

Question:

How does opportunity cost relate to problem of scarcity?

Answer:

The problem of scarcity exists because of limited resources. We have to decide what to produce and how to produce. The opportunity cost of producing military goods is the quantity of consumer goods sacrificed in order to produce the selected consumer goods. The opportunity cost of producing military goods is the quantity of consumer goods sacrificed in order to produce the selected consumer goods.

Question:

What is the difference between a shift in demand and a change in demand?

Answer:

Change in price of a good or service leads to a movement along the demand curve. Change in income, preference, or the price of related goods causes the shift of demand curve.

Question:

What is the difference between 'scarcity' and 'shortage'?

Answer:

'Scarcity' and 'shortage' have different definitions. Scarcity is a permanent condition where the quantity demanded is greater than the quantity supplied at any price. Shortage is a temporary condition where the quantity demanded is greater than the quantity supplied at a specific price.

Question:

Why does Excess Demand tend to raise the price?

Answer:

Excess Demand is a situation in which the quantity demanded is greater than the quantity supplied. It is created when prices are below the equilibrium price.

quantity demanded equals the quantity supplied. If supply exceeds the quantity demanded, that happens, and the price will reduce until it reaches the equilibrium.

Question:

Define demand.

Answer:

Desire refers to people's willingness to own a good and able to buy at a given price.

Question:

Is the indifference curve be upward sloping ?

Answer:

Indifference curve cannot be upward sloping because if one unit of any commodity is preferred to less.

Question:

Differentiate between arc Elasticity of demand and Point Elasticity of demand.

Answer:

Point Elasticity of demand. Numerical value of elasticity at a point elasticity. In Microeconomics formula for arc elasticity. Two points on the demand curve form an arc. The elasticity of demand curve is known as arc elasticity of demand.

Question:

Define “network externalities”?

Answer:

Network externalities are the effects on a user of a product or service.

Question:

Differentiate between positive and negative network externalities.

Answer:

Network externalities can be positive or negative. A positive network externality exists if the quantity of a good demanded by a consumer increases in response to an increase in purchases by other consumers. A negative network externality exists if the quantity of a good demanded by a consumer decreases in response to an increase in purchases by other consumers.

Question:

What is meant by utility?

Answer:

The satisfaction, or pleasure, that people receive from the consumption of goods or services varies from person to person.

Question:

Differentiate between total utility and marginal utility.

Answer:

Total utility: the amount of satisfaction received from consuming a certain quantity of a good or service. Total utility is measured in mythical units called utils. Marginal utility: the amount of satisfaction received from one additional unit of a good or service. Marginal utility is measured in mythical units called utils.

Question:

In which case MU will be zero and negative?

Answer:

Marginal utility is zero when a person receives a certain quantity of a good or service. Marginal utility is negative when a person receives a quantity of a good or service that is greater than the optimal quantity.

Question:

What is meant by consumer equilibrium? In which

Answer:

A condition in which total utility cannot increase by spending more on one good and spending less on another good. A consumer is in equilibrium when the marginal utility of a dollar spent on each good is equal and the entire

Question:

Differentiate between explicit cost and implicit cost

Answer:

Explicit costs: Payments to non-owners of a factor of production, such as wages, rent, utilities, etc. Implicit costs: The opportunity cost of using resources owned by the firm. No payment is made to outsiders.

Question:

What is perfect competition?

Answer:

Perfect competition is an economic model that assumes that no individual producer or consumer has the market power to influence the price of a good. It is a definition of efficiency (Pareto efficiency), perfect competition leads to a Pareto efficient outcome. The analysis of perfectly competitive markets involves supply and demand.

Question:

. What are the conditions of perfect competition?

Answer:

1-Large no of buyers and sellers 2-Free entry and exit

Question: Can perfectly competitive firms earn economic profit?

Answer: In the short run, yes while in the long run the answer is no.

Question: What will be the effect of output tax on MC and MR?

