Economics - 2016

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1. a) Define Scarcity, Choice, Specialization and Exchange.

Answer:

Scarcity: Scarcity means that the demand for a good or service is greater than the availibility of the good or service. Scarcity is one of the key concepts of economics.

Choice: Choice refers to ability of a consumer or producer to decide which good, service or resource to purchase or provide from a range of possible options.

Specialization: Specialization is a process wherein a company or individual decides to focus their labour on a specific type of production and not in many types of production.

For example, if many different cell phone companies make every single part they require, it slows down their production. specialization means in our global economy we've many different companies making specific parts that are then acquired by other companies. to assemble their products like cell phones.

Exchange: Generally it means to give one good, object sought, for another. Either the trade (exchange) itself or a place where trades are made, a market or exchange.

Exchange: Economic behaviour involves the exchange of one scarce resource for another. When people engage in paid work, they exchange their scarce time, effort and skill for income, and when people make purchases they exchange their scarce income for scarce goods and services.

1.b) What are the basic problems of an economic organization?

Answer: In every economy; economic organizations; irrespective of their types, have to face and solve three basic problems. These three problems are :-

1. What commodities are produced & in what quantities.

2. How goods are produced.

3. For whom goods are produced.

Description of these problems:

1. What commodities are produced & in what quantities

A society has various needs and wants. But the resource it has is always limited. So, to produce one, it has to leave another. Also, the quantity is a matter. That is the production of a commodity may low down another product's production. So, it is a problem using the limited resources what to produce and in what quantities.

2. How goods are produced: How to produce refers to the technique that is necessary to produce the goods in the best way. The best way depends on the production cost, use of resources etc. So, the society or the economy will have to find out the best way to produce a commodity which will low down the production cost, will use less resources, electricity, man power etc.

3. For whom goods are produced: For whom to produce is a problem of distribution. No society can produce a commodity as much as its people need. So, they

will have to find ways to distribute the production. Though they can not satisfy all, but at least they will have to try to distribute. This also has to be noticed that all goods are not for all. Except the fundamental goods or necessities, other goods get targets to whom they will be distributed.

What is production possibilities frontier (PPF), explain?

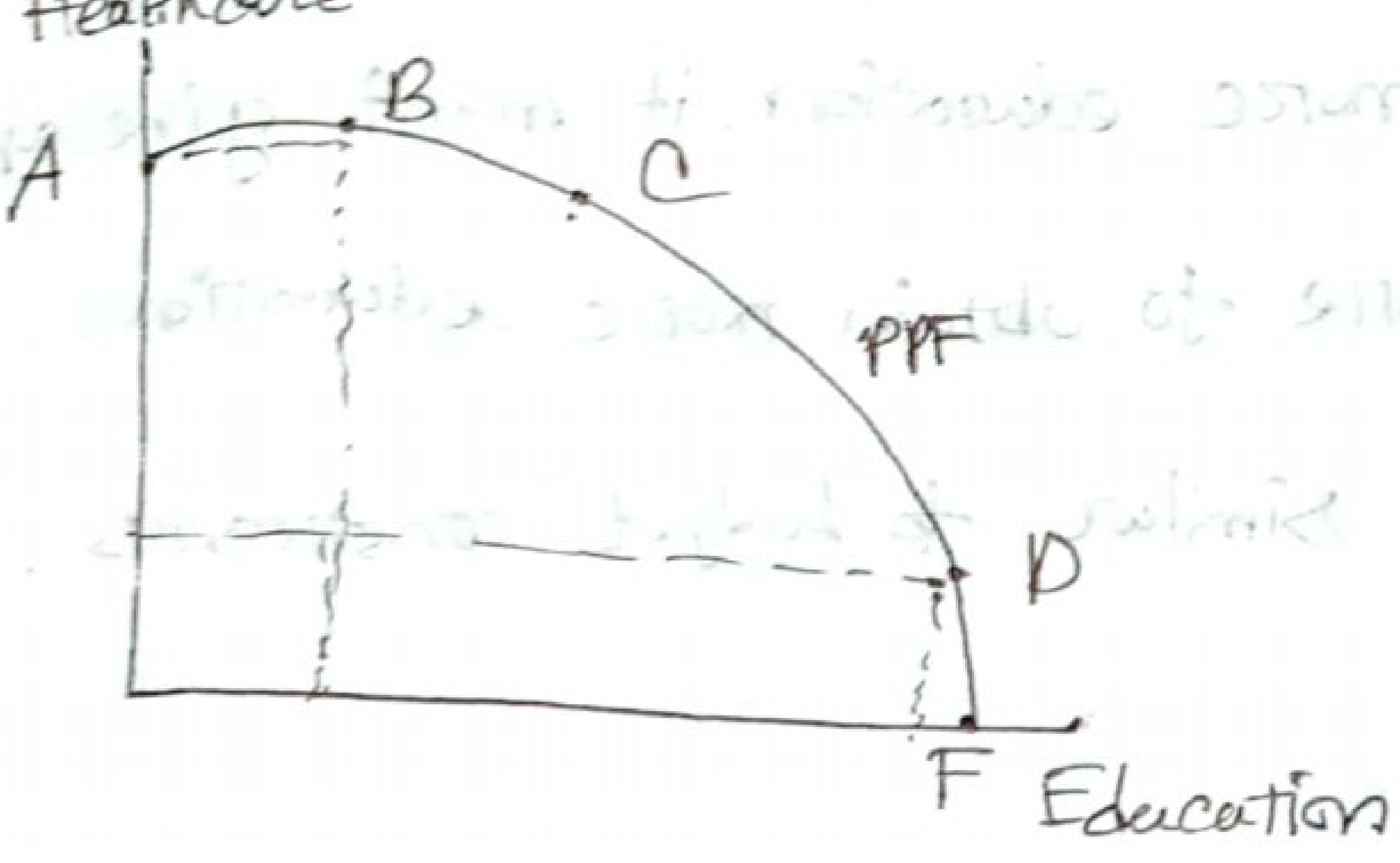
1. © The Production Possibilities Frontier (PPF) is a graph that shows all the different combinations of output of two goods that can be produced using available resources and technology. The PPF captures the concepts of scarcity, choice and tradeoffs.

