

BEM Assignment 1

Q1]

A price floor is a minimum price at which a product or service is permitted to sell. Many agricultural goods have price floors imposed by the government. For example, tobacco sold in the United States has historically been subject to a quota and a price floor set by the Secretary of Agriculture. Unions may impose price floors as well. For example, the Screen Actors Guild (SAG) imposes minimum rates for guild members, generally pushing up the price paid for actors above what would prevail in an unconstrained market. (The wages of big-name stars aren't generally affected by SAG because these are individually negotiated.) The most important example of a price floor is the minimum wage, which imposes a minimum amount that a worker can be paid per hour.

A price ceiling is a maximum price that can be charged for a product or service. Rent control imposes a maximum price on apartments (usually set at the historical price plus an adjustment for inflation) in many U.S. cities. Taxi fares in New York, Washington, DC, and other cities are subject to maximum legal fares. During World War II, and again in the 1970s, the United States imposed price controls to limit inflation, imposing a maximum price for the legal sale of many goods and services. For a long time, most U.S. states limited the legal interest rate that could be charged (these are called usury laws), and this is the reason why so many credit card companies are located in South Dakota. South Dakota was the first state to eliminate such laws. In addition, ticket prices for concerts and sporting events are often set below the equilibrium price. Laws prohibiting scalping then impose a price ceiling. Laws preventing scalping are usually remarkably ineffective in practice, of course.

The theory of price floors and ceilings is readily articulated with simple supply and demand analysis. Consider a price floor—a minimum legal price. If the price floor is low enough—below the equilibrium price—there are no effects because the same forces that tend to induce a price equal to the equilibrium price continue to operate. If the price floor is higher than the equilibrium price, there will be a surplus because, at the price floor, more units are supplied than are demanded.

Q2]

The 2 factors used by a firm are:

- Ownership of Labour

Of the three classes of factors of production, firms may own land and capital but do not own labour, which consists of the workers employed by firms. Rather than owning labour, firms hire labour by paying salaries and wages. Households exchange their labour for compensation paid by firms but the firms themselves do not own labour. Only in a slave-based economy, in which workers are a form of property, could firms own labour.

- Ownership of Land and Capital

In contrast to labour, firms may own land and capital, the other two factors of production. For example, a car manufacturing firm may own the tract of land on which its factory is located. The firm may own the machinery and other equipment located inside the factory. Many small businesses, however, may rent the physical sites on which they which they operate their firms from landlords. In this case, firms do not own the land or the capital that consists of the buildings. However, such firms often own capital equipment within the facilities they rent, such as computer equipment and office furniture.

Q3]

A) percent change in quantity = $\frac{Q_2 - Q_1}{(Q_2 + Q_1) \div 2} \times 100$

$$= \frac{400 - 200}{(400 + 200) \div 2} \times 100 = 66.666\%$$

percent change in price = $\frac{P_2 - P_1}{(P_2 + P_1) \div 2} \times 100$

$$= \frac{8 - 5}{(8 + 5) \div 2} \times 100 = 1,950\%$$

Price Elasticity of Supply = percent change in quantity / percent change in price

$$= 66.666 / 1,950 = \underline{0.03418}$$

B) 1. The Nature of the Industry:

The most important factor affecting price elasticity of supply in the nature of the industry under consideration.

This will indicate the extent to which production can be increased in response to an increase in the price of the product. If inputs (especially raw materials) can be easily found existing market prices, as in the textile industry, then output can be greatly increased if price rises slightly.

2. Nature Constraints:

The nature world also places restrictions upon supply. Rubber trees, for example, take 15 years to grow. So, it is not possible to increase the supply of rubber overnight.

3. Risk-Taking:

The willingness of entrepreneurs to take risks also affects price elasticity of supply. This, in its turn, depends on the system of incentives and disincentives. If, for example, the marginal rates of tax are very high, a price rise will not evoke much response among producers.

