IEFT Assignment-1

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1. why does the problem of choice arise?
2. Suppose, an economy's production is at a point inside its PPC. what does it mean? Draw a diagram and explain.
3. A consumer purchased 10 units of a Product in the month of June. At the same price he purchased 15 units in the month of July. Explain 5 reasons for this increase in demand.
4. Diagramatically explain producer surplus and consumer surplus?

Answers

1) A) unlimited wants

Human beings have wants which are unlimited in number. if one want is satisified, another crops up. Multiplicity of wants call forth Continuous effort for their satisfaction, and the unending cycle of economic activity moves on. Also, since human wants are unlimited, one is compelled to choose between the more urgent and the less urgent wants

B) Scarcity of resources

Scarcity, in economics, refers to limited resources against unlimited wants. It states that society has insufficient productive resources to fulfill all human wants and needs. The resources includes all of the natural resources, artifical resources and human resources. Economic resources are the various types of labour, capital, land and entrepreneurship used in producing goods and services.

c) choice of best alternatives

Choice comes about as a result of scarcity since we have limited resources, we usually have to choose one option are forgo the other. So, someone have to select between e many unlimited wants.

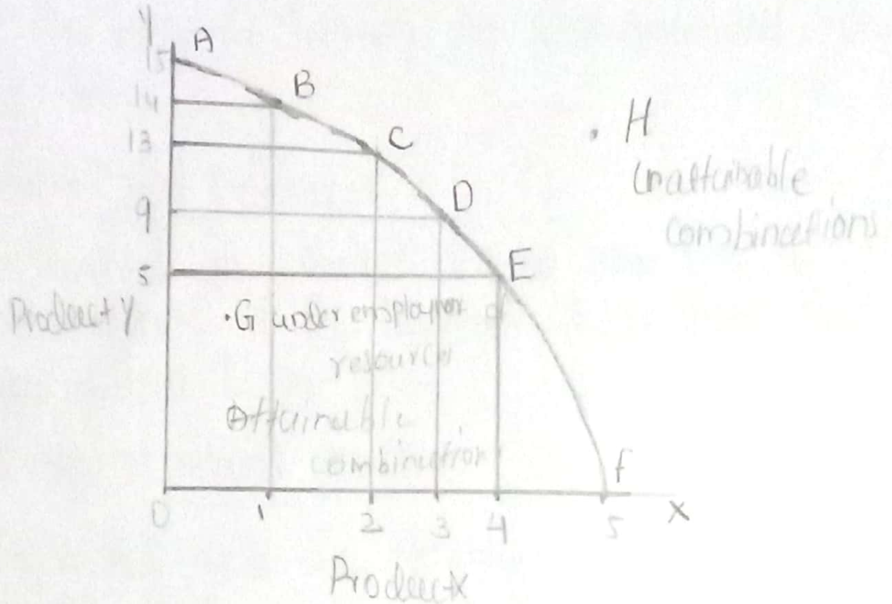
D) Allocation of resources

The allocation of resources means, use the resources by dividing them for the production of a combination of goods that gives the maximum social benefit or utility to the nation. It is called appropriation of the resources to satisfy most important wants out of their unlimited types. The resources have alternative uses. One use can be chosen and all other have to be sacrificed. Allocation is related to the choice of how much of resources to be allocated in what Sector. Resource allocation occupies central position in economics

2. Production possibility curve (PPC) shows the maximum output of any one commodity put the economy can produce together with the Prescribed quantities of other commodities, by utilizing the available resources. in other words, it shows the combination of two or more commodities that can be produced with the given resources in an economy. The assortment on the curve is regarded as technologically efficient and below it as inefficient. Any assortment beyond the curve is regarded is really beyond the economy's capacity and is unattainable. The PPC depicts the country's menu of choice.

Production Possibilities	Commodity X (thousand)	Commodity Y (in thousands)
A	0	15
B	1	14
C	2	13
D	3	9
E	4	5
F	5	0

Here, if the firm spends all its resources to the production of commodity X, it can produce 5000 units of X and 0 unit of Y. Similarly, if it devotes to the production of Y, then the firm can produce 15,000 units of Y and 0 units of X.



In the diagram, all the points on the PPC represent production possibility. All the points inside PPC are attainable combinations. All the points inside and outside are attainable combinations. Any point inside the curve shows the underutilization or unemployment of resources at the disposal of the firm. Increase in the resources will take it to a higher PP curve.

③ Factors affecting demand / Demand determinants

Ⓐ Determinants of individual demand

The following variables which influence the individual demand.

1) Price of the Commodity

This is the basic factor influencing the demand. This is the inverse relationship between the price and quality demanded

2) Income of the consumers

The income of the consumer is the another important variable which influences the demand. The ability to buy a commodity depends upon on the income of the consumer. when the income of the consumer increases, the buy more and when income falls they buy less.

