BUSINESS ECONOMICS MICRO
ASSIGNMENT 2

Jash Poonatar

Roll no. 18

Q1)

Price controls come in two types. A *price ceiling* keeps a price from rising above a certain level—the “ceiling”. A *price floor* keeps a price from falling below a certain level—the “floor”.

For example, when rents begin to rise rapidly in a city—perhaps due to rising incomes or a change in tastes—renters may press political leaders to pass rent control laws, a price ceiling that usually works by stating that rents can be raised by only a certain maximum percentage each year.

A price floor is the lowest legal price that can be paid in a market for goods and services, labor, or financial capital. Perhaps the best-known example of a price floor is the minimum wage, which is based on the normative view that someone working full time ought to be able to afford a basic standard of living. The federal minimum wage at the end of 2014 was $7.25 per hour.

Q2)

Factors of Production in economics are inputs that a business uses to produce a good or service. In other words, these are the building blocks or materials and supplies that businesses use to create goods and service in an effort to make amaterials

1. Land – consists of the physical land used by the business as well as the raw materials that comes from the land.
2. Labor – consists of all workers in a company including machinists, administrative, professionals, executives, and anyone else who works for the company.
3. Capital – consists of the buildings, plants, and equipment needed to produce a product or service. It can also include intellectual capital like trade secrets and special ways of producing products. Social capital can also be lumped in this category. This is a societal agreement or rule that allows the company to operate the way it does: for example a free market.
4. Entrepreneurship – the drive, leadership, and intellect required to use the other three factors to run a business and produce a product.

Example- Nelson and sons is an accountancy firm . For running the firm, they will need a few things—the four factors. They need machines like Computers, AC, fans lightings and many more, land as a place to be working in the firm and expand her services, and management and labor in order to run the firm effectively. Without entrepreneurship there would be no firms created and no services delivered to clients. Expertise is necessary and good staff is also necessary.

Q3)

Price elasticity = change in quantity supplied/ change in price

= 200/3

= 67

Factors-

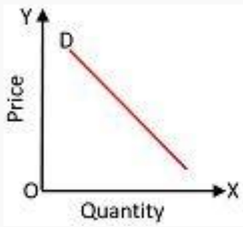
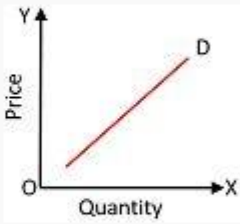
1) The Nature of the Industry: The most important factor affecting price elasticity of supply in the nature of the industry under consideration.

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.

4) The nature of good In the context of supply, substitute goods are those to which factors of production can most easily be transferred.

Q4)

BASIS FOR COMPARISON	NORMAL GOODS	INFERIOR GOODS
Meaning	Normal goods are the goods whose demand goes up with the rise in consumer's income.	Inferior goods are the goods whose demand falls down with the rise in consumer's income.
Demand Curve		 m
Income Elasticity	Positive	Negative
Relationship between income changes and demand curve	Direct Relationship	Inverse Relationship
Preferred when	Prices are low	Prices are high
Examples	iphone, LG LED TV, etc.	Coarse Cloth, Cycle, etc.

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)

Microeconomics	Macroeconomics
Microeconomics studies individuals and business decisions	Macroeconomics studies the impact of business decisions made by countries and governments
Microeconomics focuses on supply and demand and other forces that determine price levels	Macroeconomics focuses on the entire economy while taking a top-down approach to determine its course and nature
Potential investors can use microeconomics to make their decisions	Macroeconomics is an analytical tool used to craft economic and fiscal policy
Microeconomics offers a picture of the goods and services needed for a robust economy. It also will project which goods and services will have demand in future	Macroeconomics ensure that the economic resources available in the country are optimally utilized
The term microeconomics was coined by Professor Ragnar Frisch	John Maynard Keynes is largely credited with as the inventor of modern macroeconomics

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 fundamental reason for having a refrigerator is to keep food cold. Cold temperatures help food stay fresh longer. The basic idea behind refrigeration is to slow down the activity of bacteria (which all food contains) so that it takes longer for the bacteria to spoil the food.

For example, bacteria will spoil milk in two or three hours if the milk is left out on the kitchen counter at room temperature. However, by reducing the temperature of the milk, it will stay fresh for a week or two -- the cold temperature inside the refrigerator decreases the activity of the bacteria that much. By freezing the milk you can stop the bacteria altogether, and the milk can last for months (until effects like freezer burn begin to spoil the milk in non-bacterial ways).

Utility is uncertain because at the end it's a machine, and can sometimes may not be in a good condition and not freeze food items leading them to spoil and hence utility is uncertain sometimes.

Q15) i)

Definition

Risk is the chance that an investment's actual outcome will differ from the expected outcome, while uncertainty is the lack of certainty about an event.

Potential Outcomes

In risk, potential outcomes are known, but in uncertainty, potential outcomes are unknown.

Measurement

Risks can be measured and quantified using theoretical models, but uncertainty cannot be measured.

Control

Moreover, risks can be controlled if proper measures are taken at the right time; however, uncertainty is beyond control.

ii)
Businesses: Uncertainty **could push businesses to cut back on production, investment and employee compensation**. In particular, large capital projects which tend to have a high degree of irreversibility may be particularly sensitive to high levels of uncertainty.
Hence, they tend to reduce uncertainity.

Q16)

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) Factors affecting supply of oil

- Increased Oil Consumption. As the world's population grows, global oil demand increases accordingly.
- Oil Reserves. The ability to supply oil for world demand affects the ultimate price of the product.
- Exchange Rates.

- Environmental Factors.
- Political Factors.
- Speculation.

Q20)

Macroeconomics

Macroeconomics is a branch of economics that studies how an overall economy—the market or other systems that operate on a large scale—behaves. Macroeconomics studies economy-wide phenomena such as inflation, price levels, rate of economic growth, national income, Gross domestic product , and changes in unemployment.

Macroeconomics deals with the performance, structure, and behaviour of the entire economy, in contrast to microeconomics, which is more focused on the choices made by individual actors in the economy (like people, households, industries, etc.).

Microeconomics

Microeconomics is the social science that studies the implications of incentives and decisions, specifically about how those affect the utilization and distribution of resources. Microeconomics shows how and why different goods have different values, how individuals and businesses conduct and benefit from efficient production and exchange, and how individuals best coordinate and cooperate with one another. Generally speaking, microeconomics provides a more complete and detailed understanding than macroeconomics.

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