ECO401 MID TERM Short Questions.....

(BY Mysterious)

1.-Define the sunk cost?

Sunk cost or expenditure that has been made and cannot be recovered

is called sunk cost. A sunk cost is usually visible, but after it has incurred, it should always be ignored when making future economic decision. For example, the purchase of specialized equipment designed for a plant. This specialized equipment has no alternative use; its opportunity cost is zero. Thus it should not be included as part of the firm's costs.

2.-Differentiate between inflation and unemployment?

Inflation is a rise in the general price level that results in a decline in the purchasing power of money. In economics, a person who is able and

willing to work yet is unable to find a paying job is considered unemployed. The unemployment rate is the number of unemployed workers divided by the total civilian labor force, which includes both the unemployed and those with jobs (all those willing and able to work for pay). In practice, measuring the number of unemployed workers actually seeking work is notoriously difficult.

3 .Define price ceiling?

Price ceiling is a government mandated price that exists below the market’s equilibrium price; price ceilings result in shortages. For

example, government placed price ceiling on medicines to facilitate people.

4-Define oligopoly?

Oligopoly is a market structure dominated by a small number of large firms, selling either identical or differentiated products, or significant barriers to entry into the industry. This is one of four basic market structures. For example, Cement, cars, electrical appliance, oil.

5-Explain monopoly?

Monopoly is a market structure in which there is single firm that influences the market price by how

much it produces. Monopolist is known as price setter. A monopolist firm has the power to influence the price for his good as the good it produces does not have perfect substitute. Example, WAPDA.

6-What is the difference between 'quantity supplied' and 'supply'?

There is a distinction between supply and quantity supplied. Supply describes the behavior of sellers at every price. At a particular price, there is a particular quantity supplied. The term 'quantity supplied' makes sense only in relation to a particular price.

7-What is the difference between a

change in demand and a change the quantity demanded?

There is a distinction between demand and quantity demanded. Demand describes the behavior of buyers at every price. At a particular price, there is a particular quantity demanded. The term 'quantity demanded' makes sense only in relation to particular price.

8-Define law of supply?

Quantity supplied rises as price rises, other things constant. In other words, “Other things being equal, when the price of a product rises, then sellers tend to supply a large amount of it and when the prices of a product

falls, then the sellers tend to supply a smaller amount of it."

9-Define law of demand?

Quantity demanded rises as price falls, other things constant. In other words, "Other things remaining the same, when the price of a good rises then quantity demanded of a good tend to contract and when the price of a good declines then the quantity demanded of it tend to expand."

10-Differentiate between inflation and unemployment?

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purchasing power of money. In economics, a person who is able and willing to work yet is unable to find a paying job is considered unemployed. The unemployment rate is the number of unemployed workers divided by the total civilian labor force, which includes both the unemployed and those with jobs (all those willing and able to work for pay). In practice, measuring the number of unemployed workers actually seeking work is notoriously difficult.

11.What are determinants of income elasticity of demand?

There are three determinants of

income elasticity of demand. These are: Degree of necessity of a good: In a developed economy, as income increases the demand for luxuries increases a lot while the demand for necessity increases a little bit because people cannot consume a lot of basic goods. So the items such as cars have very high income elasticity of demand whereas items such as potato have low elasticity of demand. Also inferior good have a negative income elasticity of demand. The rate at which the desire for good is satisfied as consumption increases: The more quickly people become satisfied, the less their demand will

expand as income increases. Level of income of consumer: In an economy, if the income of rich people increases the demand for luxuries would increase because rich people now have more money. If on the other hand, the income of poor people increase, the demand for necessity would increase.

12-What are the factors which cause the shift in market supply curve?

Factors which cause the shifts in market supply curve are technology, natural shocks, cost of production, expectation of producers and other social factors.

13-What is the difference between

'quantity supplied' and 'supply'?

There is a distinction between supply and quantity supplied. Supply describes the behavior of sellers at every price. At a particular price, there is a particular quantity supplied. The term 'quantity supplied' makes sense only in relation to a particular price.

14-Why demand curve is important?