Explaination:

Just as individual can not have everything they want and must instead make choices, society as a whole can not have everything it might want, either.

Because society has limited resources at any ~~of~~ point of time, there is a limit to the quantities of goods and services it can produce.

~~Suppose~~ Suppose, a society desires two products healthcare and education. This ~~sitt~~ situation is illustrated by the production possibilities frontier in this graph



In the graph healthcare is shown in vertical axis and education is shown in horizontal axis.

If the society were to allocate all of its resources to healthcare, it could produce at point A. But it would not have any resources to produce education. The society could choose to produce any combination of healthcare and education shown on the production possibilities frontier. ~~In effect, the production possibilities frontier plays~~

Most important, the PPF clearly shows the tradeoff between healthcare and education. If, the society is operating on B, and it is considering producing more education, it must give up some healthcare to obtain more education. This PPF is similar to budget constraints.

Quiestion - 2
Answer-2(a):

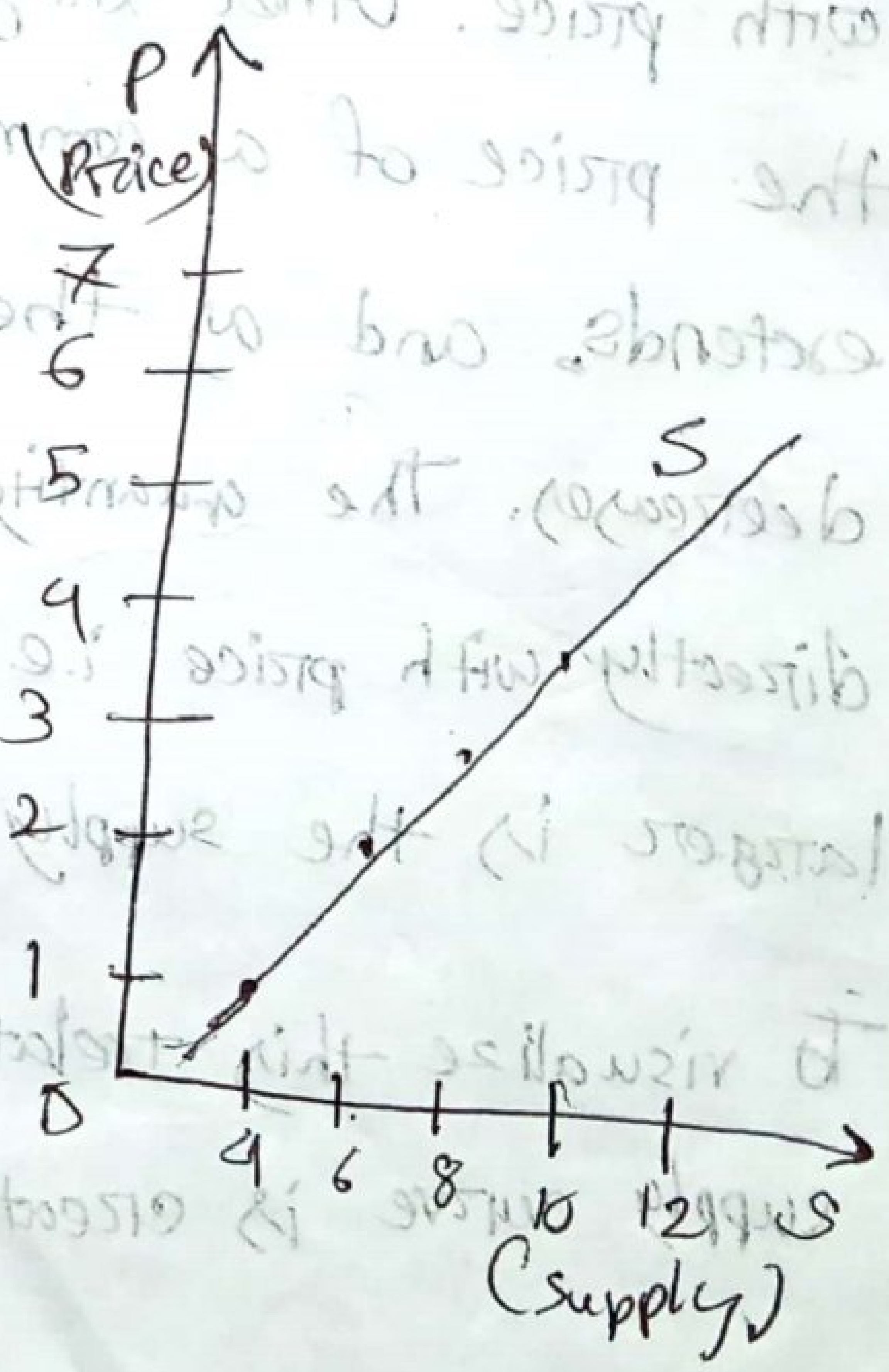
Supply: Supply means the ammount offered for a sale at a given price. It is the amount of a good that a company or an individual wish to sale at a particular price.

Law of supply: supply has a functional relationship with price. Other things remaining the same, as the price of a commodity rises its supply also extends. and as the price falls its supply also decreases. The quantity offered for sale changes directly with price i.e the higher the price, the larger is the supply and the vice versa

To visualize this relationship of supply and price - supply curve is created in respect of supply law.

It is a graphical representation of the correlation between the price of a good or service and the quantity supplied for a given period. The supply curve is created by graphing the points from a supply schedule and then connecting them. Now, we can consider a supply schedule and can draw a supply curve.

Price per production (TK) (P)	Quantity of demand (S)
5	12
4	10
3	8
2	6
1	4



2) b) What is equilibrium price? Explain market equilibrium with numerical example.

Answer: The equilibrium price in any market is the price at which quantity demanded equals quantity supplied.

Market equilibrium: A market is in equilibrium if at the market price the quantity demanded is equal to the quantity supplied. If we know the demand and supply in a particular market, we can easily find the market equilibrium by looking for the price at which the quantity demanded is equal to the quantity supplied. For example, let, in a market for pencils the market demand is given by the linear demand function $q_D = 10 - p$ and the market supply is equal to $q_S = 2p - 2$.

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~~and when people make purchase~~