Answer: An output tax raises firm's marginal cost by the amount of the tax. The new equilibrium is at the point at which the marginal cost plus the tax equals the marginal revenue.

Question: Differentiate between short run and long run?

Answer: In short run we are restricted as producer. We cannot alter all its inputs, including the size of the plant. In long run, we can alter all its inputs, including the size of the plant.

Question: What is graph?

Answer: "A graph is a two-dimensional representation of a relationship between two variables."

Question: What does the slope show?

Answer: The slope of the line indicates whether the relationship is positive or negative.

Question: What are economics resources?

Answer: Economics resources consist of: (1) Land (2) Capital (3) Labor (4) Entrepreneurship

Question:

What is meant by the term opportunity cost?

Answer:

When you have a choice between two or more alternatives, the opportunity cost of choosing one alternative is the next-best alternative that must be sacrificed. However, choosing the best alternative means your opportunity cost is the next-best alternative that must be sacrificed.

Question:

What does the production possibility frontier show?

Answer:

The production possibilities frontier illustrates the trade-offs in production. It shows the maximum quantities of two goods that can be produced with the available resources and technology. b.Choice - choices in the production of different goods. If you want more of a good something else must be given up.

Question:

What is meant by the term economic growth? What causes economic growth?

Answer:

Economic growth occurs when the productive capacity of an economy increases, leading to an outward shift of the production possibility frontier. This results in a higher level of output of the good in a full-employment economy. Causes of economic growth include increases in resources and improved technology. Sources of economic growth include technological progress, capital accumulation, and labor force growth.

Question:

What is market?

Answer:

“A geographically defined area where buyers and sellers meet to exchange goods or a set of products”.

Question:

Differentiate between income effect and substitution effect.

Answer:

Income effect: “The change in quantity demanded due to a change in real income (purchasing power)”. As real income increases, and so demand increases. Substitution effect: The change in quantity demanded of a good or service caused by the change in its price relative to the price of one good falls compared to the other good -- demand for the less-expensive good will increase.

Question:

What happens to the demand for a good if the price of a substitute good increases?

Answer:

Let's have coffee and tea, substitute goods. The demand for tea will rise since some people will switch demand from coffee to tea.

Question:

What happens to the demand for a good if the price of a complement good increases?

Answer:

Let's have cars and tires, complement goods. The demand for tires will decrease.

Question:

Define demand curve.

Answer:

“The demand curve is a graph illustrating how much of a good or service consumers are willing to buy at different prices”.

Question:

What do a demand schedule and demand curve show?

Answer:

A demand schedule shows the quantity demanded at various alternative prices for the commodity, when every

Question:

What do a supply schedule and supply curve show?

Answer:

A supply schedule shows the quantity supplied at various prices for the commodity,

Question:

What is held constant in drawing a demand curve?

Answer:

In defining the market demand curve for a commodity, the consumer's tastes, and money incomes, and the number of consumers, the market demand curve will increase or shift up if income rises, if price of substitute commodities rises. Opposite changes will cause a decrease or downward shift. When market price and quantity will both rise when it falls.

Question:

What is held constant in drawing a supply curve?

Answer:

In defining a market supply curve of a commodity, the quantities of commodities related in production remain unchanged. When commodity increase, if technology improves, or

in production) fall, then the entire market supply curve shifts to the right), leading to a lower equilibrium market price.

Question:

What's Equilibrium?

Answer:

Equilibrium occurs when the Supply and Demand curves intersect, in which the quantity supplied equals the quantity demanded.

Question:

Differentiate between shortage and surplus.

Answer:

A shortage is a situation in which quantity demanded is greater than quantity supplied. Below the equilibrium price there is a shortage. Above the equilibrium price there is a surplus. In a shortage, quantity demanded will fall and quantity supplied will rise until equilibrium is reached. In a surplus, quantity demanded will rise and quantity supplied will fall until equilibrium is reached.

Question:

Define elasticity.

