Premier University Chittagong

Course Title : Basic Economics

Course Code : ECO 201

Department : Computer Science and Engineering

Assignment No : 02

Assignment Name : Answers of the questions

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Question 1 (a) : What is economics? Explain the subjective matters of Economics.

Answer :

Economics : In this most simple and concise definition economics is the study of how society uses its limited resources. Economics is a social science that deals with the production, distribution and consumption of goods and services.

The subjective matters of economics : The subjective matter of economics is concerned with wants, efforts and satisfactions. In other words, it deals with decisions regarding the commodities and services to be produced in the economy, how to produce then most economically and how to provide for the growth of the economy.

Question 1 (b) : Describe the characteristics of the underdeveloped, developing and developed economic.

Answer :

Characteristics of underdeveloped economy: However, there is a set of common characteristics of underdeveloped economies such as low per capita income, low levels of living, high rate of population growth, illiteracy, technical backwardness, capital deficiency, dependence on backward agriculture, high level of unemployment, unfavorable institutions and so on.

Characteristics of developing economics: Low per capita real income is one of the most defining characteristics of developing economies. They suffer from low per capita real income level, which results in low saving and investments. It means the average person doesn’t earn enough money to invest or save money.

Characteristics of developed economy : A developed economy (country) is on economy with a high level of economic activity characterized by high per capita income or per capita gross domestic product (GDP) , high level of industrialization, developed infrastructure, technological advancement, a relatively high rank in human development, health and education.

Question 2 (a) : What is opportunity cost? Graphically explain the production possibility curve (PPC).

Answer:

Opportunity Cost : Opportunity cost is the return of a foregone option less than the return on your chosen option. Considering opportunity costs can guide you to more profitable decision-making you must assess the relative risk of each option in addition to its potential returns.

Graphically explanation of product possibilities curve : The production possibilities curve (PPC) is a graph that shows all of the different combinations of output that can be produced by given current resources and technology. Sometimes called the production possibilities frontier, the PPC illustrates scarcity and tradeoffs.

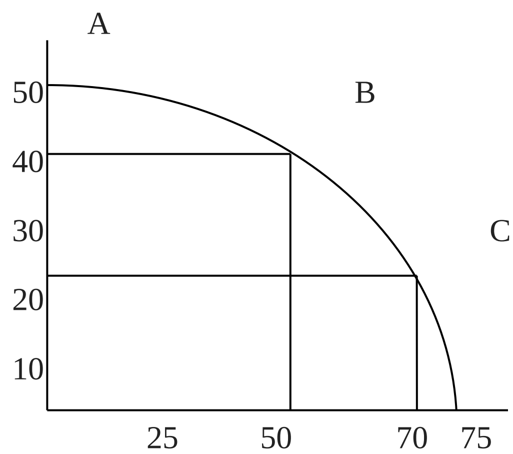

Fig 2.1 : Production possibilities curve

Question 2(b) : State difference between need and wants with example.

Answer :

In economics need is something needed to survive while a want is something that people desire to have , that they may , or may not be able to effort.

Example: Rice is needy food for human, gold is not needy, If any human desire to have it, then its called want.

If I want something to survive then its called need, if I will to have something extra or luxurious, then its called want.

Question 3(a) : Define price elasticity, income elasticity, cross elasticity and arc elasticity.

Answer :

Price elasticity : Price elasticity is a discussion of price sensitivity.

Income elasticity : Income elasticity of demand refers to the sensitivity of the quantity demanded for a certain good to a change in real income of consumers who buy this good, keeping all other things constant.

Cross Elasticity : The cross elasticity of demand is an economic concept that measures the responsiveness in the quantity demanded of one good when the price for another good changes.

Arc Elasticity : Arc elasticity is the elasticity of one variable with respect to another between two given points. It is used when there is no general function to define the relationship between the two variables.

Question no : 3 (b) Explain the five types of elasticity on linear demand curve.