Q4]

A) Normal Good: A normal good refers to the level of demand for the good when wages fluctuate. It increases in demand as consumers' incomes rise. In other words, when a person's wages increase, they buy more normal goods, and when a person's wages decrease, they buy fewer normal goods.

A normal good has a positive elastic relationship with income and demand. This means that changes in income and demand move in the same direction. Consumers tend to buy products at a higher price or indulge more in eating out and partaking in leisure activities when they earn more because they have a higher budget. Therefore, the demand for normal goods increases when income increases.

Inferior good: An inferior good is not inferior in quality but refers to the good's level of demand when wages increase or decrease. An inferior good is a good that decreases in demand as consumers' incomes rise. When a person's wages increase or the economy improves, they buy fewer inferior goods, and when a person's wages decrease or unemployment rises, they buy more inferior goods.

An inferior good has a negative elastic relationship with income and demand. This means that changes in income and demand move in the opposite direction. When consumers earn less

due to economic downfalls, they buy fewer expensive products and use fewer expensive services. In that case, the products and services become inferior goods.

Here is a list of differences between normal and inferior goods:

- When a consumer's income rises, demand for normal goods rises, while demand for inferior goods falls.
- Normal goods have a positive correlation with income elasticity, while inferior goods have a negative one.
- Normal goods have a direct relationship with income changes and demand curves, while inferior goods have an inverse relationship.
- Consumers may prefer normal goods when prices are low and inferior goods when prices are high.

In terms of transportation, Consumers with higher budgets often use personal cars, including sports and luxury vehicles, to transport from place to place. They may also have additional funds to use taxis, car rentals and personal drivers. While consumers enjoy traveling regardless of their financial circumstances, consumers with more disposable income often prefer a more luxurious vacation. They might fly to their destination, which can be more expensive than taking a road trip. They also may choose luxury accommodations, such as five-star hotels or all-inclusive resorts.

Whereas, Consumers with less disposable income often turn to public transportation, such as buses, trains and subways, which often cost less than owning and maintaining a car. Some consumers may use a bicycle, a free alternative to transport from place to place. The price differences between pre-owned vehicles and new vehicles can make used cars an inferior good. Consumers with less disposable income travel in a less costly way. They might stay at motels instead of hotels, and they may choose to drive to their destinations instead of flying. Flying economy can be an inferior good compared to flying first class.

B|i) To explain what the above statement implies , in simple words, when we take transportation as an example for inferior goods what we try to imply is that when people's incomes are low, they may opt to ride public transport. But when their incomes rise, they may stop riding the bus and, instead, take taxis or even buy cars.

Public transportation tends to have an income elasticity of demand coefficient that is less than zero, meaning that its demand falls as income rises, classifying public transport as an inferior good. This reveals a generalization in human behavior; most people would prefer to drive a car if given a choice. Inferior goods include all of the goods and services that people purchase only because they can't afford the higher-quality substitutes of these goods.

While for normal goods, Consumers may prefer ride-hailing services like Uber and Lyft when there is an increase in income due to the convenience that comes with this option over the traditional modes of transport. However, with reduced income, consumers opt for crowded public transportation, such as buses and trains, which may be more favourably priced compared to the dedicated modes of transport.

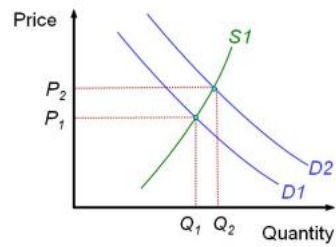
ii) For normal goods, when a consumer has more disposable income, they might like to dine out more often at a higher-end restaurant or bar. For example, they might indulge in a steakhouse or a four-course dinner instead of purchasing fast food from a drive-thru restaurant. Now When a consumer's income increases, store-bought foods often transform from inferior goods to normal goods. Consumers often purchase name-brand items, such as organic vegetables and fruit over frozen foods and fresh herbs and seasonings rather than dry herbs. They may also buy coffee beans and tea leaves instead of ground coffee and pre-made tea bags.

