BE Assignment 1

1) A minimum allowable price set above the equilibrium is price floor. This creates a surplus. For example, government often set a price floor in agricultural markets so as to assist the farmers. This is mainly to prevent the price to fall drastically in case of heavy demand decrease as ~~demand~~ income ~~for~~ from agricultural products is unstable. But with price floors, consumers pay more for food than they would otherwise. A maximum price set below the equilibrium is price ceiling. This creates a shortage. The government may set these mainly to prevent price to rise above a certain level. For example, rent controls have been set to make rentals cheaper for tenants. This means at ceiling, demand exceeds supply, & the very rule made to help tenants would result in no apparments left for them due to shortage. Then the good will be allocated to customers with various unfavourable methods.

2) → capital: An accountancy firm will require capital to handle client's payroll, accounts payables & recievables, taxes, audits etc. Also, fundamentaly one needs money to set up a company at first place.

→ labour: A firm will need people who can work with them & for them as well. There will be many customers whose accounts have to be handled, & for that, lot of people are needed to handle the data.

3) A) price elasticity = $\frac{\% \Delta Q}{\% \Delta P} = \frac{\frac{400-200}{300}}{\frac{8-5}{6.5}} = \underline{1.44}$

B) 1) Price of good: if price of good increases or decreases, the quantity supplied will also increase or decrease. depending on how much there is an increase or decrease in supply, value gets more positive or negative.
2) nature of good: the more perishablity or lumpiness of good, more would be its market localised, meaning supply of that good at any price would be relatively small.
3) Price speculations: if the suppliers expect the price to go up (down) in near future, then this would push supply curve to left (right).

4) A) A normal good is good whose demand rises with increase in income for example, luxury items & An inferior good is good whose demand falls with increase in income for example, ~~slippers~~ flip flops.
B)(i) & (ii) don't know which statement they are talking about.

~~5) (i)~~

6) (i) $= \frac{300-250}{275} \div \frac{45-50}{47.5} = \underline{-1.73}$

(ii) $= \frac{110-100}{105} \div \frac{65-60}{62.5} = \underline{1.19}$

(iii) (a) $= \frac{280-250}{265} \div \frac{70-50}{60} = \underline{0.34}$

(b) it is a normal good.

(iv) (a) $= \frac{220-250}{235} \div \frac{65-60}{62.5} = -1.60$

(b) complements.

7) → law of diminishing marginal utility: So more the food we consume, less utility we find as we get less & less hungry which means the price falls as quantity of food increases which increases demand. So people will demand for more food when price is less hence the curve is sloped downwards.

→ Substitution effect: So if the price for other substitute of the particular food increases, the customers from there will shift here, increasing demand, & thus ~~increasing price~~ the demand curve will be downward sloping.

→ Income effect: With decrease in food price, the real income will increase cause they will spend less. with more money, they will, in turn purchase more. & so demand increases as prices fall,

8) i) microecomics talk about individual market & small segment of economy whereas macroeconomics talks about the whole aggregate economy.

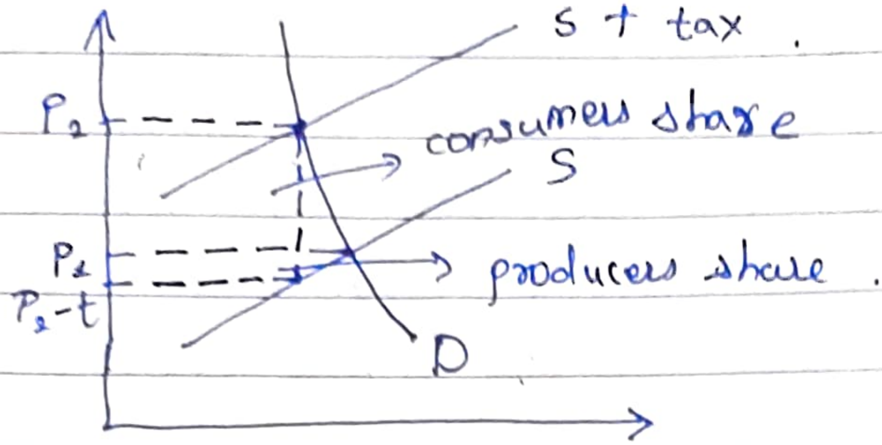
ii) The sum total of all the buyers & sellers in the area or region under consideration for example, a exchange traded market.

