fact of economic institution life that. The solution to these difficulties is crucial. Since the birth of life in its most basic forms, the struggle for subsistence, or the economic crisis, has always been the main and most urgent issue facing the human race. This dilemma affects not only the human race but the entire biological kingdom. Economics, 11th ed., Samuelson, 1980

Problem with resource allocation

Due to resource scarcity, there is an issue with resource allocation, which involves deciding which needs should be met and which ones should go unmet. Or, how much should be produced and what should be produced. When a good is produced more frequently, more resources are needed to produce it, and resources are in short supply. Together, these two truths imply that if a society chooses to enhance the production of one item, it must reduce the amount of resources used to produce other commodities. In other words, the only way to increase the production of a desired good is to decrease the amount of resources utilised to produce other commodities. The decision of whether to manufacture capital goods or consumption goods is at the heart of the allocation problem. Resources must be diverted from the production of consumer products if the community wishes to develop capital goods.

However, in capital goods eventually increases the output of consumer goods. As a result, both consumer products and capital are crucial. Finding the ideal production ratio between the two is the issue. Because resources are limited, it's critical to use them as effectively as possible. It is crucial to understand if an economy is producing and distributing its national output in the most efficient way possible. Only when the productive resources are used in a way that prevents any reallocation from increasing the output of one good without decreasing the output of any other good does production become efficient. In other words, effective distribution states that redistribution of goods must result in the worsening of the situation of someone else. Refer to Pareto effectiveness. All forms of economies experience production and distribution inefficiencies. If these inefficiencies are eliminated, the welfare of the populace can be raised. To eliminate these inefficiencies, some expense must be incurred. It is not worthwhile to reduce these production and distribution inefficiencies if the cost outweighs the benefit.

### **The Issue of Complete Resource Utilization**

The issue of whether all available resources are fully utilised is crucial given the limited resources. A community should maximize satisfaction by making the best use of its limited resources, not by wasting them or employing them ineffectively. There are two forms of resource employment:

1. Labor-intensive.
2. Capital-intensive.

However, resources that are accessible are not completely utilised in capitalist economies. Many people wish to work during depressive periods but are unable to find employment. It assumes that in a capitalist economy, the limited resources are not properly utilised. A rising standard of living results from an economy's ability to generate more things as its productive capacity expands. Economic growth is the expansion of an economy's potential for production. Numerous things influence economic growth. Numerous growth models, such as the Harrod-Domar model, the neoclassical growth models of Solow and Swan, and the Cambridge growth models of Caldor and Joan Robinson, have examined the issues with economic growth. The economies of development study this aspect of the economic problem.

### **Optional Cost**

Opportunity cost, often known as the most valued forgone alternative, is the price of something in terms of an opportunity foregone and the advantages that may have been obtained from that chance. In other words, a commodity's opportunity cost is its best alternative cost or transfer cost. Production of one

good means that another good cannot be produced because productive resources are in short supply. The real cost of the produced commodity is the one that is sacrificed. The opportunity cost is as follows. Let's use an illustration to clarify this. Let's say a producer has the resources to build a car or a computer. The real cost of the automobile, or the alternative foregone, is equivalent to the cost of the computer if the maker chooses to produce cars rather than computers. To further illustrate the idea, let's use another example. The opportunity cost is anything else that could have been done with the land and building costs instead, such as something else if a firm decides to build hotels on vacant property it owns. The corporation lost the chance to develop the site into, for example, a sports complex, parking lot, housing development, or other structure by choosing to build the hotels instead.

To put it another way, the opportunity cost of going on a picnic with your friends may be the amount of money you could have made if you had used that time to put in more hours at the office. Opportunity cost is measured in terms of anything that has worth to the person or people performing the assessing rather than having to be measured in monetary terms. One of the primary distinctions between the ideas of economic cost and accounting cost is the taking into account of opportunity costs. A crucial step in determining the true cost of any course of action is to evaluate opportunity costs. Asking yourself, what is the next best alternative choice that could be made? is the simplest way to calculate the opportunity cost of each single economic decision. The capacity to purchase certain clothing could be the opportunity cost of paying for college. A Goa vacation's opportunity cost might be used to finance the purchase of a motorcycle. It should be highlighted that opportunity cost isn't the total of the available options, but rather the value of the best one. A graphic that shows the potential cost between any two given items generated by a particular economy can be used to teach the notion of opportunity cost.

