

Azad Jammu Kashmir Board

1st Year Arts

Economics

Chapter-wise original notes • Scarcity, Demand & Supply, Market & Price, Production & Cost, National Income, Money & Banking

- Scarcity, Choice, and Opportunity Cost
 - Demand and Supply
- Market and Price Determination
 - Production and Cost
 - National Income
 - Money and Banking

IMPORTANT NOTE — PLEASE READ

These are **original study and revision notes only**, written in simple, fresh wording for learning and revision. They are **NOT official AJK Board notes**, they are **NOT leaked material**, and they carry **NO guarantee** of exam questions, marks, or results.

Subjects and topics follow the standard 1st Year Arts syllabus in general terms only. No verified AJK-specific official scheme is claimed here. For the exact syllabus, textbook, and official instructions, always follow your textbook and your teacher / board guidance.

How to use this PDF: Read one section at a time, cover the answers and try the questions yourself, then check the answer key. Use the revision checklist at the end before a test.

How to Use These Notes

Each section in this PDF follows the same simple pattern so that revision stays easy and predictable. First comes a plain explanation in everyday language. Then a short list of important points to remember. After that you will find short questions and answers for quick revision, longer questions and answers for deeper understanding, and multiple-choice questions with an answer key to test yourself. At the end of the whole PDF there is a revision checklist. Tick each item only when you can explain it in your own words without looking at the notes.

A note on wording: every explanation here is written afresh for study purposes. If a word or example in your textbook is different, trust your textbook for the exact course wording and use these notes only to understand the idea more clearly.

Study tip: short, regular revision works better than reading everything once. Read, close the page, recall the main idea aloud, and then write two or three lines from memory. That small habit helps far more than re-reading alone.

Section 1 — Scarcity, Choice, and Opportunity Cost

Economics begins with a simple human situation: wants are many, but resources are limited. People want food, housing, education, health care, travel, and many other goods and services, yet time, money, land, labour, and materials are not unlimited. This gap between unlimited wants and limited resources is called scarcity, and it forces choice.

Because we cannot have everything, every choice means giving up something else. If a student spends an evening on one subject, that evening cannot also be spent on another activity. If a family spends its budget on one need, less remains for another. The value of the next best alternative given up is called opportunity cost. Thinking about opportunity cost makes choices clearer, because it shows the real price of a decision, not only its money price.

Resources used in production are often grouped into land, labour, capital, and organisation. Land includes natural resources, labour means human effort, capital means tools, machines, and buildings used to produce other things, and organisation brings the other resources together. Every society must decide what to produce, how to produce it, and for whom it is produced, because scarcity makes it impossible to produce everything for everyone at once.

Illustrative example only — not real data: suppose a small workshop has workers and machines for one day and must choose between making chairs or tables. If it makes more chairs, it must make fewer tables. The tables given up show the opportunity cost of the extra chairs. This is only an imagined example to explain the idea; it is not a report about any real workshop.

Important points to remember

- Scarcity means unlimited wants but limited resources.
- Choice is unavoidable because resources cannot meet every want at once.
- Opportunity cost is the next best alternative given up.
- Resources include land, labour, capital, and organisation.
- Every economy must decide what, how, and for whom to produce.

Short questions and answers

Q: What is scarcity?

A: It is the gap between unlimited wants and limited resources.

Q: What is opportunity cost?

A: It is the value of the next best alternative given up when a choice is made.

Q: Name the four groups of resources.

A: Land, labour, capital, and organisation.

Q: Why must societies make choices?

A: Because resources are limited and cannot produce everything for everyone at once.

Long questions and answers

Q: Explain opportunity cost with an everyday example.

A: Illustrative example only: suppose a student has one free hour and must choose between revising one subject or playing a game. If the student revises, the game is given up for that hour. The enjoyment of the game in that hour is the opportunity cost of revising. The example is imagined to explain the idea; it does not describe any real student or real measurement.

Q: Why is scarcity a central idea in economics?

A: Scarcity explains why economics exists at all. If everything were unlimited, there would be no need to choose, plan, or compare alternatives. Because resources are limited, individuals, families, firms, and governments must all prioritise, and economics studies how those choices are made and what their effects are.