Answer:

“Elasticity is a measure of the sensitivity of one variable to a change in another variable. It is calculated as the percentage change in one variable divided by the percentage change in another variable.”

Question:

Write down the determinants of elasticity of demand.

Answer: There are three main factors that determine whether demand is elastic or inelastic. 1. Availability of Substitutes 2. Share of Total Income Spent on the Good 3. Price Change over Time

Question: Define income elasticity of demand.

Answer: “The percentage change in the demand for a good divided by the percentage change in the income of consumers of the good”.

Question: What is the elasticity of demand for Giffen goods?

Answer: The elasticity of demand for a Giffen good is negative. A Giffen good is a downward-sloping demand curve. Since Giffen goods are inferior goods, a decrease in income shifts the demand curve to the left, making it more elastic.

Question: What will happen on a price-taking market if a lump-sum tax is imposed on all of the firms?

Answer: In the short-run, some firms will leave the market due to losses. In the long-run, the market supply will fall as the number of firms shifts up because of the levy of the lump-sum tax. The number of firms in the market will fall but each firm's output will remain the same as before.

Question: Why is the long-run average cost (LRAC) curve U-shaped?

Answer: The LRAC curve is U-shape because of the production for a relative small amount of output a relative large amount of output.

Question: Why is the LRAC curve U-shaped and what is it

Answer: First of all, the LRAC is not necessarily U-shaped. If there are constant returns to scale, the LRAC will be a horizontal line. It is U-shaped because we assume diminishing marginal returns. The LRAC is the 'envelope' to all the SRAC curves, that means, the LRAC is the lowest of all the SRAC curves at each level of production. It is because the LRAC is the horizontal LRAC. It is because the LRAC is the lowest of all the SRAC curves at each level of production.

Question: What is Economics?

Answer: "Economics is the study of how people choose to allocate their scarce resources; a study of choice".

Question: Why study microeconomics?

Answer: Microeconomics concepts are used by every one of us as producers.

Question: What are the main branches of economics?

Answer: The two main branches of economics are microeconomics and macroeconomics.

Question:

What is meant by economics indicators?

Answer:

Economic indicators are events that give information about economic behavior and predict how the economy will behave in the future.

Question:

What is the scope of economics?

Answer:

Microeconomics is the branch of economics that studies the behavior of individual decision-making units—that is, business firms and households. Macroeconomics is the branch of economics that examines the behavior of the economy as a whole—on a national scale.

Question:

Why economics is a science?

Answer:

Science seeks to understand phenomena; it addresses questions that have a definite answer. Satisfaction only to those who love the truth and who are not afraid of the truth. To be called a science because it aims at an understanding of the world. Like a physicist or chemist, the economist first classifies the phenomena and then proceeds to inquire into the causal relations existing between them. The eternal question is "why." In the complex world of economics, prices and wages rising, interest rates decreasing, and so on, what causes these things.

Question:

Why study economics?

Answer:

1. An important reason for studying economics is that it is an essential part of the study of society. 3. Economics is also a part of the study of human behavior. 4. An understanding of economics is essential to understanding the world we live in. We also require a basic understanding of economics to make choices, to forgo, or give up, when we make a choice or a decision.

Question:

What is meant by efficient market?

Answer:

An efficient market is one in which profit opportunities are rare. There is no free lunch! Profit opportunities are rare and people are constantly searching for them.

Question:

Why does the problem of scarcity exist?

Answer:

Scarcity exists worldwide because people want more than they can have. Each economy's limited supply of economic resources creates scarcity.

Question:

What are different methods of methods of economics?

Answer:

There are two methods of economics, 1) Positive economics studies economic behavior without making value judgments. • Normative economics, also called prescriptive economics, evaluates behavior, evaluates them as good or bad, and makes recommendations.

Question:

What is meant by ceteris paribus in economics?

Answer: The ceteris paribus device is part of the process of making the equal, assumption, economists study the relation between variables remain constant.

Question: What is the criterion for judging economics outcomes?

