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## Micro Economics. (Aspects)

Date: 21<sup>st</sup> Jan.

- Economy → All sectors.
- Money → Capital
- Producers and Consumers. → Market.
- Opportunity
- Government
- Resources → Factors Of production.
- Decision Making → Decide to get the best.
- Trade offs. → Preferring important over other.
- Rational Behaviour → logic and reasoning based on circumstances.
- Limited resources → Scarcity.

### Definition:

“Economics is defined as allocation of scarce resources amongst the alternatives to meet unlimited wants”

- Allocation → To assign / To fix something / Approval for something (i.e: budget)
- Scarce → Limited / few / not abundant / short
- Resource → Things used to produce & distribute / factors of productions.
- Alternatives → options / choices / opportunity.

<u>* Need And Wants</u>	<u>wants :</u>
↓	→ without which you can live.
necessity i.e.:	→ You have choice.
	→ Unlimited
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Date: \_\_\_\_\_

\* Wants → They are unlimited (we need to figure out what we actually want)

factors :

1) Time → It may be scarce.

2) Finances

3) Market conditions.

4) Final Decision. (To average out from above 3 factors).

\* Resources :

- 1) Land → Natural Endowment (gift, talent, blessing, resources)
- 2) Labour → Physical, Mental (called as human capital).
- 3) Capital → (Money, Equipments, machinery, etc)
- 4) Entrepreneur → (Risk takers, innovators, creative heads)

Basic Questions In Economics :

- 1) What ? (Needs and wants.)
- 2) When ? (Seasons, festivities, etc)
- 3) Whom ? (Affordability / Price)
- 4) How ? (way of combining resources / work of entrepreneur)

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Date:

## Market Place.

Pure	Monopolistic	Impure
1) Many buyers and sellers.		1) One seller.
2) Easy entrance and exit	Entrance neither too strict nor too easy.	2) Govt Regulation 3) Price discrimination 4) Entrance and exit is not easy.
3) Uniform price.	In bldo pure	Gvt. is not pure monopoly (it works for welfare)
4) Government is not present.	Impure.	
5) Homogeneous product.		Pakistan Railway (Govt. monopoly)
	↑ Ideal market (where buyers have no fr access)	

23rd Jan, 19 .

## \* Fallacies In Economics.

Fallacy : Misleading statement .

- 1) Fallacy of composition.
- 2) Post HOC fallacy .

### 1) Fallacy Of Composition

what's true for 1 person may not be true  
for rest of individual e.g: Purchasing in preference

Policy: kind of statement to achieve goals.

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## by government

i.e.: A document stating the targets to be achieved by government.

### a) Post Hoc Fallacy :

Cause and effect.

To relate the cause with the outcome but the outcomes cannot be related.

e.g.: festivals → low attendance in class.

Complaints of people → stock exchange crash from govt.  
(cause) (effect)

### \* Types Of Economics

#### - Positive economics:

It's about Facts and figures reported which cannot be changed.

e.g.: pollution environment because of vehicles.

(it's a reported fact)

- Developing countries and developed countries are in debt.

(all countries can take loan)

- Racism In USA : (developed but racist)

- Sectarian / Religious Violence.

- Poverty remains a challenge.

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### Normative Economics :

Emphasis on the problems & proposing solutions with considerable stress to change the result.  
Emphasis on "shoulds".

### Policy Economics :

When we combine the positive and normative economics then it's policy economics.

E.g:

[Donating] for reducing the poverty rate.

normative

Positive

→ paradigm shift in policy is always a problem.  
(changing entire policy or changing it again and again)

by Nitin



# Economic Systems.

## ④ Social Democracy (民主 System)

Date:

- ① Socialism.
- ② Capitalism.
- ③ Mixed Economy. (Market oriented reform since 1978...)

## Capitalism      Socialism      Mixed Economy

1) System in which there is free enterprise (business)	<ul style="list-style-type: none"> <li>• Government own the property and business.</li> </ul>	<ul style="list-style-type: none"> <li>• There is presence of vast enterprise.</li> </ul>
2) Less government intervention.	<ul style="list-style-type: none"> <li>• Decision making is hampered by government's dictatorship.</li> </ul>	<ul style="list-style-type: none"> <li>• Government is regular body.</li> </ul>
3) People make decision with their free will.	<ul style="list-style-type: none"> <li>• Class less society.</li> </ul>	<ul style="list-style-type: none"> <li>• Government works for welfare etc.</li> </ul>

## Demand : Ability, Need, Price, Income, Requirement, Choices.

- Ability .
- Quantity .
- The desire backed by the ability and willingness of a person to purchase goods and services at different prices.
- \* Desire : needs and wants.
- \* Ability : Decision making .
- \* Willingness : Agree or disagree .
- \* Goods : Category according to region and income .