Whereas in case of inferior goods, Store-bought foods are very common examples of inferior goods. Some specific examples include canned and frozen fruits and vegetables. More groceries that can be inferior goods are canned meat, instant noodles and boxed foods, such as stuffing and mashed potatoes.

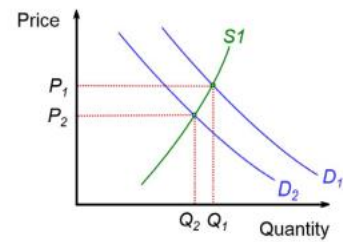
Consumers enjoy normal and inferior goods regardless of their current wages. However, fast food or takeout is often an inferior good when compared to dining at a sit-down restaurant. Cooking at home can also be an inferior good, since preparing meals can often be less expensive than dining services.

Q5]

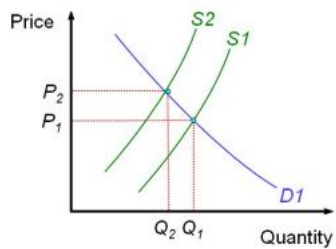
(i)



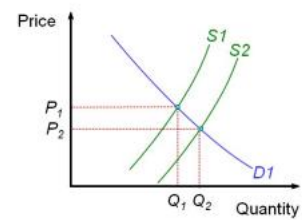
(iii)



(ii)



(iv)



Q6]

(i) 1.73

(ii) 1.19

(iii) 0.34 normal good

(iv) -1.60 complements

Q7]

The law of diminishing marginal utility states that with each increasing quantity of the commodity, its marginal utility declines.

For example, when a person is very hungry the first chapatti that he eats will give him the most satisfaction. As he will consume more chapattis, his level of satisfaction will diminish.

Thus, when the quantity of goods is more, the marginal utility of the commodity is less. Thus, the consumer is not willing to pay more price for the commodity and its demand will decline.

Also, when the price of the commodity is low, its demand increases.

Hence, the demand curve slopes downwards from left to right.

Q8]

i) Economics is divided into two categories: microeconomics and macroeconomics.

Microeconomics is the study of individuals and business decisions, while macroeconomics looks at the decisions of countries and governments.

- Microeconomics studies individuals and business decisions, while macroeconomics analyses the decisions made by countries and governments.
- Microeconomics focuses on supply and demand, and other forces that determine price levels, making it a bottom-up approach.
- Macroeconomics takes a top-down approach and looks at the economy as a whole, trying to determine its course and nature.
- Investors can use microeconomics in their investment decisions, while macroeconomics is an analytical tool mainly used to craft economic and fiscal policy.

ii) A market is a place where buyers and sellers can meet to facilitate the exchange or transaction of goods and services. Markets can be physical like a retail outlet, or virtual like an e-retailer. Examples include the black market, auction markets, and financial markets.

Q9]

1-shift left

2-shift right

3-No shift

4-No shift

Q10]

Factors of Production that exists in an economy are land, labor, capital and entrepreneur.

- a. Among the four factors of productions land is itself a resource and is limited and can be put several alternative use.
- b. Labor work for wages and they can put this money to several uses, however since the money is limited only limited resources can be accessed through it.
- c. Capital include resources made and used by workers and the resources are again scare, so scarcity arises here to.
- d. Entrepreneur has skills, vision and knowledge and he can't have all of plans or the policies executed as it requires a lot of other three factors of productions and we have a limited part of them all.

Q11]

Location :- Buildings, real estate and properties, located in commercial and market areas, hold higher value than their counterparts in the residential areas. It is common to find brokers quoting a higher price for buildings in well developed and approved colonies and areas as against those in the lesser developed and upcoming areas. Similarly buildings which are constructed on freehold land tend to command a higher valuation than those on leasehold plots.

