INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Subject: Business economics – Micro

Chapter: Unit 1 & 2

Category: Assignment 1

1. Consider a market for tabletop calendars and explain the effect of each of the following scenarios on the supply curve for tabletop calendars:

i) Fall in the cost of glazed paper. (1)

ii) The price of wall hung calendars increase. (1)

iii) A new process of recycling is developed in Country C due to which the cost of cardboard decreases because wastepaper from developed countries are used to make cardboard. (1)

iv) Government makes it more difficult to cut trees needed for producing glazed paper. (1)

2. Poor rice crop yields because of floods is likely to result in rise in its price. Highlight how self-fulfilling speculation will have a destabilising effect on the price.

3. Provide two important features of the new classical school. What is the key accompanying element in the thinking of new classical school.

4. Discuss the different ways in which the Government can intervene in the free market for welfare of the consumers and society in general and its relative merits.

5. The Demand and supply conditions in a market of cloves are given by the following equations:

$Q_d = 3600 - 5P$

$Q_s = 7P$

Where P is price in INR per kg

The Quantity is in kg

i) The Government is thinking about implementing a tax on the output of cloves to have some money for health insurance of clove farmers. What would be the new equation of the supply curve if a tax of INR 5000 per quintal is introduced?

ii) Due to introduction in tax will the equilibrium quantity demanded reduce? If yes then by what percentage?

iii) What would be the Tax revenue for the Government?

iv) What would be new equilibrium price after tax? What is the share of producer and the consumer?

v) Draw a diagram (Demand Supply Curve) explaining the impact of tax on demand curve and supply curve.

6. A pandemic has struck the nation. For a few essential items like hand sanitiser the Government has imposed a price ceiling so as to protect the customers. Supporting your comments with appropriate diagram, discuss the advantages and disadvantages of this decision/ initiative.

ASSIGNMENT 1

7. Your friend who has just started to read about economics is confused why rice is so much cheap as compared to diamonds whereas rice being a food item is essential for survival. Draft a letter explaining it to him in terms of Marginal Utility Theory.

8. For each of the following explain whether it's perfectly contestable market

i) Housing Market (building flats for example)

ii) Grocery store

iii) Airline Industry

9. For a person X, the marginal utility is given for goods G and H

Unit#	Marginal Utility for G	Marginal Utility for H
1	15	10
2	12	12
3	10	9
4	8	7
5	6	5
6	5	4

i) Comment on the validity of marginal utilities for G and H.

ii) If there has to be a correction made in the numbers given in the table above, what would that be?

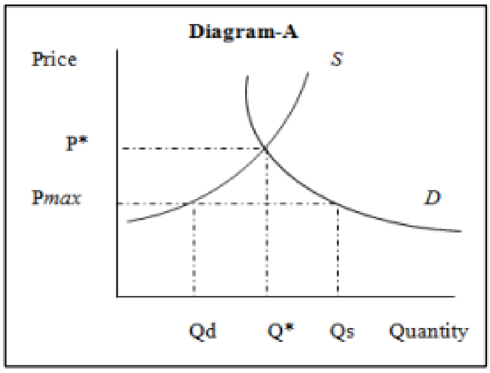
iii) Calculate total utility from good G and H based on your corrected figures, if you have made changes or on the original table.

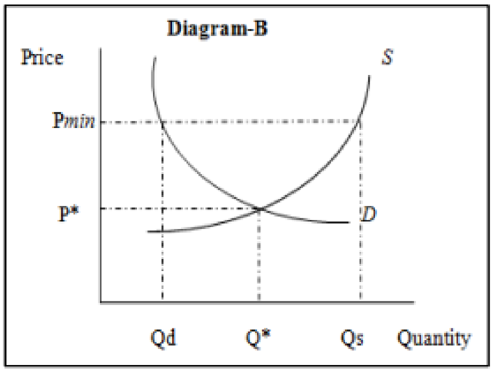
iv) The cost of G is Rs 10 and H is Rs 8. What quantities of X and Y will give maximum utility, if person X spends Rs 100 on these two items?

10. Using the appropriate diagram from the two diagrams given below, discuss the impact of the following actions by the Government on the demand and supply. State any two advantages and any two disadvantages for each of the actions.

i) Introducing minimum support price (floor) for agriculture produce that it will procure the harvest.

ii) A maximum price (ceiling) set below the free market price.





ASSIGNMENT 1

INSTITUTE OF ACTUARIAL
& QUANTITATIVE STUDIES

ASSIGNMENT 1