9) i) left shift
ii) left shift
iii) no shift
iv) right shift.

10) i) land, labour, capital and entrepreneur.
ii) Scarcity arises when demand for a particular product or resources far exceeds the supply that the economy can provide. The production of a good depends on the above four factors. To increase production, to cope with demand a company would need to change its variable factor; land is a fixed factor & cannot be changed in short run & so. we try to increase labour & capital. To increase labour, it is difficult to find quality labour & also there are various costs which arise to increase labour & so we can scale up our resources only to a particular limit & so is the case with production then. So there will be a max supply beyond which the company can't go & can't do much about the gap present even with elevated supply, & thus scarcity arises.

12) i) As for inelastic good, even with increase with price, the demand will be good enough so there will be more tax collection for an inelastic good & so government favours the same.

ii)



13) The utility you get from a product depends on the needs and wants a consumer derives from the product which differs from person to person. A ~~person~~ bachelor who lives alone and ~~has~~ does not have much time & skill for cooking will have high utility for refrigerator as he/she may use it to store ~~for~~ cooked food or readymade food or may also use one of those ~~for~~ frozen ready mix compared to a joint family who like to eat fresh food ~~&~~ ~~from the~~ as they do not have much use to store food or someone who prefers to travel more will have little or no utility to keep a refrigerator at home.

14) i) this will create shortage as it limits increase in price & so consumer will get product in cheaper price than otherwise, increasing its demand & therefore widening the gap between demand & supply.

ii) It means consumer will pay more for the good which would have been less otherwise, means decrease in demand & so creates surplus, decreasing supply.

15) i) Risk is the potential of loss. Uncertanity is the absence of certanity of an outcome in a particular situation. One is not sure of the future outcomes.

ii) We can use instruments like futures & forwards to deal with uncertanity. Insurance policies can also help to insure against severe spike or fall. You could buy information & holding stocks of goods & services.

18 ~~16~~) → increase in income : this would mean that more people can afford sports car, & so increasing its demand & shifting it to the right.

→ advertisement : if sports care is advertised more, more people will know abt it, increasing its demand.

→ population : more population, more target ~~co~~ audience for sales, increasing demand.

19) → govt policy : any favourable govt policy like dec. in taxes means less price for ~~consumers~~ production, inc. ~~demand~~ supply

→ cost of production : if cost of production decreases, supply increases & vice versa.

→ future expectation of price : if price expected to increase, the supply decreases due to dec. in demand

→ technology : better technology, more supply.

20) Macroeconomics talks about the whole aggregate economy. ~~whereas~~ Microeconomics talks about the small segments of the economy.

21) This is because for an inelastic good, for an increase in price will not affect the quantity demanded in case keeping the sales numbers for the firm pretty much the same which would have had a drastic decrease in case of an elastic product as it would have faced significant fall in demand upon increase in its price.

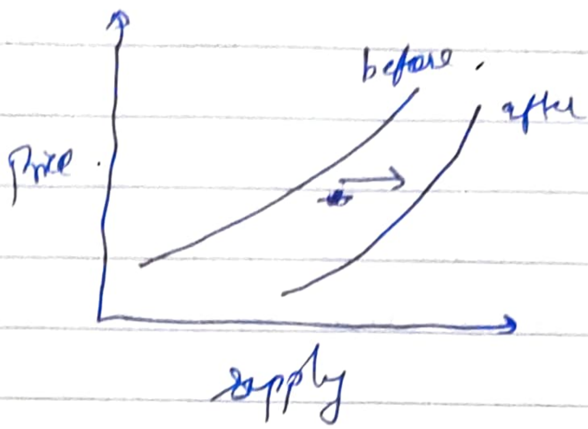
17) → income : if income for traders & investors increase, they will put more money in equity increasing its price & vice - versa.
→ substitutes: if interest rate or gains are more in debt funds or price is less, it will decrease demand for stocks, decreasing its price.
→ population: more traders, more stock investments, increasing its price.
→ future price expectation: if stock expected to grow, more investments, increases price.

