(Important topics)

1. Elasticity, 2. Marginal, 3. Normal [illegible]
4. giffen goods, 5. short / long run 6. Supply function
7. Demand function 8. production function 9. indifference curve.
10. price ceiling 11. price floor 12. Equilibrium
13. Total revenue (P*Q) 14. Isoquant 15. Budget line
16. Difference B/W Avg and Marginal
17. Law of supply and demand. 18. shortage / surplus
19. Income or price effect 20. Good & factor market



Q1). Good Market & factor Market.

Ans Markets Used to exchange final good or service. Product Markets exchange Consumer goods purchased by the household sector, Capital investment goods purchased by the business sector. and goods purchased by government and foreign sectors. The total value of goods exchanged in product markets each year is measured by gross domestic Product.

Markets Used to exchange the service of factor of production labor, Capital land are exchanged. Factor markets also termed resource Markets exchange the service of factors. Not the factors themselves.

Demand Analysis.

Q2) (16) Shortage & Surplus.

① A shortage is a situation in which demand exceeds supply. producers are unable to meet market demand for the product.

② A Surplus is a situation of excess supply in which Market demand falls short of the quantity supplied. Producers are unable to sell all the produced goods in the market.

Q3) (3) Normal goods & inferior goods.

are good whose quantity demanded goes up as Consumer income increases.

are good whose quantity demand goes down as Consumer income increases.

Q4) (4) Define Giffen Goods?

are Sub Category of inferior goods. destroy price mechanism. ⊕ An increase in price of Giffen goods results in an increase in quantity demanded but condition is the goods is inferior goods.

Q5) (19) Define Income or Price effect.

Income effect is same as Normal goods when price of a good increases Consumer real income falls and its purchasing power decrease.

Price effect is addition of income and Substitution effect

price effect = income + Substitution effect.

Q6) Law of Demand

States that holding all other factors constant. if price of a certain commodity rises, its quantity demanded will go down, and Vice-Versa.

Example

when price is 5 then buyer by 3.5. and market demand 3500 if price is 4 then 4.5 Market demes 4500.

Q7). What is Demand function?

is an equational representation of demand as a function of its many determinants.

Equation of Qd = a - b P

Part 2

Q6) Law of Supply.

States that the quantity Supplied will go up as the price goes up and Vice Versa.

Example:

when you know in future the price will increase they you demand high. when

Q8) What is Supply function?

A Supply function is equational representation of Supply as function of all its determinants.

Qs = c + d P

Q9) What is Equilibrium?

Equilibrium is state in which there are no shortages and surpluses; In other words the quantity demanded is equal to the quantity supplied

ALGEBRAIC Representation of Equilibrium.

if we have following demand and supply function

$$Qd = 100 - 10P$$

$$Qs = 40 + 20P$$

equilibrium. $Qd = Qs$.

Therefore,

$$100 - 10P = 40 + 20P$$

$$20P + 10P = 100 - 40$$

$$30P = 60$$

$$P = 60/30$$

$$P = 2.$$

Putting value of price in any demand and Supply equation.

$$Q = 100 - 10 \times 2 \text{ (or } 40 + 20 \times 2)$$

$$Q = 100 - 20$$

$$Q = 80.$$

The equilibrium price is 2 and equilibrium quantity is 80.

Q 10) Define price ceiling?

A price ceiling is the maximum price limit that the government sets to ensure that price doesn't rise above that limit (medicine for eg).
if price is 2500 then government says price could not be reach above 3000 if raw material also expensive. UP limit is called price ceiling.

Q 11) Define price floor?

A price floor is a maximum price that a Government sets to support a desired commodity or service in a Society (wages for eg.).
government chahti hai
~~if price is 200 kisi b cheez ki qeemat~~
200 se kam na ho is se UPR me hi sale ho isy price floor kehty.

IMP. Define Social cost & Marginal Social cost?

Social cost is cost of an economic decision, whether private or Public, borne by the society as a whole.
Marginal social cost is change in social costs caused by a unit change in Output.

