

Business Economics - Micro

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Q1]

Price flooring: -

It is the minimum price on certain goods and services. These are generally put to protect the vulnerable suppliers. Ex- Farming industries is very familiar to volatile prices for their crops as their revenue is widely dependent on the seasons and the state of overall market, they generally don't have a good bargain for their product. These producers also earn a very thin margin from the industrialists/ middle man; so in such cases Government Intervention by putting a minimum price floor help to save them from financial crisis. However, this tool is useful in a scenario when the good faces relatively inelastic demand.

Minimum wages are another example of price floor, as due to increase in population and lack of technical/ professional skills of an educate our country faces unemployment on large scale and competition for jobs on some certain designation increases; so due increased supply of labor and less demand the wages falls and Government intervention becomes necessary to fix the minimum wages.

Price Ceiling: -

It is setting up maximum price on goods and services. Ex- Government set price ceilings to make goods affordable to consumers. The main markets where Government has put the maximum prices are the rental market and oil industries. Both of these markets suffer lack of Quantity supplied and due to increase in demand in the markets the price spike is experienced which is controlled by Govt using Price ceiling.

Q2]

Factors of Production Accountancy firm will use: -

- Capital: - the basic requirement for any firm to start its venture and operation is initial capital. No firm can operate without capital as it might need some sort of infrastructure and the salaries paid to workers and the initial as it's not natural that one starts to generate ample revenue from the initials.
- Labor: - every firm requires some sort of labor force to balance its operations properly. These includes both the technically skilled labor and physically skilled labor. Accounting firm will need Accountants, Managers, helpers etc.

Q3]

- i) Price Elasticity of Demand = $(200 \times 5) / (3 \times 200) = 1.667$ Relatively Elastic
- ii) Factors effecting Price Elasticity:
 - (1) Nature Commodity
 - (2) Availability of Substitute
 - (3) Level of Price
 - (4) No. of uses of that commodity
 - (5) Income level of target Consumer group
 - (6) Time Period

Q4A]

Daily wage workers are income group which regularly travels to earn a livelihood, normal goods are such commodities whose consumption increases when the income rises and inferior goods are those commodities that has indirect relations with income.

So, in this case a daily wage worker like mason when working in construction site that's mostly in the months of summers and winters sometimes they will be able to afford adequate amount of food of better quality for their family. However still it will be better than the food they will be affording in the months of monsoon coz in that month a mason will be required to shift from its main source of livelihood like they may turn to vegetable vendors for that time being and in that case their income gets more volatile than usual and might force them to survive on ration and msp goods.

Here the Ration product will be Inferior good as due to fall in Income the consumption increases and the edible items that they will be consuming rest of time will be considered Normal goods.

Q4B]

Example of Food product: - Basmati rice as a Normal Good and Ration rice/msp Price rice will be inferior goods.

Q6]

- i) Change in Price = $(45-50)/(45+50)*100 = 5.2631\%$
Change in Quantity = $(300-200)/(300+200)*100 = 20\%$
Elasticity = $20/5.2631 = 3.800$
- j) Change in Quantity = $(110-100)/(110+100)*100 = 4.7619\%$
Change in Price = $(65-60)/(65+60)*100 = 4\%$
Elasticity = $4.7619/4 = 1.190475$
- k) Change in Quantity = $(280-230)/(230+280)*100 = 9.80392\%$
Change in Price = $(70-50)/(50+70)*100 = 16.667\%$
Elasticity = $9.8039/16.667 = 0.58822$
Normal Good
- l) Change in Quantity = $(250-220)/(250+220)*100 = 6.3829\%$
Change in Price = $(60-65)/(60+65)*100 = 3.7037\%$
Elasticity = $6.3829/3.7037 = 1.72185$
Complementary Good

Q7]

Demand Curve is downward sloping because it has an inverse relationship with the price of the commodity.

Ex:- assume that market price of a kg of apple is 100 and the price rises to 120 per kg the demand of apple will reduce automatically as the other factors like utility of a unit of money and Income of the consumer is constant. So a person who used to consume 2 kg for his family will now stop at 1.5 kg. Similarly as the price will to 80/kg the consumer might move from 2 to 2.5 kg.

So this signifies as the price increases the Qd decreases creating a Downward sloping curve.

Q8]

I)

Microeconomics	Macroeconomics
Meaning	
Microeconomics is the branch of Economics that is related to the study of individual, household and firm's behaviour in decision making and allocation of the resources. It comprises markets of goods and services and deals with economic issues.	Macroeconomics is the branch of Economics that deals with the study of the behaviour and performance of the economy in total. The most important factors studied in macroeconomics involve gross domestic product (GDP), unemployment, inflation and growth rate etc.
Area of study	
Microeconomics studies the particular market segment of the economy	Macroeconomics studies the whole economy, that covers several market segments
Deals with	
Microeconomics deals with various issues like demand, supply, factor pricing, product pricing, economic welfare, production, consumption, and more.	Macroeconomics deals with various issues like national income, distribution, employment, general price level, money, and more.
Business Application	
It is applied to internal issues.	It is applied to environmental and external issues.
Scope	
It covers several issues like demand, supply, factor pricing, product pricing, economic welfare, production, consumption, and more.	It covers several issues like distribution, national income, employment, money, general price level, and more.
Significance	