In equilibrium,

$$10-P=2P-2$$

$$\Rightarrow 10+2=3P$$

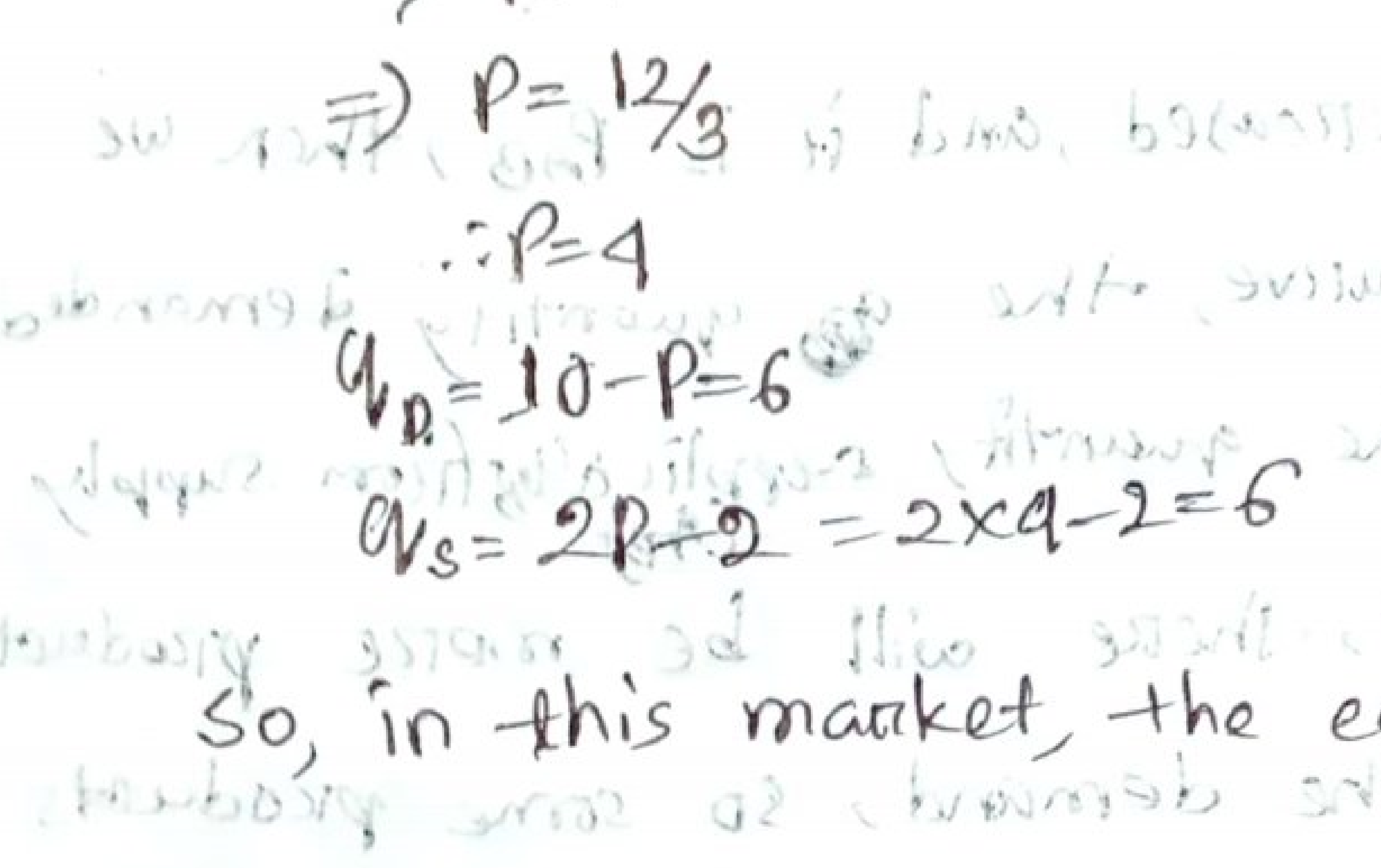
$$\Rightarrow P=12/3$$

$$\therefore P=4$$

$$q_D=10-P=6$$

$$q_S=2P-2=2\times4-2=6$$

So, in this market, the equilibrium price is 4, because at this price $q_D=q_S=6$, which means quantity demanded is equal to quantity supplied.



If we represent the equations in a graph as above, where on the X-axis we've quantity, on Y axis we have price. The upward line is the supply curve and the downward line is the demand curve

We see, both the lines intersect on point E, which is our equilibrium point, where price = 4 unit and quantity demand = quantity supplied = 6 unit.

If the price is increased, and it is P_{AB}, then we see from demand curve, the quantity demanded (q_A) is less then the quantity supplied (q_B) from supply curve. As a result, there will be more products in market then the demand, so some products will remain unsold and it will cause loss to the sellers or producers. This situation is in imbalance.

On the contrary if price is decreased to P_{CD}, then the quantity supplied q_C is less than quantity demanded q_D. As a result, many customers may not get the chance to fulfil their demand. This is another imbalance.

Now, again if we come to point E, here the price is such that, the quantity demanded equal to supply. So, both the producers, sellers and consumers are benefited and the market is in balanced situation.