11) → utility : more the utility ~~of~~ the house for the consumer, more its price & vice-versa.
→ competition : if there are more houses nearby to stay, means more competion, less price.

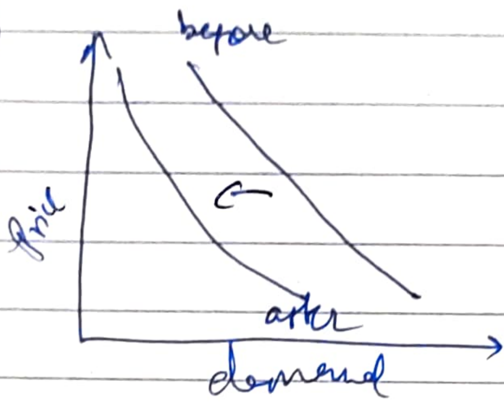
→ govt. regulations: if price floor & ceiling put, limits price of the product.

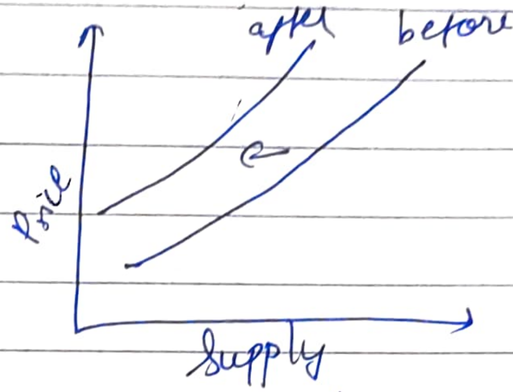
→ objectives: the price may differ with the usage of product.

5) (i)



(ii)





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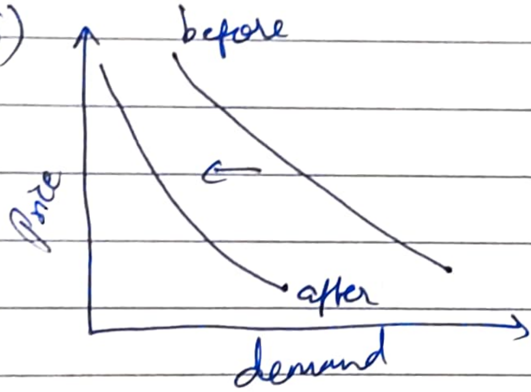

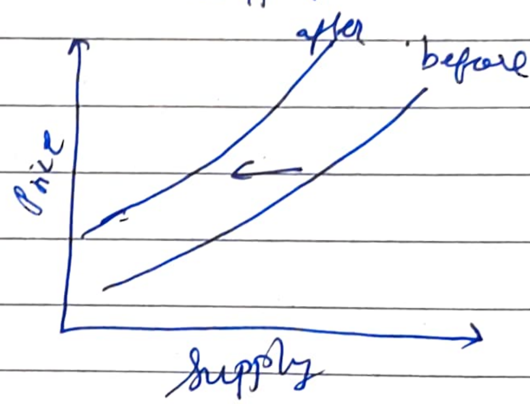

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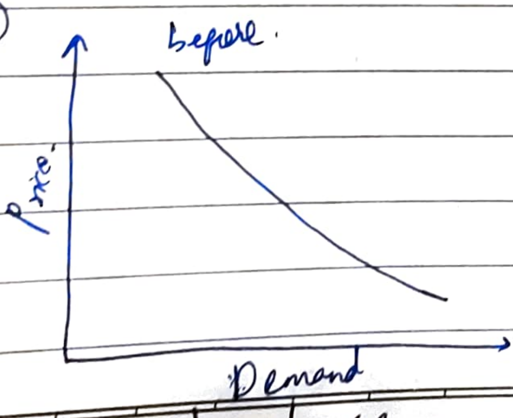

No change