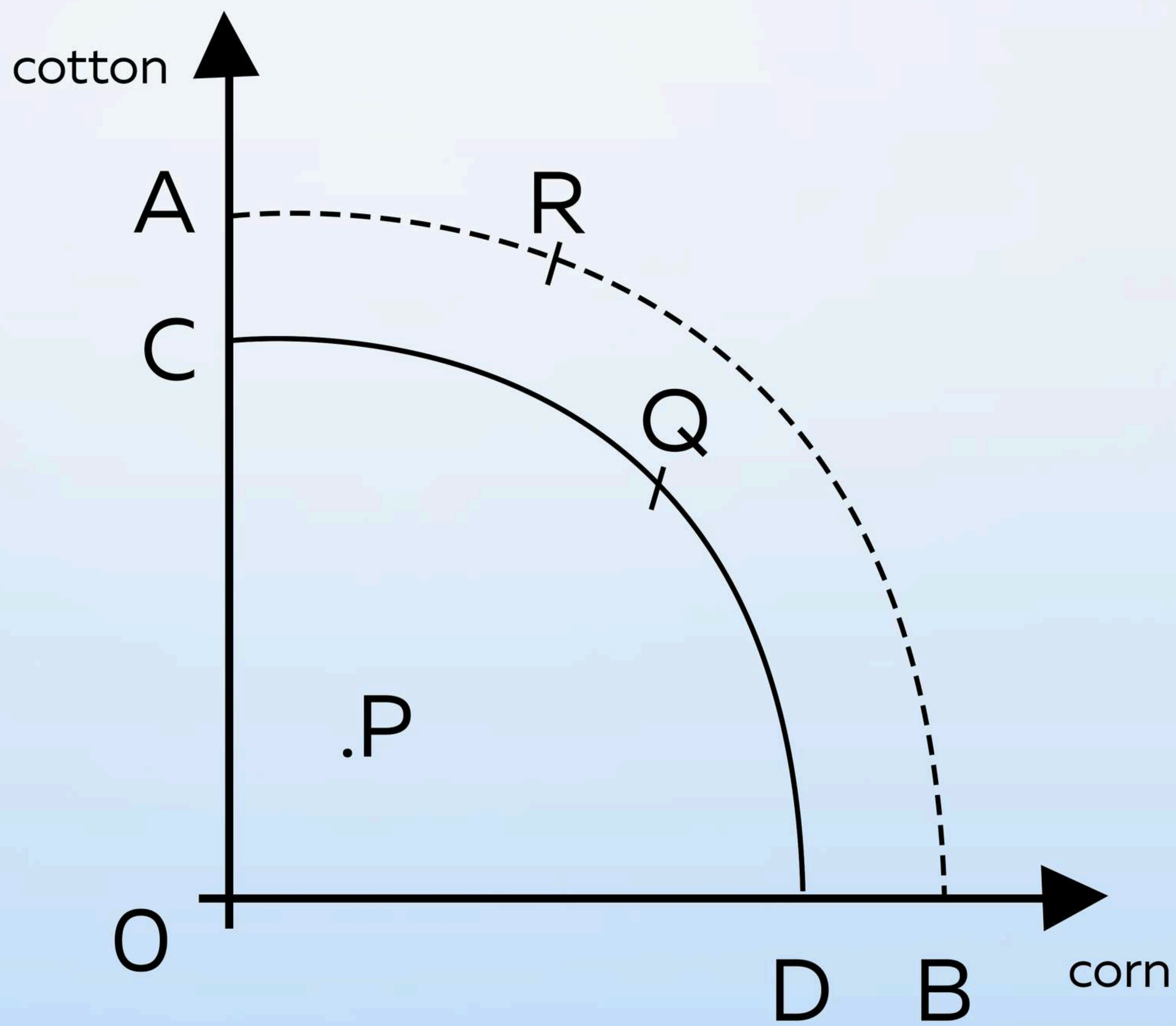
Excellency The Experience

Subject Expo

Production Possibility Curve (PPC)



