**ENGINEERING ECONOMICS**

**Short questions and answers**

1-Why Engineers need to study Economics?

Ans: Engineering economics deals with the method that enables an engineer how to **minimize the cost** and **maximize the profit**.

2. What is Veblen effects?

**Ans:** Veblen effect is applicable to prestigious goods. It is one of the limitation of law of demand. Prestigious goods are demanded more at high price eg; **iphone, designer clothing etc**.

3. What is Giffen paradox?

Ans: Griffen good is one type of **inferior goods**. This is one of the **limitations of law of demand**

It is named after a British economist Sir Robert Giffen. Giffen goods are demanded more at high price and less at low price. Example **Bread**.

4. Perfectly inelasticity of demand?

Ans: When the quantity demand **remains same with the change in pri**ce then it is called perfectly inelasticity of demand. The demand curve is vertical or parallel to y-axis.

5. What is bandwagon effect?

Ans: The Bandwagon effect is a psychological phenomena in which people do something primarily because other people are doing it. This is also known as demonstration effect

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6. What do you mean by demonstration effect?

Ans: The demonstration effect is a psychological phenomena in which people do something because other people are doing it.

7. Write any two features of perfectly competitive market?

Ans: **1. Large number of buyers and sellers**

**2. Free entry and free exit**

8. What do you mean by IRR?

Ans: IRR is the **actual rate of return** which the producer gets from the business

9. What do you mean by MARR?

Ans: MARR is the minimum rate of return which the producer must get to remain in the business.It is fixed by the enterprenuer.

10. What is compound interest?

Ans: When the interest of a year is based on principal plus any accumulated interest charges upto the beginning of that period then the interest is said to be compound .

11. What is Duopoly market?

Ans: When the market is dominated by two sellers then it is called duopoly market.

12. What is Prime cost?

Ans: Prime cost is also known as variable cost. Variable cost is that part of total cost which depends on output. When output is zero the variable cost is also zero. Example raw material expenses,transport expenditure etc.

13. What is Fixed cost?

Ans: Fixed cost is that part of total cost which is independent unit of output . The producer can’t avoid the fixed cost. This is also known as supplementary cost. Eg: house rent , interest payment etc.

14. What is Supplementary cost?

Ans: : Supplementary cost is that part of total cost which is independent unit of output . The producer can’t avoid the supplementary cost. This is also known as fixed cost. Eg: house rent , interest payment etc.

15. what is Variable cost?

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16. What are the two factors affecting demand for a commodity?

Ans: 1. Price of the given commodity

2. Income of the consumer

17. What are the two factors affecting supply for a commodity?

Ans: 1.Price of inputs

2.Technology

18. Write any two exceptions of law of supply?

Ans: 1. Auction sale

2. Clearance sale

19. Write any two exceptions of law of demand?

Ans: 1.Speculation effect

2.Giffen goods

20. What is NPV?

Ans.Net present value is the difference between the present worth of cash inflows and the present worth of cash outflows over a period of time.

NPW/NPV= -PWoutflows + PWinflows

21. What is GDP at factor cost?

Ans: It refers to the gross money value of all final goods and services produced within the domestic territory of the country during a period of one year.

GDPfc =GDPmp – Net indirect tax

22. What is Walking inflation?

Ans: It occurs when price rises to become more than the creeping inflation. Under this price rises about 5% annually.

23. What is Running inflation?

Ans: Under this inflation, price rises at a faster rate . The price rise may be about 10% annually.

24. What is Galloping inflation?

Ans: Under this inflation , the price rises every moment and there is no upper limit if the price rise.

25. What is Hyper-inflation?

Ans: Under this inflation , the price rises every moment and there is no upper limit if the price rise.

26. What is Comprehensive inflation?

Ans: When the price of all goods and services increases throughout the economy then It is called comprehensive inflation . This give a rise in general price level. It happens in case of war and emergency.

27 .What is Suppressed inflation?

Ans: If the government actively makes effort to check the price rise by price control and rationing , then it is called suppressed inflation.

28. What is open inflation?

Ans: The government takes no steps to check the inflationary pressure then it is called open inflation.

29. What is stagflation?

Ans: The simultaneous existence of high rate of unemployement and high rate of inflation is called stagflation.

30. What is sporadic inflation?

Ans: Instead of affecting of whole economy if the price rise affect the few sector of the economy then it is called sporadic inflation.

31. When the price of a good is Rs 12, consumer buys 24 units when price rises to 34, the consumers buy 20 unit, calculate price elasticity of demand?