3) Tastes and Preferences

The demand for a product depends upon the tastes and Preferences of the consumers. if the consumers develop tastes for a commodity they buy whatever be the Price.

4) Price of related goods

The related goods are generally substitutes and complementary goods. The demand for a product is also influenced the the prices of substitutes and complements.

5) Advertisement and sales Propagantada

In modern times, the Preferences of consumers can be altered by advertisement and sales propaganda. Advertisement helps in increasing demand by informing the Potential consumers about the availability of the product, by showing the superiority of the Product and influencing consumer choice against the rival Products.

6) Consumers expectation

A consumers expectation about the future changes in price and income may also affect his demand. if a consumer expects a rise in prices, he may buy large quantities of that particular commodity.

B. Determinants of market demand

Market demand for a product refers to the total demand of all the buyers taken together. The following factors affect the market demand Pattern of a commodity.

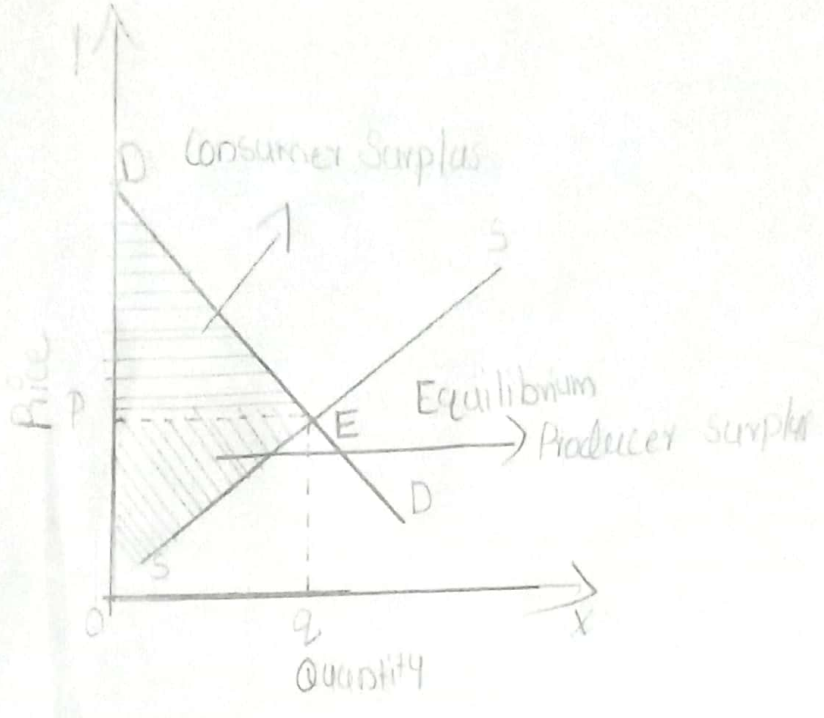
1) Price of the Product
2) Distribution of income Pattern
3) The Scale of Preferences
4) Future expectation
5) Standard of living and spending habits:
when the People are accustomed to high standard of living, their spending on comforts and luxuries also increases, that automatically increase the demand.
6) The growth of Population
The growth of Population is also another important factor that affects the market demand.
7) Social customs and cermonies
Social customes and ceremonies are usually celebrated collectively
8) Tax rate
High tax rate would generally mean a low demand for the goods. The consumption of commodities At certain items, the govt restricts the consumption of commodities and uses the tax as a weapon
9) inventions and innovations
inventions and innovations introduce new goods in the market. The consumers will have a strong tendency to purchase a new Product.
10) weather conditions
Seasonal factors also affect the demand. demand for certain items Purely depend on climatic and weather conditions
11) Availability of Credit
The purchasing power is influenced by the availability of credit.
12) Pattern of saving
Demand is also influenced by the Pattern of saving. if People begin to save more, their demand decreases.
13) Demonstration effect
Demonstration effects help to increase human wants.

Consumer Surplus

Consumer Surplus is an economic measurement of consumer benefits. A consumer surplus happens when the price that consumer pays for a product or service is less than the price they are willing to pay. it is a measure of the additional benefits that consumer receives because they are paying less for something than what they were willing to pay. Consumer surplus is based on the economic theory of marginal utility, which is the additional satisfaction consumer gains from one or more units of a good or service.

Producer Surplus

Producer surplus is the amount that producer benefit by selling at a market price that is higher than the least they would be willing to sell for. This is equal to profit. Producer surplus is usually used to measure the economic welfare obtained by the manufacturer in the market supply. when the supply is constant, the Producer welfare depends on the market price. if the manufacturer can sell the Product at the highest price, the welfare is the greatest. if there is a surplus of goods, that is, People can only sell part of the goods at market price and producer suplus will decrease.



The Point where demand and Supply meet is ~~equi~~ equilibrium Price. The area about supply level and below the equilibrium price is called Producer Surplus and the area below the demand level and above the equilibrium Price is the consumer surplus.

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