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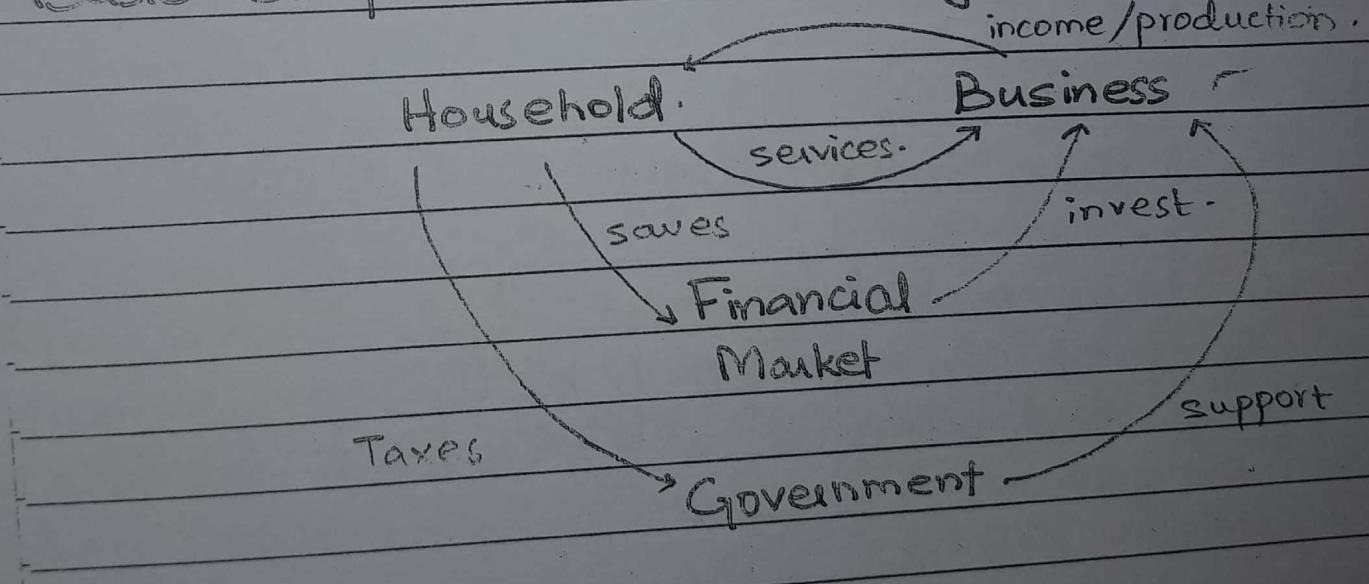
## Services :

1. Health Care
2. Banking and insurance ..
3. Travel.

## Factors Of Demand :

1. Customers (tvely related)
2. Income (tvely related).
3. Substitutes
4. Time.

## Basic Composition Of Economy.



Problem 1

Date:

$$Q = 200 - 100P$$

$$a) P = \$12 \quad Q_d = ?$$

$$Q_d = 2000 - 100(12)$$

$$Q_d = 2000 - 1200$$

$$Q_d = 800$$

$$b) Q_d = 1800 \quad P = ?$$

$$1000 = 2000 - 100P$$

$$-1000 = -100P$$

$$\text{price} = 10\$$$

$$Q_s = ?$$

$$(d) \text{ equilibrium } Q$$

$$Q_d = Q_s$$

$$3000 - 10P = 1000 + 10P$$

$$4000 = 20P$$

$$P = 200$$

$$(e) Q_d = 3500 - 10P$$

$$Q_s = -1000 + 10P$$

$$3500 - 10P = -1000 + 10P$$

$$4500 = 20P$$

$$P = 225$$

$$Q = 1250$$

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Date:

$$(f) \quad Q_S = -500 + 10P.$$

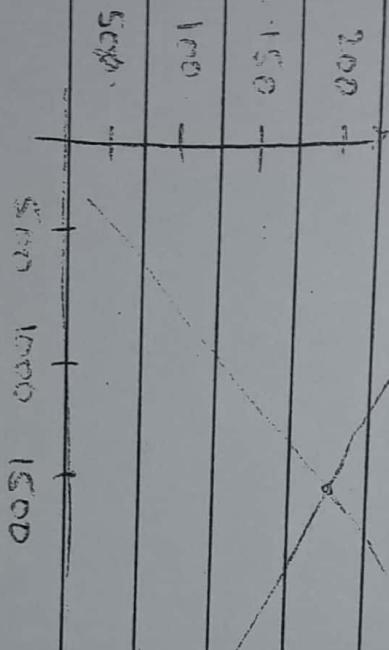
$$Q_D = 3500 - 10P.$$

equilibrium price.