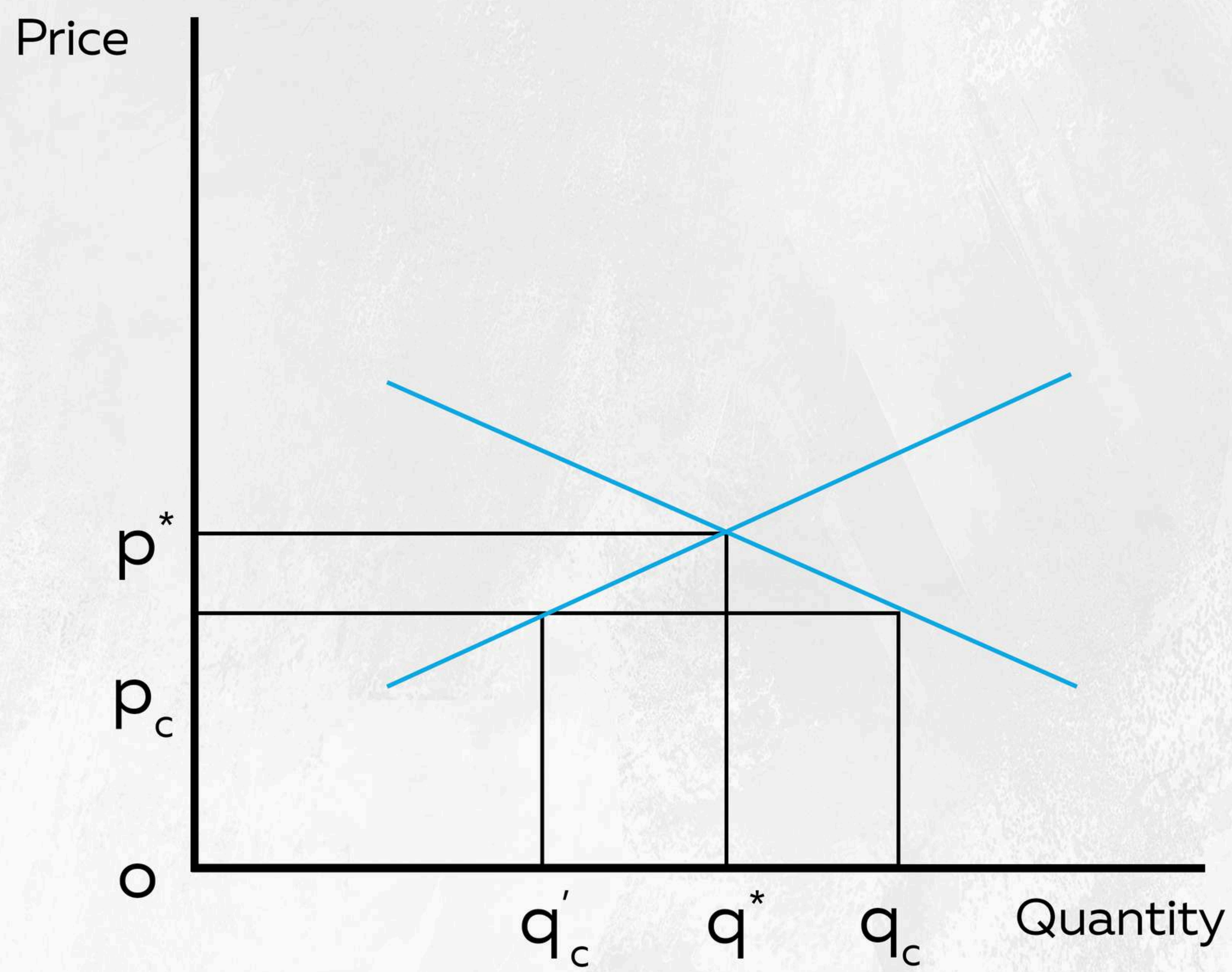
P - Under Utilisation of Resources
Q- Full Untilisation of Resources
R - Growth of Resources

PPC is the locus of combinations of twocommodities that an economy can produce with full utilisation of its resources and the state of technology