2.c) Why does supply curve slope upward to the right?

Answer: The supply curve has a upword slopping sloping because of the law of supply which states that other things remaining same as the price of the commodity increases quantity supplied increases as the price of the commodity falls quantity supplied falls.

This is a common pheromena, when price of a commodity increases, in order to gain more profit supplier, ~~sel~~ sell more quantity of the product.

3. a) What is price elasticity of demand? Explain the various types of price elasticity of demand.

Price elasticity of demand: The price elasticity of demand is the ~~perta~~ percentage change in quantity demanded divided by the percentage change in price that brought it about. So, we get-

The price elasticity of demand

$$E_p = \frac{\text{Relative change in demand}}{\text{Relative change in price}}$$

$$E_p = \frac{\Delta Q}{\Delta P} \cdot \frac{P}{Q}$$

if $\Delta \to 0$, $E_p = \frac{dQ}{dP} \cdot \frac{P}{Q}$

ΔQ = change in demand
ΔP = change in Price
Q = Primary quantity of demand
P = Primary Price

Types of price elasticity of demand

1) Perfectly elastic demand
2) Perfectly inelastic demand.
3) Relatively elastic demand
4) Relatively inelastic demand
5) Unitary elastic demand

Explaination:

1) Perfectly elastic demand: Perfectly elastic demand is when the price is constant but there is change in demand. OR it can be said that a small change in price causes a major change in demand. Thus the demand curve is parallel to X-axis.

Here, $E_p = \infty$

2. Perfectly Inelastic Demand: Perfectly inelastic demand is when the demand is constant or there is no change in the demand of a commodity even if the price changes i.e. increases or decreases.

Thus, the demand curve is parallel to Y-axis. Demand for salt is an example of perfectly inelastic demand.

Here, $E_p = 0$

3. Relatively elastic demand: Relatively elastic demand is when the proportionate change in demand is more than the proportionate change in the price.

In other words, this means that a little change in the price shall cause more change in demand. Thus the demand curve slopes downward from left to right. An example of this is luxury goods.

Here, $E_p > 1$.

4. Relatively inelastic demand: Here, more change in price shall cause less change in demand. Thus the demand curve slopes downward from left to right but is steeper. An example of this is necessary goods. Here, $E_p < 1$

5. Unitary elastic demand: Unitary elastic demand is when the proportionate change in demand is equal to the proportionate change in price.

In other words, it means that the change in demand is same as the change in price it may increase or decrease.

Thus, the demand curve slopes downward from left to right but it is a rectangular hyperbola. An example of this is comfort goods.

Here, $Ep = 1$

6.b) The 'Nobarron ~~Com~~ Corporation' is a publisher of romance novels. The corporation hires an economist to determine the demand for its novel. After months of hardwork the economist informed the corporation that the demand for the firm's novel (Q_x) is given by the equation $Q_x = 12{,}000 - 5{,}000P_x + 5I + 500P_c$. Assume that the initial values of P_x, I and P_c are \$5, \$10,000 and \$6 respectively. Using the above information, the company's manager wants to -

i) Determine what effect a price increase would have on total revenues.

ii) Evaluate how sale of the novel would change during a period of rising incomes.

iii) Assess the probable impact if competing publishers would raise their prices.

i) Determine what effect a price increase would have on total revenues.

Answer: From the ~~descrip~~ question we get that,

$Q_x = 12{,}000 - 5{,}000P_x + 5I + 500P_c$

Q_x = demand of novels
P_x = price of novel
I = income
P_c = price of competitive ~~companies or~~ Company's novels

Here, the initial values were,

$P_x = \$5$, $I = \$10{,}000$, $P_c = \$6$

$Q_x = 12{,}000 - 5000 \times 5 + 5 \times 10{,}000 + 500 \times 6$
$= 40{,}000$

So, demand is 40,000 pieces and initial price is \$5, so initially total revenues is $\$5 \times 40{,}000$
$= \$200{,}000$

If the price of the novel gets increased — for example, ~~pri~~ $P_x = \$6$, then demand gets decreased ~~total revenue will be~~

$Q_x = 12{,}000 - 5000 \times 6 + 5 \times 10{,}000 + 500 \times 6$
$= 35{,}000$

total revenue $= Q_x \times P_x = 35{,}000 \times \$6 = \$180{,}000$

So, we can see, increase in price decreases the demand as well as decreases total revenue. ~~Fur~~ Any more increase in price, will decrease total revenue more and more

ii) Evaluate how sale of the novel would change during ~~the~~ a period of rising incomes

Answer:

From answer of (i) we get that,

Initial demand $Q_{x\,(initial)} = 40{,}000$ ~~pieces~~.

