18/7

Economics

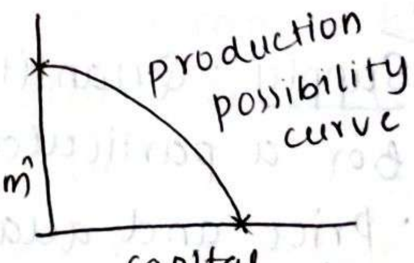
Basic Terms & Concepts

1. Goods / Commodities : Something that possess some utility
   - ↳ Consumption
   - ↳ Capital
2. Utility : The want satisfying capacity of a commodity.
3. Price : Utility measured in terms of money.
   - Price depends upon
     1. Availiability of the commodity
     2. Marketability of the "
     3. Perishability / Libespan of the "

Types of Utility
1. Form utility
2. Place utility
3. Time utility

Basic Economic Problems

1. What to produce?



→ Product possibility Curve (PPC) represents every possible combination of commodities that can be produced with the availiable resources

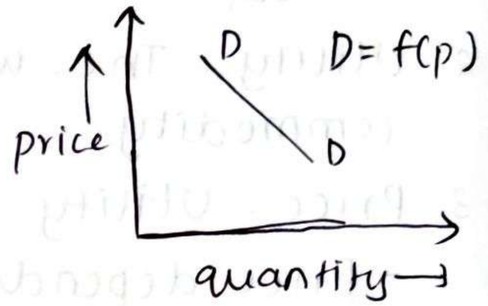
2. How to produce?
3. For whom to produce?

Demand

Demand is the desire backed to buy ability and willingness to pay for a ~~a~~ commodity.

- Demand schedule is a table that shows every possible ~~combinatio~~ quantity of commodity demanded at every possible price level.
- Diagramatic ~~schedule~~ representation of demand schedule is the demand curve since price and ~~demand~~ quantity are inversly proportional, demand curve will be a downward curve.

Law of demand



Other things remaining the same, more will be demanded at a lower price than at a higher price.

Determinance of Law of demand
1. Income of the consumer remains the same
2. Price of closely related commodities
3. Consumers' expectation regarding future changes.
   (~~defen~~ Giffen's Paradox)
4. Climatic conditions, Passion, Fashion.

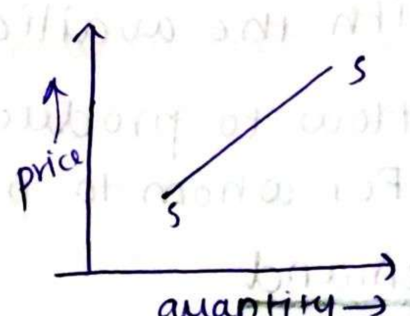
23/7

Supply : Quantity of commodity offered for sale for a particular price.

- Price and quantity supplied are directly related. Hence the supply curve will be an upward slope.

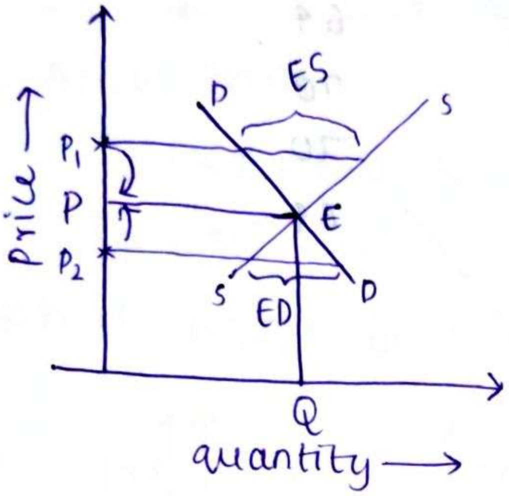
Law of supply

Other things remaining the same, more will be supplied at a lower price



Equilibrium Price

It is the price determined by market forces of demand and supply at the point of intersection.