Demand for Money

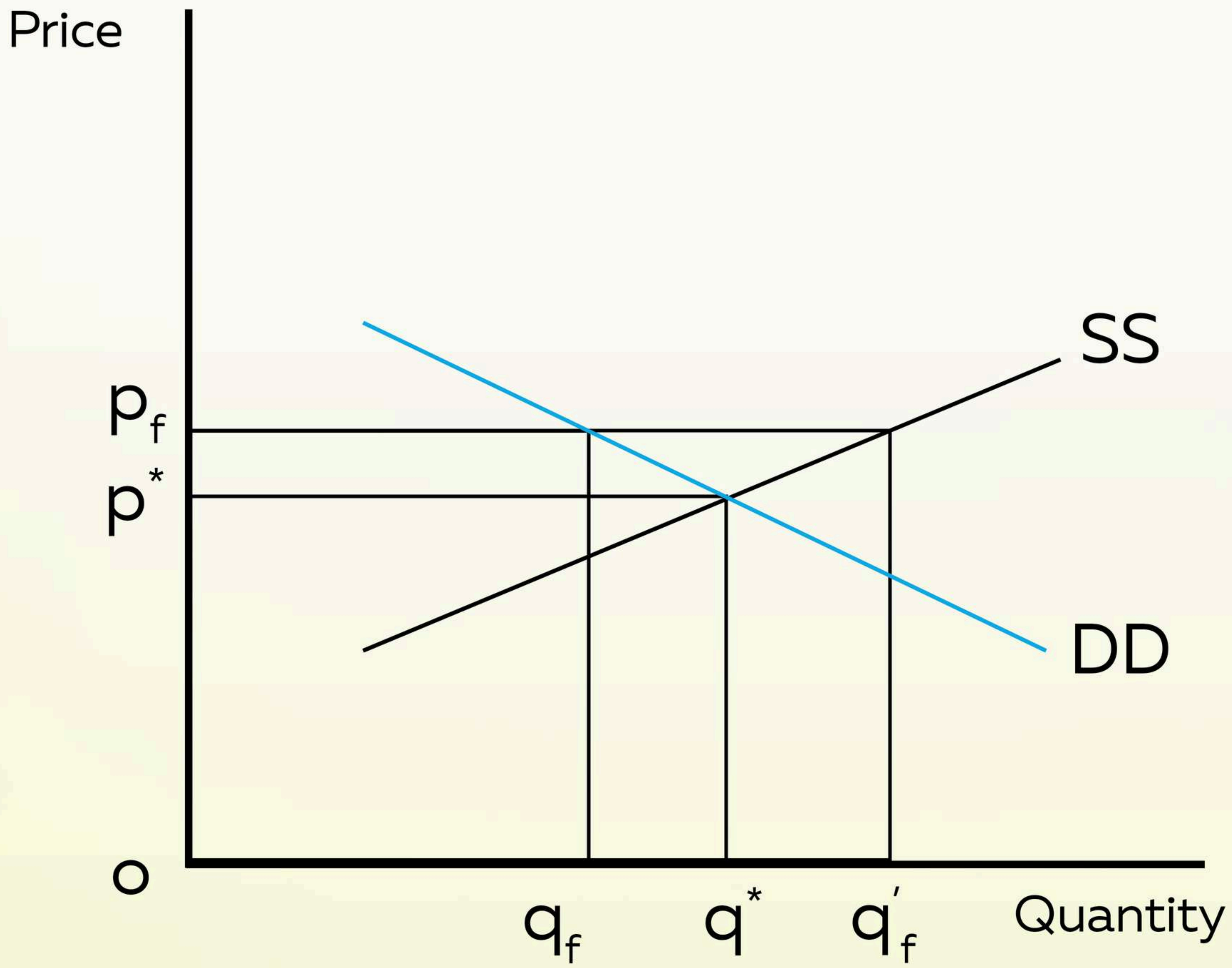
- Transaction Motive
- Speculative Motive
- Precaution Motive