As, $Q_x = 12{,}000 - 5{,}000P_x + 5I + 500P_c$

and initial income $I = \$10{,}000$, $P_x = \$5$, $P_c = \$6$

if, income increases–

Suppose, $I = \$11{,}000$

then $Q_x = 12000 - 25000 + 55{,}000 + 3000$
$= 45{,}000$

So, demand increase, so the sale increases

If, income increase continues the sale of novel would also get increased proportionally.

(iii) Assess the probable impact if competing publishers would raise their prices.

Answer: We get,

$Q_x = 12{,}000 - 5000P_x + 5I + 500P_c$ ... (1)

initially, $P_x = \$5$, $I = \$10{,}000$, $P_c = \$6$

So, $Q_x = 40{,}000$

Now, ~~Pc~~ if competing publishers ~~wo~~ rises their prices P_c

then we see from eqn(1), Q_x increases.

for example if $P_c = \$7$, then

$Q_x = 12{,}000 - 25{,}000 + 50{,}000 + 3{,}500$

$Q_x = 40{,}500$

so, the demand for 'Nobaron Corporation' novel gets increased.

It is obvious that, if ~~competing~~ the price of substitute or competing books get increased, people would be more interested in books of same catagory with cheaper prices. So, if other competing companies increase their novel prices, then the demand for 'Nobaron corporation would get higher.

Q.c) What is meant by income elasticity of demand?

Answer: The responsiveness ~~for~~ of a demand for a commodity to change in income is termed income elasticity of demand.

So, the income elasticity of demand

$$= \frac{\text{Relative change in demand}}{\text{Relative change in income}}$$

$$\therefore E_Y = \frac{\Delta Q}{\Delta Y} \cdot \frac{Y}{Q}$$

if $\Delta \to 0$

$$E_Y = \frac{dQ}{dY} \cdot \frac{Y}{Q}$$

Δ = change in demand or income
Y = Primary income
Q = Primary quantity of demand

4.a) What is GDP deflator? Why do the economists prefer real GDP as a measure of Economic well-being? Explain.

Answer: The GDP deflator is a measure of price inflation. It is the ratio of the value of goods and services an economy produces in a particular year at current prices to that of prices that prevailed during the base year.

Economists track real gross domestic product (GDP) to determine the rate that an economy is growing without any of the distorting effects of inflation. The real GDP allows them to measure growth more accurately.

The total amount that the economy is producing and consuming is important to track over time. It is a key indicator of the overall health and growth of the economy, and it is used to determine economic policy going forward.

4. b) What is inflation? Explain the main causes of inflation.

Answer: Inflation means there is a sustained increase in price level. In other words, inflation is the decline of the purchasing power of a given currency over a time.

Main causes of inflation:

1. Demand-pull inflation: If the economy is at or close to full employment, then an increase in aggregate demand ~~(AD)~~ leads to an increase in the price level. As firms reach full capacity, they respond by putting up prices leading to inflation.

2. Cost-push inflation: If there is an increase in the costs of firms, then business will ~~pass~~ pass this on to consumers. Cost-push inflation can be caused by many factors- rising wages, import prices, raw material prices, profit push inflation, declining productivity, higher taxes etc, may lead to increase of the prices of commodities.

~~Besides, rising how~~

3. Money Supply: An increase in money supply is another factor of inflation. In such cases, investment and consumption expenditure increases, exerting an upward pressure on prices.

4. Inflation Expectations: Consumer's and Producer's expectations of a persistent increase in prices in the future constitute another

factor of inflation. Such expectations lead to a hike in the prices of goods and services through wage demands.

4.c) How does the effect of inflation be reduced by rising bank rate?

Answer: Inflation and interest rates are often linked, and frequently referenced in macroeconomics. Inflation refers to the rate at which prices for goods and services rise.

Interest rates or bank rates and inflation tend to be inversely correlated.

In general, as interest rates are rised, consumers tend to save as returns from savings are higher. With less disposable income being spent as a result of the increase in the interest rate, the economy slows and inflation decreases.