It is useful in regulating the prices of a product alongside the prices of factors of production (labour, land, entrepreneur, capital, and more) within the economy.	It perpetuates firmness in the broad price level, and solves the major issues of the economy like deflation, inflation, rising prices (reflation), unemployment, and poverty as a whole.
Limitations	
It is based on impractical presuppositions, i.e., in microeconomics, it is presumed that there is full employment in the community, which is not at all feasible.	It has been scrutinised that the misconception of composition' incorporates, which sometimes fails to prove accurate because it is feasible that what is true for aggregate (comprehensive) may not be true for individuals as well.

ii)

A market is a place where parties can gather to facilitate the exchange of goods and services. The parties involved are usually buyers and sellers. The market may be physical like a retail outlet, where people meet face-to-face, or virtual like an online market, where there is no direct physical contact between buyers and sellers.

Q9]

1-shift left

2-shift right

3-No shift

4-No shift

Q10]

- i) 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) The maximum price set below free market price will lower the price so the prices will fall, however this will lead to shift in supply curve as the lowered price will lead to reduction in supply and increase in demand. The Equilibrium will shift downwards on supply curve along with left shift in Demand curve.
- j) Guaranteed minimum price over market free price will tend to increased prices, high supply and lower demand causing deflationary situation.

Q15]

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)

- 2) Build In Flexibility.
- 3) Be Transparent.
- 4) Implement And Optimize.
- 5) Embrace Ambiguity.
- 6) Start By Changing Yourself.
- 7) Practice Candid Communication.
- 8) Develop Worst-Case Scenarios.
- 9) Establish A Risk Management Plan.

Q17]

Factors affecting share prices

- Demand and supply. The stock market is designed to work on the age-old economic principle of demand and supply.
- Fundamental factors. The financials of a particular company are often termed as fundamental factors.
- Economy.
- Government policies.
- Political scenario.
- Dividend declarations.

Q18]

Factors that will make demand curve for sports car shift rightward:-

- 1} Reduction in fuel prices.
- 2} Increase in cost of substitute brands.
- 3} Liberal Government policies.

Q19]

Crude oil prices are determined by **global supply and demand**. Economic growth is one of the biggest factors affecting petroleum product – and therefore crude oil – demand. Growing economies increase demand for energy in general and especially for transporting goods and materials from producers to consumers.

OPEC can influence world oil supplies and prices

The Organization of the Petroleum Exporting Countries can have a significant influence on oil prices by setting production targets for its members. OPEC includes countries with some of the world's largest oil reserves. As of the end of 2018, OPEC members controlled about 72% of total world proved oil reserves, and in 2018, they accounted for 41% of total world crude oil production.

OPEC attempts to manage oil production of its member countries by setting crude oil production targets, or quotas, for its members. Compliance of OPEC members with OPEC quotas is mixed because production decisions are ultimately in the hands of the individual members.

Buyers and sellers at a global auction

Crude oil and petroleum product prices are the result of thousands of transactions taking place simultaneously around the world at all levels of the supply chain, from the crude oil producer to the individual consumer. Oil markets are essentially a global auction—the highest bidder will *win* the available supply. Like any auction, the bidder doesn't want to pay too much. When markets are *tight* (when demand is high and/or available supply is low), the bidder must be willing to pay a higher premium. When markets are *loose* (demand is low and/or available supply is high), a bidder may choose not to outbid competitors, waiting instead for lower-priced supplies.

Q20]

Microeconomics is the study of decisions made by people and businesses regarding the allocation of resources and prices of goods and services. The government decides the regulation for taxes. Microeconomics focuses on the supply that determines the price level of the economy.

It uses the bottom-up strategy to analyze the economy. In other words, microeconomics tries to understand human's choices and allocation of resources. It does not decide what are the changes taking place in the market, instead, it explains why there are changes happening in the market.

The key role of microeconomics is to examine how a company could maximize its production and capacity, so that it could lower the prices and compete in its industry. A lot of microeconomics information can be obtained from the financial statements.

The key factors of microeconomics are as follows:

- Demand, supply, and equilibrium
- Production theory
- Costs of production
- Labor economics

Examples: Individual demand, and price of a product.

Macroeconomics is a branch of economics that depicts a substantial picture. It scrutinizes itself with the economy at a massive scale, and several issues of an economy are considered. The issues confronted by an economy and the headway that it makes are measured and apprehended as a part and parcel of macroeconomics.

Macroeconomics studies the association between various countries regarding how the policies of one nation have an upshot on the other. It circumscribes within its scope, analyzing the success and failure of the government strategies.

In macroeconomics, we normally survey the association of the nation's total manufacture and the degree of employment with certain features like cost prices, wage

rates, rates of interest, profits, etc., by concentrating on a single imaginary good and what happens to it.

The important concepts covered under macroeconomics are as follows:

1. Capitalist nation
2. Investment expenditure
3. Revenue

Examples: Aggregate demand, and national income.

Q21]

Price and demand of a commodity are inversely related, which signifies an increase in the price will tend to fall in demand of commodity and increase in supply. When goods are inelastic it means that increase or decrease in price will lead to comparatively low reduction in demand. So, the fall in number of commodities sold will generate loss and that loss will be covered by increased price and may generate greater profits. However, the increase in price of elastic will lead to drastic falls in demand and that can't be recovered by increased price it will cause great losses.