Demand curve is important because it indicates the level of demand in the market. Suppliers supply their product and set price of their product, keeping in view demand of that item in the market

15-What is the difference between price value and price level?

Price value is the value of commodity bought by the consumer at a certain price from the market, whereas, price level is the current market price prevailing in the market.

16-Why Equilibrium is necessary in an economy? Is it possible for an economy to be in a state of equilibrium in real world?

Equilibrium is a state in which there are no shortages or surpluses in the economy and there is absence of inflation or deflation. To avoid inflation or deflation, it is necessary for an economy to have a state of

equilibrium which is considered to be an ideal state for an economy. It is possible for an economy to be in a state of equilibrium and an economy wants to remain in the state of equilibrium for longer period of time if it has a strong market, but it is not necessary that the economy is always in state of equilibrium.

17-Why does a monopoly have no supply curve?

A supply curve is a curve that shows the quantity supplied at different prices, since a monopoly sets the price and the quantity together; there is no combination of quantity supplied and price under a monopoly.

The best we can say is that there is a ‘supply point’ that is set by the monopoly.

18-How can we identify that something is elastic or inelastic?

When demand of any commodity does not change with the change in price of that commodity, that item is said be inelastic. When demand of any commodity changes with the change in price of that commodity, that item is said be elastic.

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

'Scarcity' and 'shortage' have different definitions. In reality, when

most of the goods and resources are scarce goods, we called this phenomenon 'scarcity'. On the other hand, 'shortage' is defined as the situation where the quantity demanded is greater than the quantity supplied because the market price is lower than the equilibrium price.

20-What is opportunity cost?

Opportunity cost is a term used in economics, to mean the cost of something in terms of an opportunity foregone (and the benefits that could be received from that opportunity), or the most valuable foregone alternative. For example, if a city

decides to build a hospital on vacant land that it owns, the opportunity cost is some other thing that might have been done with the land and construction funds instead.

21-Which type of economy is in Pakistan?

In Pakistan, there is mixed economy. Mostly, we have free market economy but in some cases Government does interfere to keep prices at an acceptable level. For example, prices of Wheat, flour, medicines etc.

22-What is uncertainty cost? Explain its effects on firms and producers?

The cost attached to uncertainty is called uncertainty cost. When uncertainty increases in an economy, firms become uncertain about prices of the goods which mean inability to accurately forecast firm revenues and expenditures, which means lower investment in the industry of the economy.

23-What is the difference between indifference curve and isoquants?

An indifference curve shows different combinations which a consumer can buy with a given level of income. Indifference curve shows behavior of a consumer in consumption. An isoquant shows different

combinations of factors of production which a firm can employ. Isoquant shows behavior of a firm in production.

24-Why concept of Elasticity is important in economics?

Elasticity is very important concept in economics because it affects the decision of individuals as well as of the whole economy. . It can help us in many ways. For example, for a firm the concept of elasticity is important because it gives information that either the change in price is profitable or not. It also gives information about the good which is more profitable to produce i.e. more

inelastic the demand for the product, more profitable to produce that good. For a government, it is useful in the sense that it gives information about the commodity which is to be taxed and which is not to be taxed. It also gives important implication for the balance of payment problem.

25-What are subsidies?

Almost in all market systems, government plays its role to stabilize the price of certain commodities, which are of public interest like medicines and edibles etc. For this, government give some incentives to producers to produce certain commodities, that is, to keep the

supply and price of those commodities stable at certain level .These incentives, given to the producers, are called subsidies.

26-Is it possible for a firm to be both Price taker and price maker?

A firm can either be a price taker or a price maker. It cannot be price maker and price taker at the same time because when a firm will set its own price in the market for its good. At that time, it will be a price maker not a price taker.

27-Why firm charges different prices to different consumer?

Every firm wants to maximize its

profit. When goods are sold to different customers, every customer negotiate price of the good independently. So, different prices are settled with different customers. So, different prices are charged from different customers to maximize firm's profit.

28-What is public good?

A public good is a good that, even if it is consumed by one person, is still available for consumption by others. For example, clean air is a public good, so is national defense or public safety.

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