

# SATPREP

## Basic questions of economy

Because of fundamental economic problems, three basic interrelated questions arise.

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

### 1. What to produce?

Any economy cannot produce everything because of limited resources. So, a choice has to be made about what to produce and in what quantities.

Eg. Economy has to choose whether to produce consumable goods or defence hardware.

### 2. How to produce?

Since, every economy has scarce resources in relation to unlimited wants, it becomes necessary to use resources for the best outcome. Every economy want to produce maximum output but not at cost of damaging other resources.

Eg. Genetically developed plants can be produced but have adverse affect on ecosystem.

### 3. For whom to produce?

As human wants are unlimited and every want can be fulfilled. So, economy has to decide how many each person's wants can be satisfied. Countries have to decide whether they want to lessen the gap between haves and have-nots or widen the gap between rich and poor.

Eg. In some economies, progressive taxation policies are used to redistribute income and wealth.