$$-500 + 10 = 3500 - 10P.$$

$$4000 = 20P.$$

$$\boxed{P = 200} \quad \boxed{Q = 1500}$$



$$Q = 10,000 - 200P + 0.03POP + 0.67 + 0.2A$$

# Demand & Supply

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- Price floor
- Price Ceil.

## \* Price Floor :

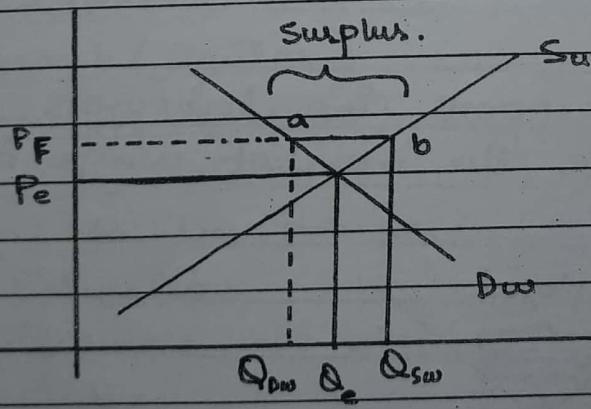
It's minimum price set by government above the market equilibrium and sales below this price are prevented.

### Case 1 :

The government decides support to the wheat farmers with promise to buy the surplus if unsold.

1) Wheat is essential.

2) If an individual is not directly consuming wheat, it's terms of bakery item and fast food.



$P_e$  = Equilibrium Price

$Q_e$  = Equilibrium Quantity

$P_F$  = Minimum Price.

$$P_F > P_e.$$

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At  $P_F$

$Q_{Dw} < Q_E$

$S_w > D_w$

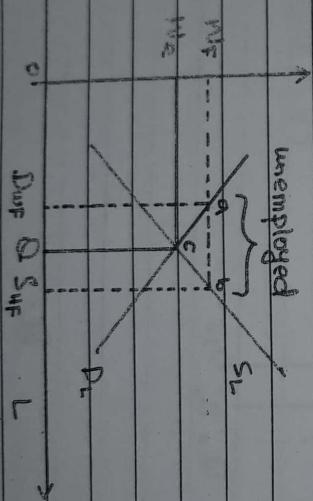
Consumers shift to the substitutions. Prices of wheat related goods increase.

Q: What should government do with the surplus?

- 1) Government can store wheat.
- 2) Government can export.
- 3) Government can overcome shortage of wheat.  
in less developed provinces.
- 4) Wheat can be foreign aid.

Case 2 (Wage Floor)

Government supports the labourers by giving a wage above the market wage rate.



①  $W_F > W_E$

$S_{wF} > D_{wF}$

( $O - D_{uf}$ ) employed.  
( $D_{w-Sw}$ ) unemployed.

③ Higher wage increases cost of production and it creates inflation

#### ④ Remedies. :

- Taxe should be income support programme.
- Unemployment benefits.
- Emphasis on skilled education.

#### \* Price Ceil:

It's maximum price set by government below market equilibrium and sales above the price are prevented.

#### Rent Controls:

- Landlord (owner)
- Tenant (Renter)
- Housing (space)