Price Ceiling



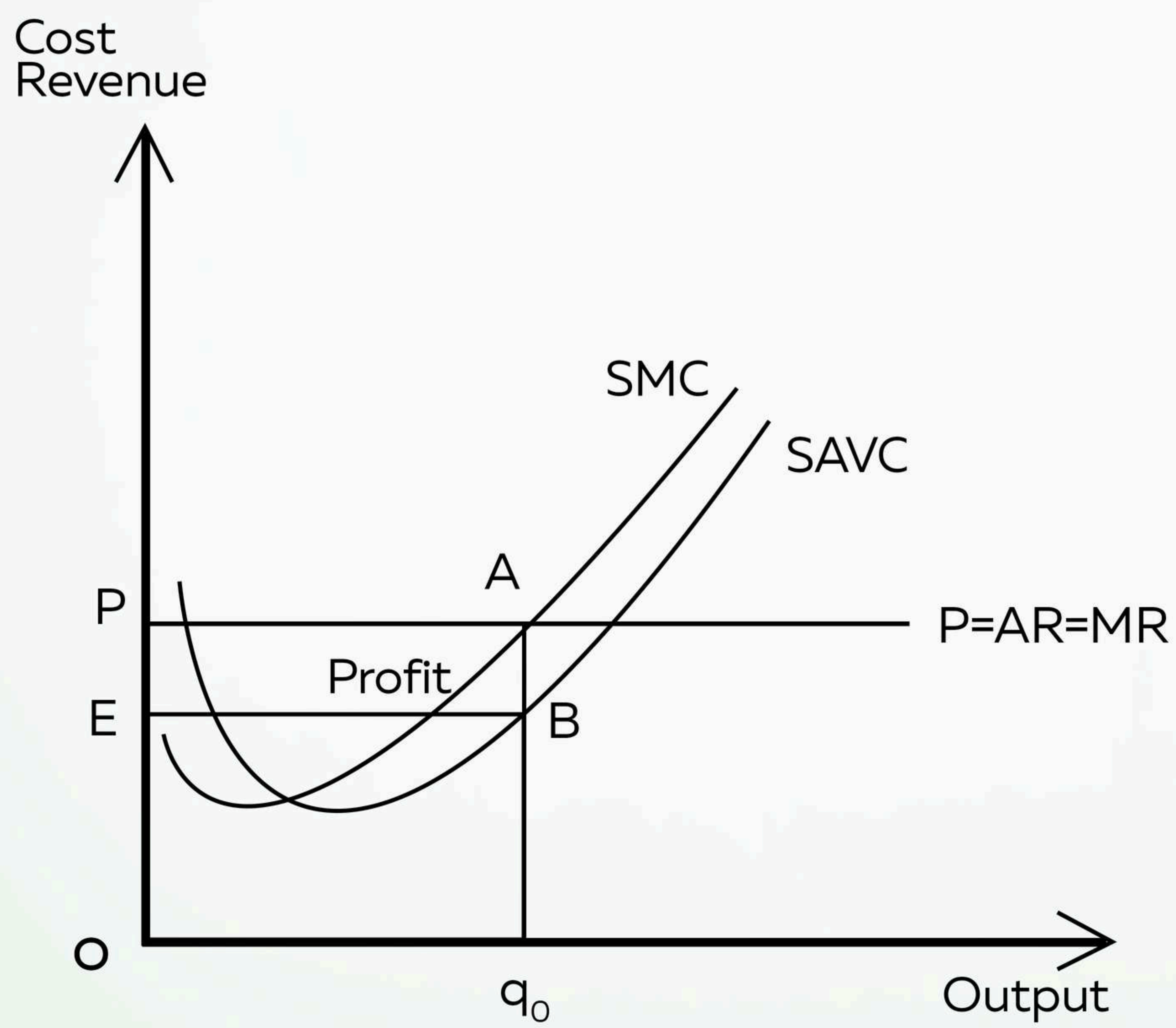
Price ceiling is the upper limit on the price of goods and services imposed by the government to protect the interest of consumers. It is generally imposed on essential goods like food grains,sugar,kerosene etc. by the government.

Price Floor



Price floor or support price is the minimum price of goods & services imposed by the government to protect the interest of producers. When market price is very low the producers suffer much loss. Then the government declares price floor. (Eg. Paddy, wheat, coconut, minimum wages for workers)

Profit Maximisation or Producers Equilibrium



A firm under perfect competition reaches maximum profit (equilibrium) when the following three conditions are satisfied.

Condition-1: The price(p) should be equal to the Marginal Cost(MC)(MC=MR=P)

Condition-2: Marginal cost should be non- decreasing or MC Curve should cut MR curve from below.

Condition-3: For the firm to continue to produce,

- in the short run, price should be greater than or equal to the average variable cost (p ≥ AVC).
- In the long run, price should be greater than or equal to the average cost (p ≥ AC).

Methods of Measurement of National Income

Product Method/ Value Added Method

Under this method National Income can be measured by adding money value of all the final goods and services produced by each firms in the economy during a financial year.

Value Added / Gross Value Added = (Value of output – Value of intermediate Consumption)

GDP = GVA1 + GVA2 + · · · + GVAN = GDP = ∑ GVAi

National Income (NNP FC) = GDP + NFIA - Depreciation - NIT

Income Method

Under this method NI is calculated by adding all the factor income received by owners of factors of production.

