

Paper 1 - Fundamentals of Economics and Management

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Full Marks :100

Time allowed: 3 hours

**PART A (50 Marks)
(Fundamentals of Economics)**

1. Choose the correct answer from the given four alternatives: [10×1=10]
1. The famous book “Principles of Economics” was written by -
 - (a) Adam Smith
 - (b) Alfred Marshall
 - (c) Robbins
 - (d) J.B. Say
 2. If the PPC is linear, it implies -
 - (a) Constant opportunity cost
 - (b) Diminishing Opportunity cost
 - (c) Increasing Opportunity cost
 - (d) None of the above
 3. Equilibrium price is determined when -
 - (a) Demand > Supply
 - (b) Supply > Demand
 - (c) Supply = Demand
 - (d) Demand ≠ Supply
 4. Which of these is associated with the Oligopoly Market.
 - (a) Homogeneous goods
 - (b) Free entry & exit
 - (c) Product differentiation
 - (d) Price rigidity
 5. The MPC value always
 - (a) $1 > mps > 0$
 - (b) $1 < mps < 0$
 - (c) $1 < mps > 0$
 - (d) None of the above
 6. The Nominal GDP is measured at ____ prices.
 - (a) 1950
 - (b) 2015
 - (c) Current
 - (d) Constant
 7. According to Socialists “Cyclical fluctuations” are the outcome of ____ economy.
 - (a) Socialistic
 - (b) Capitalistic
 - (c) Mixed
 - (d) All of the above
 8. RBI was nationalized in ____
 - (a) 1935
 - (b) 1921
 - (c) 1955
 - (d) 1949

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9. Open unemployment is mainly found in -
(a) Urban areas
(b) Rural areas
(c) Sub-Urban areas
(d) All of the above
10. Which of these is not a feature of Under Developed economy?
(a) Less Capital
(b) Less Population
(c) Less Employment
(d) All the three

Solution:

1. — (b)
2. — (a)
3. — (c)
4. — (d)
5. — (c)
6. — (c)
7. — (b)
8. — (d)
9. — (a)
10. — (b)

II. Fill in the blanks:

[5×1=5]

1. In Inductive method the logic proceed from _____ to _____.
2. The demand curve in case of necessary goods is _____.
3. When total utility is maximum, then the marginal utility is _____.
4. Gas Industry is an example of _____ market.
5. _____ is the apex bank in agriculture credit.

Solution:

1. particular, general;
2. inelastic (or) downward sloping;
3. zero;
4. oligopoly;
5. NABARD.

III. Match the following

[5×1=5]

	Column 'A'		Column 'B'
1.	Demand	A	Tax Policy
2.	Wealth of Nations	B	Cheque
3.	Investment Multiplier	C	Advertisements
4.	CRR	D	Adam Smith
5.	Optional Money	E	RBI

Solution:

1. — C
2. — D

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3. — A
4. — E
5. — B

IV. State whether the following statements are true (or) false.

[5×1=5]

1. **Micro Economics deals with the individual units.**
2. **Luxury goods have less elastic demand.**
3. **There is inverse relationship between price level and value of money.**
4. **Brick have national markets.**
5. **Primary Sector is also called Agriculture Sector.**

Solution:

1. True;
2. False;
3. True;
4. False;
5. True.

V. Give the answer in one sentence for any five from the following:

[5×1=5]

1. **Meaning of Production:**

Generally production means a process to change the raw materials into final goods (or) finished goods. But in economics making of the goods (or) creation of goods (material and immaterial) for the purpose of selling them in the market is called production.

2. **Marginal Revenue:**

It is the additional revenue obtained by the firm (or) producer by the selling of additional unit of a thing (or) one more unit of a thing. The change in the total revenue is also called marginal revenue.

$$MR = \frac{\Delta TR}{\Delta Q}$$

(or)

$$MR = TR_n - TR_{n-1} \text{ units.}$$

3. **Expand RRB:** Regional Rural Bank.

4. **What is Supply?**

There is a difference between stock of the goods and supply of goods. Supply means some of the part of stock of the goods which is prepared by a seller to sell at a particular price, at a particular market in a particular period of time.

