

Economics CT Solve



By Manik Hosen

CT-1



- ❧ 1. Question: What is the law of demand and supply in Economics? Why the law of demand important?
- ❧ Answer: The **law of supply** states that the quantity of a good supplied rises as the market price rises, and falls as the price falls.
- ❧ Conversely, the **law of demand** says that the quantity of a good demanded falls as the price rises, and the quantity of a good demanded rises as the price falls.
- ❧ In our daily life, it is normally observed that decrease in price of a commodity leads to increase in its **demand**. **Law of demand** states the inverse relationship between price and quantity demanded, keeping other factors constant . This is why it is so important.

CT-1



- ❧ Related Question to No 1:
- ❧ Question: Why the law of supply important?
- ❧ Ans: The **law of supply** states the greater the price of a good, the more goods will be produced. Vice versa, the lower the price of a good, the less goods would be produced. This is why it is so important.
- ❧ Question: State law of demand and draw the curve.
- ❧ Ans: The **law of demand** says that the quantity of a good demanded falls as the price rises, and the quantity of a good demanded rises as the price falls.

CT-1

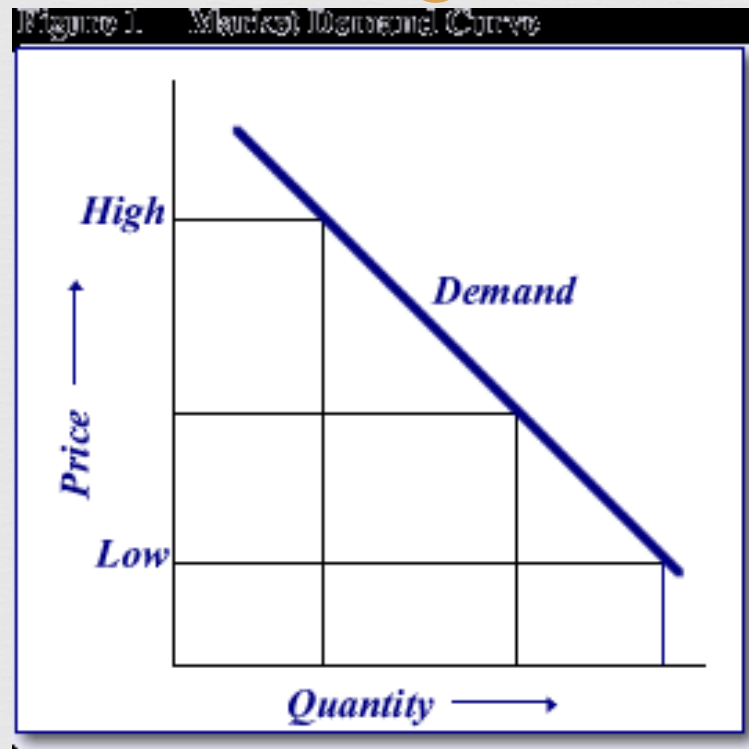


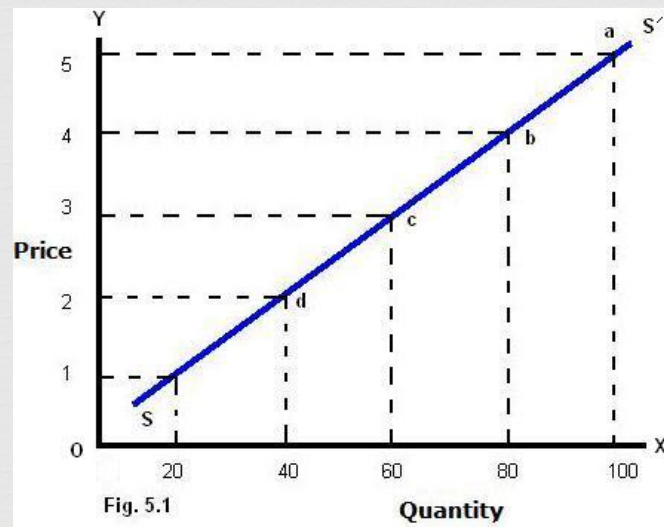
Fig: Law of demand curve

CT-1



- ❧ Question: State law of supply and draw the curve.
- ❧ Ans: The **law of supply** states that the quantity of a good supplied rises as the market price rises, and falls as the price falls.

- ❧ Fig: Curve of law of supply



CT-1



- ❧ Question: Explain Balanced Market with curve.
- ❧ Ans: When the supply and demand in the market is equal that is called balanced market.

