REFLECTIVE QUIZ COMPILATION

NUTM Nexus Writing Team

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1 Introduction

This compilation of reflective quizzes was designed to guide you for the microeconomics test.

2 Week 2

2.1 Questions

1. Which method of economic analysis is based on value judgment?
2. What differentiates microeconomics from macroeconomics?
3. What is the best ideology of economic system to solve the basic economic problems that yield optimal results?
4. Name the basic questions that guide society to transform their resources productively.
5. The importance of trade-offs is associated with what concept in economics?

2.2 Answers

1. Normative Economics.
2. Microeconomics focuses on individual economic agents or firms, while macroeconomics examines the economy as a whole.
3. Mixed Economic System.
4. What to produce, how to produce, and for whom to produce.
5. Scarcity.

3 Week 3

3.1 Questions

1. As international trade partners, Nigeria deploys her resources to produce palm oil, and South Africa uses all her resources to produce groundnut oil. What is palm oil production to Nigeria, and what is groundnut oil production to Nigeria?
2. What is the implication of the constant slope of a straight line production possibility curve (PPC)?
3. How do you interpret a production possibility curve that shifts outward?

4. Define a production function.
5. Fixed Cost (FC) + Variable Cost (VC) is called?
6. Mention 4 benefits of trade based on comparative advantage.
7. Mention 3 factors that impede international trade anchored on comparative advantage.

3.2 Answers

1. Palm oil production represents Nigeria's comparative advantage, while groundnut oil production represents Nigeria's opportunity cost.
2. The constant slope of a straight line PPC implies that the opportunity cost of producing additional units of both goods remains constant.
3. An outward shift in the PPC indicates economic growth, meaning an increase in the production capacity of an economy.
4. A production function is the relationship between quantities of inputs required to produce a given level of output.
5. Total Cost.
6. Higher productivity, profitability, enhanced trading, normalized prices, access to new markets, increased efficiency, and economic growth.
7. Rights, culture, political stability, exchange rates, restrictions.

4 Week 4

4.1 Questions

1. How would you interpret the downward slope of the demand curve and the upward slope of the supply curve?
2. What is the opportunity cost of hawking pure water to a university graduate and a high school graduate?
3. What are the implications of the market price being above and below the equilibrium price?
4. Differentiate between "Change in quantity demanded - CQD" and "Change in demand - CD".
5. Mention 2 factors driving economic decision making in each of the C+I+G economic growth model.
6. What is the difference between latent demand and full demand?
7. How would you describe composite supply and joint supply with examples?
8. State and interpret the demand and supply functions.

4.2 Answers

1. The downward slope of the demand curve indicates that, as the price of a good decreases, the quantity demanded increases. Conversely, the upward slope of the supply curve suggests that, as the price of a good increases, the quantity supplied also increases.

2. The opportunity cost is higher for the university graduate than for the high school graduate. The former has more to lose in terms of potential earnings and career opportunities.

3. When the market price is above the equilibrium price, there is excess supply, leading to a surplus. When the market price is below the equilibrium price, there is excess demand, leading to a shortage.

4. A change in quantity demanded (CQD) is solely price-driven and involves a movement along the same demand curve. A change in demand (CD) represents a shift in the entire demand curve due to factors such as competition, inflation, and exchange rates, while the price remains constant.

5. C (Income, Price, Quality) + I (Production Cost, Market Demand, Technology) + G (Inflation, Exchange Rate, Interest Rate).

6. Latent demand is an unfulfilled desire for a product or service due to a lack of availability. Full demand occurs when the quantity demanded equals the quantity supplied, establishing equilibrium.

7. Composite supply involves products that cannot function without their components. Joint supply refers to a situation where the production of one good also produces another by-product. For example, refining crude oil produces both gasoline and diesel.

8. **Demand Function:** $QD_n = f(P_n, P_1, \cdots, P_{n-1}, Y, T, E, H, G)$

   - QD_n: Quantity demanded of good n.
   - P_n: Price of good n. This is the price at which good n is being sold.
   - $P_1, P_2, \cdots, P_{n-1}$: Prices of other goods. These are the prices of substitute or complementary goods which can affect the demand for good n.
   - Y: Income of consumers. This represents the overall income level of the consumers, which affects their purchasing power and thus the demand for goods.
   - T: Tastes and preferences. This includes consumer preferences and tastes, which can shift demand for good n.
   - E: Expectations about future prices. If consumers expect prices to change in the future, this can affect their current demand.
   - H: Household demographics. Factors such as the size, composition, and characteristics of the household can influence demand.
   - G: Government policies and regulations. Taxes, subsidies, and other regulations can impact the demand for good n.