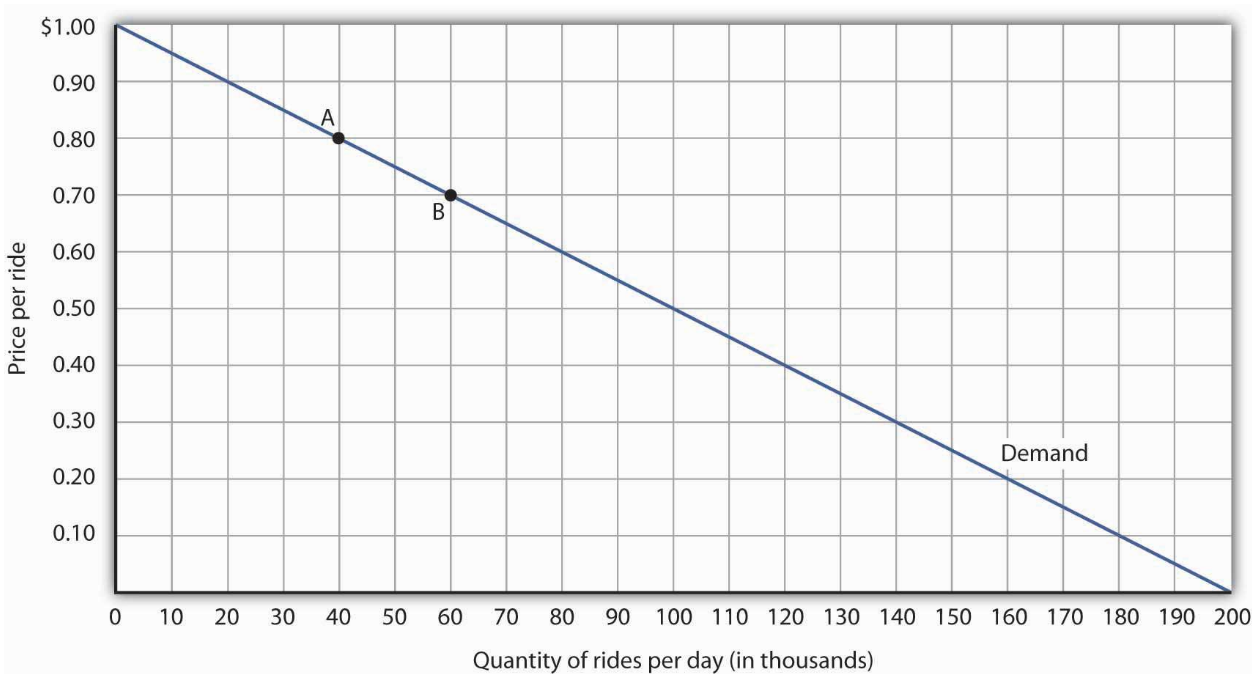

Fig 3.1 : Price Elasticity

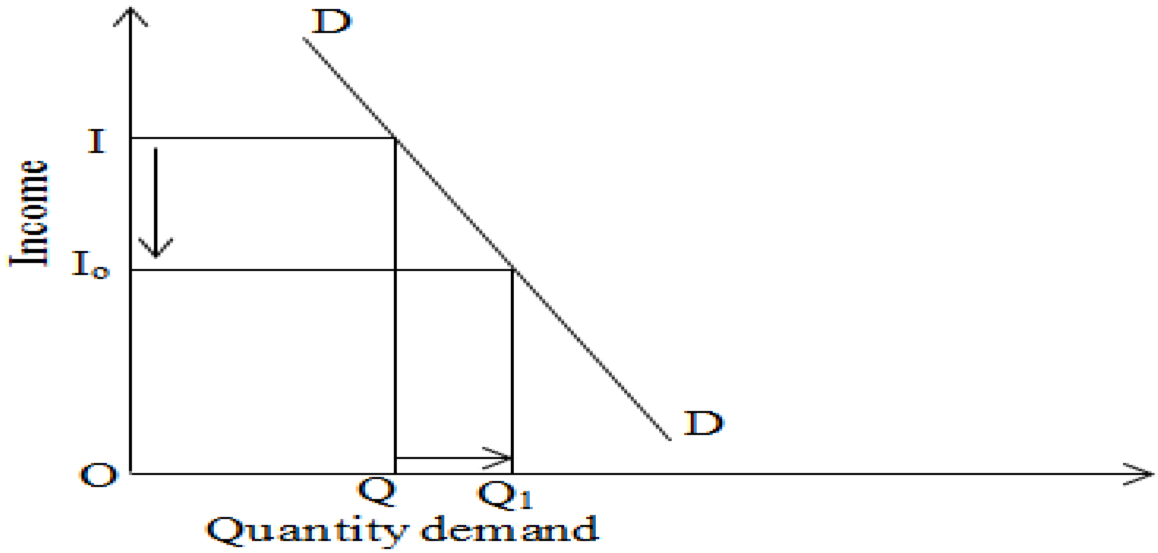

Fig 3.2 : Income Elasticity

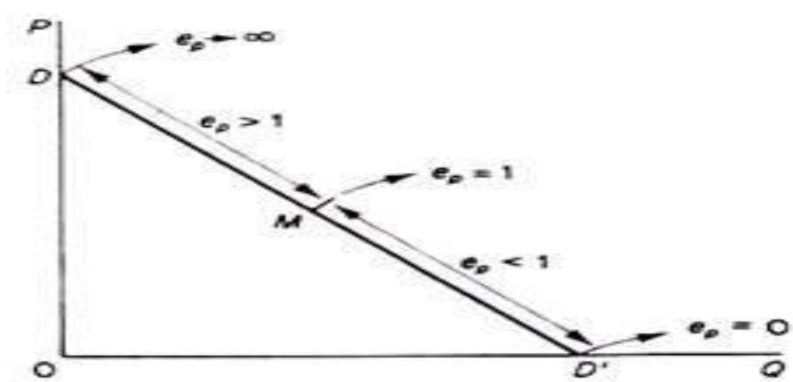

Fig 3.3 : Cross-price Elasticity

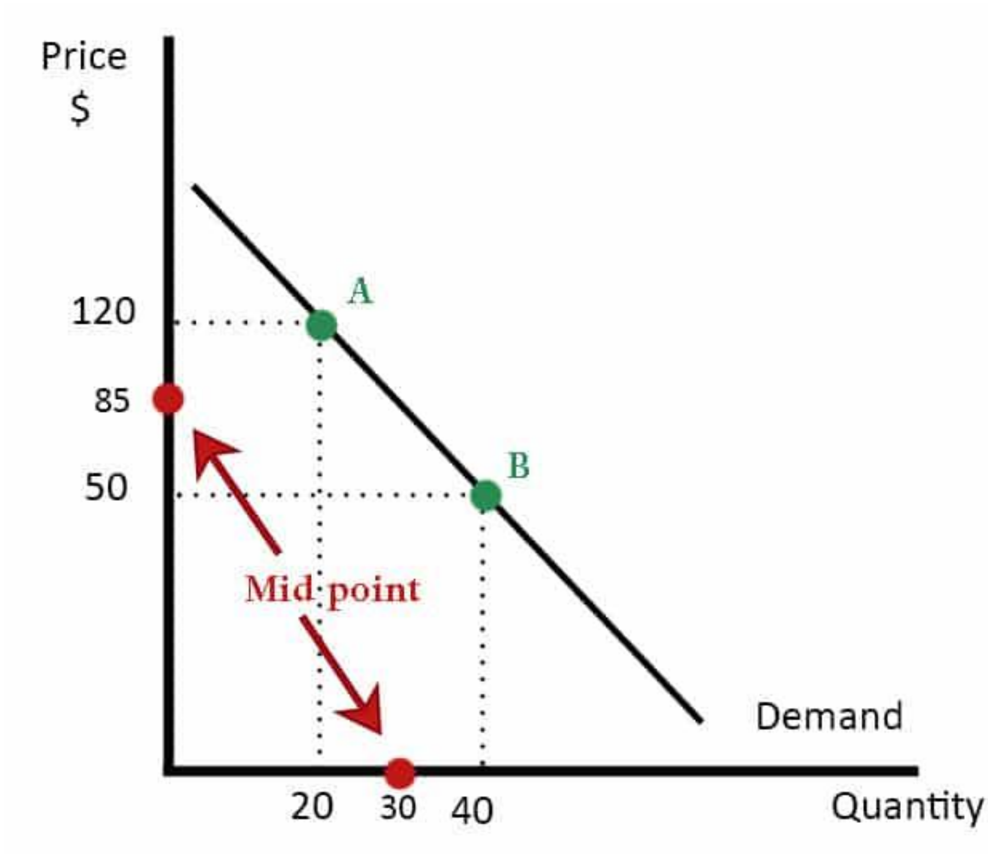

Fig 3.4 : Arc Elasticity

Question no : 4 (a) Show the differences between elastic and inelastic demand.

Answers : When the price is increased or decreased and the quantity demand of anything is decreased, then its called elastic demand. And when the price is increased or decreased, no changing is occurred in the quantity demand, then its called inelastic demand.

Question no: 4 (b) Explain the law of demand and demand schedule

Answer : The law of demand teach us about the quantity demand according to the price, If the price is lower, then the quantity demand is higher, when the price is higher, then the quantity demand is lower. Sometimes these differences also could not be happened. Demand curve and demand schedule are the tools, used to summarize the relationship between demand and price.

Source :

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13. Basically I used to follow the Wikipedia mainly.
14. Pictures are also collected from image sources of google.