Amenities :- The valuation of properties with better infrastructural capabilities and modern amenities are costlier than those which fail to provide proper electric connections, telephone lines, water sewerage facilities and all other infrastructure such as community centers, children parks, swimming pools, gymnasiums, parking lots or general stores. Valuation of property is clearly based on the availability of necessities and facilities connected with comfortable housing.

Infrastructure:- Infrastructural development is one of the most important factors which influence real estate prices in India. The presence of roads, airports, flyovers, malls and bus terminals and other facilities in the vicinity of the property, helps in value escalation of the same.

Disposable income and availability of land

Disposable Income:- Properties which are located in agricultural areas or those dominated by manufacturing units attract a lower price than those situated near the IT hubs. The valuation of property is in direct proportion to the quantum of disposable income in the hands of the purchaser or the majority of population in that area.

Availability of land :- In places where there is ample land available for residential purposes or development of real estate, the graph reflecting the valuation of property shows a slower rise than in areas where land is comparatively scarce.

Q12]

Goods having relatively inelastic demand are not much affected by slight increase or decrease in prices, so when sales tax is levied on these commodities and services the slight price that move up doesn't bring drastic fall in the sales from the sellers.

Q13]

The usage of refrigerator is consistent for storing the edible items is consistent but the uses like ice cream making are for a certain period and some people also prefers cold water in summers so these uses adds to the satisfaction the consumers are deriving from the refrigerator and the utility increases but as the this utility goes down as the time lapses and temperature goes down in further seasons. And this cycle continues, however there are some exceptions like the usage of refrigerators was limited in Covid-19 so the utility was not high in even summers so it can be concluded that MU is uncertain for refrigerator.

ASSUMPTION:- No technical issues in refrigerators.

Q14] (i) Price will fall,

quantity supplied will fall,

quantity demanded will rise.

There will be a shortage.

(ii) Price will rise,

quantity supplied will rise,

quantity demanded will fall.

There will be a surplus.

Q15] i)

BASIS FOR COMPARISON	RISK	UNCERTAINTY
Meaning	The probability of winning or losing something worthy is known as risk.	Uncertainty implies a situation where the future events are not known.
Ascertainment	It can be measured	It cannot be measured.
Outcome	Chances of outcomes are known.	The outcome is unknown.
Control	Controllable	Uncontrollable
Minimization	Yes	No
Probabilities	Assigned	Not assigned

ii) Reference may be made to holding stocks – suppliers hold additional stocks in anticipation of potential changes in price or demand. For example, if farmers hold stocks of good such as wheat, if the price is low in the market they can hold onto some stock and then release it to the market once prices rise and vice versa

Q16]

Supply and demand diagrams should be included for each scenario presented. Discussion may refer to how the initial equilibrium price and quantity is achieved within the market. A key requirement is to explain how the new equilibrium is reached.

(i) An increase in interest rates would raise the cost of borrowing, leading to a potential reduction in the demand for house purchases if housing then becomes unaffordable. This would be represented by a leftward shift in the demand for housing. At the same time, house builders who are borrowing to finance builds would find that their overall costs increase. Such an increase in costs would be represented by a leftward shift in the supply curve. Current

homeowners may also supply less housing to the market if they find that alternative house purchases will cost them more due to increased interest rates which would increase their cost of borrowing. Instead of moving, such individuals may continue to stay in their current home and thus reduce the supply of houses onto the market.

The overall effect would be to reduce the amount of housing traded in the market but the price effect will be dependent on the magnitude of the shifts in supply and demand.

Discussion may also include the effect of flexible mortgage rates and the effect this would have. People would have higher repayment charges and therefore may decide to sell/default/face repossession on their property leading to an increase in the supply of housing.