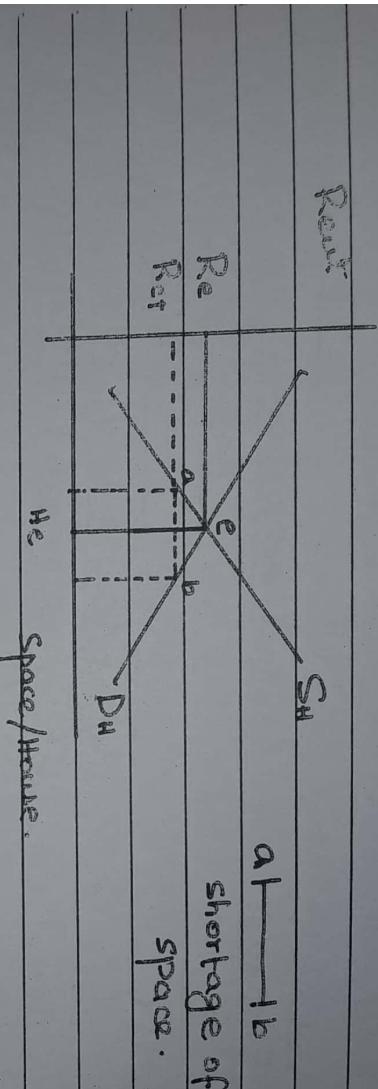
#### Reasons to be Renter:

- 1) Education
- 2) Business
- 3) Job

Case 1:

Date: / /

Government tries to support the rent by fixing a rent below market rate.



$$D_L < D_H$$

Producers :

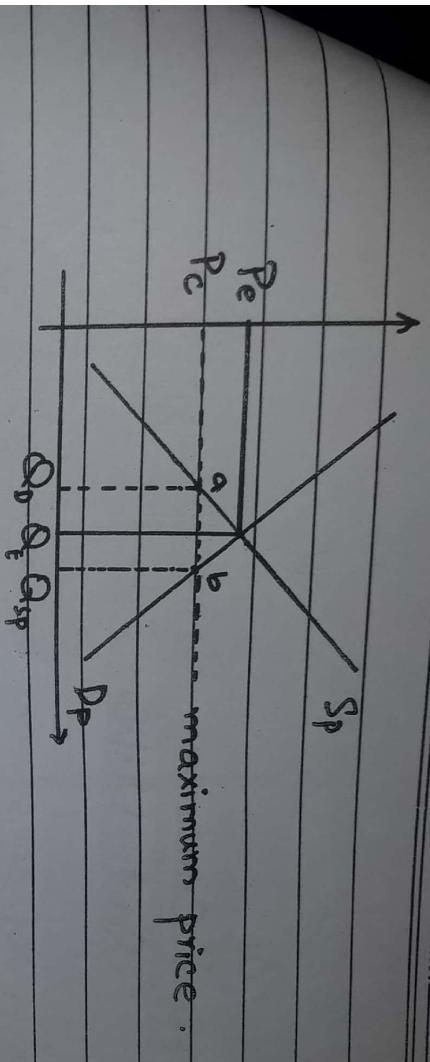
- Housing scheme.
- Rent-mortgage plans.
- Help for the students and working people.

Case 2:

Government decides to regulate the price of petrol.

Players :

- 1) Producers / Suppliers of fuel.
- 2) Consumers and vehicles.
- 3) Informal economy / smuggling .



At the ceiled price.

- 1) Supply declines.
- 2) Demand increases.
- 3) Producers/ suppliers are reluctant.

Q: Who would get benefit from this?

- They will look for other options.
- Alternative consequence.
- Fuel smuggling would increase.

Remedy :

- 1) Having a limit / fuel cards.
- 2) Better circular railway systems.
- 3) Improved security . people can walk to desired stations.
- 4) Clean environment .

## Chapter : "Consumer Behaviour And Utility Maximization"

Date:

- Assumption of consumer behavior:  
 i) Rationality → Making the best of available resources.

- ii) Prices → A rational consumer would make better buying decisions.

- iii) Preferences → Better preference ... Determines the right combination of goods and services.

- iv) Budget Constraint → It's the income bracket.  
 easy budget constraint means more options can be availed and severe budget means less to avail and difficult survival.

### Utility : (satisfaction level)

- i) Want satisfying power, which can't be measured.  
 ii) Total utility and marginal utility.

### Law Of Diminishing Marginal Utility:

- As one individual consumes more units of one good/service the total utility increases to a certain point but the marginal utility diminishes."

Date:

Bread Consumed

Total Utility (Utility)

Marginal Utility (Utility)

Bread Consumed	Total Utility (Utility)	Marginal Utility (Utility)
0	0	10
1	10	8
2	18	6
3	24	4
4	28	2
5	30	0
6	30	-2
7	28	-4

### Panel A - Total Utility

### Panel B - Marginal Utility.

Bread Consumed

Bread Consumed

T<sub>U</sub>

M<sub>U</sub>

M<sub>U</sub> decreasing.