Answer: Criteria for judging economic outcomes: 1)Efficiency is one that produces what people want at the least cost. 2)Equity outcomes: 3)Economic growth or an increase in the standard of living or the condition in which output is steady or growing with scarce resources.

Question: Why does a monopoly have no supply curve?

Answer: A supply curve is a curve that shows the quantity supplied at the price and the quantity together, there is no supply curve for a monopoly. The best we can say is that there a 'supply curve'.

Question: At which point profit is maximized in perfect competition?

Answer: Profits are maximized at a point where marginal revenue equals marginal cost.

Question: What will be the economic rent for a factor market?

Answer: For a factor market, economic rent is the difference between the actual production and the minimum amount that must be paid to the factor.

Question:

Define bilateral monopoly?

Answer:

Bilateral monopoly A situation in which there is a single seller and a single buyer (monopsony).

Question:

What are the sources of monopoly power?

Answer:

A firm's monopoly power is determined by the elasticity of market demand 2. Number of firms

Question:

Differentiate between intertemporal price discrimination

Answer:

In Intertemporal price discrimination price depends on time. Production costs do not depend on the point in time. In time-based pricing demand varies over time for a good which has a constant price but demand varies over time. The peak-period price charged is higher than the off-peak price.

Question:

What is the Dominant firm model?

Answer:

In some oligopolistic markets, one large firm (the dominant firm) supplies the remainder of the market. The dominant firm sets a price that maximizes its own profits.

Question:

Define price discrimination. Why 1st degree price

Answer:

Price discrimination: "When a firm charges a different price for an identical good or service this situation is called price discrimination. we have to estimate the reservation prices of all consumers. It is more difficult than what are their reservation prices and charging different prices is difficult.

Question:

What is bandwagon effect? Write down the examples.

Answer:

The Bandwagon Effect: This is the desire to be like everyone else who has it, or to indulge in a fad. This is the major cause of many fads (toys, clothing).

Question:

What is the application of production possibility frontier?

Answer:

Applications of the Production Possibilities Frontier: 1. To measure the Economy's Productive Capacity 3.A Contradiction between the tradeoff between Current Consumption and Capital Accumulation Consumption and Improved Environmental Quality

Question:

Differentiate between real and nominal prices with an example.

Answer:

Nominal price is the absolute or current dollar price. Real price is the price after aggregate measure of prices or constant dollar price. Nominal wages, interest rates and gross domestic product are corrected for the effects of inflation.

Question:

What are the two effects which are caused by the

Answer:

A fall in the price of a product has two effects i.e. income effect + substitution effect

Question:

What are a Normal good and an Inferior good?

Answer:

If a rise in income raises the demand for a good, then it is a Normal good, and if a rise in income falls the demand for a good, then it is an Inferior good.

Question:

Differentiate between demand and quantity demanded.

Answer:

Demand is the ability and desire to purchase goods and services, given income, wealth, other prices, tastes, or expectations. Quantity demanded is the quantity of a good or service that consumers plan to buy during a given time period at a given price. Demand is a concept, while quantity demanded is a specific quantity.

Question:

What is meant by break-even point?

Answer:

The output level at which the firm's total revenue equals its total costs is known as the break-even point.

Question: How can monopoly power of a monopolist monopoly power?

Answer: Monopoly power depends on elasticity of demand to earn more profit.

Question: Define natural monopoly. Why natural monopoly?

Answer: A natural monopoly is a monopoly that arises in which a single firm can supply the entire market without the need for extensive economies of scale.

Question: What basic assumption do we make in order to determine the pure monopolist's best price?

Answer: In order to determine the pure monopolist's best price (in the absence of competition) that the monopolist wants to maximize profit, we use the total revenue-total cost approach or from the marginal revenue-marginal cost approach.

Question: Differentiate between monopoly and monopsony.

Answer: In monopoly market there is a single producer and many consumers for a product. In monopsony market there is a single consumer and many producers for a product.