ES: excess supply
ED: excess demand

★ Elasticity of Demand

Law of Diminishing Marginal Utility

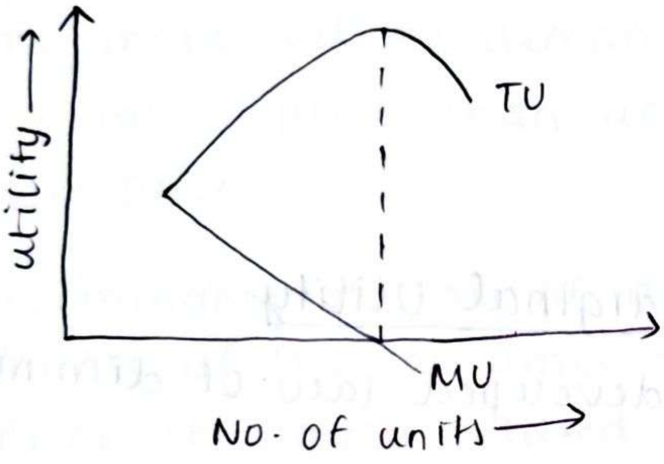
- Alfred Marshel developed law of diminishing marginal utility
- It is nothing but a logical explanation to the day to day consumptional behaviour of every rational human being. When a person consumes more and more units of a commodity, the additional satisfaction (marginal utility) they derive from the successive units may go diminishing, ~~from zero to -ve~~ may become zero or even -ve.

Assumptions

1. Cardinal measurement of utility
2. Utilities are independent
3. Constant marginal utility of money.
4. Introspection.

30/7 ~~Alfred Marshal developed~~

No. of units	Marginal utility	Total utility
1	20	20
2	18	38
3	15	53
4	11	64
5	6	70
6	0	70
7	-6	64



Limitations

1. consumption should be in suitable units
2. No time interval in b/w successive consumptions
3. Rare collection, fashion..
4. Applicable only to normal person

Production

- Making additions to the existing amount of utility.

8/8/25

Perfect Competition Features

- Large no. of buyers and sellers
- Homogenous products
- Both buyers and sellers are having perfect knowledge about the market conditions.

- Freedom to enter and exit (Free entry and Free exit)
- Perfect mobility of factors of production

19/8

Asymptotic Notations

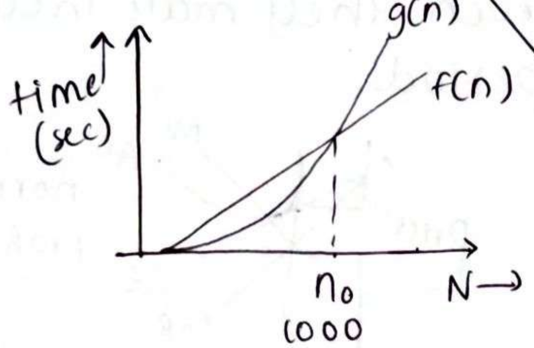
2 Algorithms

$T_A(N) = 1000N$

$T_B(N) = N^2$

which one is faster?

N	T_A	T_B
10	10^{-2} sec	10^{-4} sec
100	10^{-1} sec	10^{-2} sec
1,000	1 sec	1sec
10,000	10 sec	100 sec
1,00,000	100 sec	10,000sec



Q. Find suitable values of 'c' and 'n₀' for $3n+7=O(n)$ and $26n^2+17n=O(n^2)$

→ a) $26n^2+17n=O(n^2)$

- $26n^2+17$

10/9 ~~GDP~~ National Income (NI)

Income of all the inhabitants of a country during a given period of time, usually one year.

Concepts

1. GDP

- It is the market value of all final goods and services
- Intermediary goods or goods in process will not be counted while estimating GDP.
- Only currently produced commodities are

counted.

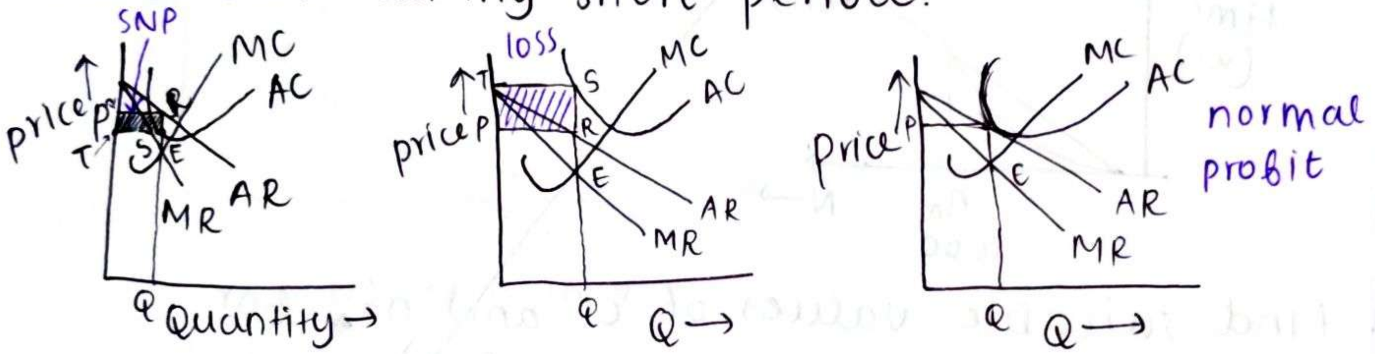
- Unpaid services are not estimated.
- Income through illegal activities are not counted.
- We donot deduct depletiation.
- Income from abroad is not estimated.