GDP = Wage + Rent + Interest + Profit

National Income (NNP FC) = GDP + NFIA - Depreciation - NIT

Expenditure Method

Under this method GDP is calculated by adding the final expenditures received by all the firms in the economy.

GDP = C + I + G + X - M

National Income (NNP FC) = GDP + NFIA - Depreciation - NIT

Properties of Indifference Curve

Indifference curve slopes downwards from left to right

Higher indifference curve gives greater level of utility

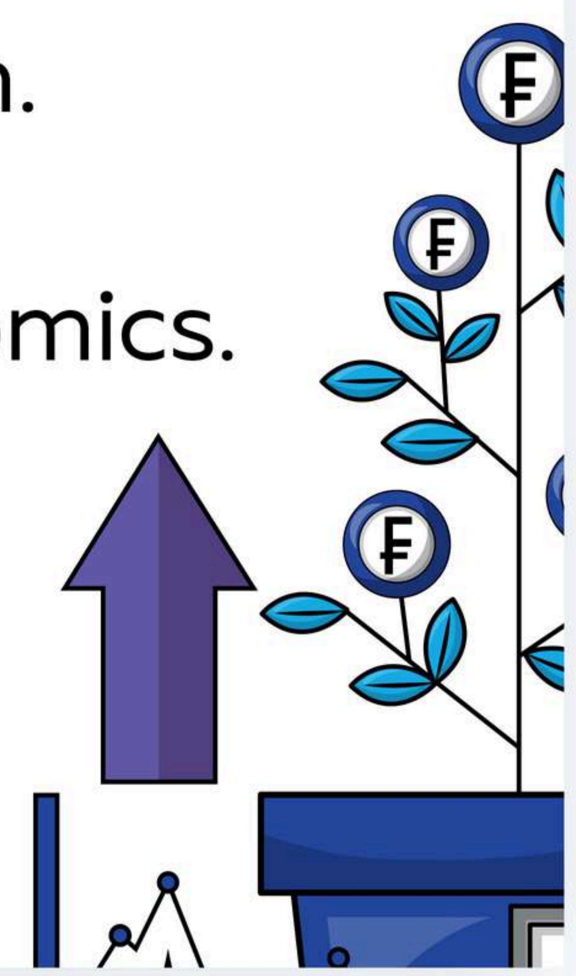
Two indifference curves never intersect each other

Indifference curve is convex to origin

Distinguish Between Micro Economics & Macro Economics

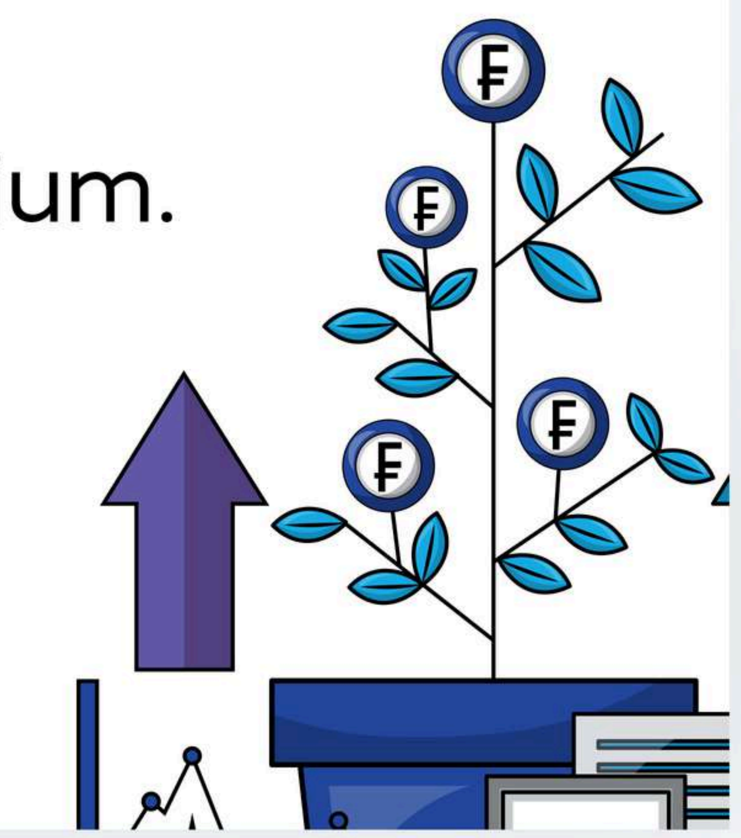
Micro Economics

- Study of Individual Units.
- Income of an Individual, Supply, Demand.
- Price Theory.
- Partial Equilibrium.
- Alfred Marshal.
- Principle of Economics.
- Worms Eye View.