## Utility Maximization Rule

→ total utility

In order to maximize satisfaction the consumer should rationally allocate his money/income in a manner that the last dollar spent on each good or service yields equal marginal utility per dollar."

$$\frac{MU}{P} = \text{Marginal Utility}$$

$$\frac{MU_A}{P_A} = \frac{MU_B}{P_B}$$

Product A and B.

Total income = 10\$

$$P_A = 1\$$$

$$P_B = 2\$$$

Unit of Product	Marginal Utility (Mu)	A $\frac{Mu}{P_A}$	B $\frac{Mu}{P_B}$
1	10	$\frac{10}{1} = 10$	24
2	8	$\frac{8}{1} = 8$	20
3	7	7	18
4	6	6	16
5	5	5	12
6	4	4	8
7	3	3	6

Pg # 383, 384.

Ricardo Income \$106.

Products A,B,C,D.

$$P_D = \$24$$

$$P_A = \$18, P_B = \$6, P_C = \$4$$

Required : - What quantities of A,B,C,D Ricardo will purchase ? Ans : 102 \$ How many dollars Ricardo will save ? Ans = 49

								Saved dollars.	Ma s.
Unit of A	Mu $\frac{Mu}{P_A}$	Unit of B	Mu $\frac{Mu}{P_B}$	Unit of C	Mu $\frac{Mu}{P_C}$	Unit of D	Mu $\frac{Mu}{P_D}$		
1	12	4	1	15	1	36	1	5	
2	24	2	2	12	2	30	2	4	
3	36	3	3	8	3	24	3	3	
4	48	4	4	6	4	18	4	2	
5	60	5	5	5	5	13	5	1	
6	72	6	6	4	6	7	6	1/2	
7	84	7	7	3 1/2	7	4	7	1/4	
8	96	8	8	3	8	2	8	1/8	

- Utility per dollar for product . \$106 .

Allocation of budget point .

Determine utility maximization . point .

How much Ricardo should save ?

$$\frac{Mu}{P_A} = \frac{Mu}{P_B} = \frac{Mu}{P_C} = \frac{Mu}{P_D}$$

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Date

$$MUA \Rightarrow x = 10 - 3y.$$

$$MUB \Rightarrow z = 21 - 2y.$$

$$x + y = M$$

\$

x amount spent over A.

y amount spent over B.

$x + y = 0$  Budget equation.

$$MUA = MUB.$$

$$\cancel{10} - x = 21 - 3y$$

$$-x + 3y = 11 \quad \boxed{y=7}$$

$$\begin{cases} 3y = 21 \\ y = 7 \\ x = 3 \end{cases}$$

$$x + y = 10 \quad \boxed{x=3}$$

$$\therefore MUA = 10 - 3 = 7$$

$$\therefore MUB = 21 - 2(7) = 7.$$

Qs



# Maximisation!

## Utility Applications :

- Diamond-wafer paradox
- Cash and non-cash gifts.

\* Diamond → luxury → expensive.  $TU \downarrow MU \uparrow$   
 Wafer → Necessity → Cheap.  $TU \uparrow MU \downarrow$

- wafer consumption is maximum since it's not taxed.
- Therefore  $TU$  of wafer high and  $MU$  is low.

\* Cash gifts  $TU \uparrow MU \downarrow$

- When you get cash as a gift you usually don't save it, it's spent.

\* Non-Cash gifts.  $TU \downarrow MU \uparrow$   
 → Usually reserved when received.

- Insurance Policy  $\rightarrow TU \downarrow MU \downarrow$  since premium is fixed.  
 You have to be patient.
- Premium is fixed (It's to be paid every year by client)
- Policy matures at least in five years.  $TU \uparrow MU \downarrow$
- Value of time  $\left\{ \begin{array}{l} TU \uparrow MU \downarrow \\ \text{Efficient utilization of time} \end{array} \right. \quad TU \downarrow MU \uparrow$
- Medicalcare purchases. When it's expensive →  $MU \uparrow$ .

jeze jese kuch consume hota hai MU decrease hoti  
hai

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Date:

### Criminal and Consumer Behaviour.

- o - Higher punishment  $\rightarrow$  MU↑ TU↑  
 $\downarrow$  punishment  $\rightarrow$  MU↓ TU↓
- o - Criminal routine is not fixed and not like consumer behaviour.

o - Social cost (society has to pay)

o - Morality

when TU = MU, user have  
consumed satiety

Question # 02 Pg # 383.  
Units

0 0

a) At decreasing rate.

b)

