# TUTORIAL 05 – CONCEPTS OF ECONOMICS

## Question 01

Kent runs a shoe company that sold 200 pieces at  Rs 5 a piece in the year under review. Kent's company owns all its equipment and spent a total of Rs 500 to produce the shoes. He conducts an assessment and finds out that his machines depreciated by Rs 100. He has also been looking into the belt business and would have made about Rs 300 more had he manufactured and sold belts instead of shoes. Calculate the accounting profit/loss for selling of shoes and economic profit/loss?

## Question 02

Andrew operates a small shop specializing in party favors. He owns the building and supplies all his own labor and money capital. Thus, Andrew incurs no explicit rental or wage costs. Before starting his own business Andrew earned Rs 1,000 per month by renting out the store and earned Rs 2,500 per month as a store manager for a large department store chain. Because Andrew uses his own money capital, he also sacrificed RS 1,000 per month in interest earned on Govt. bonds. Andrew's monthly revenues from operating his shop are Rs 10,000 and his total monthly expenses for labor and supplies amounted to   Rs 6,000. Calculate Andrew's monthly accounting and economic profits?

## Question 03

Assume a 10% discount rate. Rs 1100, Rs. 900, Rs 1500, and Rs. 700 received at the end of one through four years respectively. Compute the total present value.

## Question 04

Sadhu Lal Bhai is borrowing Rs 50,000 to buy a low-income group house. If he pays equal installments for 25 years and 4 percent interest on outstanding balance,
**A.** What is the amount of installment?
**B.** What shall be amount of installment if quarterly payments are required to be made?

## Question 05

There are two products pizza and burger, price of each pizza is Rs 200, and the price of each burger is  Rs 100. An individual has Rs 1100 to spend. How this Rs 1100 be spent between the two products to achieve the maximum utility?

| Quantity | MU of Pizza | MU of Burger |
|----------|-------------|--------------|
| 1 | 9000 | 5000 |
| 2 | 8000 | 4000 |
| 3 | 7000 | 3000 |
| 4 | 6000 | 2000 |
| 5 | 5000 | 1500 |
| 6 | 4000 | 1000 |

## Question 06

Consider the following data showing Bob's total utility from the consumption of two goods: Winston Cup Races and Broadway musicals. Assume the price of races is Rs 50, the price of Broadway musicals is Rs 100, and Bob has Rs 300 to spend.

**A.** Assuming that he wishes to maximize his utility, what combination of Winston Cup Races and Broadway musicals will Bob purchase? Justify your answer.

**B.** If the price of musicals doubles, what will happen to Bob's consumption of the two goods?

| No. of Races | Total Utility | No. of Musicals | Total Utility |
|---|---|---|---|
| 1 | 1000 | 1 | 1000 |
| 2 | 1800 | 2 | 1800 |
| 3 | 2500 | 3 | 2500 |
| 4 | 3000 | 4 | 3000 |
| 5 | 3200 | 5 | 3200 |