5. **Unitary elastic demand:**

If the proportionate change in the demand is equal to the proportionate change in the price. It is said to be unitary elastic demand. It means the change in the demand and change in price are same. Here the value of E_p is 1. Generally comfort goods have unitary elastic demand unitary elastic demand curve also slopes downwards from left to right but it is rectangular Hyperbola.

6. Economic Growth:

The expansion in the capacity of an economy to produce goods and services over a period of time. An outward shift of production possibilities frontier of an economy. It shows the different maximum possible combinations of quantities of two goods if it employs all its available resources full and given the existing state of technology.

7. Monetary Policy:

It is the policy formulated by the RBI and implemented by the RBI to control the supply of the money in the economy. For this the RBI uses the following weapons.

Bank rate

Open market operations

1. CRR

8. Deficit finance:

When the government make the borrowings from the RBI or issue the new currency to fill the gap of the budget finance, it is said to be deficit finance.

VI. Answer any One of the following questions:

[1×10 =10]

1. What is National Income and explain the methods of measurement of National Income?

Solution:

National income is the total market value of all goods & services produced in a country during a given period of time.

Definitions:

According to **Pigou**, "National Income is that part of the objective income of the community including of course income derived from abroad which can be measured in money".

"The Labour & Capital of a country acting upon its natural resources produce annually a certain net aggregate of commodities material and immaterial including services of all kinds. This is the true net annual income or revenue of a country" – **Marshall**.

Methods of Calculating National Income.

There are three methods of measuring national income.

Output method.

Income method.

Expenditure method.

Output method:

It is also known as inventory method or commodity service method. In this method we find the market value of all final goods and services produced in a country during a given period of time. The entire output of final goods and services are multiplied by their respective market prices to find out the gross national product.

$NI = [P_1Q_1 + P_2Q_2 + \dots + P_nQ_n] - \text{Depreciation} - \text{Indirect Taxes} + \text{Net Income from abroad.}$

Where;

NI = National Income

P = Price of the goods or service.

Q = Quantity of goods or service produced

1,2 n are the various goods and services produced.

The values of raw material, intermediary goods etc, should not be included. Only final goods should be taken into account.

Here we find out the value added in the different sectors like Agriculture, Government Professionals, industry and Service Sectors. Hence it is also called "Value Added Method".

Income Method:

In this method the incomes earned by all factors of production are aggregated to arrive at the national income of a country. The four factors of production receive incomes in the form of wages, rent, interest and profits. This is also national incomes at factor cost.

$NI = W + I + R + P + \text{Net Income from abroad.}$

Where,

NI = National Income

W = Wages

I = Interest

R = Rent

P = Profits

This method gives us National Income according to distributive shares. (The most important income share is that of labour).

Expenditure Method:

In this method we add the personal consumption expenditure of households, Expenditure of the firms, Government purchase of goods and services, net exports plus net income from abroad.

$NI = EH + EF + EG + \text{Net Exports} + \text{Net Income from abroad.}$

Here National Income = Private final consumption expenditure + Government final consumption expenditure + Net domestic capital formation + Net Exports + Net income from abroad.

Care should be taken to include spending or expenditure made on final goods and services only.

2. Explain about Internal & External economies of large scale economies?

Solution:

Economies of large scale production:

When the factors of production [input's] are employed in larger quantities then the output is in larger quantities. It is called large scale production. When the output is carried on larger quantities there are some advantages. These advantages are called economies of the large scale production. These economies are divided into 2 types.

They are —

1. Internal economies
2. External economies

1. Internal Economies:

When a firm expands its size of business (or) increases its output, it gets some advantages. They are called internal economies. These internal economies are related to a single firm and not related to all other firms in the industry.

Types of the internal economies:-

Labour economies:

Division of labour and specialization are possible more in large-scale operations. Different types of workers can specialize and do the job for which they are more suited. As a result of this quality and speed of work both improve.

Technical economies:

A large firm will be able to install large capacity of machines in place of small sized machines. It also adopts latest technologies. These will give mechanical advantage over small firms and costs will be minimum.

Managerial economies:

Highly talented managers of specialized skills will be employed by large firms. It helps to make better decisions in the production.

Marketing economies:

Large scale purchase of raw materials and sale of finished goods gives the advantage of transport concessions to the firm. Advertisement costs will be less due to large output sales.