   Supply Function: $QS_n = f(P_n, P_1, \cdots, P_{n-1}, B, S_{n-1}, E, R, G)$

   - QS_n: Quantity supplied of good n.
   - P_n: Price of good n. This is the price at which good n is being sold.
   - $P_1, P_2, \cdots, P_{n-1}$: Prices of other goods. These are the prices of substitute or complementary goods which can affect the supply of good n.

- B: Cost of production. This includes costs related to labor, raw materials, and other inputs.
- S_{n-1}: Supply of good $n-1$. This represents the supply level of a related good, which might influence the supply of good n.
- E: Expectations about future prices. If suppliers expect prices to change in the future, this can affect their current supply decisions.
- R: Regulations and taxes. Government policies, such as taxes and subsidies, can impact the supply of good n.
- G: Government policies and regulations. This includes broader government actions and policies that affect supply.

5 Week 5

5.1 Questions

1. Define price elasticity.
2. What is the similarity between price elasticity of demand and supply?
3. List all the different types of elasticity.
4. How is elastic demand different from elastic supply? Provide an example.
5. How is inelastic demand different from inelastic supply? Provide an example.
6. List and define the different types of demand elasticity.
7. Mention four factors affecting the price elasticity of demand and supply.
8. Is unitary elasticity of demand any different from unitary elasticity of supply? How and why?
9. Suppose the price of petrol drops by 0.5% and the quantity demanded increases by 1.0%. Calculate the resultant change and the elasticity implication.
10. The price of an iPhone increased by 25% and the demand for Android increased by 30%. What type of demand elasticity is this? Calculate the resultant change and the elasticity implication.

5.2 Answers

1. Price elasticity is the responsiveness of the change in quantity demanded or supplied due to a change in the price of goods and services.
2. They both respond to their respective laws of demand and supply.
3. Elastic, Inelastic, Perfectly Elastic, Perfectly Inelastic, Unitary.
4. Elastic demand and elastic supply both have elasticity greater than 1 [$\epsilon > 1$]. This means they both respond significantly to changes in price. For example, luxury goods often have elastic demand.
5. Inelastic demand and inelastic supply both have elasticity less than 1 [$\epsilon < 1$]. This means they both respond minimally to changes in price. For example, essential goods like medication often have inelastic demand.

6. Types of demand elasticity include price elasticity, income elasticity, cross elasticity, and advertising elasticity.

7. Factors affecting the price elasticity of demand include substitutes, luxury versus necessity, addiction, and necessity. Factors affecting the price elasticity of supply include the cost of production, technology, storage capacity, and expectations.

8. Unitary elasticity of demand and unitary elasticity of supply both have an elasticity equal to 1 [$\epsilon = 1$]. This means the percentage change in price equals the percentage change in quantity demanded or supplied.

9. Formula: $\epsilon = \frac{\%\text{change in quantity}}{\%\text{change in price}} \to \epsilon = \frac{\frac{\Delta Q}{Q}}{\frac{\Delta P}{P}}$. Hence, $\frac{+1.0}{-0.5} = -2$ [Inelastic Demand]

10. $\epsilon = \frac{+30}{+25} = +1.2$ [Elastic Demand]

6 Week 6

6.1 Questions

1. What is the Law of Diminishing Marginal Utility?

2. What is the difference between total utility and marginal utility?

3. What are the factors that can potentially affect the budget constraint of a customer?

4. NUTM reduces the accommodation fee from ₦500,000 to ₦400,000. What does this mean to a budgeted student?

5. Name the four elements of an indifference curve.

6. Name the three types of indifference curves.

7. What is the main takeaway from the Diamond-Water paradox?

6.2 Answers

1. The Law of Diminishing Marginal Utility states that as one consumes more units of a good or service, the additional satisfaction (marginal utility) gained from each additional unit decreases after a certain point.

2. Total utility is the overall satisfaction obtained from consuming a certain quantity of goods and services, while marginal utility is the additional satisfaction gained from consuming one more unit of a good or service.

3. Factors that can potentially affect the budget constraint of a customer include income, prices of goods and services, taxes, discounts, and unexpected emergencies.

4. A budget surplus, meaning the student will have additional funds available due to the reduction in accommodation fees.

5. The four elements of an indifference curve are: convexity, the farther outward the curve, the higher the utility, curves can never cross, and they always slope downwards.

6. The three types of indifference curves are: convex, perfect substitutes, and perfect complements.

7. The main takeaway from the Diamond-Water paradox is that scarcity and marginal utility (rather than total utility) determine the price of goods and services. This principle is aligned with the subjective value theory.

7 Week 7

7.1 Questions

1. Why are firms generally in existence in Nigeria or the UK in the short run and long run?
2. What is social entrepreneurship? Give an example.
3. What does the acronym JIT stand for? What does it mean as a production process?
4. Distinguish between net profit and gross profit.
5. In the long run, all production inputs are assumed to be variable. True or False? Why?
6. Define the Law of Diminishing Marginal Returns.
7. What is the basic difference between a linear production function and a Leontief production function?
8. Would you say Nigeria relies more on capital-intensive production technology or labor-intensive production technology? Why?