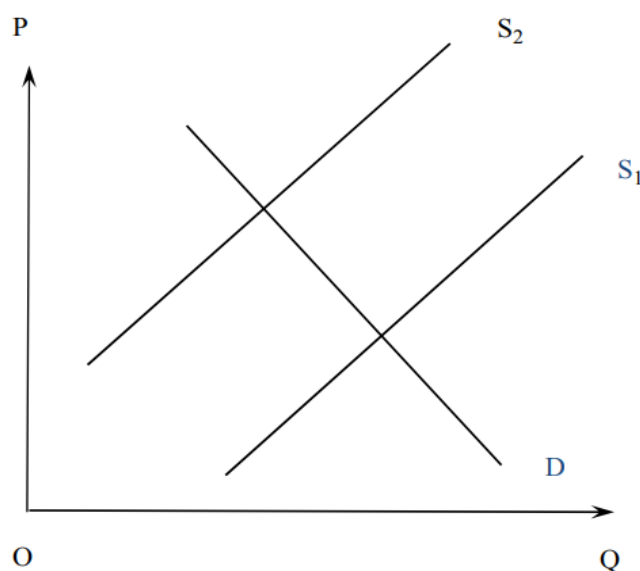
(ii) An expected rise in future house prices would be likely to increase current demand for house purchases, particularly as a house represents a large financial commitment. An increase in the demand for housing would cause the demand curve to shift to the right. House builders and current home owners may limit the supply of housing onto the market with a view to increase their profits in future. Therefore supply may be unchanged or reduced in expectation of future gains. The overall effect would be to increase prices but the effect on the quantity traded would be dependent on the magnitude of the shifts in supply and demand.

- (iii) An increase in taxes for house builders would increase their costs. The supply curve will shift upwards by the amount of the tax levied. As a result of the tax increase, the price of houses built will increase and the amount of houses available will fall.

S_1 supply of housing before tax

S_2 supply of housing after tax

D demand for housing



Q17]

Demand factors that can affect share prices include company news and performance, economic factors, industry trends, market sentiment and unexpected events such as natural disasters.

Demand gives shares value. If there is no demand for a company's shares, they will have no value.

Q18]

Factors that shift the demand for sports cars:

Incomes: As people's incomes rise, their demand for most goods including sports cars will increase. Higher incomes will shift to the right the demand for these cars.

Tastes: If individuals have a preference for sports cars, they will tend to buy the car.

Advertising, fashion, other people's choice and safety considerations in favour of this type of car, could affect a consumer's decision and shift the market demand for these cars to the right.

The price of complementary goods such as petrol: If the price of petrol falls, with cheaper petrol, people would be more inclined to buy these types of car since these tend to be less energy efficient and the demand will shift right.

(Alternatively other factors such as a reduction in the price of sports cars relative to other types of cars, expectation of future increases in the price of sports cars and a reduction in car tax were accepted.)

Q19]

Demand

As with any commodity, one factor that dictates price is demand. The world demand is around 90 million barrels per day for crude oil. Many countries have fuel subsidies for their residents. This can be good or bad. It's especially bad when a company is forced to sell at a loss.

Supply

Supply has an effect on price. Supply is usually kept slightly below demand by about one million barrels per day.

Quality of Oil

The quality of the oil affects its price. Higher quality crude oil is easier to refine and meet environmental requirements. You may have heard of this higher quality oil referred to as 'sweet crude.'

Speculation

Speculation gets a lot of the blame for the high gas prices we all face. Experts disagree on how much speculation affects the price of gas and oil. But the trading of oil futures certainly has an effect.

Q20]

Microeconomics focuses on supply and demand, and other forces that determine price levels, making it a bottom-up approach.

Macroeconomics takes a top-down approach and looks at the economy as a whole, trying to determine its course and nature.

Q21]

Price inelasticity shows that customers—and by extension, demand—are more tolerant to price changes. Therefore, firms that deal in inelastic goods or services can transfer the extra cost of production to their customers without adversely affecting the demand. As a result, price inelasticity offers better flexibility at setting up or establishing pricing strategies.