19/9

<u>Monopoly</u> : one seller for a product

Price o/p determinatn under short period.

- A firm under monopoly may get super normal profit, normal profit or even they may incurre losses also. during short period.



AR : average revenue
MR : marginal "
MC : marginal cost curve
AC : average " "
SNP : super normal profit.

- During the long period, the monopolist will always enjoy super normal profit, as there is no competition in the market. (4th dgm : SNP)

IMP <u>Monopolistic Competition</u>

Features

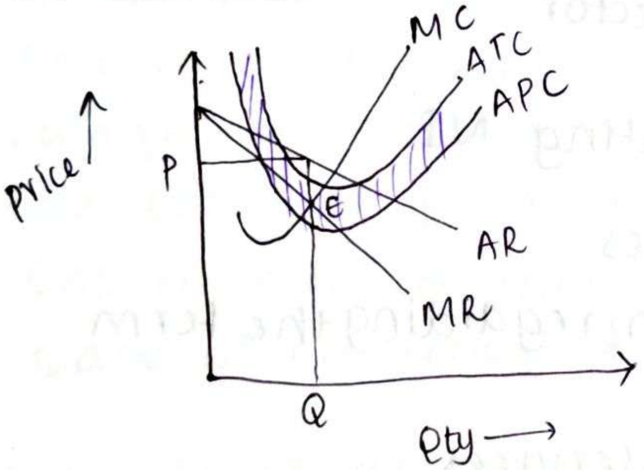
1. Existance of many firms
2. Product differentiation : Products are different in some way but not all together (soap)

3. Products are close substitutes to one another.

- Just like in the case of monopoly, the firms may enjoy supernormal profit, normal profits or incurre laws during short periods.
- But they will enjoy only normal profit in longer periods beco3 there is accute competition.

Selling cost

- cost incurred to persue a consumer to buy a product rather than another one OR cost incurred to pursue a consumer to buy the product from a particular producer rather than from another.



ATC: avg total cost
APC: " productn "

- Selling cost = ATC − APC
(ie, difference b/w ATC & APC)

Methods of Estimating National Income

1. Income method

- In this method, we are calculation NI by adding up income of the inhabitants of the country by way of rent, wages, interest and profit.

NI = R + W + I + P

2. Expenditure method

- In this method, NI is estimated by adding up consumption and investment expenditure of individuals and corporates and government ~~consumption~~. expenditure.

$NI = C + I + G$

23/9

Production method/Social Accounting method

- Identifying the production units and classifying them into sectors and sub sectors.
- Estimating the value of final ~~outcome~~ by output from each sector

Difficulties in calculating NI

1. Conceptual difficulties
   a) Difference of opinion regarding the term nation.
   b) Non remunerative services
   c) Problem of classification of good into final goods and intermediary goods
   d) Estimation of value of govt. services
   e) Overlapping occupation.

2. Statistical or practical difficulties
   a) Calculation ~~of~~ depletiation
   b) Absence of proper accounting system
   c) Illiteracy and ignorance of the people
   d) Officials are not trained.

e) Possibility of ~~guests~~ guess work
f) Existence of non monitized sectors

3. Money && Inflation

26/9
Types of Inflation
1. Creeping inflation : 3%
2. Walking " : 3-6%
3. Running " : more than 10%
4. Galloping " : more than 30%

1. Demand pull inflation : people are spending more than
2. Cost push inflation :
3 ~~3~~. wage-price spiral.
4 ~~4~~. Existance of parallel economy.
5 ~~3~~ Export induced inflation
6. Lack of efficiency of public distribution system.

Methods of arresting inflation
1. Monitory policies : It is the policy adopted by the central Bank to restrict and regulate the volume of money supply and inflation
Two types
a) Quantitative methods
1) Bank rate policy : Bank rate is the rate at which central Bank rediscounts bills of exchange to commercial banks.
2) Varying reserve ~~vations~~ ratio
- SLR : statutory liquidity ratio : It is the ratio of the deposits that the commercial

banks need to keep with themselves ~~to~~ as liquid cash.

- CRR : cash reserve ratio : It is the ratio of deposits that a commercial bank should keep with the RBI

3) Open market ~~to~~ orperations : It is the deliberate buying and selling of first class bills in the open market.