The opposite holds true for reducing interest rates. When interest rates are reduced, more people ~~to~~ are able to borrow more money. The result is that consumers have more money to spend, causing the economy to grow and inflation increases.

Year → 2016

Section - B

5.(a) Accounting: Accoonting is a process that involves identify, record and communication of economic event of an organization to it's requested the interested users.

Major functions of accounting:

1. To prepare finantial statements, income statements, balance sheet, owner's eauity statement and cash flow statement

2. Prepare necessary ~~to~~ notes for the user to understand finantial position of the company.

3. Help the ~~de~~ governing body of an organization to make their decision.

4. To analyze the finantial activities for development ~~of~~ in future.

5. (b) What is accounting cycle and it's steps?

Accounting Cycle: Accounting cycle is the step by step process of Identifying, record keeping and analyzing of economic event of an organization.

Steps of Accounting Cycle:

1. Collect and analyze the data (~~[illegible]~~ ইভেন্ট থেকে Transaction আলাদা করা)

2. Prepare Journal.

3. Preparation of Ledger book

4. " " Unadjusted trail balance.

5. Adjust the other data and make adjusted trail balance.

6. Creating Statements (Profit-loss, Owner's Equity, finantial Position).

7. Closing the books.

5. (c) Define Transaction. Discuss the features of ~~the~~ transaction:

Transaction: Transaction is a contract between buyers and sellers to exchange goods, services or finantial assets.

In other word, transaction is an event which can be measured by money, brings change in the finantial position of an organization and also involves exchange of goods and services.

Features of transaction:

1. Transaction must be measured by money.
2. It must bring a change in the finantial position of an organization.
3. It must involve exchange of goods or products or ~~services~~. services.

5. (d) Why Accounting is called a language of business?

It is called the language of business because it is the language that managers use to communicate ~~with~~ the firm's finantial and economic information to the external parties like stockholders and creditors. In other words it helps people both the internal and external to understand what is happening inside of a business.

Moreover, government or inspector also checks the company activity with accounting. Accounting helps the investors to make their decision abount investing. It helps the governing body to make a decision about gaining more profit. So, it is called language of business.

6. (a)

	Asset				Liabilities	Owner's Equity			
	Cash	Account Receivable	Supply	Equipment	A/C Payable	Capital	Drawing	Revenue	Expences
1.	70.000					70,000			
2.	- 9000								-9000
3.				36000	36,000				
4.	-17,000		17000						
5.	8000							8000	
6.		7000						7000	
7.	-2500								-2500
8.	2000	-2000							
9.	-18,000				-18,000				
	-4000						-4000		
	29500	5000	17000	36000	18000	70,000	-4000	15000	-11500
	87500					87500			

~~(b)~~

6 (b)

X & CO.

Journal Book

Date	Particulars	Ref.	Debit	Credit
1.	Cash		150,000	
	Capital			150,000
	Invested cash in business			
2.	Equipment		50,000	
	Cash			20,000
	A/C Payable			30,000
	Bought equipment in cash and A/C payable			
3.	Supply		75,000	
	Cash			75,000
	Purchased supply			
4.	Cash		26,000	
	A/C Receivable		37,000	
	Revenue			63,000
	Performed services for cash and on account.			
5.	Expense		15,000	
	Cash			15,000
	Made a payment ~~on~~ through cash			
6.	Drawings		20,000	
	cash			20,000
	with draw cash for personal use			

7.	Rent Expense		6500	
	Cash			6500
	Paid rent for January			
8.	Cash		4500	
	A/C receivable			4500
	collected cash from customers			
9.	Salary Exp.		39,000	
	Cash			39,000
	Paid salary			
10.	Utilities Exp		5000	
	A/C Payable			5000
		Total	428000	428000

7. (a)

Dhanmondi Golf and Driving Range
Ledger Book

Cash (Ref 1)

Debit				Credit			
Date	Particulars	Ref	Amount	Date	Particulars	Ref	Amount
1.	Capital	2	20,00,000	4.	Advertizement Exp.	3	8000
18.	Revenue	6	20,000	20	Salary Exp	7	12,000
				~~8.~~	~~Balance c/d~~		~~20,00,000~~
			~~22,00,00~~ 20,20000				~~22,00,000~~ ~~20,20,000~~
				5.	Prepaid insurance	8	14,000
31.	Balance b/d		~~20,00,000~~ 1986000	31.	Balance c/d		1986000
							2020000

Owner's Capital (Ref 2)