It is also referred to as the production possibility curve in economics. If all resources inputs are utilised fully and as efficiently as possible, the economy in the hypothetical economy outlined above which exclusively generates cars and computers will be running on the PPC. The precise mix of automobiles and computers manufactured relies on the mechanisms employed to determine resource allocation, a mix of markets, government, tradition, and community democracy. In recent years, the idea of opportunity cost has gained a lot of traction. Only the principle of opportunity cost is used in contemporary cost-benefit analysis. In the contemporary economy, the cost-benefit analysis is a helpful tool for entrepreneurial decisions. Opportunity cost is universal and extremely palpable on a personal level, despite the fact that it can be challenging to quantify. The idea behind opportunity cost, an economic notion, is applicable to all decisions, not just financial ones. Economics is a social science that investigates how societies distribute finite resources to satisfy the wants and requirements of people. Although it provides insights into numerous facets of human behavior and resource management, inequality is one of the most urgent issues it tackles. The unequal distribution of income, wealth, and opportunities among people or groups in a society is referred to as economic inequality. This essay will examine alternative remedies to this important economics issue by discussing the causes, effects, and causes of inequality.

### **Leads to Inequality**

Uneven wealth and income distribution Disparities in education, skills, labor market conditions, and access to resources are a few examples of the causes of income inequality. As accumulated assets create income over time, resulting in a concentration of wealth in the hands of a select few, wealth inequality frequently reinforces income inequality. Winners and losers in the economy have been formed as a result of technological progress and globalization. Income disparity is exacerbated by the fact that some people profit from rising productivity and expanding markets, while others may experience job loss or salary stagnation. Discrimination and social barriers Economic disparity can be greatly exacerbated by discrimination based on traits like gender, race, ethnicity, or socioeconomic status. Disparities are exacerbated by unequal access to financial services, work opportunities, and education.

## **Resulting from Inequality**

Unrest in society and political instability can result from high levels of inequality. Social cohesion can be strained and the possibility of disputes or protests increased when a sizeable segment of the community feels excluded from economic opportunity and wealth gain. Economic growth can be slowed down by excessive inequality. A major percentage of the population can only contribute so much to productivity and creativity when they have access to resources and opportunities, which slows down the growth of the economy as a whole. Health and educational disparities in access to healthcare and education are frequently associated with inequality. Lower-income people can find it difficult to pay for proper medical care or get access to sufficient educational resources, which could have long-term effects on their well-being and future employment opportunities.

## **Alternatives to Inequality**

Implementing a progressive tax system, in which higher-income people and businesses pay higher rates of taxation, can help redistribute wealth and lessen economic disparities. Public services and social welfare programmers can be funded with the money raised. Investment in education and skill development: Ensuring that everyone has access to high-quality education and skill development opportunities will help people improve their economic chances and lessen inequality. This covers options for affordable higher education as well as early childhood education and vocational training. Strengthening social safety nets creating strong social safety nets can act as a safety net for people who are struggling financially. Examples of these safety nets include unemployment benefits, health insurance, and cheap housing. These initiatives can lessen poverty and the unfavorable effects of inequality. Governments can implement laws that support inclusive growth and address the structural obstacles that prevent people from taking advantage of economic possibilities. This includes actions to increase entrepreneurship, lessen prejudice, assist small firms, and increase labor market flexibility.

## **Disadvantages**

The following are disadvantages to studying economics:

1. Simplifying and chaptering to analyses complicated real-world occurrences, economics frequently uses simplified models and assumptions. While this is required for theoretical analysis, it can oversimplify the complexity of economic and human behavior, which could result in discrepancies between economic theory and actual results.
2. Value judgments and subjective biases are a part of economics, and they can affect how statistics are interpreted and how economic policies are developed. Different normative orientations among economists could result in varying policy suggestions and potential conflicts of interest.
3. Human behavior is not fully understood by economics, which traditionally considers that people make self-interested, logical decisions without taking into account social conventions, emotions, or irrational decisions. This incomplete understanding could leave out crucial elements that affect economic outcomes and obstruct the creation of all-inclusive remedies.
4. Externalities and market failures Economics frequently emphasizes market exchanges and the voluntary distribution of resources. However, it might not sufficiently handle market imperfections like imperfect competition, information asymmetry, or public goods, which can result in suboptimal results and social inefficiencies. Externalities are costs or benefits that affect other parties.
5. Distributional issues and inequality while economics offer tools for analyzing and comprehending inequality, it has come under fire for failing to adequately address the ethical implications and distributional effects of economic policy. Its detractors claim that because efficiency is frequently given precedence above equity, growing income gaps and social inequities result.
6. Over-reliance on quantitative approaches to research economic phenomena, economics mainly relies on statistical modelling, mathematical tools, and quantitative analysis. The focus on