Multiple-choice questions

1. Scarcity arises because:

- A. Wants are limited and resources are unlimited
- B. Wants are unlimited and resources are limited
- C. Nobody wants anything
- D. Resources never run out

2. Opportunity cost is:

- A. The money price only
- B. The next best alternative given up
- C. The total of all wants
- D. A tax

3. Which is a resource?

- A. A wish
- B. Labour
- C. A dream
- D. A rumour

4. Capital as a resource includes:

- A. Tools and machines used in production
- B. Only money in a pocket
- C. Only wishes

D. Only land

5. Every economy must decide:

A. Nothing at all

B. What, how and for whom to produce

C. Only colours

D. Only names

Answer key: 1-B, 2-B, 3-B, 4-A, 5-B

Section 2 — Demand and Supply

Demand means how much of a good or service buyers are willing and able to buy at a given price over a period. Willingness alone is not demand; a buyer must also be able to pay. Supply means how much sellers are willing and able to offer at a given price. Both ideas depend on price, but they move in opposite directions in the simplest case.

The law of demand says that, other things being equal, when price rises, quantity demanded usually falls, and when price falls, quantity demanded usually rises. This happens because a higher price makes a good relatively more expensive, and buyers may buy less, choose a substitute, or postpone purchase. Demand can also shift when income, tastes, prices of related goods, or expectations change, even if the good's own price stays the same.

The law of supply says that, other things being equal, when price rises, quantity supplied usually rises, because selling becomes more rewarding for sellers. When price falls, quantity supplied usually falls. Supply can shift when costs, technology, or the number of sellers change. A movement along a demand or supply curve comes from a change in the good's own price, while a shift of the whole curve comes from a change in another factor.

Illustrative example only — not real data: imagine a small fruit stall. If the price of one fruit rises while other things stay the same, fewer buyers may choose it that day, while the seller may wish to offer more of it. If buyers' incomes rise, they may buy more even at the same price, which is a shift in demand. This is an imagined classroom example, not a report about any real market.

Important points to remember

- Demand needs both willingness and ability to buy.
- When price rises, quantity demanded usually falls, other things being equal.
- When price rises, quantity supplied usually rises, other things being equal.
- A change in own price moves along a curve; a change in another factor shifts the curve.
- Income, tastes, related prices, costs, and technology can shift demand or supply.

Short questions and answers

Q: What is demand?

A: It is how much buyers are willing and able to buy at a given price over a period.

Q: State the law of demand in simple words.

A: Other things being equal, a higher price usually leads to lower quantity demanded, and a lower price to higher quantity demanded.

Q: State the law of supply in simple words.

A: Other things being equal, a higher price usually leads to higher quantity supplied.

Q: What is the difference between a movement and a shift?

A: A movement along a curve comes from a change in the good's own price; a shift comes from a change in another factor.

Long questions and answers

Q: Explain why demand may rise even when price does not change.

A: Demand can shift because of factors other than price. If buyers' incomes rise, tastes change in favour of a good, the price of a substitute rises, or buyers expect a future shortage, they may buy more at the same price. In that case the whole demand curve shifts, rather than buyers simply moving along the old curve.

Q: How do demand and supply together help explain everyday buying?

A: Buyers react to price and to their own circumstances, while sellers react to price and to their costs. When both sides are considered together, we can understand why a good may sell quickly, remain unsold, or change in availability. Demand alone or supply alone gives only half the picture.

Multiple-choice questions

1. Demand requires:

- A. Willingness only
- B. Willingness and ability to buy
- C. Ability only
- D. Neither

2. Other things being equal, a rise in price usually:

- A. Raises quantity demanded
- B. Lowers quantity demanded
- C. Leaves demand unchanged always
- D. Removes supply

3. Other things being equal, a rise in price usually:

- A. Lowers quantity supplied
- B. Raises quantity supplied
- C. Removes demand
- D. Has no effect

4. A rise in buyers' income may cause:

- A. A shift in demand
- B. No change ever
- C. Only a price fall
- D. The end of supply

5. A movement along the demand curve is caused by:

- A. A change in tastes
- B. A change in the good's own price

- C. A change in income
- D. A change in technology

Answer key: 1-B, 2-B, 3-B, 4-A, 5-B

Section 3 — Market and Price Determination

A market is not only a physical place. In economics it means the whole arrangement through which buyers and sellers come into contact for a good or service, whether in a shop, a town market, or through modern communication. The interaction of demand and supply in a market helps determine price and quantity.

Equilibrium price is the price at which quantity demanded equals quantity supplied. At that price, buyers wish to buy exactly what sellers wish to sell, so there is no pressure for price to change from that cause alone. If price is set above equilibrium, quantity supplied exceeds quantity demanded, creating a surplus, and sellers may lower price to sell the extra stock. If price is below equilibrium, quantity demanded exceeds quantity supplied, creating a shortage, and price tends to rise as buyers compete for the limited amount.

Prices also act as signals. A rising price signals sellers to offer more and signals buyers to economise or seek alternatives. A falling price signals the opposite. In this way, prices help coordinate many separate decisions without any single person planning every detail. This signalling role is one reason price changes matter beyond a single shop.