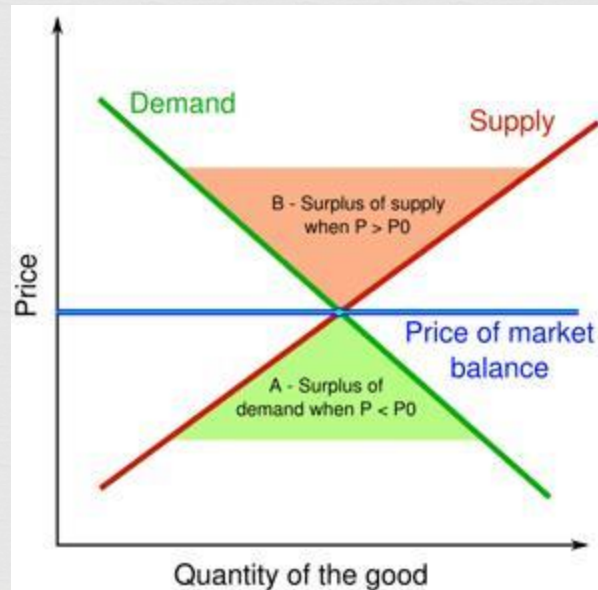


Fig: Balanced Market

CT-1



- ❧ 2.Question: What causes a shift in the demand curve? Which is depicted as a shift in the demand curve?
- ❧ Ans: **Increases in demand** are shown by a **shift** to the right in the **demand curve**. **Decreases in demand** are shown by a **shift** to the left in the **demand curve**. This could be caused by a number of factors, including
 - i. a rise in income,
 - ii. a rise in the price of a substitute or
 - iii. a fall in the price of a complement.
- ❧ Movements along a **demand curve** are related to a change in price, resulting in a change in quantity and this is depicted as a shift in the demand curve; **shifts in demand** (D1 to D2) are specific to changes in income, preferences, availability of substitutes and other factors.

CT-1

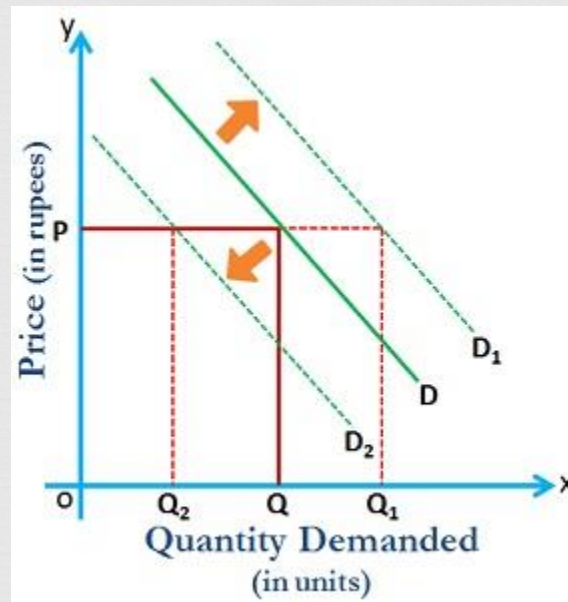


Fig: Shift in demand curve

CT-1



❧ Related Question to No 2:

❧ Question: What causes a shift in the supply curve? Which is depicted as a shift in the supply curve?

❧ Ans: Prices of relevant inputs

- i. if the cost of resources used to produce a good **increases**,
- ii. sellers will be less inclined to **supply** the same quantity at a given price then the **supply curve** will **shift** to the left.

Technology - technological advances that increase production efficiency **shift** the **supply curve** to the right.

❧ A change in the price of a good or service, holding all else constant, will result in a movement along the **supply curve**. A change in the cost of an input will impact the cost of producing a good and will result in a **shift** in **supply**; **supply** will **shift** outward if costs decrease and will **shift** inward if they increase.