quantitative methodologies could limit our knowledge of complicated economic relationships and dynamics by excluding qualitative components of human behavior and the economy.

7. Limited ability to predict Economics has difficulty correctly anticipating upcoming events and consequences in the economy. Making accurate and trustworthy predictions is difficult due to the interconnection and complexity of economic systems, unforeseeable occurrences, and human behavior. Economic projections have inherent limitations and uncertainty.
8. Lack of inclusivity and diversity of viewpoints. Certain schools of thought have historically dominated economics, frequently ignored different viewpoints and ignoring the needs and experiences of marginalized people. The development of comprehensive economic theories and policies that meet the interests of many communities may be hampered by this lack of inclusion.

### **Here are a Few Significant Economics Applications**

Macroeconomic policy: At both the national and international levels, macroeconomic policies must be developed and put into action. It aids in the management of variables including inflation, unemployment, economic growth, and fiscal policies by governments and central banks to support stable and sustainable economies. Economics is used to examine particular economic agents, such as customers, businesses, and marketplaces. It offers insights into how markets work and how resource allocation can be optimized by analyzing market behavior, price tactics, consumer choices, production decisions, and market structures. Economics is essential to understanding and tackling problems associated with economic growth and poverty alleviation. It looks at what influences economic growth and what doesn't, evaluates the success of development policies and initiatives, and pinpoints tactics for sustainable growth and reducing poverty.

Economics gives frameworks and instruments to analyses environmental problems and create plans for the sustainable use of resources. It evaluates the costs and advantages of environmental legislation, examines market failures brought on by pollution and the depletion of natural resources, and investigates strategies for achieving environmental sustainability while sustaining economic growth. Globalization and international trade Economics aids in comprehending the trends and effects of these two phenomena. It examines trade agreements, exchange rates, and trade policies to see how they affect income distribution, employment, and economic growth. It also looks at how different nations and industries are affected by global economic integration. Economics plays a critical role in the study of public finance and taxation. It examines how the government distributes resources, researches how taxes affect economic activity, and evaluates the effectiveness and fairness of taxation regimes. Additionally, it aids in the development of the best possible tax laws to finance public services, distribute income, and advance economic welfare.

Economics uses psychological and behavioral science ideas to better understand how people make economic decisions. This is known as behavioral economics. It looks at heuristics, biases, and illogical behavior to provide us a more complex picture of how people make decisions about what to buy, how much to save, and how much to invest. Health economics is used to study how healthcare resources are distributed, health insurance programmers, and the effectiveness and equality of healthcare delivery. Analysis of healthcare markets, cost-effectiveness of medical interventions, and policy decisions about healthcare finance and delivery are all aided by it. Economics researches the dynamics of employment, wage determination, and labor markets. It aids in the analysis of labor market policies, the investigation of the employment implications of technical breakthroughs, the investigation of the causes of income inequality, and the formulation of plans for enhancing labor market results. Economic analysis is essential to comprehending financial markets, asset valuation, and investment choices. It supports financial instrument analysis, risk and return evaluation, market efficiency research, and the development of financial strategies.

## **II. CONCLUSION**

Using the science of economics to solve societal issues has both benefits and drawbacks. Although it offers helpful resources and insights for comprehending and tackling economic challenges, it's critical to be aware of its limitations and potential drawbacks. Economics is prone to subjectivity, relies on

assumptions that may not accurately represent human behavior, and simplifies complicated processes. Additionally, it might ignore the economy's quality, distributional issues, and ethical components. Nevertheless, despite these limitations, economics is still a vital field with numerous applications. It addresses topics including inequality, environmental sustainability, and international trade while promoting sustainable development and analyzing market behavior.

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