Financial economies:

Large firms will be able to borrow credit easily. These firms will be able to offer securities and their goodwill in the market enable them to borrow at reasonable rate of interest. They also raise capital by attracting investors.

Research and Development:

Improvements in technology efficient use of resources improvement in quality of products depend on research. Only large firms can afford to bear the expenditure on research.

Economies Related to Transport and Storage costs:

Large firms are able to enjoy freight concession from railways and road transport. Because a large firm uses its own transport means and large vehicles, the per unit transport costs would fall. Similar, a large firm can also have its own storage godowns and can save storage costs.

Risk bearing economies:

Generally large firms diversify their production into different goods and services. Therefore, even if there is a loss in one item of good it can be covered by profit in other goods.

External Economics:

Firm is a unit, The group of firms is called industry. When industry is expanded they are some advantages. These advantages are enjoyed by all the firms in the industry so they are called external economies. These economics are opened for all the firms it means they are not related to a single firm.

Types of external economics:

Economies of localization (or) concentration Location of several firms at one place makes available certain facilities. Local authorities may develop roads, communication, power, irrigation etc. Other facilities like banking, insurance, skilled labour will come up in the area. These arrangements benefit all the firms located in that place.

Economies of disintegration (or) specialization

Production of goods can be split into different parts and each firm may take up one part of producing the goods. This will result in specialization and improve performance of each firm in the production. This division of labour helps to produce more output and reduce costs of production.

Economies of related to information services

All the firms in the area are dealing with the same goods. Information can be shared among the firms about raw material, skilled labour, marketing etc. Expenditure on these items can be reduced and there will be mutual advantage to all the firms.

Economies of producers organization.

Collective research by all the firms on new products, technologies will help reduce expenditure. The fruits of research can be enjoyed by all the firms.

VII. Answer any two of the following:

[2×5 =10]

1. What is the importance of concept of Elasticity of Demand?

Solution:

Importance Elasticity of Demand

The concept of elasticity of demand is of great practical importance in the sphere of government finance as well as in trade and commerce.

Business Decision:

If the product has more elastic demand the business man fixes the less price, if the good has less elastic demand he will fix the more price.

Monopolist:

The monopolist fix the more price in one market in which the elasticity of demand is less. And less price in more elastic demand market for the same thing (or) same good.

Determination of factor price:

The concept of elasticity of demand also helps in determining the price of various factors of production. Factor having in elastic demand gets higher price and factors having elastic demand gets lower price.

Route for international trade:

If demand for exports of a country is inelastic, that country will enjoy a favorable terms of trade while if the exports are more elastic than imports, then the country will lose in the terms of trade.

To the government:

The concept of elasticity of demand also enable the government to decide as to what particular industries should be declared as 'public utilities' to be taken over and operated by the state.

2. What are the features of Oligopoly Market?

Solution:

Oligopoly Market:

The word oligopoly is derived from two Greek words oligo and pollien, oligo means "A few", Pollien means seller. Where there are a few firms or few producers or few sellers, it is said to be oligopoly market.

For example: automobile industry, gas industry etc.

A market with a small number of producers is called oligopoly. The product may be homogeneous or there may be differences. Since producers are a few each firm produces a large portion of the output. It is a market with competition among the few. This market exists in automobiles, electrical and cigarettes etc.

Less number of firms:

The number of producers are a few that is around five in this market. Each one produces a large part of the total output. He can control the output in the market. A firm can change the price by supplying either more or less.

Interdependence:

In the oligopoly market the decisions of every producer affect other producers. This is due to less number of producers in the market. A change in the decisions of a producer (output or price) makes the other producers to change their decisions.

Selling costs:

Sometimes commodities are produced with small differences. Then each firm makes a huge expenditure on advertisements. It is in the oligopoly that we can see the highest expenditure on selling costs.

Uncertainty:

It will be difficult to guess what kind of demand curve will be there for a firm. Every time when a producer changes his decision, other producers will also change their decision. Therefore, it is not possible to expect price, output conditions to be the same in this market.

Rigid price:

In this market firms will not change the price, they follow a rigid price. A firm cannot increase price because other firms will not raise their prices. The firm that increases the price will be put to loss. If one firm reduces its price others will also do the same. Therefore, all the firms will follow a price without making any changes in it. Hence it is called rigid prices.