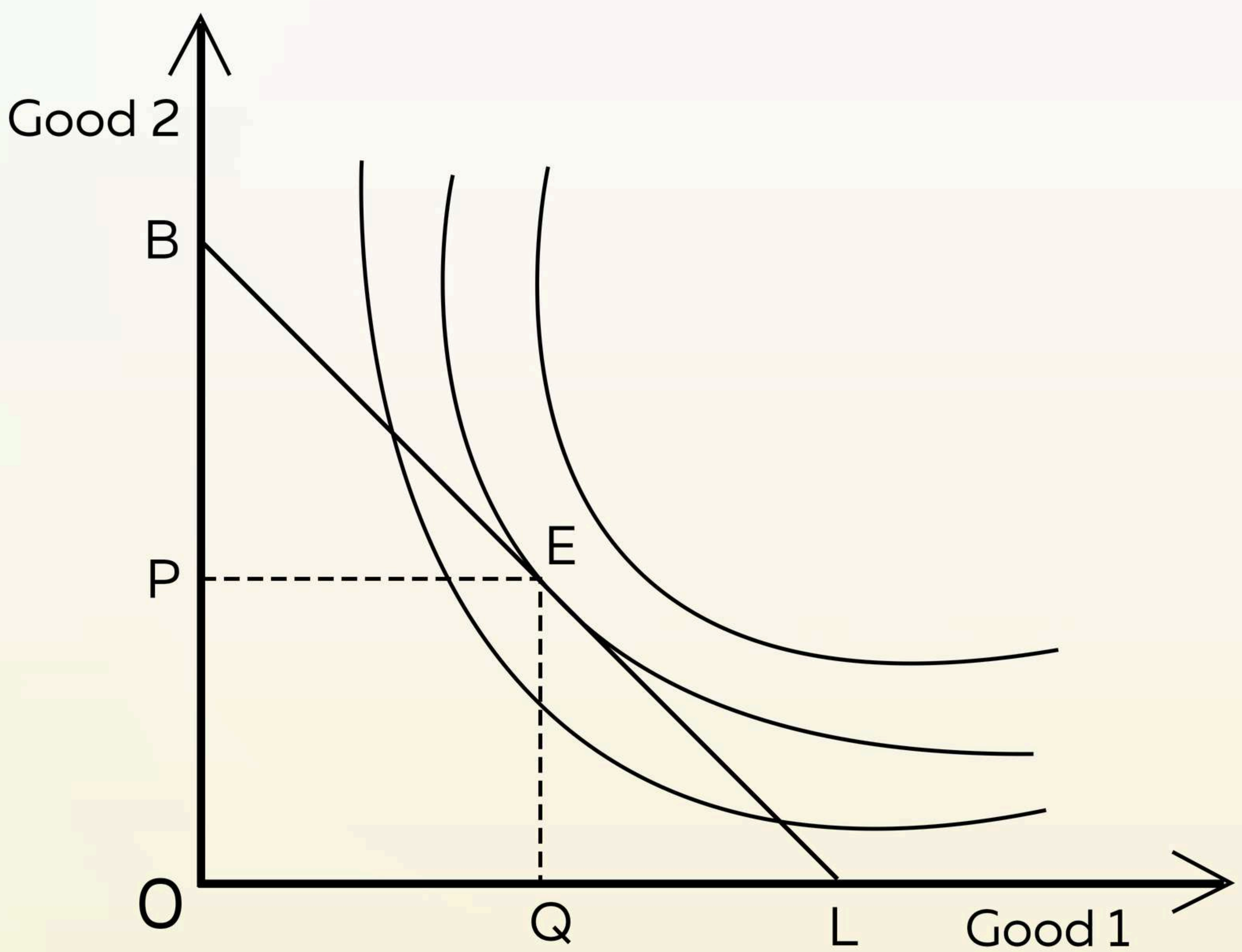


Macro Economics

- Study of an Economy as a Whole.
- National Income, Aggregate Demand, Aggregate Supply.
- Income Theory or Output Theory.
- General Equilibrium.
- J M Keynes.
- General Theory.
- Birds Eye View.