Universal Notation : E

Q(12). Define Elasticity ?

Elasticity is a term used in Economics to denote the responsiveness of one variable to changes in another. In proper words, it is the relative response of one variable to changes in another variable.

Types of Elasticity

There are four types of Elasticity.

(1) Price Elasticity of Demand
(2) " " " Supply
(3) Income Elasticity of Demand
(4) Cross price Elasticity of Demand.

(1) Price Elasticity of Demand:-

is the percentage change in quantity demanded with respect to the percentage change in price.

$$PE_d = \frac{\text{Percentage change in Quantity demanded}}{\text{Percentage change in Price}}$$

(2) Price Elasticity of Supply.

Same as it is (i)

demanded = Supplied.

(iii) Income Elasticity of Demand:

is the percentage change in quantity demanded with respect to percentage change in income of the consumer.

$$Y_{Ed} = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage Change in income}}$$

(iv) Cross Price Elasticity of Demand:

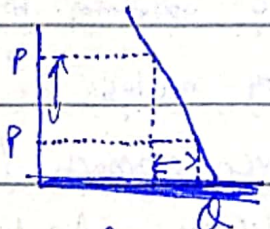
percentage change in quantity demanded of a specific good, with respect to percentage change in price of another related good.

$$Pb\,E\,da = \frac{\text{percentage Change in Demand for good a}}{\text{" " " price of good b.}}$$

Elastic and Inelastic demand.

Inelastic ~~when price~~ product means that if price of that product increases there is ~~when the slope of demand curve is infinity. its demand decreases not much income in price. very small elasticity is zero.~~ (perfectly ~~so~~ inelastic demand)

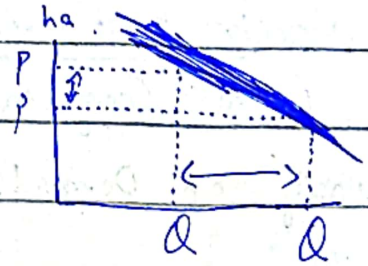
Example: Jab price me zada changes ayein lekin quantity me changes thori houn inelastic kha hai.



product mean if price of that product increases there is very small effect on its quantity demanded

Elastic — When price of any product increases its demand decreases ~~when the slope of a demand curve is zero~~ for an increase in price.
~~elasticity is infinite (perfectly elastic demand).~~

Example: Jab price me kam changes ayein or quantity me changes zada hoon Elastic demand hti ha.



Q 18 (5) Total revenue and Elasticity.

Total revenue (TR) = Price x Quantity (P x Q)

Q 14 (5) Define Short run and Long run.

Short run is a period in which not all factors can adjust fully and therefore adjustment to shocks can only be partial.

Long run is a period over which all factors can be changed and full adjustment to shocks can take place.

IMP What is ~~Marginal~~ Cardinal & Ordinal Approach?

There are two approaches to analyzing consumer behavior.

- Marginal Utility analysis (Cardinal approach)
- Indifference Curve approach (Ordinal approach)

Marginal Utility Analysis

Marginal " " involves Cardinal measurement of Utility i.e you assign exact values or you measure utility in exact units.

Indifference Curve approach.

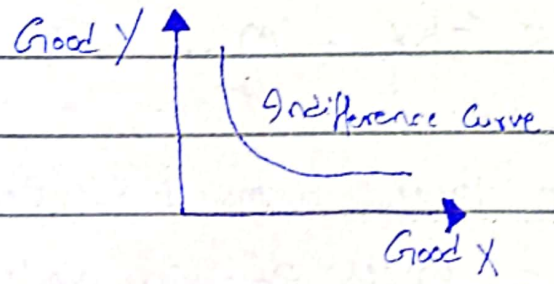
is an ordinary approach i.e you rank possibilities or outcome in an order of preferences, without assigning them exact utility values.

Q15) (2) what is Marginal Utility?

is the additional utility derived from the consumption of one or more Units of the good.

Q16) (9) what is Indifference Curve?

An indifference curve is a line which charts out all the different points on which the consumer is indifferent with respect to the utility he derives. In other words it is a combination of all equi-utility points.