7.2 Answers

1. Firms exist to maximize profit, regardless of the location and timeline.
2. Social entrepreneurship is a business model that focuses on creating social impact rather than maximizing profit.
3. JIT stands for Just-In-Time. It is a production process that aligns raw-material orders from suppliers directly with production schedules to reduce inventory costs and increase efficiency.
4. Net profit is calculated as operating profit minus interest, taxes, and expenses. Gross profit is the revenue minus the cost of goods sold.
5. True. In the long run, all production inputs are considered variable because of amortization and depreciation.
6. The Law of Diminishing Marginal Returns states that as additional units of a variable input are added to a fixed input, the marginal product of the variable input eventually decreases.
7. A linear production function implies a constant rate of substitution between inputs, while a Leontief production function assumes inputs are used in fixed proportions with no substitution possible.
8. Nigeria relies more on labor-intensive production technology due to the abundance of cheap labor and a lack of advanced technological infrastructure.

8 Week 8

8.1 Questions

1. What distinguishes a perfectly competitive market from an imperfectly competitive market?
2. Define monopoly, monopsony, oligopsony, duopoly, and oligopoly.
3. Is monopolistic competition any different from a monopoly? How?
4. What is the difference between a merger and an acquisition (M & A)? Give examples.
5. Highlight the differences between horizontal and conglomerate M & A.
6. Why should companies be merged or acquired? What are the downturns?
7. What is privatization and why should the Nigerian government continue to privatize education?
8. Regulation or deregulation? Which is preferable and why?

8.2 Answers

1. A perfectly competitive market has many buyers and sellers with no single entity able to influence prices, making everyone a price taker. In contrast, an imperfectly competitive market has fewer sellers or buyers, leading to price-making power and information asymmetry.
2. A monopoly is a market structure with one seller. A monopsony has one buyer. An oligopsony involves few buyers. A duopoly consists of two sellers, and an oligopoly has few sellers.
3. Yes, monopolistic competition differs from a monopoly. A monopoly has one seller with no close substitutes, whereas monopolistic competition involves many sellers offering differentiated products but no perfect substitutes.
4. A merger involves two companies coming together to form a new entity. An acquisition occurs when a larger company purchases the assets and liabilities of a smaller company. For example, the merger of Daimler-Benz and Chrysler versus Facebook's acquisition of Instagram.
5. Horizontal M & A involves firms producing similar products, whereas conglomerate M & A involves companies from different industries or sectors.
6. Companies merge or are acquired for market share expansion, operating distress resolution, regulatory directives, technological advantages, etc. Downturns include job losses, cultural conflicts, resource drain, and disengaged staff.
7. Privatization involves transferring government businesses to the private sector. The Nigerian government should continue privatizing education to enhance competition and efficiency, attract foreign direct investment, improve education quality, and reduce corruption.
8. Both regulation and deregulation are important depending on the context. Regulation protects consumers, ensures standardization, and generates revenue, while deregulation promotes competition, innovation, and foreign direct investment.

9 Week 9

9.1 Questions

1. What is the implication of the labor market being a derived demand oriented?
2. What is the shape of the demand and supply curves for labor in a perfectly competitive market?
3. What are the resultant effects when the price of labor increases above or decreases below the equilibrium?
4. What is the firm's reaction to the engagement of the production input when $MRP_x < P_x$ and when $MRP_x > P_x$? [i.e., when the Marginal Revenue of Product X is less than or greater than Price X]
5. How do you define the Input-Output Model?
6. Mention 4 determinants of wage variation in Nigeria.
7. What is the major import of the New Classical Model of Labor in the new millennium?
8. Would you say the New Classical Model of Labor focuses on the employees or employer? Why?

9.2 Answers

1. Because labor is bought, hired, bartered, and sold mainly for its intrinsic value.
2. The demand curve for labor slopes downward (negatively) while the supply curve of labor slopes upward, indicating the generic laws of demand and supply.
3. Above the equilibrium, there is excess labor supply resulting in unemployment. Below the equilibrium, there is labor shortage resulting in capacity underutilization.
4. The firm engages less of the production input when $MRP_x < P_x$ and more of the production input when $MRP_x > P_x$.
5. An interdependent relationship among inputs and outputs where an output can be an intermediate input of other goods and services.
6. Labor quality, race, gender, education and training, performance, work conditions, location, referral, experience, skills, and ability.
7. It opines that employees with the same knowledge, skills, and abilities working in the same job and position with the same peculiarities should be paid the same salary, regardless of gender, race, etc.
8. Employees. It encourages the repositioning of homogeneous employees via training, technology know-how, coaching, mentorship, roles shadowing, etc., so employees are repositioned to earn higher.