Debit				Credit			
Date	Particulars	Ref	Amount	Date	Particulars	Ref	Amount
31.	Balance c/d		20,00,000	1.	Cash	1	20,00,000
				31.	Balance b/d		20,00,000

Advertisement Expense (Ref 3)

Debit				Credit			
Date	Particulars	Ref	Amount	Date	Particulars	Ref	Amount
4.	Cash	1	8000	31.	Balance c/d		8000
			8000				8000
31.	Balance b/d		8000				

Equipment (Ref 4)

Debit				Credit			
Date	Particulars	Ref	Amount	Date	Particulars	Ref	Amount
10	A/C payable	5	12000	31.	Balance c/d		12,000
			12000				12000
31.	Balance b/d		12000				

A/C Payable (Ref 5)

Debit				Credit			
Date	Particulars	Ref	Amount	Date	Particulars	Ref	Amount
31.	Balance c/d		12,000	10.	Equipment	4	12,000
			12,000				12,000
				31.	Balance b/d		12,000

Revenue (Ref 6)

Debit				Credit			
Date	Particulars	Ref.	Amount	Date	Particulars	Ref	Amount
31.	Balance c/d		20,000	18.	Cash		20,000
			20,000				20,000
				31.	Balance b/d		20,000

Salary Expense (Ref 7)

Debit				Credit			
Date	Particulars	Ref	Amount	Date	Particulars	Ref	Amount
20.	Cash		~~20,000~~ 12,000	31.	Balance c/d		12,000
			12000				12000
31.	Balance b/d		12000				

Pre Paid Insurance (Ref 8)

Debit				Credit			
Date	Particulars	Ref	Amount	Date	Particulars	Ref	Amount
5.	cash		14,000		Balance c/d		14,000
			14,000				14,000
	Balance b/d		14,000				

7. (b) what are the perposes served by ledger account?

Ledger is important to monitor and control a business's finantial operations. The Legder books stores data and organizes information that are required to preparce statements of different kind.

As all the data are in syncronized way, the accountant can detetect all the transaction ~~among~~ that are inside.

and outside of normal operation. Ledger book is also used by the auditors wheather the ~~auditors~~ business has classified all it's income or not. It ~~also~~ is also required to prepare budget and make the decision about company expansion. ~~Anthoareniona~~

If there is an error, the manager checks the ledger book to find the error.

So it is very useful to everyone.

8. (a) এইটার Answer ~~Adjusted trial balance~~ (লেখা না । বুঝার জন্য লিখা)

Other data:

① Supply At hand 750 TK

মোট supply = 1250

∴ Supply exp = 1250 − 750 = 500 TK.

② Depriciation 500 TK.

	dr	cr
Depriciation	500X2	
Accumulated Depriciation		500X2=1000

③ Insurance expired 250 per month

Insuranee exp 250X12 = 3000

Remaining insurance 4400 − 3000 = 1400.

④ Service provided but unbilled

A/c Receivable

Revenue

8. (a)

Amzad Service Company

Statement of Comprehensive income

For the year ended on June 30, 2016

Details	Amount	Amount
~~Service Revenue~~	~~17620~~	
Service Revenue 17620 + 950	18570	
Gross Profit		18570
Operating, Selling and Administrative Expense		
Salary Exp	2200	
Travel Exp	2000	
Rent Exp	2200	
Supply Exp	500	
Depriciation	1000	
Insurance Exp	3000	
Miscellineous Exp	300	11200
Total Exp		~~[illegible]~~
Net Profit		7370 ~~[illegible]~~

Amzad Service Company

statement of ~~Profit loss~~ Owner's Equity

for the Year Ended on June 30 2016

Particulars	Amount	Amount
Capital	28,000	
less drawings	1600	26400
Add Net Profit	~~[illegible]~~	7370
Owner's Equity	~~[illegible]~~	33770

Amzad Service Company
Statement of Finantial Position
For the year Ended on June 30, 2016

Particulars	Amount	Amount
Assets:		
Cash	14,400	
A/C Receivable 7620 + 950	8570	
Supplies 1250 − 500	~~1250~~ 750	
Prepaid insurance 4400 − 3000	1400	
Equipment	38,000	
Total Asset		63120
Liabilities and Owners Equity:		
Accomulated Depriciation	1000	
Notes Payable	14000	
Account Payable	14 350	
Total Liabilities		29350
Owner's equity		33770
		63120