Markets differ in competition. In a highly competitive market, many buyers and sellers trade a similar product, and no single seller controls price. In a monopoly, in general terms, one seller dominates a market, which can give that seller more influence over price. Between these extremes lie many mixed cases. Understanding market structure helps explain why prices and choices differ across goods.

Important points to remember

- A market is the arrangement through which buyers and sellers meet, not only a physical place.
- Equilibrium is where quantity demanded equals quantity supplied.
- Price above equilibrium tends to create a surplus; price below it tends to create a shortage.
- Prices act as signals to buyers and sellers.
- Market structure, from competition to monopoly, affects price influence.

Short questions and answers

Q: What is a market in economics?

A: It is the arrangement through which buyers and sellers come into contact for a good or service.

Q: What is equilibrium price?

A: It is the price at which quantity demanded equals quantity supplied.

Q: What happens if price is above equilibrium?

A: Quantity supplied exceeds quantity demanded, creating a surplus.

Q: What happens if price is below equilibrium?

A: Quantity demanded exceeds quantity supplied, creating a shortage.

Long questions and answers

Q: Explain how a surplus or shortage tends to move price back towards equilibrium.

A: Illustrative example only: suppose a good is priced high, so sellers offer much more than buyers wish to buy. Unsold stock builds up, so sellers lower price to attract buyers, and quantity demanded rises while quantity supplied falls. The opposite happens in a shortage: buyers compete for a small amount, price rises, some buyers drop out, and sellers offer more. These adjustments push price back towards the level where demand and supply match. The example is imagined, not a report about a real market.

Q: Why are prices called signals?

A: Prices summarise information for many people at once. A higher price tells sellers that buyers value a good more and tells buyers to use it carefully or look for alternatives. A lower price tells sellers to reduce supply and tells buyers the good is relatively more affordable. Through these signals, separate decisions become coordinated without central planning of every detail.

Multiple-choice questions

1. Equilibrium price is where:

- A. Demand is zero
- B. Quantity demanded equals quantity supplied
- C. Supply is zero
- D. Price is highest

2. Price above equilibrium usually creates a:

- A. Shortage
- B. Surplus
- C. Equilibrium
- D. Monopoly

3. Price below equilibrium usually creates a:

- A. Surplus
- B. Shortage
- C. Equilibrium
- D. No effect

4. A rising price signals sellers to:

- A. Offer less always
- B. Offer more
- C. Close forever
- D. Ignore buyers

5. In a monopoly, in general terms:

- A. Many sellers control price equally
- B. One seller dominates the market
- C. No seller exists
- D. Price never matters

Answer key: 1-B, 2-B, 3-B, 4-B, 5-B

Section 4 — Production and Cost

Production means creating goods or providing services that satisfy wants. A farm produces food, a workshop produces furniture, and a school provides education services. All production uses resources, and how those resources are combined affects how much is produced and at what cost.

Costs are often divided into fixed and variable costs. Fixed costs do not change with the level of output in the short run, such as rent for a building. Variable costs change with output, such as raw materials: producing more usually needs more materials. Total cost is the sum of fixed and variable costs. Average cost is total cost divided by output, and marginal cost is the extra cost of producing one more unit. These concepts help a producer judge whether extra production is worthwhile.

In the short run, at least one resource is fixed, for example the size of a building, while other resources can vary. Adding more of a variable resource to a fixed resource may at first raise output strongly, but after a point each extra worker or input adds less and less extra output. This idea is known as diminishing returns. In the long run, all resources can be changed, so a firm can expand its whole scale of production.

Revenue is what a seller receives from selling output, and profit in simple terms is revenue minus cost. A producer therefore watches both sides: how much can be sold, and at what cost. If costs rise faster than revenue, profit falls, even if sales look high. Careful cost control and sensible production choices are therefore central to running any productive activity.

Important points to remember

- Production creates goods or provides services that satisfy wants.
- Fixed costs do not change with output in the short run; variable costs do.
- Total cost is fixed plus variable cost; average cost is total cost per unit.
- Marginal cost is the extra cost of one more unit.
- Diminishing returns means extra variable inputs eventually add less extra output when another resource is fixed.

Short questions and answers

Q: What is production?

A: It is creating goods or providing services that satisfy wants.

Q: Give one example each of fixed and variable cost.

A: Fixed: rent for a building in the short run. Variable: raw materials that rise with output.

Q: What is marginal cost?

A: It is the extra cost of producing one more unit.

Q: What is profit in simple terms?