Ans:--0.0909

32.What is Micro Economics?

Ans: Micro means small. Micro economics deals with an individual unit of Economy.The tools used in micro economy is individual demand and supply.

33. What is composite demand ?

Ans: When the goods are demanded to satisfy several needs at a time is known as composite demand. Eg: Demand for electricity.

34.What do you mean by book value?

Ans: Book value difference between initial cost and depreciation.

35. What is the unique characteristics of long run production function?

Ans: long period that time period during which all the factors are variable. The producer can change the output by changing all the factors of production.

36. what is demand function?

Ans:demand function shows a functional relationship between price and quantity demand of commodity by an individual at given price and in given period of time.

37.What is Break-even point?

Ans:Break even is that point in the sells volume where there is neither Profit nor loss.Profit start after the break event. At this point the total cost is equal to total revenue.

38. What is Depreciation?

Ans:.Depriciation is the gradual permanent continuous decrease in the value of a asset. It is applicable to fixed asset.

41. What do you mean by Production function?

Ans:. Production function is the physical transformation of input and output. Inputs are converted into output in production process.

42. What is Bank rate?

Ans:The bank rate is the rate at which central bank gives loan to commercial bank. It is also known as Repo-rate.

43. What is GMP at MP?

Ans: GNP at MP refers to gross market value of all final goods and service's produced by the normal residents of a country during a period of one year.

GNP at MP= GDP at MP+NFIA

44. What is GDP at MP?

Ans: GDP at MP refers to the gross market value of all final goods and services produced within the domestic territory of a country during a period of one year.

GDP at MP=GNP at MP-NFIA.

45.What is NIT(net indirect tax)?

Ans-Net indirct tax is the difference between indirect tax and subsidy.

46.What is NFIA(Net factor income from abroad)?

Ans=The difference of factor income from abroad and factor income to abroad is known as NFIA.

47.What is NNP at mp?

Ans-It refers to the net market value of all final goods and services produce by tha normal resident of a country during a period of one year.

48.What is NNP at fc?

Ans-It refers to the net money value of all final good and services produce by a normal resident of country during a period of one year .

NNPfc=GNPmp-NIT-depreciation.

49.What is GNP at fc?

Ans-GNP at fc refers to gross money value of all the final goods and services produce by the normal resident of a country.

GNPfc=GNPmp-NIT.

50.What is GDP at fc?

Ans-It refers to the gross money value of all final goods and services produce within the domestic teritory of a country within one year.

GDPfc=GNPmp-NIT.

51.What is personal income?

Ans-Personal income of sun total of all income that was actually received by the household from all sources it does not include corporate tax and retained earnings.

Personal income=private income -coporate tax -retained earnings.

52. What is Implicit cost?

Ans: :- The imputed value ofservices provided by entrepreneur is known as implicit cost. It is very difficult to calculate by the accountant. It includes rent of his own land, wages for his own management and interest of his own capital.

53.What is explicit cost?

Ans-The payment made to the outsider for their services and production is known as explicit cost. it includes raw material expenses transport expenditure etc.

54.What is economic cost ?

Ans-Economic cost is combination of explicit and implicit cost .

55.What is time value of money ?

Ans-Time value of money means purchasing power of money at a particular time .The value of money changes with change in time. Money received today is more valuable that money received at a future date because we can use it and earn interest from it this is called time value of money.

56.What is simple interest?

Ans-When the interest rate is directly proportional to the principle for every interest period then it is called simple interest .

57.What is nominal interest rate?

Ans-Whenever the interest calculated half yearly,quarterly,monthly,and daily then it is called nominal interest rate.

58.What is effective interest rate ?

Ans-Effective interest rate is the ratio of interest charged for one year to the principal .

59.What do you mean by cost dominated cash flow diagram?

Ans-In cost dominated cash flow diagram cost is more than revenue. Cost will be added and revenue will deducted .the project having lowest cost will be selected for implementation

60.What do you mean by Revenue dominated cash flow diagram?

Ans- In Revenue dominated cash flow diagram revenue is more than cost. revenue will be added and cost will be deducted .the project having highest revenue will be selected for implementation.

61.What is Depletion?

Ans:Depletion is one of the cause for depreciation it is applicable to natural resources like oil well and mines where the asset of wasting character due to extraction of raw material .

62.What is present worth ?

Ans:Present worth is the discounted value of a future sum.

63.What is future worth ?

Ans-Future worth is designated value of a present sum at a future date based on time value of money .

64.What is cost and benefits analysis ?

Ans-Cost and benefits analysis is decision making tool to evaluate the economic desire ability of a public project.