CT-1



Showing Shifts in Short Run Aggregate Supply

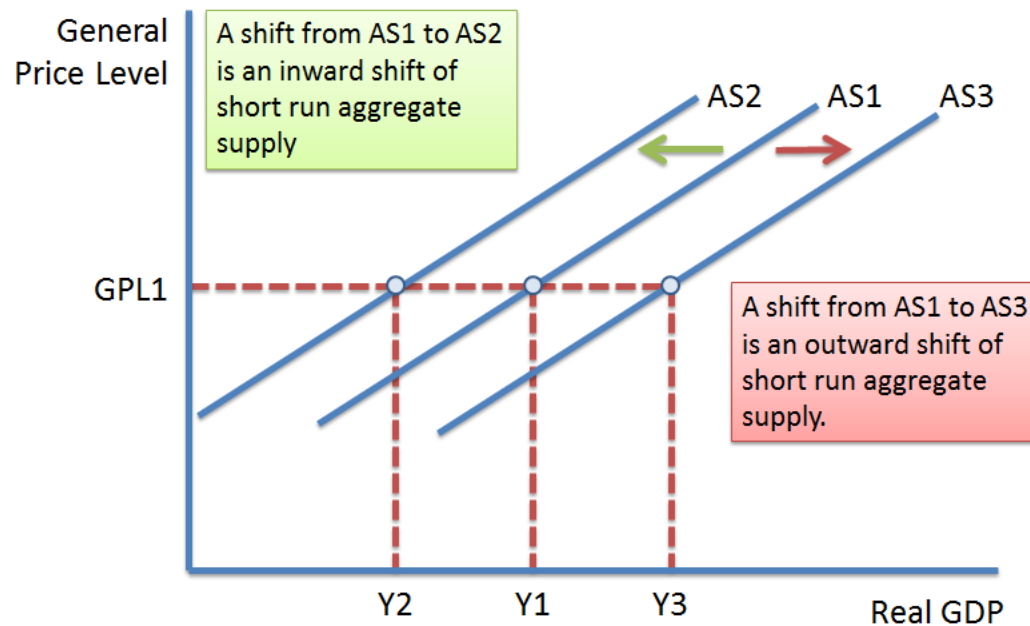


Fig: Shift in supply curve

CT-1



- ❧ 3. Question: What is the concept of supply? What are the factors that affect supply?
- ❧ Ans: **Supply** is a fundamental economic **concept** that describes the total amount of a specific good or service that is available to consumers. **Supply** can relate to the amount available at a specific price or the amount available across a range of prices if displayed on a graph.
- ❧ **Some of the factors that influence the supply of a product are as follows:**
 - i. Price
 - ii. Cost of Production
 - iii. Natural Conditions
 - iv. Technology
 - v. Transport Conditions
 - vi. Factor Prices and their Availability
 - vii. Government's Policies
 - viii. Prices of Related Goods

CT-1



- ❧ Related Question to No 3:
- ❧ Question: What is the concept of demand? What are the factors that affect demand?
- ❧ Ans: **Demand** is perhaps one of the most fundamental **concepts** of economics and it is the backbone of a market economy. ... The quantity demanded is the amount of a product people are willing to buy at a certain price; the relationship between price and quantity demanded is known as the **demand** relationship.
- ❧ **The demand for a product will be influenced by several factors:**
 - i. Price
 - ii. Income levels
 - iii. Consumer tastes and preferences
 - iv. Competition
 - v. Fashions

CT-1



❧ 4. Question: What are the non-price determinants of supply and demand in Economics?

❧ Ans: Non-price determinants of demand and supply:

1. **Consumer tastes/preference**

If consumer's preference/tastes are more favorable to certain products, there will be an increase in the demand and supply for that product.

2. **Number of buyers in the market**

If the number of buyers in the market increases as a result of population growth, there will be an increase in the demand and supply for the goods and services.

3. **Buyers income**

If income of the buyers increases, there will be an increase in the demand and supply for goods and services.

CT-1



4. Seasonal factors.

During a particular season say a rainy season there tend to have higher demand and supply for umbrellas, raincoats as compared to other times during the year.

5. Consumer expectations of future prices and income

Consumer expectation is important to determine changes in demand. If people expect the price of product X to increase, there will be more demand and supply for that product now.

6. Prices of related goods

Prices of related goods also affect demand. For substitute goods, price and demand are directly related to one another. For example, if there is an increase in the natural rubber then there will then be a lower demand and supply for synthetic rubber, its substitute.

CT-2



❧ 1.Question: What is meant by budget of government?

❧ Ans: A **government budget** is an annual financial statement presenting the **government's** proposed revenues and spending for a financial year that is often passed by the legislature, approved by the chief executive or president and presented by the Finance Minister to the nation.

CT-2



- ❧ 2. Question: Describe the concept of deficit budget, surplus budget and balanced budget.
- ❧ Ans: A **budget deficit** occurs when a government **budgets** more spending than there is revenue available to pay for the spending. Debt is the aggregate value of **deficits** accumulated over time.
- ❧ If income exceeds spending, the government has a **surplus budget** or **fiscal surplus**. Surplus budget is hardly financed.
- ❧ A balanced **budget** is one in which spending equals revenue.

CT-2



- ❧ 3. Question: How is a deficit budget financed?
- ❧ Ans: Government **financing** the **budget deficit**: That is if government spending (G) exceeds taxes revenues (T), then there is a **deficit** which can be **financed** by issuing government bonds (by borrowing money). These bonds or borrowed money comes from sources such as National Bank and World Bank. The government can mobilize resources for economic growth by financing its budget deficit through printing high powered money. This is therefore called money financing of budget deficit. It is important to note that in the old or earlier terminology printing of new money to finance the budget deficit was called deficit financing. It is now called money financing of budget deficit for mobilizing resources by the government.

CT-2



❧ 4. Question: Describe the sectoral budget allocation in the fiscal year 2016-17.

❧ Ans:

- i. Agriculture: Allocation for agriculture in FY17 is TK 7,000 crore.
- ii. ICT: Total allocation for ministry of science and technology and ICT division is TK 3,904 crore.
- iii. Oil, Gas and Electricity: Total allocation for the power and energy sector in FY17 is TK 15,035 crore.
- iv. Defense: The budget allocation for defense in FY17 is TK 21,144.6 crore.
- v. Environment: Total allocation for ministry of Environment and Forest is TK 1033 crore.
- vi. Education: Allocation for education and technology is TK 52,914 crore.

CT-2



- vii. Health: Allocation for health sector is TK 17,487 crore.
- viii. Gender: Allocation for Gender budget in FY17 is TK 92,765 crore.
- ix. Child and Senior Citizen: Allocation is in this sector is TK 7,736.2 crore in FY17.