A: It is revenue minus cost.

Long questions and answers

Q: Explain diminishing returns with an imagined example.

A: Illustrative example only — not real data: imagine a small kitchen with fixed space. Adding a second cook may raise output a lot, and a third may still help. But if many more cooks are added to the same small kitchen, they begin to get in each other's way, and each extra cook adds less extra output. The kitchen is fixed in the short run, so extra variable labour eventually shows diminishing returns. This is

an imagined example, not a measurement from a real kitchen.

Q: Why must a producer watch both revenue and cost?

A: Revenue alone can mislead, because high sales with even higher costs still leave little or no profit. A producer must compare what buyers pay with what production costs, including fixed and variable costs. Only when revenue exceeds cost does the activity leave a surplus in simple profit terms.

Multiple-choice questions

1. Production means:

- A. Only buying goods
- B. Creating goods or providing services
- C. Only storing goods
- D. Only advertising

2. Rent for a building in the short run is usually a:

- A. Variable cost
- B. Fixed cost
- C. Revenue
- D. Profit

3. Raw materials that rise with output are a:

- A. Fixed cost
- B. Variable cost
- C. Tax only
- D. Gift

4. Marginal cost is:

- A. Total cost divided by output
- B. The extra cost of one more unit
- C. Total revenue
- D. Rent alone

5. Profit in simple terms is:

- A. Revenue plus cost
- B. Revenue minus cost
- C. Cost only
- D. Output only

Answer key: 1-B, 2-B, 3-B, 4-B, 5-B

Section 5 — National Income

National income is a broad measure of the total income earned, or the total value of goods and services produced, in an economy over a period, usually a year. It tries to answer a simple question at a large scale: how much is the whole economy producing and earning? Because it covers a whole country, it is much broader than the income of one person or one firm.

Several related concepts are used. Gross domestic product, in general terms, refers to the value of production within a country's borders. Gross national product, in general terms, adjusts that idea for income earned by residents from abroad and income sent abroad. Per capita income divides a total by population to give an average per person, but an average can hide wide differences between rich and poor households, so it must be read with care.

National income can be approached in different ways: by adding up the value of production, by adding up incomes earned, or by adding up spending on final goods and services. In principle these approaches should point to a similar total, because one person's spending becomes another person's income, and production creates income. In practice, measurement is difficult because some activities are not recorded in markets, some work is unpaid within households, and data may be incomplete.

National income figures are useful for comparison over time and for broad policy discussion, but they do not by themselves show well-being. They do not fully capture health, education quality, leisure, environmental quality, or how income is shared. A rising total is therefore not the same as an equal improvement in everyone's life. No statistics are claimed in this section; the discussion is about concepts only, and any real figures must be taken from official published sources for the relevant year.

Important points to remember

- National income measures total production or income in an economy over a period.
- Domestic product focuses on production within borders; national product adjusts for income across borders in general terms.
- Per capita income is an average and can hide inequality.
- Production, income, and spending approaches should point to a similar total in principle.
- National income does not by itself measure well-being or fairness.

Short questions and answers

Q: What is national income in simple words?

A: It is the total income earned, or total value of goods and services produced, in an economy over a period.

Q: What does per capita income mean?

A: It is a total divided by population, giving an average per person.

Q: Why is per capita income read with care?

A: Because an average can hide wide differences between households.

Q: Name one difficulty in measuring national income.

A: Some activities are not recorded in markets, or some work is unpaid within households.

Long questions and answers

Q: Why do production, income, and spending approaches point to a similar total?

A: Production creates value, that value is paid out as incomes such as wages and profits, and those incomes are then spent on final goods and services. Because the same economic activity is being viewed from three sides, the totals should be consistent in principle. Differences in practice come from measurement gaps, timing, and unrecorded activity.

Q: Why is national income alone not a full measure of well-being?

A: A total can rise while health, education, leisure, environment, or fairness stay weak or worsen. Well-being depends on how income is shared, what services people can actually use, and the quality

of daily life. National income is therefore a useful broad indicator, but it must be read alongside other social indicators.

Multiple-choice questions

1. National income measures:

- A. One person's income only
- B. Total production or income in an economy over a period
- C. One firm's profit only
- D. Only imports

2. Per capita income is:

- A. Total income divided by population
- B. Total income multiplied by population
- C. Only government income
- D. Only farm income

3. An average like per capita income can hide:

- A. Nothing
- B. Inequality between households
- C. All production
- D. All spending

4. Which activity is hard to capture in market-based measurement?

- A. A shop sale with a receipt
- B. Unpaid work within a household
- C. A factory sale
- D. An export sale

5. National income alone does NOT fully show:

- A. Total production
- B. Well-being and fairness
- C. Total spending
- D. Total income

Answer key: 1-B, 2-A, 3-B, 4-B, 5-B

Section 6 — Money and Banking

Money is anything widely accepted as a medium of exchange, a measure of value, and a store of value. As a medium of exchange, it lets people buy and sell without barter, which would require finding someone who wants exactly what you offer. As a measure of value, it gives a common unit for comparing prices. As a store of value, it lets people save purchasing power for later use, although its value can change over time.