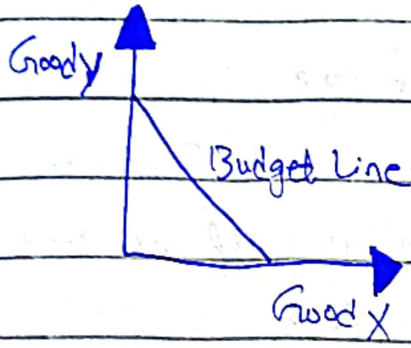
Two Goods X, Y Consumer kisi b point py indifference hai yani k usko same utility mil rhi same satisfaction hai. Isi b interest ni

Indifference Map:-

Shows a number of indifference curves corresponding to different levels of utility. A higher indifference curve corresponds to a higher level of utility

Q17 15) What is Budget Line ?

The Budget Line shows various combination of 2 goods X & Y that can be purchased. its slope $-P_X/P_Y$ is called input price ratio



Equation of Budget Line

$$Y = a + bx$$

$$kx + ly = m$$

$$ly = -kx + m$$

$$Y = \frac{-kx}{l} + \frac{m}{l}$$

Where as,

m = total ammount of Money

k & l = prices of two goods.

m/l intercept

$$\frac{k}{l} = \frac{P_X}{P_Y} = \text{slope}$$

The budget Line can shift due to changes in total budget and the relative price ratio $-P_X/P_Y$ If money income rises, the budget Line will shift outwards. if relative price ratio changes, the slope of budget line changes.

Q10) What is production function?

A Mathematical relation between production of a good or service and the inputs used.

Mathematical written

$Q = f(K, L, N, E, T, P \ldots)$.

Q = Output = Total produced product.

K = Capital

L = Labor

N = Natural resources.

E = Enterprenership.

T = Technology.

P = Power.

COBB Douglas Production function.

form of production functions is widely used to represent the relationship of an output to inputs. Proposed knut Widsshell

$$Q = A K^{\alpha} L^{1-\alpha}$$

Short run

All factors of production fixed.

Long run.

All factors of production Variable

The actual length of short run and Long run can vary on industry to industry.

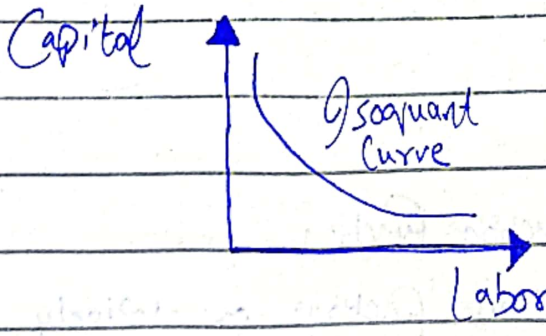
Two theories of production.

(1) Short run.

(2) Long run.

Q 19) What is Isoquant ?

An isoquant represents different combinations of factors of production that a firm can employ to produce the same level of output. Isoquants can used to illustrate the concepts of returns to scale and returns to factors



kisi b eik point se upr jitna b output mil rha ha jo production ho ri wo same hogi Capital or labor py jitna b unit use ho ga Lekin production iso fear ni pay ga.

Isoquant Map:

Consists of parallel isoquants that do not intersect higher output the right an isoquant will be.

Example

Isoquant curves too much different level of output show krn gy jitny b curve hogy parallel hogy

16
(Q20) Differentiate between Average Cost & Marginal Cost?

Ans Average cost is the cost per unit manufactured in a production run. it represents the average ammount of money to produce a Product. The ammount can vary, depending on number of units produced

FORMULA:

$$AC = \frac{TC}{Q}$$

Marginal Cost means change in total cost. After producing Additional One Unit then changes in total cost is called Marginal Cost

Example

Soap k 10 units bn rhy oo 50 rpk ha add 1 one unit price will be 55 rp To 5 rp Extra cost e rhi wo Marginal cost hai

Formula.

$$MC = \frac{\Delta TC}{\Delta Q}$$