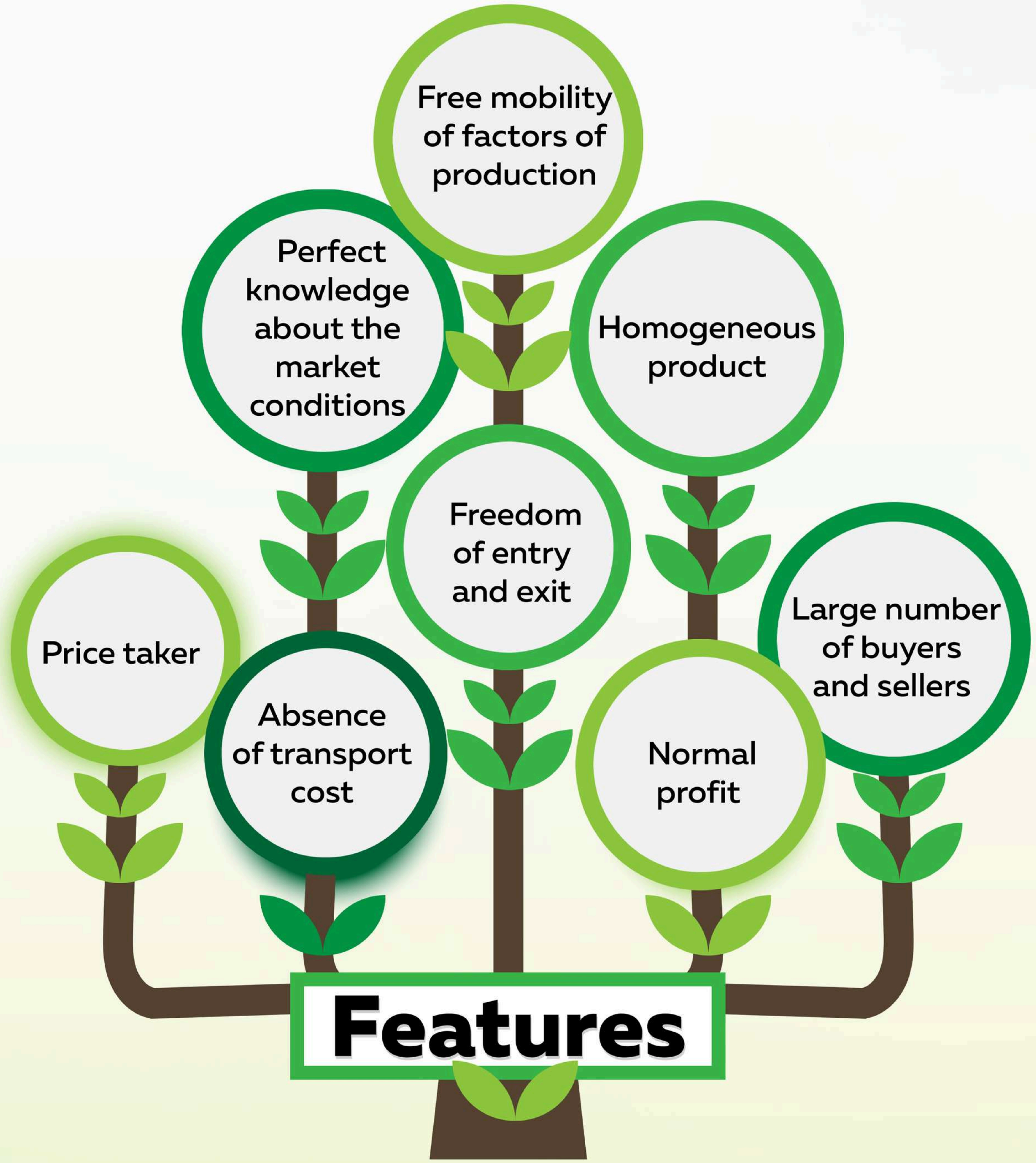
Consumers Equilibrium or Consumers Optimum