Banks perform several core functions. They accept deposits from people who wish to keep money safely, and they lend to borrowers for purposes such as business, housing, or education, subject to their own rules and checks. By bringing savers and borrowers together, banks help savings reach productive

uses instead of sitting idle. Banks also help payments move safely through accounts and transfer systems.

A central bank, in general terms, sits at the centre of a country's banking system. It issues currency, acts as banker to other banks and to government, and works to support stability in prices and in the financial system. It does not serve ordinary customers in the same way as a commercial bank. Its decisions can influence interest rates and the availability of credit, which in turn affect spending, saving, and investment across the economy.

When the general level of prices rises over time, money buys less than before. This is called inflation in general terms. Mild price changes are a normal part of economic life, but rapid or unpredictable rises can disturb saving, planning, and fairness, because fixed incomes lose purchasing power. No inflation rate or other statistic is claimed here; real figures must be checked in official published sources. Saving, careful budgeting, and understanding interest help households manage money wisely.

Important points to remember

- Money serves as a medium of exchange, a measure of value, and a store of value.
- Banks accept deposits, lend to borrowers, and help payments move safely.
- A central bank issues currency and supports stability in the banking system.
- Inflation in general terms means a rise in the general level of prices over time.
- Saving and budgeting help households manage money and cope with price changes.

Short questions and answers

Q: Name three functions of money.

A: Medium of exchange, measure of value, and store of value.

Q: Why is money better than barter for everyday trade?

A: Barter needs a double match of wants, while money is widely accepted and can be used with anyone.

Q: What do banks mainly do with deposits?

A: They keep them safely and lend a part to borrowers, subject to rules and checks.

Q: What is inflation in general terms?

A: It is a rise in the general level of prices over time, so money buys less than before.

Long questions and answers

Q: Explain how banks connect savers and borrowers.

A: A saver deposits money for safety and future use, while a borrower needs funds now for a productive or personal purpose. The bank stands between them: it gathers deposits, checks borrowers, lends under agreed terms, and manages repayment. In this way savings are not left idle but can support business, housing, or education, while savers retain access under the bank's terms.

Q: Why does a central bank matter even though ordinary people rarely visit it?

A: A central bank influences the whole banking system through currency issue, its role as banker to banks, and its influence on interest rates and credit conditions. Those conditions affect how expensive borrowing is, how rewarding saving is, and how stable prices and banks remain. Ordinary households therefore feel its effects through loans, savings, and prices, even without direct contact.

Multiple-choice questions

1. Money as a medium of exchange means it is:

- A. Only for decoration
- B. Widely accepted for buying and selling
- C. Only for banks
- D. Never saved

2. A store of value means money can:

- A. Only be spent at once
- B. Save purchasing power for later use
- C. Never change in value
- D. Replace all goods

3. Banks mainly:

- A. Only print currency
- B. Accept deposits and lend to borrowers
- C. Never help payments
- D. Only store gold

4. A central bank, in general terms:

- A. Serves ordinary customers like a shop
- B. Issues currency and supports banking stability
- C. Has no role in the economy
- D. Only lends to students

5. Inflation in general terms is:

- A. A fall in all prices
- B. A rise in the general level of prices over time
- C. A rise in only one shop's price
- D. No change in prices

Answer key: 1-B, 2-B, 3-B, 4-B, 5-B

Revision Checklist

Use this checklist for Economics. Tick an item only when you can explain it in your own words, give one example, and answer a related question without help.

- Explain scarcity and opportunity cost with an imagined example, labelled as an example only.
- State the laws of demand and supply and explain movement versus shift.
- Explain equilibrium, surplus, and shortage, and how prices act as signals.
- Distinguish fixed from variable cost and explain marginal cost and diminishing returns.
- Explain national income, per capita income, and why it alone does not show well-being.
- Explain the functions of money, the role of banks, and inflation in general terms.
- Answer five MCQs from each section without looking at the key, then check your answers.

Final reminder: these are original revision notes only — not official AJK Board notes, not leaked material, and not a guarantee of any exam outcome. Always confirm the exact syllabus and textbook wording with your teacher.