3. What are the effects of Inflation on Production?

Solution:

Impact of inflation:

Inflation has effect on all economic activities in the economy. These may be explained as follows:

On Production:

There may be positive and negative impact of inflation on production. It depends on the rate of inflation or type of inflations.

Mild inflation stimulates production as it increase the profit margin of entrepreneurs. As long as there are unemployed resources output can be increased. This will increase employment and output as well.

High inflation rate or hyper inflation hinders production.

Inflation discourage savings. This affects the capital information which in turn affects the production.

4. What are the essential conditions of sound banking system?

Solution:

Essentials of a sound Banking System:

A sound banking system promotes all round economic development of an economy. A good bank must have the following features:

Adequate Liquidity –

A bank must keep sufficient cash in hand to meet the claim of depositors, otherwise they would be insolvent. A bank failure not only affects depositors but banks also. People would not more keep funds with banker. It ensures safety of a bank. Unless a bank is safe it cannot render its social services.

Expansion of banking-

Banking facilities should spread throughout the economy. It must also cover all sections of people in need of funds and all productive activities. The less-developed regions should get more banking facilities than others. Thus, diffusion of banking offices is essential.

Investment and loan policies –

A sound banking system must have a sound investment policy whereby it can optimize the twin goals of liquidity and profitability. If loan and investments are wrong, a bank suffer loss or face liquidity shortage. A prudent banker should carefully determine the composition and character of its loans and advances so as to optimize earning without endangering safety and solvency.

Human factor –

The soundness of a bank depends much on the quality of banker. Banking being a practical affair, rigid application of bank laws are not always fruitful. Much depends on the discretion of men piloting the ship. Sound banking thus, depends more on banking personnel than on banking laws.

PART B (50 Marks) (Fundamentals of Management)

- I. Choose the correct answer from the given four alternatives: [10×1 =10]
- Which of the following phrases is closely connected to contingency theory?
 - No one best way.
 - Today's ideas are tomorrow's history.
 - One best way.
 - Universal ideas of good management.
 - Unity of command means:
 - parity of authority and responsibility,
 - flow of command from subordinate to superior,
 - flow of command from superior to subordinate,
 - parity in controlling.
 - The Contingency theory focuses on
 - Situational variable
 - Interrelationships
 - Groups and human behavior
 - Economic needs of workers
 - The concept of span of control was propounded by ____
 - Graicunas
 - Fayol
 - Taylor
 - Mc Gregor
 - The study that focuses on reducing the unnecessary activities in work and thus reducing the fatigue and wastage of time is known as ____
 - Time study.
 - Fatigue study.
 - Work study.
 - Motion study.
 - In the hierarchal structure of an organization ____ managers are at the base of the pyramid:
 - Top Level.
 - Middle Level
 - First Level.

- (d) Link Level.
7. Plans are based on
(a) Estimates
(b) Forecasts
(c) Targets
(d) Goals
8. The term communication is derived from the Latin word
(a) Common
(b) Communis
(c) Communication
(d) None
9. There can be no Leadership without
(a) Managers
(b) Subordinates
(c) Followers
(d) Superiors
10. Theory __ states that the average employee is lazy and will try to do as little as possible.
(a) X
(b) Y
(c) Z
(d) None

Solution:

1. — (a)
2. — (c)
3. — (a)
4. — (a)
5. — (d)
6. — (c)
7. — (b)
8. — (b)
9. — (c)
10. — (a)

II. Fill in the blanks:

[5×1 =5]

1. The Neo-Classical Organisation Theory is commonly identified with the human relations movement pioneered by _____.
2. _____ is necessary to enjoy the benefits of specialization.
3. Planning is an important function of _____.
4. The last step in decision making process is _____.
5. The term 'motivation' is derived from the word _____.

Solution:

1. Elton Mayo;
2. Division of specialization;
3. Management;
4. Implementation and follow up of decision;
5. Motive.

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III. Match the following

[5×1= 5]

	Column 'A'		Column 'B'
1.	Neo-Classical Theory	A	Inherent dislike for work
2.	Standing Plan	B	Behavioral Theory
3.	Quantitative Forecasting	C	Right to do something
4.	Authority	D	Procedures
5.	Theory X	E	Based on Opinion and Judgment

Solution:

1. — (B);
2. — (D);
3. — (E);
4. — (C);
5. — (A).