65. What is Recurring deposit?

Ans: Recurring deposit is a special kind of term deposit offered by the bank to deposit a fixed amount every month into their recurring deposit account.

66.What is the implication of money at call?

Ans: Money at call is a very short period loan given by one bank to the other bank during emergency and it can be called back within a short notice of 1 to 14 days.

67. What is discount in bill of exchange?

Ans: This Is one of the popular type of loan given by commercial bank. When the bill holder requires money urgently in that case the bill can be discounted through the bank.The bank gives amount after deducting commission and when the bill matures ,the bank will collect the bill amount from the respective parties.

68. What is legal reserve ratio?

Ans: All the commercial banks are legally bound to maintain some reserve with the central bank before starting their operations. It is called legal reserve ratio or SLR(Statutory Liquid ratio).

69. What do you mean by Repo rate?

Ans: The repo rate is the rate at which central bank gives loan to commercial bank. Its is also known as bank-rate.

70. Write any two basic problems of an Economics?

Ans:1. What to produce

2.How to produce

71. What is production possibility curve ?

Ans: The production possibility curve shows the limited resource of an economy.

72. What is Disposable income ?



Ans: Disposable income is that part of personal income which is actually available at the disposable of the house hold .

DI= personal income -saving-tax-govt receipt.

73. What is meant by increase in demand?

Ans: When the consumer purchase more due to change in other factors,price remaining constant then it is called increase in demand.

74. What is meant by decrease in demand?

Ans: When the consumer purchase less due to change in other factors,price remaining constant then it is called decrease in demand.

75. What is expansion in demand?

Ans: When the consumer purchase more due to decrease in price other factors remaining constant then it is called expansion in demand.

76. What is contraction in demand?

Ans: When the consumer purchase less due to increase in price other factors remaining constant then it is called contraction in demand

77. What is market demand?

Ans: Market demand is the aggregrate of demand ,demanded by all the individual in the market at a given price and in a given period of time.

78. Define substitute goods?

Ans: Two goods are substitute to one another when one good can be used in place of other

Eg: coffee and tea.

79. Define complementary goods?

Ans: Two goods are complimentary when they are jointly demanded . eg : bike and petrol, pen and ink.

80. In which phase of law of variable proportion a rational firm aims to operate?

Ans: In the second phase of law of variable proportion a rational firm aims to operate.

81. Give the meaning of cost?

Ans: Cost is the expenses incurred in producing goods and services.

82 Give two examples of fixed cost?

Ans:1. House rent

2.Electricity bill

83. Give two examples of variable cost?

Ans:1. wages to the labours

2.Raw material expenses

84. What is private cost?

Ans: The private cost is any cost that a person/firm pays in order to buy/produce goods and services.

85. What is social cost?

Ans:Social cost includes both private cost and any other external cost to society arising from the production/consumption of goods and services.

86. How MR derived from TR?

Ans:MR is the addition to the total revenue by selling one extra unit of output.

87. What happen to TR when MR is positive ?

Ans: TR increases when MR is positive.

88. What is Increase in supply?

Ans: When the producer supply more with the change in other factors price remaining constant then it is called Increase in supply.

89. What is Decrease in supply?

Ans: When the producer supply less with the change in other factors price remaining constant then it is called Decrease in supply

90.What is law of supply

Ans-law of supply state that at a higher price more is suppllied at a low price less is suppllied other factors remaining constant.

91.What is expansion in supply ?

Ans=When a producer supply more with the increase in price other factor remaining constant that is called expansion in supply .

92.What is contraction in supply ?

Ans=When a producer supply less with the decrease in price other factor remaining constant.then it is called contraction in supply.

93.State two factor determining supply

Ans-1.Price of inputs

2.Govt policy.

94.Define price elasticity of demand?

Ans-Price elasticity demand is defined as the degree of responsiveness of quantity demand to a given change in price.It is the ratio of the proportionate change in quantity demand to a proportionate change in price .

95.What is homogenous product ?

Ans-In a perfectly competitive market the products are homogenous that means there equal in quantity and quantity

96.When a firm is called price taker ?

Ans- In a perfectly competitive market price is determine by the industry and it is accepted by firm .so the industry is the price maker and the firm is the price taker .

97.What is market equilibrium ?

ans-It is the point where market demand is exactly equal to the market supply .The equilibrium price is determined at that point.

98.What is marco economics?

Ans - marco means large .macro Economics deals with the aggregate or the Economy as a whole .The tools used in macro Economics is aggregate demand and aggregate supply .