

The LNM Institute of Information Technology (Deemed University)
Mid Semester Exam (2016-2017 I): Introduction to Economics

Roll No. ----- **Date – 19/09/2016** **Max. Marks – 40** **Time – 90 Minutes**

Instructions –

Attempt the paper in sequence and answer new section/sub-section of Part-I on a new page. No partial credits. Marks will be deducted for rewriting or change of response in the answers. Figures to the right indicate full marks.

PART – I (16)

I. Indicate True or False (write in capital letters): **(1x7=7)**

1. A change in demand is said to take place when there is a shift of the demand curve.
2. If a product is a Veblen good, demand will be directly related to price.
3. The birth of economics as an intellectual discipline can be dated fairly precisely in the eighteenth century with the publication of *The Wealth of Nations*.
4. An industry is the aggregate of firms.
5. The determination of price in individual markets is primarily a concern of Microeconomics.
6. The statement "An increase in the price of petrol will cause a reduction in the amount purchased" is a normative statement.
7. There is a complete government control in a mixed economy.

II. Select any one answer from the following (write in capital letters): **(1x9=9)**

1. If the demand for A is more inelastic than the demand for B, the graph of the demand for A would be drawn _____
A) Steeper B) Flatter C) Parallel to X-axis D) Parallel to Y-axis
2. A consumer is in equilibrium and is spending income in such a way that the marginal utility of product X is 40 units and Y is 16 units. The unit price of X is \$5. The price of Y is:
A) \$1 per unit B) \$2 per unit C) \$3 per unit D) \$4 per unit
3. Rational choice or rational decision-making involves:
A) Comparing the net benefit of a choice with the total net benefit foregone of all the alternatives combined
B) Weighing up total costs and total benefits associated with a decision
C) Weighing up marginal costs and marginal benefits associated with a decision
D) All of the above
4. Children who refuse to eat sprouts at breakfast are making the statement that the marginal utility of sprouts is:
A) Zero B) Negative C) Positive, but decreasing D) Less than the total utility

Use the following TABLE to answer questions from 5-7:

The table below showing the marginal utility schedules for product X and product Y for a hypothetical consumer. The price of product X is \$4 and the price of product Y is \$2. The income of the consumer is \$20.

Product X		Product Y	
Quantity	MU _x	Quantity	MU _y
1	32	1	24
2	28	2	20
3	24	3	16
4	20	4	12
5	16	5	8

5. Refer to the above table. If the consumer can only buy product X, how much will the consumer buy and what will be the total utility?
 A) 4X and 20 B) 4X and 104 C) 5X and 16 D) 5X and 120
6. Refer to the above table. If the consumer buys both product X and product Y, how much will the consumer buy of each to maximize utility?
 A) 4X and 2Y B) 3X and 4Y C) 4X and 3Y D) 5X and 3Y
7. Refer to the above table. When the consumer purchases the utility-maximizing combination of product X and product Y, total utility will be:
 A) 72 B) 84 C) 136 D) 156
8. Consider the market for gasoline that is initially in equilibrium. Suppose that the Middle East, a major supplier of petroleum used to produce gasoline, erupts into a widespread war. At the same time suppose that the price of electric vehicles falls. Given these changes and holding everything else constant, what happens to the equilibrium price and quantity in the market for gasoline relative to the initial equilibrium price and quantity in the market?
 A) The equilibrium price may increase, decrease or remain the same while the equilibrium quantity will decrease.
 B) The equilibrium price may increase, decrease or remain the same while the equilibrium quantity will increase.
 C) The equilibrium price will increase while the equilibrium quantity may increase, decrease or remain the same.
 D) None of the above
9. Capital, as economists use the term,
 A) Is the money the firm spends to hire resources
 B) Is money the firm raises from selling stock
 C) Refers to the process by which resources are transformed into useful forms
 D) Refers to things that have already been produced that are in turn used to produce other goods and services

PART – II (6x4=24)

Instructions: Attempt the paper in the sequence and answer all its part at the same place. Give examples and draw diagrams wherever necessary. Write the paper legibly and neatly.

1. Using examples, explain the factors that determine whether the demand for a good is price-elastic or price-inelastic.

OR

Referring to the concept of cross elasticity of demand (CED) and using examples, explain with diagram the factors that cause CED to have a positive, negative or zero value.

2. Draw and explain supply curve for corn.

Assuming corn is a normal good, in a separate diagram show and explain what happens to the supply curve if people's incomes increase.

In another separate diagram, show and explain what happens to the supply curve if there is a drought in the corn growing areas.

3. Water can be used for a number of things such as car washing, schools, gardens, drinking, baths and toilets'. How does this comment illustrate the basic economic problem?

What are the basic economic problems related to allocation of resources?

How they are solved in different economic systems.

4. Draw and explain PPC demonstrating what a point on, inside and outside of the curve represents.

"Investment for future consumption requires sacrificing current consumption." Explain the statement by assuming points A and B on the PPC representing combinations of consumption goods (Y-axis) and capital goods (X-axis) produced in country A and country B, respectively.