IV. State whether the following statement is True (or) False.

[5×1=5]

1. The first step in decision making process is developing alternatives.
2. Forecasting plays an important role in planning.
3. Centralisation and decentralization are opposite terms.
4. An autocratic leader exercises complete control over the subordinates.
5. Group Dynamics refers to the study of forces operating outside the group.

Solution:

1. False;
2. True;
3. True;
4. True;
5. False.

V. Define any Five of the following:

[5 ×1= 5]

1. **Unity of Direction.**

It means that there should be one and same objective for the whole unit of organization and for that there should be one leadership and one plan.

2. **Definition of Management.**

The conventional definition of management is getting work done through people but real management is developing people through work. **AGHA HASAN ABEDI**

3. **Planning premises**

Planning premises are basic assumptions about the environment in which plans are expected to be implemented. Certainly, planning has to take into account numerous uncertainties in its environment. Premises guide effectively planning.

4. **Decision Making**

"Decision-making is a process involving information, choice of alternative actions, implementation, and evaluation that is directed to the achievement of certain stated goals".

5. **Meaning of Authority**

Authority is right to decide and to direct others to perform certain duties in achieving organizational goals. It refers to the right to make decisions and to get the decisions carried out. It is the right to act. In the words of Simon, "Authority may be defined as the power to take decisions which guide the actions of others."

6. Staffing

According to Koontz and O'Donnel staffing is the executive function which involves recruitment, selection, compensating, training, promotion, retirement of subordinate managers.

7. Controlling

Control refers to the task of ensuring, that activities are producing the preset targets or goals. Controlling is aimed at monitoring the outcome of activities, reviewing feedback information about this outcome, and if necessary take corrective action.

8. Group Dynamics

The group dynamics refers to changes which take place within groups and is concerned with the interaction and forces obtained between group members in social settings. It is a study of forces operating within a group.

VI. Answer any four of the following questions.

[4×5 =20]

1. Explain Fayol's fourteen principles of Management.

Solution:

Henry Fayol has been accepted as the father of Modern Management.

Fayol's contributions have three aspects:

- (1) Division classification of industrial activities
- (2) Analysis of elements of management and
- (3) Formulation of principles of management.

Fayol principles must have universality of application. Accordingly he enunciated the following fourteen principles.

1. Division of work
2. Authority and responsibility
3. Discipline
4. Unity of command
5. Unity of Direction
6. Subordination of personal interest to the general interest.
7. Remuneration
8. Centralization
9. Scalar chain or line of authority
10. Order
11. Equity
12. Stability of tenure of personnel
13. Initiative
14. Esprit de corps

2. Write about the Span of Management.

Solution:

Span of Management also known as span of control, span of supervision or span of authority represents the numerical limit of subordinates to be supervised and controlled by a single supervisor. It is an important principle of building a sound organization. The principle is based on the theory of relationships propounded by Graicunas – a French management consultant who analysed the superior – subordinate relationship based on a mathematical formula.

No. of direct relationships	= n
No. of cross relationships	= n (n-1)
No. of group relationships	= n [2n – 1 -1]
Total No. of relationships	= n [2n/2 + (n-1)]

Where n represents the number of subordinates.

The concept of span of management is central to the classical organization theory. Proper span of management is considered a necessity for effective supervision, co-ordination and control. It is therefore critical to determine the ideal span. If the span of control is narrow, there will be more organizational levels which in turn may impede communication. If the span is widened, the supervisory load may become too heavy. Thus, sound organization structure required striking an optimum balance between organization levels, and supervisory work load.

3. Explain the steps in controlling process.

Solution:

Control refers to the task of ensuring, that activities are producing the preset targets or goals. Controlling is aimed at monitoring the outcome of activities, reviewing feedback information about this outcome, and if necessary take corrective action.

The Control Process:

A control system follows the following sequence:

1. Establishment of Standards.
2. Measurement of actual performance.
3. Comparing the actual performance with standards.
4. Taking corrective actions.

Controlling Responsibilities:

1. Critical Point Control (CPC)
2. Control by Exception (MBE)

Classification of Control:

1. Post Control and Feedback control
2. Concurrent control
3. Pre-control or feed forward control

Techniques of Control:

1. Budgetary Control.
2. Financial Statements.
3. Break-even Analysis.
4. Management Information System (MIS).
5. Management Audit.