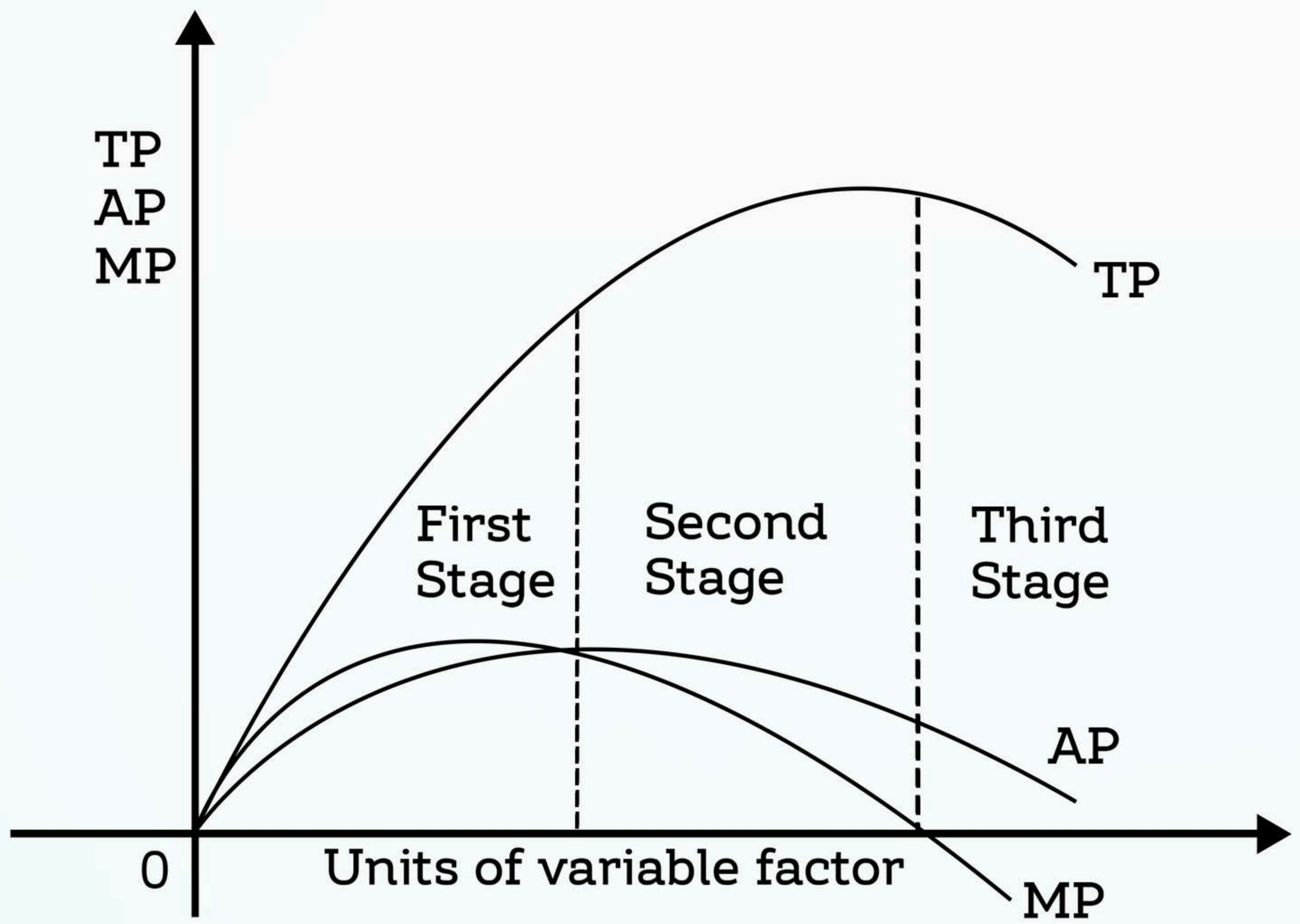
- The optimal choice of the consumer means consumer's equilibrium.
- A consumer will be in equilibrium at the point where his budget line is tangent to the highest indifference curve.
- At this point the slope of indifference curve (MRS) is equal to the Slope of the budget line

Slope of budget line = Slope of IC

Perfect Competition



Law of variable proportion



1- Stage of increasing returns:

In this stage MP increases. Therefore TP increases at an increasing rate. This is a stage of increasing returs.

2- Stage of diminishing returns:

In the second stage TP increases at a decreasing rate. Here MP falls but remains positive. It shows diminishing returns to a factor.

3- Stage of negative returns:

When MP is zero TP is maximum. When MP turns negative, TP declines. Thus this is the stage of negative returns.