4. Explain the characteristics of leadership.

Solution:

Leadership is the art of influencing others to direct their will, abilities and efforts to the achievement of leader's goals. In other words, leadership refers to the quality of the behavior of the individuals whereby they guide people or their activities in organized effort.

According to Koontz and O'Donnell, "Leadership is the ability of a manager to induce subordinates to work with confidence and zeal".

Thus, leadership process consists of three elements:

- ❖ the leader
- ❖ the follower
- ❖ and other variables

Qualities of a Successful Leader:

The qualities which are necessary for successful leader are discussed below:\

1. Physical energy and stamina.
2. Intelligence.

3. Vision and foresight.
4. Initiative.
5. Self-confidence.
6. Open mind or Flexibility
7. Sense of Responsibility.
8. Human relations Attitude.

1. Physical energy and stamina:

A leader should have a good personality, charming manners and ability to work hard. A leader will be successful only when he acts with the group as a member and works hard.

2. Intelligence:

Leaders should have somewhat higher intelligence than the average of their subordinates. They should possess the ability to think scientifically, analyse accurately and interpret clearly and concisely and problems faced by the group.

3. Vision and foresight:

A leader must have foresight to see and feel the future. He should take into account the happenings which are about to occur in future. This will enable him to maintain his influence over his subordinates.

4. Initiative:

The main task of a leader is to initiate suitable sequence of actions in proper time.

5. Self-confidence:

Leader should have confidence in himself whenever he takes any decision or initiates any cause of action. For this leader should have conceptual clarity about the things, he is going to do. A confused leader may cause damage to the group.

6. Open mind or Flexibility:

He should be ready to absorb new ideas as may be demanded by the situation. He should be prepared to accommodate other's, view points and alter his decision, if need be.

7. Sense of Responsibility:

A leader should be prepared to shoulder the responsibility for the consequences of any steps he contemplates or takes.

8. Human relations Attitude:

A leader should be able to deal with people and secure their willing cooperation. He should try to achieve the voluntary cooperation of the subordinates. He should try to develop social understanding with the people.

5. Explain the stages of group formation.

Solution:

A group is defined as two or more individuals interacting and interdependent, who come together to achieve particular objectives

Reasons for Group Formation:

People seek to join groups since the groups give the members a stability and enhances their achievement capacity. The main reasons propelling individuals to join groups are:

1. Have a sense of security
2. Have a status
3. Develop Self-esteem
4. Affiliation
5. Power
6. Goal achievement

Theories of Group Formation

1. Propinquity Theory
2. Social System Theory
3. Balance theory
4. Exchange theory

Stages of Group Formation:

1. Forming
2. Storming
3. Norming
4. Performing
5. Adjourning

6. What are the causes of interpersonal conflicts?

Solution:

Rahim (2000) defined conflict as a natural outcome of human interaction which begins, when one individual perceives that his or her goals, attitudes, values or beliefs are incongruent with those of another individual. This incompatibility or incongruence can arise within an individual, between two individuals or between groups of individuals

Causes of Interpersonal Conflict:

- **Group Identification and Intergroup Bias**
Intergroup bias occurs because of self-esteem. Identifying with the successes of one's own group and disassociating oneself from out group failures boosts self-esteem and provides comforting feelings of social solidarity.
- **Interdependence**
When individuals or subunits are mutually dependent on each other to accomplish their own goals, the potential for conflict exists. Interdependence can set the stage for conflict for two reasons: 1) it necessitates interaction between the parties so that they can coordinate their interests, 2) interdependence implies that each party has some power over the other.
- **Differences in Power, Status, and Culture**
Power – If dependence is not mutual, but one way, the potential for conflict increases.
Status – status differences provide little impetus for conflict when people of lower status are dependent on those of higher status.
Culture – When two or more very different cultures develop in an organization, the clash in beliefs and values can result in overt conflict.
- **Ambiguity**
Ambiguous goals, jurisdictions, or performance criteria can lead to conflict. Under such ambiguity, the formal and informal rules that govern interaction break down.
- **Scarce Resources**
Differences in power are magnified when resources become scarce.